SCOMM

#50:1

1/17/85

HOUSE COMMITTEE ON LOANS

AGENDA

TUESDAY, 1/22/85

3:30 pm, Room 124 (House Judiciary)

Department of Revenue, Alaska Housing Finance Corporation overview.

For further information contact:

John Hartle, Aide to Rep. John Sund, Chair, House Committee on Loans

Room 411 Capitol 465-4919

AHFC: Mortgage delinquency rising

By JIM ERICKSON
Daily News business reporter

The number of homeowners falling behind on their loan payments continues to rise in Alaska, officials for Alaska Housing Finance Corp. said Monday.

The delinquency rate for those with loans more than 30 days past due was 4.42 percent in December. That means more than one out of every 25 people who obtained AHFC financing to buy their homes are behind in their payments.

The rate is up sharply from 3.19 percent last August and is the highest since the corporation began providing subsidized home loans to all qualified Alaskans in 1980.

The delinquency rate is below the national average, which hit a record 5.86 in the third quarter of 1984.

If allowed to continue unchecked, a rising rate in Alaska could affect the corporation's ability to provide subsidized loans. Corporation officials have said the possibility of that happening is remote.

Mike Lynch, AHFC executive director, said condominium owners contributed heavily to the high rate. That reflects a depressed condo market in which people who lose their jobs or have other financial problems are unable to sell their homes quickly. Instead, they fall behind on their mortgage payments.

"There was a time a year or two ago when the market solved everybody's problem," he said. "That's not the case anymore."

More than one out of every 17 condo owners have missed at least one monthly payment, compared with one out of every 25 single-family homeowners.

In recent months the corporation has taken steps to curb delinquencies.

AHFC officials have asked lenders they deal with to enforce collections more rigorously. Four or five lenders were stripped of their AHFC lending powers in the last several months because the delinquency rate for loans they made were too high, Lynch said.

The corporation also has tightened its lending standards.

And to reduce the number of new condos on the market, AHFC in December stopped lending money on condos in projects where less than 70 percent of the units have been sold. Before then, AHFC required that half be sold before its financing could be obtained.

"We are the market, and we intend to maintain that market," Lynch said.

Lynch predicted the delinquency rate could rise early this year. But he predicted the rate should start falling in March, as warm weather brings out more home buyers and more homeowners return to work after winter layoffs.

The corporation has begun foreclosure on 104 condos and 202 single-family houses, and owns 110 homes through foreclosure.

The delinquency rate for those who financed mobile homes through AHFC was 6.75 percent, and most of the 4,600 mobile home loans carried by AHFC are not insured.

The corporation has lost about $150,000 to date because of bad mobile home loans, officials estimated.

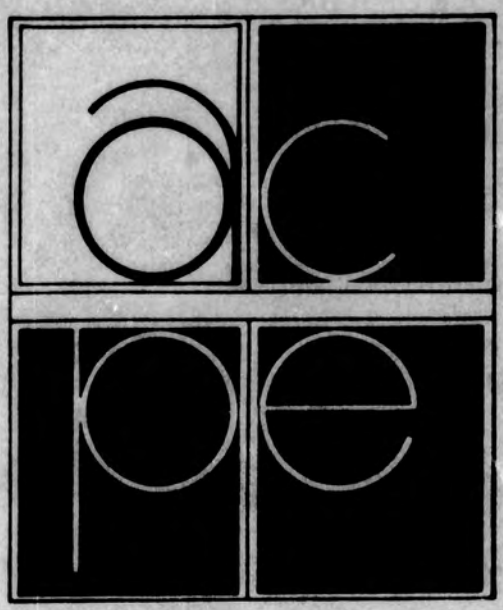


Pipeline section to stay buried

SCOMM

#50:2

[redacted]



Alaska Commission on Postsecondary Education

ALASKA STUDENT LOAN

Background and Discussion Materials

February 1985

PROGRAM DESCRIPTION

PURPOSES

1. To provide Alaskans with access to postsecondary educational resources through low-interest loans to students.
2. To encourage an educated citizenry through initial access to education and training and through inducements to utilize that education and training in Alaska.

TERMS

1. Undergraduates and vocational students may borrow up to $6,000 per year of full-time study.
2. Graduate students may borrow up to $7,000 per year of full-time study.
3. Students may borrow for up to 5 years of undergraduate study, or up to 5 years of graduate study, but for not more than 8 years combined.
4. A student must be a two-year Alaska resident to borrow and must maintain full-time study in good standing to continue borrowing Alaska student loans.
5. Loans may be used for attendance at any approved institution.
6. Proceeds from loans may only be used for the costs of tuition and fees, room and board, and books and supplies.
7. Loan repayment begins one year after the student ceases to be a full-time student (except for approved periods of deferment).
8. Repayment is over a 10-year period with provision for extending to 15 years if necessary.
9. Interest charged on the loans is 5%.

FORGIVENESS

If, upon completion of the program of study for which the loan was granted, the borrower resides in Alaska, a portion of the loan, plus interest, shall be forgiven by the State. That portion, for up to a total of 50%, shall accrue as follows:

1. 2-3 years residence in the state, 10%
2. 3-4 years residence in the state, an additional 10%
3. 4-5 years residence in the state, an additional 10%
4. 5-6 years residence in the state, an additional 10%
5. Over 6 years residence in the state, a final 10%.

This residence must be continuous and must begin within one year of completion of program.

REPAYMENT SCHEDULE

IF YOUR STUDENT LOANS TOTAL:	YOUR MONTHLY PAYMENT FOR 120 MONTHS (10 YRS.) WOULD BE:	TOTAL TO BE REPAID:		
		5% Interest	Principal	Total
$1,000.00	$ 10.61	$ 273.20	$1,000.00	$ 1,273.20
2,000.00	21.21	545.20	2,000.00	2,545.20
3,000.00	31.83	818.40	3,000.00	3,818.40
4,000.00	42.43	1,091.60	4,000.00	5,091.60
5,000.00	53.06	1,363.60	5,000.00	6,363.60
6,000.00	63.64	1,636.80	6,000.00	7,636.80
7,000.00	74.25	1,910.00	7,000.00	8,910.00
8,000.00	84.95	2,182.00	8,000.00	10,182.00
9,000.00	95.46	2,455.20	9,000.00	11,455.20
10,000.00	106.07	2,728.40	10,000.00	12,728.40
15,000.00	159.10	4,092.00	15,000.00	19,092.00
20,000.00	212.13	5,455.60	20,000.00	25,455.60
25,000.00	265.16	6,819.20	25,000.00	31,819.20
30,000.00	318.20	8,184.00	30,000.00	38,184.00
35,000.00	371.23	9,547.60	35,000.00	44,547.60
40,000.00	424.26	10,911.20	40,000.00	50,911.20
45,000.00	477.29	12,274.80	45,000.00	57,274.80
50,000.00	530.33	13,639.60	50,000.00	63,639.60

ALASKA STUDENT LOAN PROGRAM

1984-85 Loans

(a) Funds Available

FY85 General Fund Appropriation		$60,000,000
FY84 Carry-Forward		8,745,359
Federal Funds (GSL)		350,000
	Sub-Total	$69,095,359
Estimated FY85 Receipts		9,927,084
	Total	$79,022,443

(b) Loans as of February 1, 1985

Student	Alaska		Out-of-State		Total	
Level	Number	Amount	Number	Amount	Number	Amount
Freshman	2,964	$11,637,561	2,084	$10,011,284	5,048	$21,648,845
Sophomore	1,519	6,194,443	1,553	7,578,675	3,072	13,773,118
Junior	1,045	4,548,563	1,324	6,613,654	2,369	11,162,217
Senior	1,071	4,536,985	1,163	6,738,671	2,234	11,275,656
Vocational	1,949	10,278,744	793	3,954,328	2,742	14,233,072
Undergraduate	8,548	$37,196,296	6,917	$33,896,662	15,465	$71,092,958
Graduate	301	1,461,275	1,050	6,134,621	1,351	7,595,896
Total	8,849	$38,657,571	7,967	$40,031,283	16,816	$78,688,854

(c) In-State/Out-of-State Attendance by Level (February 1, 1985).

Student Level	Alaska	%	Out-of-State	%
Freshman	2,964	58.7	2,084	41.3
Sophomore	1,519	49.4	1,553	50.6
Junior	1,045	44.1	1,324	55.9
Senior	1,071	47.9	1,163	52.1
Vocational	1,949	71.1	793	28.9
Undergraduate	8,548	55.3	6,917	44.7
Graduate	301	22.3	1,050	77.7
Total	8,849	52.6	7,967	47.4

(d) Percent In-State Previous Years

Year	Undergraduate	Graduate	All Loans
1978-79	35.1	12.0	32.3
1979-80	36.1	12.3	33.3
1980-81	45.3	17.9	42.3
1981-82	47.3	23.8	45.0
1982-83	53.1	23.4	50.4
1983-84 (To date)	55.6	22.3	52.6

DISTRIBUTION OF ALASKA STATE LOANS
FOR STUDENTS ATTENDING IN ALASKA
(1984-85 Loans)
(As of December 31, 1984)

Institution	1984-85 No.	1984-85 Amount
University of Alaska, Fairbanks	2,101	$ 8,130,700
University of Alaska, Anchorage	1,443	6,111,600
Anchorage Community College	1,366	5,879,150
Kenai Peninsula Community College	352	1,586,200
University of Alaska, Juneau	281	1,194,950
Alaska Pacific University	246	1,182,900
Alaska Vocational-Technical Center	180	500,800
Matanuska-Susitna Community College	168	722,300
Tanana Valley Community College	155	741,600
Testing Institute of Alaska	152	831,600
Bookkeeping Concepts	151	777,900
Alaska Masonry School	150	886,300
Sheldon Jackson College	141	732,900
New Anchorage Beauty School	111	587,200
Alaska Business College	77	443,100
Alaska Computer Institute of Technology	75	426,850
Clerical Skills Training	69	403,450
Ketchikan Community College	58	243,250
Hutchison Career Center	55	225,800
Alaska Vocational School	53	271,300
Gordon Aviation, Inc.	52	234,000
Scruples II, Action School of Broadcasting	52	227,000
North Pacific Business Institute	50	276,600
Trend Setters School of Beauty	49	283,650
Prince William Sound Community College	48	213,350
People Count, Inc.	45	220,400
Wilburs Flight Operation	41	220,900
Satellite Technicians Applied Research and Development	38	228,000
Aviation Network	31	170,700
Academy of Hair Design	30	138,200
Islands Community College	30	121,800
Aero Tech Flight School	29	166,000
Kuskokwim Community College	29	88,650
Kodiak Community College	27	120,200
Anchorage Alaska School of Barbering	26	135,800
Kotzebue Technical Center	25	115,000
Fort Richardson Flying Club	24	136,500
Elmendorf Aero Club	24	133,500
Headquarters Barber & Beauty Academy	21	110,600
Aviation North	18	94,450
Larry's Flying Service	16	95,450
Vern Air	16	93,000

(Continued)

Institution	1984-85 No.	1984-85 Amount
Peninsula Hair Styling Academy	16	74,250
St. Herman's Theological Seminary	15	57,450
A.I.R. Center	14	78,500
New Concepts Beauty School	14	53,900
Delta Greely Rural Educational Center	13	59,500
World Security Police Academy	11	34,300
University of LaVerne	8	41,000
Alaska Bible College	7	26,100
Fairbanks Beauty School	6	25,700
Alaska Air Academy	5	29,000
Chapman College	5	18,250
American Pacific Aviation	4	24,000
Peninsula Institute of Welding Technology	4	23,200
Air Cushion Technologies	4	14,750
Arctic Bible Institute	4	9,100
Action Helicopter	3	18,000
Northwest Community College	3	11,350
High Tech Helicopter	2	12,000
Alaska Aviation School	1	6,000
Alaska Native Training Institute	1	6,000
University of Alaska, Rural Education	1	6,000
Flight Training Devices	1	5,700
Victorian Academy of Cosmotology and Barbering	1	5,200
Far North Bible College	1	4,550
TOTAL	8,250	$36,147,350

INSTITUTIONS AT WHICH AT LEAST FIFTY ALASKA
STUDENT LOAN BORROWERS ATTENDED
(1984-85 Loans)
(As of December 31, 1984)

Institution	1984-85 No.	1984-85 Amount
*University of Alaska, Fairbanks	2,101	$8,130,700
*University of Alaska, Anchorage	1,443	6,111,600
*Anchorage Community College	1,366	5,879,150
*Kenai Peninsula Community College	352	1,586,200
*University of Alaska, Juneau	281	1,194,950
University of Washington	255	1,379,700
*Alaska Pacific University	246	1,182,900
Oregon State University	231	1,218,300
University of Oregon	212	1,088,750
*Alaska Vocational-Technical Center	180	500,800
*Matanuska-Susitna Community College	168	722,300
Arizona State University	166	863,100
Western Washington University	162	821,150
Brigham Young University (UT)	157	585,150
*Tanana Valley Community College	155	741,600
*Testing Institute of Alaska	152	831,600
*Alaska Masonry School	150	886,300
*Sheldon Jackson College	141	732,900
Washington State University	132	716,750
International Air Academy (WA)	128	521,300
University of Puget Sound (WA)	112	625,900
*New Anchorage Beauty School	111	587,200
Northern Arizona University	110	532,150
Central Washington University	96	528,500
University of Arizona	94	490,940
Gonzaga University (WA)	93	543,950
Willamette University (OR)	90	522,500
University of Hawaii, Manoa	82	411,100
Montana State University	82	399,900
University of Colorado	78	419,750
*Alaska Business College	77	443,100
*Alaska Computer Institute of Technology	75	426,850
Seattle University (WA)	73	376,050
Pacific Lutheran University (WA)	71	397,350
University of Idaho	70	362,300
Seattle Pacific University (WA)	70	360,950
*Clerical Skills Training	69	403,450
University of Montana	65	287,450
Lewis and Clark College (OR)	62	320,000
Colorado State University	59	330,450
Stanford University (CA)	58	323,550
*Ketchikan Community College	58	243,250

*Alaskan Schools

(Continued)

Institution	1984-85 No.	1984-85 Amount
West Coast Training Service	58	219,600
Eastern Washington University	57	302,850
Linfield College (OR)	57	291,050
University of Colorado, Boulder	56	291,000
*Hutchison Career Center	55	225,800
Southern Oregon State College	54	274,950
*Alaska Vocational Schools	53	271,300
*Gordon Aviation, Inc.	52	234,000
*Scruples II, Action School of Broadcasting	52	227,000
Denver Automotive and Diesel College (CO)	51	293,350
DeVry Institute of Technology (AZ)	51	265,300
*North Pacific Business Institute	50	276,600

*Alaskan School

ALASKA STUDENT LOAN PROGRAM
REPAYMENT AND COLLECTIONS REPORT

1. Repayments

Year	Interest	Principal	Total	Average Monthly
1974-75	$ 73,432	$ 162,044	$ 235,476	$ 19,623
1975-76	162,354	303,176	465,530	38,794
1976-77	320,971	820,490	1,141,461	95,122
1977-78	223,739	968,112	1,191,851	99,321
1978-79	172,249	1,219,394	1,391,643	115,970
1979-80	243,347	1,360,089	1,603,436	133,620
1980-81	416,779	1,808,609	2,225,388	185,449
1981-82	517,939	2,261,961	2,779,900	231,658
1982-83	730,150	3,877,901	4,609,051	384,088
1983-84	1,100,111	5,310,013	6,410,124	534,177
1984-85	N.A.	N.A.	9,927,084	827,257 (est.)
1985-86	N.A.	N.A.	11,879,790	989,983 (est.)

Total repaid through 1983-84: $22,053,860

2. Number of loan accounts in repayment

June 30	Number
1981	7,196
1982	10,683
1983	15,669
1984	21,771
1985	29,326 (est.)

3. Forgiveness (through December 1984)

First	Second	Third	Fourth	Fifth
627	627	627	627	627
524	524	524	524	-0-
568	568	568	-0-	-0-
833	833	-0-	-0-	-0-
1,447	-0-	-0-	-0-	-0-
3,999	2,552	1,719	1,151	627

4. Forgiveness Benefits Received (1974-75 through 1983-84)

Year	Principal	Interest	Total
1974-75	$ 304	$ 399	$ 703
1975-76	42,733	1,500	44,233
1976-77	61,202	3,544	64,746
1977-78	274,210	40,096	314,306
1978-79	367,590	78,395	445,985
1979-80	334,491	75,010	409,501
1980-81	446,077	109,417	555,494
1981-82	617,986	167,783	785,769
1982-83	665,016	181,012	846,028
1983-84	960,738	210,501	1,171,239
TOTAL	$3,770,347	$867,657	$4,638,004

5. Default (Compiled on June 30)

Year	Rate
1971-72	N.A.
1972-73	N.A.
1973-74	N.A.
1974-75	80.0%
1975-76	44.6%
1976-77	24.9%
1977-78	22.3%
1978-79	19.3%
1979-80	14.5%
1980-81	11.5%
1981-82	9.2%
1982-83	9.1%
1983-84	13.5%

Monthly (1984-85)

Month	Rate
July	14.2%
August	14.6%
September*	17.0%
October *	17.4%
November *	17.7%
December *	16.9%

*Accounts tranferred to Patterson and Van Abel.

6. Number of defaulted accounts transferred to Patterson and Van Abel.

Month	Accounts
October	3,190
November	108
December	125
TOTAL	3,423

TABLE I
STUDENT FINANCIAL AIDS ADMINISTRATION
STATE STUDENT LOAN ACTIVITY
Projected to 1989-90

Year	Loan Awards	Loan Volume	Cumulative Total	Average Loan	Loan Collections	Federal Funds	Loan Forgiveness	General Fund
1971-72	1,081	$ 1,603,158	$ 1,603,158	$1,483	$ -0-	$ -0-	$ -0-	$ 1,603,158
1972-73	1,748	2,870,384	4,473,542	1,642	-0-	-0-	-0-	2,870,384
1973-74	1,665	2,986,176	7,459,718	1,793	-0-	-0-	-0-	2,986,176
1974-75	1,457	2,659,807	10,119,525	1,826	235,476	-0-	703	2,424,331
1975-76	1,719	3,382,997	13,502,522	1,968	465,530	-0-	44,233	2,977,467
1976-77	1,921	3,850,507	17,353,029	2,004	1,141,461	-0-	64,746	2,709,046
1977-78	2,265	4,604,167	21,957,196	2,033	1,191,851	-0-	314,306	3,412,316
1978-79	2,795	6,416,402	28,373,598	2,296	1,391,643	-0-	445,985	5,024,758
1979-80	3,918	9,373,949	37,747,547	2,393	1,603,436	-0-	409,501	7,770,513
1980-81	6,460	15,957,717	53,705,264	2,475	2,225,388	-0-	555,494	13,732,329
1981-82	9,898	40,559,499	94,264,763	4,098	2,779,900	1,000,000	785,769	36,819,599
1982-83	13,058	55,007,395	149,272,158	4,213	4,609,051	1,200,000	(846,028)	49,198,344
1983-84	14,785	62,912,316	212,184,474	4,255	6,410,124	522,481	1,171,239	56,162,552
1984-85	16,404	73,818,000	286,002,474	4,500	9,927,084	350,000	1,950,101	63,540,916
1985-86	17,693	84,484,075	370,486,549	4,775	11,879,790	225,000	2,325,078	72,379,285
1986-87	17,894	90,364,700	460,851,249	5,050	15,103,702	150,000	2,944,162	75,110,998
1987-88	17,178	92,761,200	553,612,449	5,400	18,421,086	65,000	3,581,196	74,275,114
1988-89	15,212	87,088,700	640,701,149	5,725	21,667,004	25,000	4,204,507	65,396,696
1989-90	15,465	92,016,750	732,717,899	5,950	24,475,215	N.A.	4,743,765	67,541,535

*1984-85 through 1989-90 are projections

Revised 9/84

INC FY85

SAMPLE STUDENT BUDGETS
(1984-85)*

Budget Item	UAF On-Campus	UAF Off-Campus	UAA	UAJ	ACC	Kenai Penn. C.C.	APU On-Campus	SJC On-Campus
Tuition & Fees	$ 940	$ 940	$ 720	$ 744	$ 720	$ 636	$3,550	$3,246
Room & Board	2,400	4,800	5,148	4,650	5,148	4,913	3,350	3,400
Books & Supplies	400	400	270	300	290	270	270	300
Subtotal	$3,740	$6,140	$6,138	$5,694	$6,158	$5,819	$7,170	$6,946
Transportation	1,000	1,000	801	700	774	1,152	800	900
Personal	800	800	963	900	927	918	910	900
Total	$5,540	$7,940	$7,902	$7,294	$7,859	$7,889	$8,880	$8,746

Budget Item	Oregon State U On-Campus	U of Oregon On-Campus	Willamette U On-Campus	Linfield College On-Campus	Lewis & Clark College On-Campus	U of Washington On-Campus	Western Washington U On-Campus
Tuition & Fees	$4,050	$4,080	$6,410	$ 6,080	$7,569	$3,618	$3,486
Room & Board	2,200	2,340	2,700	2,210	3,037	2,805	2,325
Books & Supplies	330	300	250	250	250	399	350
Subtotal	$6,580	$6,720	$9,360	$ 8,540	$10,856	$6,822	$6,161
Transportation	1,400	1,300	2,000	2,000	1,600	1,600	1,600
Personal	1,050	1,000	550	650	600	1,158	700
Total	$9,030	$9,020	$11,910	$11,190	$13,056	$9,580	$8,461

Budget Item	Washington State U On-Campus	Pacific Lutheran U On-Campus	U Puget Sound On-Campus	Gonzaga U On-Campus	Seattle U On-Campus	Arizona State U On-Campus	Northern Arizona U On-Campus
Tuition & Fees	$3,624	$ 5,950	$ 6,330	$ 5,900	$ 5,625	$3,700	$3,200
Room & Board	2,400	2,800	2,900	2,700	2,955	2,700	1,960
Books & Supplies	350	400	400	400	400	420	350
Subtotal	$6,374	$ 9,150	$ 9,630	$ 9,000	$ 8,980	$6,820	$5,510
Transportation	1,700	1,750	1,300	1,700	1,800	1,700	1,400
Personal	1,000	1,200	400	1,000	1,020	1,000	800
Total	$9,074	$12,100	$11,330	$11,700	$11,800	$9,520	$7,710

*All budgets are for single full-time undergraduate students for a full academic year.

SAMPLE STUDENT BUDGETS
(1984-85)*

Budget Item	U of Hawaii On-Campus	U of Idaho On-Campus	U of Montana On-Campus	Colorado State U On-Campus	U of Colorado On-Campus	U of Denver On-Campus	Stanford U On-Campus
Tuition & Fees	$3,126	$2,816	$2,241	$4,805	$ 5,055	$ 6,696	$ 9,750
Room & Board	2,275	2,580	2,081	2,740	2,468	2,955	4,000
Books & Supplies	368	400	200	320	325	375	400
Subtotal	$5,769	$5,796	$4,522	$7,865	$ 7,848	$10,026	$14,150
Transportation	1,400	1,500	1,100	1,550	1,800	1,615	2,000
Personal	686	600	500	260	1,417	690	800
Total	$7,855	$8,414	$6,122	$9,675	$10,733	$12,331	$16,950

Budget Item	Boston U On-Campus	Purdue U On-Campus	Northwestern U On-Campus	Dartmouth College On-Campus	Brigham Young U On-Campus
Tuition & Fees	$ 9,116	$4,260	$ 9,615	$ 9,090	$1,400
Room & Board	3,900	3,110	3,540	3,490	2,100
Books & Supplies	350	300	405	inc. personal 1,080	370
Subtotal	$13,366	$7,670	$13,560	$13,660	$3,870
Transportation	1,700	2,000	2,080	2,000	1,200
Personal	700	800	730	1,600	680
Total	$15,766	$10,470	$16,370	$16,260	$5,750

*All budgets are for single full-time undergraduate students for a full academic year.

College of Natural Sciences

UNIVERSITY OF ALASKA—FAIRBANKS
Fairbanks, Alaska 99775

MEMORANDUM

TO: President
Vice President
Chancellor
Dean of Natural Sciences
Legislators
Regents
President of AMA

FROM: Sven O. E. Ebbesson, Ph.D., D.Sc.
Director, WAMI Medical Program

DATE: January 10, 1986

RE: Good News from WAMI

New data about the practice location of our Medical School graduates indicate that 44% of Alaskan WAMI graduates have returned to our State after completed residency training. That is more than we had expected and surely reflects the students' warm feelings toward everyone who contributed toward their education. Comparable figures for Montana and Idaho are 37% and 35% respectively.

It was also rewarding to learn that a large proportion of WAMI graudates now practice in smaller communities such as Bethel, Kodiak, Dillingham and Kenai. Almost all are working in primary care areas (family medicine, pediatrics and OB/GYN), where the need is the greatest. This means that the WAMI Program is a success and that our goals are being met. It also reflects well on those that developed and supported the program over the years. The program has allowed sons and daughters of Alaskans to obtain the best medical training in the world and the people of Alaska will continue to gain from their achievements and from their service.

SOE:wv

SURVEY OF 1983-84 ALASKA STUDENT LOAN RECIPIENTS

Alaska Commission on Postsecondary Education
March, 1984

INTRODUCTION

The Alaska Student Loan program, established in 1971, is the most generous loan program in the nation, and has provided student financial aid, in the form of low interest loans, to over 50,000 Alaskan residents. For a number of years the vast majority of borrowers used their Alaska loans to attend postsecondary educational institutions outside the State of Alaska, but from 1975 to 1982 there was a steadily increasing trend toward in-state attendance, culminating in over fifty percent of the 1982-83 borrowers attending school in Alaska. Then, in 1983-84, the trend broke. As of November 1, 1983, 53.4 percent of the student loan borrowers were attending school out-of-state.

In an effort to better understand this break in an eight-year pattern, all 1983-84 loan recipients were surveyed. This was the first attempt to survey current borrowers in the thirteen-year history of the loan program, so the opportunity was taken to solicit opinions on a number of issues related to Alaska student loans.

PROCEDURE

During the last week of October 1983, questionnaires (see Appendix A) were mailed to all (13,026) 1983-84 student loan recipients. The questionnaires were mailed to the permanent home address of each borrower in the hope that it would be forwarded to school addresses when necessary. No follow-up was conducted, since not all files contain accurate current address data.

FINDINGS

Of the 13,026 loan recipients surveyed, 7,476 (57.4%) returned completed questionnaires. For a census-type survey with no follow-up, this is an acceptable response rate as long as the respondents seem to be distributed in a pattern similar to the borrowing population. As can be seen in Table 1, the response rate by student level was quite evenly spread, when compared to the borrowing population, and therefore should serve as a good indicator for inference to the population. Similarly, the in-state/out-of-state mix is not disproportionate.

The only group which may be over-represented is graduate students attending in Alaska, since the response rate was a very high 94.4%. However, since this class of borrowers is relatively small, it should not lessen the reliability of the findings.

TABLE 1

Distribution Of Respondents By
Student Level

Student Level	Alaska Attendance			Out-of-State			Total		
	No.	%	% of Borrowers	No.	%	% of Borrowers	No.	%	% of Borrowers
Freshman	856	25.6	43.7	974	23.6	51.5	1,830	24.5	47.5
Sophomore	743	22.2	57.6	829	20.1	58.4	1,572	21.0	58.1
Junior	596	17.8	64.4	745	18.0	64.4	1,341	17.9	64.4
Senior	516	15.4	64.2	648	15.7	63.8	1,164	15.6	64.0
Graduate	255	7.6	94.4	695	16.8	71.1	950	12.7	76.2
Vocational	378	11.4	46.4	241	5.8	47.9	619	8.3	47.0
Total	3,344	100.0	55.1	4,132	100.0	59.4	7,476	100.0	57.4

Type of Institution Attended. The loan borrowers were asked to indicate what type of school they were attending and whether it is located in Alaska or out-of-state. Over three-fourths (78.0%) of the respondents indicated they were attending a four-year college or university, either public or private, with out-of-state enrollees more heavily represented in this type of school, than Alaska enrollees. (See Table 2.) Not surprisingly, community college and vocational students tend to attend in Alaska, rather than traveling outside for schooling.

TABLE 2

Distribution Of Respondents By
Type Of Institution

Type of Institution	Alaska		Out-of-State		Total	
	Number	%	Number	%	Number	%
Vocational	445	13.3	287	6.9	732	9.8
Community Colleges	766	22.9	231	5.6	997	13.3
Private Coll/Univ.	182	5.4	1,628	39.4	1,810	24.2
Public Coll/Univ.	1,951	58.4	1,986	48.1	3,937	52.7
Total	3,344	100.0	4,132	100.0	7,476	100.0
% of Respondents	44.7		55.3		100.0	
% of Borrowers	55.1		59.4		57.4	

Student Loan Interest Rate. The current interest rate on Alaska student loans is 5%. This is the lowest student loan interest for any state comprehensive student loan program in the nation, and there is nearly always debate over the level during each legislative session. When the borrowers were asked, they strongly endorsed retaining the 5% loan rate. Nearly three-fourths (74.9%) of the borrowers felt that 5% is the appropriate interest rate for these loans. Only 18.6% of the borrowers felt the rate should be increased, and even then, most felt only a small increase was in order. (See Table 3.)

TABLE 3

What Rate Of Interest Should Be Set For Student Loans?

Interest Rate	Number	Percentage
5%	5,603	74.9
6%	640	8.6
7%	441	5.9
8%	164	2.2
9%	145	1.9
No Opinion	483	6.5
Total	7,476	100.0

Student Loan Borrowing Maximums. The Alaska Student Loan program permits students to borrow up to $6,000 per year for undergraduate study and up to $7,000 per year for graduate study. Once again, Alaska's program is distinguished from other state-level comprehensive student loan programs in the nation. There is no other comparable loan program with borrowing maximums as high as Alaska's. Current borrowers were asked what maximums they believed to be appropriate for Alaska Student Loans. As indicated in Table 4, the majority (78.4%) by more than three-to-one, believed the current maximums are appropriate. Few, less than 5%, felt the maximums should be lowered, and 16.1% felt the maximums should be raised.

TABLE 4

Should The Loan Borrowing
Maximum Be Changed?

Response	Number	Percent
Retains Current Level	5,863	78.4
Reduce Maximum	306	4.1
Revise Maximum Upward	1,201	16.1
No Opinion	106	1.4
Total	7,476	100.0

An interesting pattern develops when one looks at which students believe higher maximums are appropriate. These data are presented in Table 5, and indicate that freshman borrowers, both in-state and out-of-state, and graduate borrowers attending out-of-state are disproportionately represented in the 1,201 persons desiring higher borrowing limits. One might guess that the out-of-state graduate borrowers are reacting to actual costs incurred by such attendance when they want limits raised, but the fact that freshman, when compared to sophomores, juniors, and seniors, are disproportionately represented in those wishing higher limits, may simply mean that they do not know the true costs of attendance in this--their first semester of school.

TABLE 5

Distribution Of Respondents Favoring
Raising The Loan Maximum

Type of Institution	Alaska		Out-of-State		Total	
	Number	%	Number	%	Number	%
Freshman	144	28.7	141	20.2	285	23.7
Sophomore	95	18.9	134	19.2	229	19.1
Junior	83	16.5	97	13.9	180	15.0
Senior	44	8.7	94	13.5	138	11.5
Graduate	42	8.3	184	26.4	226	18.8
Vocational	95	18.9	48	6.8	143	11.9
Total	503	100.0	698	100.0	1,201	100.0

Student Loan Forgiveness Benefits. One of the more controversial aspects of the Alaska Student Loan program is the provision of forgiveness benefits. This too, distinguishes Alaska's program as the most generous in the country. If Alaska borrowers complete the program of study for which they borrow and then live in Alaska, they can have up to 50% of their total indebtedness, including interest, forgiven by the State. Periodic discussion in Alaska's Legislature centers on whether this forgiveness provision should be retained. When asked, the current borrowers overwhelmingly indicated their belief that forgiveness should be retained at the current level. (See Table 6.)

TABLE 6

Should The Loan Forgiveness
Benefits Be Changed?

Response	Number	Percent
Retain Current Level	6,864	91.8
Reduce Forgiveness	358	4.8
Discontinue Forgiveness	166	2.2
No Opinion	88	1.2
Total	7,476	100.0

This rather straightforward result was not unexpected, but does not get at the heart of the debate on forgiveness. In order to better understand the effects of forgiveness, borrowers were asked if forgiveness influenced their decisions regarding how much they borrowed and where they would live after schooling. The results, found in Table 7, are somewhat mixed. For students attending in Alaska, forgiveness influenced borrowing in nearly as many cases as it did not, but for out-of-state attendees, forgiveness was said not to be a factor by nearly two-to-one. In terms of residence after schooling, forgiveness did not seem to be a big factor one way or the other for those attending in-state, but was said to influence the decisions of out-of-state attendees, again by nearly two-to-one.

TABLE 7

Influence Of Loan Forgiveness
Benefits On Student Decisions

Do Loan Forgiveness Benefits Influence Decisions Regarding:	Alaska Attendance		Out-of-State	
	Yes	No	Yes	No
How much you borrow?	1,516	1,789	1,812	2,255
Where you live after schooling?	1,538	1,780	2,684	1,396

Change From In-State to Out-of-State Attendance. Borrowers were asked if they had attended a postsecondary school last year, and if so, where. The pattern toward continued attendance was evident for both Alaska attendees and out-of-state attendees. Of the 2,117 respondents currently attending school in Alaska who also attended a postsecondary school last year, 90.4% had attended school in Alaska last year too; and of the 2,942 respondents currently attending school out-of-state who also attended a postsecondary school last year, 78.8% had attended school out-of-state last year, too. Looking only at those students who switched from Alaska to out-of-state attendance, or the reverse, one finds that only 9.6% of the students currently attending in Alaska, attended out-of-state last year; and 21.2% of the students currently attending out-of-state, attended in Alaska last year. (See Table 8.)

TABLE 8

Attendance In-State Versus Out-Of-State This Year
Versus Last, By Type Of Institution

Type Of Institution	Current Attendance in Alaska					Current Attendance Out-of-State				
	Alaska Last Year		Out-of-State Last Year		Total	Alaska Last Year		Out-of-State Last Year		Total
	No.	%	No.	%	No.	No.	%	No.	%	No.
Vocational	39	90.7	4	9.3	43	-0-	0.0	77	100.0	77
Community Coll.	478	87.2	70	12.8	548	44	19.7	179	80.3	223
Private Coll/Univ.	97	85.1	17	14.9	114	204	16.7	1,018	83.3	1,222
Public Coll/Univ.	1,300	92.1	112	7.9	1,412	376	26.5	1,044	73.5	1,420
Total	1,914	90.4	203	9.6	2,117	624	21.2	2,318	78.8	2,942

In order to try to determine why a person would switch from attending in Alaska to attending out-of-state, the 624 respondents who did so were asked to list the top factors (up to four) influencing that decision. The results (based upon a weighted average giving more value to each person's primary reason for switching and correspondingly less for other reasons) are listed in Table 9. Program Availability was the most influential factor in the decision to switch to out-of-state attendance, followed by Closeness to Home and Low Tuition and Expenses. The high ranking of Closeness to Home is difficult to understand, unless persons were trying to indicate they were attending out-of-state so as not to be close to home.

TABLE 9

Reasons For Attending Out-Of-State After Attending In Alaska Last Year

Reason (Descending Order)	Weighted Average
Availability of Program	442.3
Closeness to Home	333.7
Low Tuition and Expenses	321.0
Availability of Financial Aid	239.2
Geographic Location/Weather/Climate	176.5
School Reputation/Prestige	159.0
Ability to Work While Attending	137.3
Encouragement of Parents/Friend	83.1
Availability of Campus Housing	57.0
Encouragement of Teachers/Counselors	41.3
Friends Are There	36.3
Athletics/Recreational Activities	32.4
Religious Atmosphere	26.2
Sororities/Fraternities/Organizations	5.4

Next, those 624 persons switching from Alaska attendance to out-of-state were asked what factor could have encouraged them to continue their Alaska attendance rather than switching. The top factor was again Program Availability, and it was the top factor regardless of what type of institution was being attended out-of-state. The other factors which seemed to have a strong influence on the decision to switch to out-of-state attendance were: Quality, Campus Housing, Lower Costs, and Better Weather. (See Table 10.)

TABLE 10

For Those Attending Out-Of-State After Attending In Alaska Last Year, What Would Have Kept Them In Alaska? By Type Of Institution

Vocational School	Community College	Private Coll/Univ.	Public Coll/Univ.
Program Availability Better Quality Lower Costs	Program Availability Campus Housing Better Quality Better Weather Lower Costs	Program Availability Better Quality Campus Housing Religious Atomosphere Lower Costs	Program Availability Better Quality Campus Housing Better Weather Lower Costs

Reasons For Selecting Current Institution. All respondents were asked why they chose their particular institution for pursuing their education, and as can be seen in Table 11, Program Availability was a very important factor for all students regardless of whether they were attending in Alaska or out-of-state and regardless of the type of school attended. The top three factors for each classification are presented in Table 11, and there is a difference between the responses of those attending in Alaska compared to those attending out-of-state. While the most important factor for out-of-state attendance at community colleges and public colleges or universities is Program Availability, the most important factor for Alaskan attendance at community colleges and public colleges and universities is Closeness to Home. It should also be noted that School Reputation, while an important factor for persons attending out-of-state, was not one of the top three factors for those attending in Alaska.

TABLE 11

Top Three Reasons For Selecting Current
Institution Of Attendance,
By Type Of Institution

Type of Institution	Most Important Factor	Second Factor	Third Factor
Vocational			
(Alaska)	Program Availability	Ability to Work	Financial Aid
(Out-of-State)	Program Availability	School Reputation	Finanical Aid
Community College			
(Alaska)	Closeness to Home	Program Availability	Low Cost
(Out-of-State)	Program Availability	Low Cost	School Reputation
Private College/University			
(Alaska)	Program Availability	Ability to Work	Financial Aid
(Out-of-State)	Program Availability	School Reputation	Religious Atmosphere
Public College/University			
(Alaska)	Closeness to Home	Program Availability	Low Cost
(Out-of-State)	Program Availability	School Reputation	Climate/Weather

For Those Attending Out-of-State, What Could Have Encouraged Alaska Attendance? The 4,132 respondents attending school out-of-state were asked what factor could have encouraged them to attend in Alaska. As with those students who switched attendance from in-state to out-of-state, the single most important factor which could have encouraged Alaska attendance was Program Availability. When the respondents were classified by type of institution (Table 12), the results were surprisingly homogenous. Program Availability and Better Quality were the two top factors for all students, regardless of institutional type. For collegiate students, Campus Housing was also an important factor.

TABLE 12

For Those Attending Out-of-State, What Could Have Encouraged Alaska Attendance? (By Type Of Institution)

Vocational School	Community College	Private Coll/Univ.	Public Coll/Univ.
Program Availability	Program Availability	Program Availability	Program Availability
Better Quality	Better Quality	Better Quality	Better Quality
Nothing	Campus Housing	Campus Housing	Campus Housing
Lower Costs	Nothing	Nothing	Better Weather
Better Weather	Better Weather	Religious Atmosphere	Nothing

Similarly, when the respondents were classified by student level, the same pattern emerged (Table 13). The top five factors for all undergraduate out-of-state borrowers were Program Availability, Better Quality, Campus Housing, Better Reputation, and Nothing (meaning nothing could have encouraged them to attend in Alaska).

TABLE 13

For Those Attending Out-Of-State, What Could Have Encouraged Alaska Attendance? (By Student Level)

Freshman	Sophomore	Junior	Senior	Graduate
Program Avail.	Program Avail.	Program Avail.	Program Avail.	Program Avail.
Better Quality	Better Quality	Better Quality	Better Quality	Better Quality
Campus Housing	Campus Housing	Campus Housing	Campus Housing	Nothing
Nothing	Better Reputation	Better Reputation	Better Reputation	Better Reputation
Better Reputation	Nothing	Nothing	Nothing	Lower Costs

Major Course of Study of Borrowers. All loan recipients were asked to indicate the degree being sought and their major course of study. The top ten majors are summarized by degree level and by in-state or out-of-state attendance in Table 14. Once again, one sees a surprising similarity in responses, particularly at the bachelor's and master's levels, regardless of whether the student is attending in Alaska or out-of-state. Out-of-state doctoral students are largely representative of persons pursuing degrees unavailable in Alaska.

TABLE 14

Top Ten Majors By Degree Level

Associate		Bachelors	
Alaska	Out-of-State	Alaska	Out-of-State
Business	Business	Business	Business
Health Care	Computer Science	Education	Education
Electronics	Arts	Engineering	Engineering
Computer Science	Engineering	Health Care	Biology
Oil Tech	Education	Social Science	Arts
Engineering	Electronics	Biology	Computer Science
Social Science	Health Care	Communications	Health Care
Office Skills	Aviation	Arts	Social Science
Education	Auto/Diesel	Computer Science	Communications
Arts	Travel	Pre-Law	Physical Science

Masters		Doctorate	
Alaska	Out-of-State	Alaska	Out-of-State
Education	Education	Education	Law
Business	Business	Physical Science	Education
Engineering	Engineering	Biology	Medicine
Biology	Health Care	Engineering	Psychology
Psychology	Social Science		Business
Social Science	Arts		Chiropractic
Physical Science	Biology		Social Science
Arts	Communications		Engineering
Communications	Computer Science		Vet. Medicine
Health Care	Theology		Biology

Vocational	
Alaska	Out-of-State
Aviation	Aviation
Cosmetology	Auto/Diesel
Office Skills	Travel
Welding	Health Care
Auto/Diesel	Office Skills
Hairdressing	Electronics
Building Maint.	Marine Technology
Culinary Arts	Welding
Travel	Heating/Air Conditioning
Carpentry	Culinary Arts

Residency Plans After Graduation. Once these Alaskan students complete their programs of study, where do they plan to live? The vast majority (97.0%) say Alaska. Regardless of whether or not they are attending school in-state, nearly all respondents indicate plans of residing in Alaska after schooling. (See Table 15.)

TABLE 15

Location Plans After Completion
Of Program Of Study

Plans After Program Completion	Attending in Alaska		Attending Out-of-State		Total	
	Number	Percent	Number	Percent	Number	Percent
Reside in Alaska	3,274	97.9	3,976	96.2	7,250	97.0
Reside Out-of-State	70	2.1	156	3.8	226	3.0
Total	3,344	100.0	4,132	100.0	7,476	100.0

Why these students plan to return to Alaska is another question asked of the respondents. As can be seen in Table 16, the top reason for those students planning to live in Alaska after degree completion, regardless of whether or not they are currently attending in Alaska or out-of-state, is "Alaska is my home." The second most important reason for those planning Alaska residence is the top reason for those planning out-of-state residence, and that is "Job Availability." Other factors influencing location decisions include loan forgiveness, geographic location/weather/climate, availability of continuing education, and location of friends.

TABLE 16

Top Five Reasons For Location Plans After
Completion Of Program Of Study

Attending in Alaska		Attending Out-of-State	
Alaska Residency	Out-of-State	Alaska Residency	Out-of-State
Alaska is Home	Job Availability	Alaska is Home	Job Availability
Job Availability	Geog/Weather/Climate	Job Availability	Geog/Weather/Climate
Loan Forgiveness	Cont. Educ. Avail.	Loan Forgiveness	Cont. Educ. Avail.
Friends	Friends	Friends	Friends
Geog/Weather/Clim.	Parents/Relatives	Geog/Weath./Clim.	Recreation Avail.

SUMMARY/CONCLUSIONS

1. One of the principal reasons for conducting this survey was to discover if there was an explanation for the reversal of the eight-year trend toward in-state attendance. From the data collected it is a little difficult to single out exactly what caused this phenomena. However, when coupled with knowledge of the Alaska system a hypothesis may be offered.

   Three factors probably have impacted the in-state/out-of-state attendance pattern. First, the state loan program imposed new "good standing" requirements. These were enforced for the first time in 1982-83 and resulted in a large number of students becoming ineligible for continued borrowing. The majority of these ineligible students were students attending in-state, so the pool of in-state students for the current year, 1983-84, was reduced.

   Second, the only public university in the state with campus housing is the University of Alaska, Fairbanks (UAF). Over six months before the current school year began, UAF had filled all its campus housing. More than 300 students who wished campus housing for the 1984-84 year had to be denied.

   Third, the University of Alaska, Anchorage (UAA) has been heavily over-subscribed in a number of classes both this year and last. Many students have indicated that they simply could not get into all the UAA classes they wished for pursuit of their programs.

2. Students believe 5% is an appropriate interest rate for the student loan program.

3. Students believe the $6,000 and $7,000 borrowing maximums are appropriate for the student loan program. However, there is some evidence that graduate students, particularly those attending out-of-state, may be requesting a higher maximum in the near future.

4. Students believe loan forgiveness should be retained at 50%. When asked directly if loan forgiveness influences their decision on where to reside after graduation, only 57.1% indicate that it is. Also, when asked which factors are most important in this determination of where to live after graduation, loan forgiveness falls far behind "Alaska is My Home" and "Job Availability." The argument that forgiveness seems to reward students for what they would do anyway seems to be supported by this survey.

APPENDIX A

Student Loan Questionnaire

ALASKA STUDENT LOAN QUESTIONNAIRE

The Alaska Commission on Postsecondary Education has not surveyed loan recipients in the past, but due to the increased level of proposed program changes, we feel some information from you, the recipients of this program, would be most useful as we enter a new Legislative Session. Please complete this brief questionnaire and return it to us in the envelope provided. All responses are completely anonymous.

1. Check those school years in which you received an Alaska Student Loan

1975-76 _____	1978-79 _____	1981-82 _____
1976-77 _____	1979-80 _____	1982-83 _____
1977-78 _____	1980-81 _____	1983-84 _____

2. Current student level (please check)

Freshman _____	Junior _____	Graduate _____
Sophomore _____	Senior _____	Vocational _____

3. Current attendance (please check)

	In Alaska	Out-of-State
Vocational School	_____	_____
Community College	_____	_____
Private College/University	_____	_____
Public College/University	_____	_____

4. What interest level do you feel is appropriate for these loans?

5% _____	7% _____	9% _____
6% _____	8% _____	Other _____ (indicate)

5. What loan level do you feel is appropriate for these loans?

$6,000 and $7,000 loan levels should be retained	_____
Loan levels should be reduced	_____
Loan levels should be raised	_____

6. Why did you decide to attend your current institution? (Please number your reasons, with "1" being most important, and limit your choices to no more than four.)

Athletics/recreational activities	_____	Availability of program	_____
Sororities/fraternities/campus organization	_____	Availability of financial aid	_____
Geographic location/weather/climate	_____	Closeness to home	_____
Encouragement of parents/relatives	_____	Religious atmosphere	_____
Encouragement of teachers/counselors	_____	Friends are there	_____
Ability to work while attending school	_____	School reputation/prestige	_____
Availability of campus housing	_____	Low tuition/expenses	_____

7. If you are attending out-of-state, what single factor could encourage you to attend in-state (what could be changed, if anything)? _____

_____

(Please continue on reverse side)

8. Did you attend a postsecondary education institution in Alaska last year (1982-83)?

Yes _____ No _____

9. What degree or certificate are you seeking and what is your major program of study?

Associate Degree (Major?) _____
Bachelors Degree (Major?) _____
Masters Degree (Major?) _____
Specialist Degree (Major?) _____
Doctorate Degree (Major?) _____
Diploma (Course of Study?) _____
Certificate (Course of Study?) _____

10. Do you plan to live in Alaska when your education is finished?

Yes _____ No _____

11. What factors influenced your response in question 10? (Please number your reasons with "1" being most important, and limit your choices to no more than four.)

Availability of jobs	_____	Encouragement of parents/relatives	_____
Alaska is my home	_____	Availability of continuing education	_____
Friends are there	_____	Recreational activity availability	_____
Student loan forgiveness	_____	Geographic location/weather/climate	_____

12. Does the student loan forgiveness feature influence your decisions on:

a. Whether or not you live in Alaska after schooling? Yes _____ No _____

b. How much you borrow? Yes _____ No _____

13. Should the student loan forgiveness feature be:

a. Discontinued? Yes _____ No _____
b. Reduced? Yes _____ No _____
c. Retained as is? Yes _____ No _____

14. If there were no Alaska State Student Loan Program, would you (check as many as applicable)?

a. Delay your education _____

b. Not attend school at all _____

c. Borrow under a federal loan program _____

d. None of the above _____

Please return to: Alaska Commission on Postsecondary Education
Pouch FP
Juneau, Alaska 99811

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

POUCH FP
JUNEAU, ALASKA 99811
PHONE: (907) 465-2854

October 4, 1985

The Honorable John Sund
Alaska State Representative
P.O. Box 6440
Ketchikan, Alaska 99901

Dear Representative Sund:

Enclosed is a copy of a proposed regulation change for the Alaska Student Loan Program. The Alaska Commission on Postsecondary Education gave initial approval to this change at its September 20, 1985 meeting and has scheduled final action for its December 13-14, 1985 meeting.

Since you or your staff may receive questions about this proposed change, I wish you to have full information about exactly what is being suggested. The setting for this change is important so I would like to give you a very brief background. Simply stated, the demand for Alaska Student Loans has outstripped the supply for three years in a row, 1983-84, 1984-85, and 1985-86. The Legislature, demonstrating strong support for the program, has consistently provided substantial funding for student loans (FY84 - $60.0 million General Fund, FY85 - $60.00 million General Fund, and FY86 $63.6 million General Fund).

At the same time, loan repayments have continued to rise (FY84 - $6.4 million, FY85 - $9.6 million, and FY86 - $11.8 million projected). Yet, demand still exceeds supply. The program turned away applicants in May 1984; March 1985; and (it looks like) November 1985.

The current priority system is essentially first-come-first-served, with priority given to in-state attendance, but this system results in thousands of borrowers being turned away. The Commission felt that either program changes needed to be made, or a higher General Fund commitment was necessary. Certainly full-funding of the existing program is the most desirous alternative, but this has not been possible the last few years, and with state revenue projections such as they are, it seems unrealistic to expect substantial increased General Fund commitment these next few years. For example, we would need about $70.0 million from the General Fund for FY87 to fund the program (a 10.1% increase over this year). Hence, the Commission explored a variety of alternatives for changing the program while still trying to preserve educational access and benefits to Alaskans.

After a great deal of study and debate, the Commission elected to change regulations to require that the borrower share more responsibility for the cost of going to school. Student loans are awarded, and may be used, for only the cost of tuition and fees, room and board, and books and supplies. Currently, if applicants state they have no non-state loan resources to meet

these expenses, they are eligible to borrow the total cost, or $6,000, whichever is smaller (for undergraduate borrowers). Under the new regulations, each borrower would have to contribute at least $500 toward those eligible expenses. The following examples may help clarify the impact of the regulation.

Example 1. Undergraduate attending the University of Alaska, Fairbanks.

Program Cost		Resources Available	
Tuition & Fees	$1,120	SEIG, Pell Grant	$1,400
Books & Supplies	500	Parents	-0-
Room & Board	2,500	Savings	100
Subtotal	$4,120	Other Scholarships, etc.	500
Transportation	1,000	VA benefits	-0-
Personal	1,000	Other	-0-
Total	$6,120	Total	$2,000

Loan Award: current method $4,100
proposed change $3,600

Example 2. Undergraduate attending University of Alaska, Fairbanks.

Program Cost		Resources Available	
Tuition & Fees	$1,120	SEIG, Pell Grant	$ -0-
Books & Supplies	500	Parents	2,000
Room & Board	2,500	Savings	1,000
Subtotal	$4,120	Other Scholarships, etc.	-0-
Transportation	1,000	VA benefits	-0-
Personal	1,000	Other	-0-
Total	$6,120	Total	$3,000

Loan Award: current method $3,100
proposed change $3,100

Example 3. Undergraduate attending Alaska Pacific University.

Program Cost		Resources Available	
Tuition & Fees	$4,220	SEIG, Pell Grant	$1,500
Books & Supplies	270	Parents	-0-
Room & Board	3,826	Savings	1,000
Subtotal	$8,316	Other Scholarships, etc.	500
Transportation	90	VA benefits	-0-
Personal	1,020	Other	400
Total	$9,426	Total	$3,400

Loan Award: current method $6,000
proposed change $6,000

Example 4. Undergraduate attending Southern Oregon State College.

Program Cost		Resources Available	
Tuition & Fees	$3,691	SEIG, Pell Grant	$ -0-
Books & Supplies	280	Parents	2,500
Room & Board	2,300	Savings	1,000
Subtotal	$6,271	Other Scholarships, etc.	-0-
Transportation	2,306	VA benefits	-0-
Personal	1,223	Other	-0-
Total	$9,800	Total	$3,500

Loan Award: current method $6,000
proposed change $5,750

In examples 1 and 4, the applicant did not indicate at least $500 from non-loan sources toward eligible loan items (the subtotal). Therefore, the loan award would be reduced under the new regulation, that is, $4,100 - $500 = $3,600 (Example 1) and $6,250 - $500 = $5,750 (Example 2). In examples 2 and 3, the award would be the same because the applicant indicated at least $500 available for eligible loan items (Example 2), or the cost of eligible loan items exceeds $6,000 plus the $500 requirement (Example 3).

I hope this better clarifies what we are trying to accomplish with this regulatory change. The idea is to try to spread available loan funds to more individuals without seriously hampering anyone's chances of obtaining education and training.

If you have any questions or comments, please let me know.

Sincerely,

Kerry D. Romesburg
Executive Director

Enclosure

PROPOSED STUDENT LOAN REGULATION CHANGES

20 AAC 15.030 (c) is amended to read:

20 AAC 15.030 (c) Subject to the limitation of (b) of this section, an applicant's authorized loan award will be based on loan personnel's computation of the applicant's financial need. Financial need will be computed as the difference between the required fees, tuition, room, board, books and supplies, as applicable, charged by the institution for the course of study for which the applicant has been accepted or is enrolled in full-time status, and the amount of funds available to the applicant from other sources to meet those expenses or $500 whichever is greater. The amount of the authorized loan award will be the next lower multiple of $50 below the computed financial need.

20 AAC 15.036. is amended by adding a new subsection (4) to read:

20 AAC 15.036. (4) a program of study offered outside the state in which the institution is located, unless the program's location is based upon, and serves, a bonafide educational purpose.

20 AAC 15.045 (f) is amended as follows:

(f) An institution may not hold loan warrants for longer than 60 calendar days after the beginning of the school term, or specified date of beginning, for which the warrant is issued. If the warrant is unclaimed or the student is ineligible at the end of the 60-day period, the institution shall return the warrant to the commission stating the reasons for its return; the warrant and remaining portion of the loan will then be cancelled.

20 AAC 15.900 (b) is amended by adding a new paragraph (9) to read:

20 AAC 15.900 (b) (9) "duress" means threat or violence of a magnitude such as to inspire a person of ordinary firmness with fear of serious injury to the person, reputation, or fortune to the extent that continued school attendance is not possible or practical.

A REPORT ON THE ALASKA COMMISSION ON POSTSECONDARY EDUCATION SCHOLARSHIP REVOLVING LOAN FUND

For the Fiscal Year Ended June 30, 1984

Audit Control Number

05-1198-A-85-R

Executive Director	Kerry D. Romesburg

Members of the
Alaska Commission on Postsecondary Education

Chairman	Gordon Evans
Member	Patricia Abney
Member	Ruth Burnett
Member	Patricia Clark
Member	Lee Demmert
Member	Susan Greene
Member	Ernestine Griffin
Member	Richard Helms
Member	Joe Josephson
Member	Terry Martin
Member	Barbara Thompson
Member	Blanche Walters
Member	Walt Ward

TABLE OF CONTENTS

	Page
Purpose of the Report	1
Organization and Function	3
Auditor's Opinion	5
Financial Statements:	
Comparative Balance Sheet	7
Comparative Statement of Revenues, Expenses, and Changes in Retained Earnings	8
Comparative Statement of Changes in Financial Position	9
Notes to the Financial Statements	11
Disclaimer on Appendixes	13
Appendixes:	
A. General Loan Information	17
B. Statistical Loan Information	18
C. Applications Considered During Year	19
D. Return on Investment/Cost Analysis	20
Agency Response:	
Alaska Commission on Postsecondary Education	21

PURPOSE OF THE REPORT

In accordance with the provisions of Title 24 of the Alaska Statutes, an examination of the Alaska Commission on Postsecondary Education, Scholarship Revolving Loan Fund was conducted to:

1. Determine if the financial statements present fairly, the financial position, results of operations, and changes in financial position for the Fund, for the fiscal year ended June 30, 1984 and 1983.

2. Determine the compliance by the Alaska Commission on Postsecondary Education with the applicable State statutes and regulations governing fiscal activities of the Fund.

ORGANIZATION AND FUNCTION

The Scholarship Revolving Loan Fund is classified as an enterprise fund whose sole function is financing the Alaska Student Loan Program. The Alaska Student Loan Program had its origin in a program of scholarship loans established by the 1968 Alaska State Legislature. This program was amended in 1970 and completely restructured in 1971. At that time, the Legislature established the loan program under the administration of the Alaska Commission on Postsecondary Education generally as it exists today.

Educational loans of up to $6,000 and $7,000 per year for undergraduate and graduate study, respectively, are provided to eligible State residents. These loans, to be used only to offset the costs of tuition, room, board, and books, offer the borrower a ten-year repayment period at an annual interest rate of five percent. The loans may be used for full-time attendance at any accredited or approved college, university, or vocational-technical program. An incentive of up to fifty percent cancellation of the loan is offered to those borrowers who reside in Alaska after completion of their programs of study.

In the thirteen years of operation since restructuring in 1971, nearly 63,000 student loans have been awarded to Alaskan residents for a total of almost $212 million.

STATE OF ALASKA

AUDIT DIVISION
POUCH W
JUNEAU, ALASKA 99811

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

November 6, 1984

Members of the Legislative Budget
and Audit Committee:

We have examined the Balance Sheets of the Scholarship Revolving Loan Fund as of June 30, 1984 and 1983, and the related Statements of Revenues, Expenses and Changes in Retained Earnings, and Changes in Financial Position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above, present fairly the financial position of the Scholarship Revolving Loan Fund as of June 30, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Gerald L. Wilkerson

Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit

(Intentionally left blank)

ORGANIZATION AND FUNCTION

The Scholarship Revolving Loan Fund is classified as an enterprise fund whose sole function is financing the Alaska Student Loan Program. The Alaska Student Loan Program had its origin in a program of scholarship loans established by the 1968 Alaska State Legislature. This program was amended in 1970 and completely restructured in 1971. At that time, the Legislature established the loan program under the administration of the Alaska Commission on Postsecondary Education generally as it exists today.

Educational loans of up to $6,000 and $7,000 per year for undergraduate and graduate study, respectively, are provided to eligible State residents. These loans, to be used only to offset the costs of tuition, room, board, and books, offer the borrower a ten-year repayment period at an annual interest rate of five percent. The loans may be used for full-time attendance at any accredited or approved college, university, or vocational-technical program. An incentive of up to fifty percent cancellation of the loan is offered to those borrowers who reside in Alaska after completion of their programs of study.

In the thirteen years of operation since restructuring in 1971, nearly 63,000 student loans have been awarded to Alaskan residents for a total of almost $212 million.

(Intentionally left blank)

STATE OF ALASKA

AUDIT DIVISION
POUCH W
JUNEAU, ALASKA 99811

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

November 6, 1984

Members of the Legislative Budget
and Audit Committee:

We have examined the Balance Sheets of the Scholarship Revolving Loan Fund as of June 30, 1984 and 1983, and the related Statements of Revenues, Expenses and Changes in Retained Earnings, and Changes in Financial Position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above, present fairly the financial position of the Scholarship Revolving Loan Fund as of June 30, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Gerald L. Wilkerson

Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit

(Intentionally left blank)

STATE OF ALASKA
ALASKA COMMISSION ON POSTSECONDARY EDUCATION
SCHOLARSHIP REVOLVING LOAN FUND
COMPARATIVE BALANCE SHEET
June 30, 1984 and 1983

	1984	1983
Assets		
Current Assets		
Cash in Treasury	$ 8,745,359	$ 4,725,070
Accrued Interest Receivable	388,468	217,106
Current Portion of Loans Receivable	7,134,410	5,643,500
Total Current Assets	16,268,237	10,585,676
Other Assets		
Loans Receivable	188,728,131	132,455,572
Less: Current Portion	7,134,410	5,643,500
	181,593,721	126,812,072
Less: Allowance for Doubtful Accounts	19,816,454	12,053,457
Allowance for Loans Forgiveness	8,624,875	7,629,441
Total Other Assets	153,152,392	107,129,174
Total Assets	$169,420,629	$117,714,850
Liabilities and Fund Equity		
Fund Equity		
Contributions from General Fund	$198,511,260	$137,988,779
Retained Earnings (Deficit)	(29,090,631)	(20,273,929)
Total Liabilities and Fund Equity	$169,420,629	$117,714,850

The Notes to the Financial Statements are an integral part of this Statement.

STATE OF ALASKA
ALASKA COMMISSION ON POSTSECONDARY EDUCATION
SCHOLARSHIP REVOLVING LOAN FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
Fiscal Years Ended June 30, 1984 and 1983

	1984	1983
Revenues		
Interest on Loans	$ 1,271,473	$ 789,077
Expenses		
Bad Debt Expense	7,918,474	4,177,040
Loan Forgiveness	2,169,701	6,747,662
Total Expenses	(10,088,175)	(10,924,702)
Net Income (Loss)	(8,816,702)	(10,135,625)
Retained Earnings (Deficit) at Beginning of Year	(20,273,929)	(10,138,304)
Retained Earnings (Deficit) at End of Year	$(29,090,631)	$(20,273,929)

The Notes to the Financial Statements are an integral part of this Statement.

STATE OF ALASKA
ALASKA COMMISSION ON POSTSECONDARY EDUCATION
SCHOLARSHIP REVOLVING LOAN FUND
COMPARATIVE STATEMENT OF CHANGES
IN FINANCIAL POSITION
Fiscal Years Ended June 30, 1984 and 1983

	1984	1983
Sources of Working Capital		
Contributions from General Fund	$ 60,522,481	$ -0-
Uses of Working Capital		
Increase in Loans Receivable	46,023,218	37,800,691
Net Loss	8,816,702	10,135,625
Total Uses of Working Capital	54,839,920	47,936,316
Net Increase (Decrease) in Working Capital	$ 5,682,561	$(47,936,316)
Elements of Net Increase (Decrease) in Working Capital		
Increase (Decrease) in Current Assets		
Cash in Treasury	$ 4,020,289	$ 2,586,757
Due from General Fund	-0-	(52,986,100)
Accrued Interest Receivable	171,362	58,927
Current Portion of Loans Receivable	1,490,910	2,404,100
Net Increase (Decrease) in Working Capital	$ 5,682,561	$(47,936,316)

The Notes to the Financial Statements are an integral part of this Statement.

(Intentionally left blank)

STATE OF ALASKA
ALASKA COMMISSION ON POSTSECONDARY EDUCATION
SCHOLARSHIP REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 1984 and 1983

Note 1 - Basis of Accounting

A. The financial statements are prepared on the accrual basis of accounting. Revenues are recognized at the time they are earned. Expenses are reported based upon a direct association with specific revenues or when the obligation to pay is incurred.

B. Allowance for Doubtful Accounts is calculated on a percentage basis.

C. Interest is computed at 5% of the loan over the repayment period. Interest is allocated on a straightline (equal) basis to each payment in the repayment schedule.

Note 2 - Allowance for Loans Forgiveness

The State will forgive a portion of the loan plus interest (up to a total of 50%), if the borrower resides in Alaska upon successful completion of the program of study for which the loan was awarded. The Allowance for Loans Forgiven is calculated on a percentage basis.

(Intentionally left blank)

STATE OF ALASKA

AUDIT DIVISION
POUCH W
JUNEAU, ALASKA 99811

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

November 6, 1984

Members of the Legislative Budget
and Audit Committee:

Our examination was made for the purpose of forming an opinion on the financial statements. Appendixes A through D are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has not been subject to the auditing procedures applied in the examination of the basic financial statements and, accordingly, we express no opinion on them.

Gerald L. Wilkerson

Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit

(Intentionally left blank)

APPENDIXES

(Intentionally left blank)

APPENDIX A

STATE OF ALASKA
ALASKA COMMISSION ON POSTSECONDARY EDUCATION
SCHOLARSHIP REVOLVING LOAN FUND
GENERAL LOAN INFORMATION
For the Fiscal Years Ended June 30, 1984 and 1983
(UNAUDITED)

Statutory Reference

AS 14.43.090 - .160

Purpose	Limit	Current Interest Rate	Repayment Term
Education-Undergraduate	$6,000/yr.	5%	10 yrs.
Education-Graduate	$7,000/yr.	5%	10 yrs.

APPENDIX B

STATE OF ALASKA
ALASKA COMMISSION ON POSTSECONDARY EDUCATION
SCHOLARSHIP REVOLVING LOAN FUND
STATISTICAL LOAN INFORMATION
For the Fiscal Years Ended June 30, 1984 and 1983

	Number of Loans	$ Amount of Loans	Percent of Number of Loan O/S	Percent of $ Amount of Loans O/S
		1984		
Total Loans Outstanding (O/S)	34,216	$188,728,131	100 %	100 %
Total Loans in Repayment	18,422	$ 59,756,644	53.8%	31.7%
Total Loans Delinquent (Note 1)	7,380	$ 23,051,798	21.6%	12.2%
Total Loans in Litigation	317	$ 801,487	.9%	.4%
Total Loans Written Off	N/A	$ 155,478	N/A	.1%
		1983		
Total Loans Outstanding (O/S)	24,686	$132,455,572	100 %	100 %
Total Loans in Repayment	12,843	$ 33,959,418	52.0%	25.6%
Total Loans Delinquent (Note 1)	4,795	$ 12,813,599	19.4%	9.7%
Total Loans in Litigation	302	$ 750,862	1.2%	.6%
Total Loans Written Off	N/A	$ 104,404	N/A	.1%

Note 1: Loan payments overdue by more than 30 days at June 30.

N/A: Information not readily available.

APPENDIX C

STATE OF ALASKA
ALASKA COMMISSION ON POSTSECONDARY EDUCATION
SCHOLARSHIP REVOLVING LOAN FUND
APPLICATIONS CONSIDERED DURING YEAR
For the Fiscal Years Ended June 30, 1984 and 1983
(UNAUDITED)

	Number of Loans	$ Amount of Loans	Percent of Number	Percent of $ Amount
		1984		
Applications Received (Note 1)	21,209	N/A	100 %	N/A
Total Applications Considered (Note 1)	21,209	N/A	100 %	N/A
Applications Approved (Note 2)	18,453	$62,928,819	87 %	N/A
		1983		
Applications Received (Note 1)	18,383	N/A	100 %	N/A
Total Applications Considered (Note 1)	18,383	N/A	100 %	N/A
Applications Approved (Note 2)	16,490	$55,007,395	89.7%	N/A

Cost per Application and Loans Outstanding	1984	1983
Administrative Expenses	$2,058,471	$2,408,835
Number of Applications Processed	21,209	18,383
Cost per Application	$ 97	$ 131
Cost per Loans O/S	$ 60	$ 98

Note 1: Applications received and considered do not include amended.

Note 2: Loans approved excludes loans denied, incomplete applications returned to student.

N/A: Information not readily available.

APPENDIX D

ALASKA COMMISSION ON POSTSECONDARY EDUCATION
SCHOLARSHIP REVOLVING LOAN FUND
RETURN ON INVESTMENT/COST ANALYSIS
For the Fiscal Year Ended June 30, 1984
(UNAUDITED)

Rate of Return	1984
Total Revenues per Income Statement	$ 1,271,473
Total Expenses per Income Statement	10,088,175
Net Income (Loss)	$ (8,816,702)
Average Loan Receivable	$160,591,852
Rate of Return (Note 1)	(5.5)%

Note 1: Rate of Return is defined as follows:

$$\frac{\text{Net Income (Loss)}}{\text{Average Loans Receivable}}$$

Rate of return calculation is based on loans receivable only because uncommitted cash is invested by the Department of Revenue with proceeds deposited to the General Fund and is not available to the Scholarship Revolving Loan Fund for investment.

BILL SHEFFIELD, GOVERNOR

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

POUCH FP
JUNEAU, ALASKA 99811
PHONE: (907) 465-2854

RECEIVED
JAN 31 1985
LEGISLATIVE
AUDIT

January 17, 1985

Mr. Gerald L. Wilkerson
Legislative Auditor
Division of Legislative Audit
Pouch W
Juneau, Alaska 99811

Dear Mr. Wilkerson:

Thank you for the opportunity to review and respond to the preliminary audit report on the Alaska Commission on Postsecondary Education, Scholarship Revolving Loan Fund, for Fiscal Year Ended June 30, 1984. By way of this response, I would like to express our appreciation of the professional manner in which the audit was conducted.

We are most pleased with the audit results, and we concur with the findings.

Sincerely,

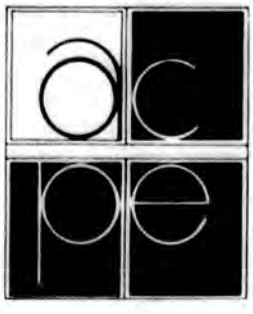
Kerry D. Romesburg
Executive Director

STATE OF ALASKA

STUDENT FINANCIAL AID PROGRAMS

ANNUAL REPORT
1983-1984

Alaska Commission on Postsecondary Education
Pouch FP, 400 Willoughby Avenue
Juneau, Alaska 99811



STATE OF ALASKA

S T U D E N T

F I N A N C I A L A I D

P R O G R A M S

ANNUAL REPORT
1983-84

Document Number 85-1

Alaska Commission on Postsecondary Education
Pouch FP, 400 Willoughby Avenue
Juneau, Alaska 99811

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

Mr. Gordon Evans, Chairman (Juneau)
Ms. Patricia Abney (Anchorage)
Ms. Ruth Burnett (Fairbanks)
Ms. Patricia Clark (Fairbanks)
Mr. Lee Demmert (Sitka)
Ms. Susan Greene (Talkeetna)
Ms. Ernestine Griffin (Sitka)
Mr. Richard Helms (Anchorage)
Senator Joe Josephson (Anchorage)
Representative Terry Martin (Anchorage)
Ms. Barbara Thompson (Juneau)
Mrs. Blanche Walters (Nome)
Mr. Walter Ward (Soldotna)

COMMISSION OFFICE

Dr. Kerry D. Romesburg
Executive Director
Alaska Commission on Postsecondary Education
Pouch FP, 400 Willoughby Avenue
Juneau, Alaska 99811
(907) 465-2854, 465-2962

ALASKA STUDENT LOAN PROGRAM

Ms. Billie Jean Hall Loan Awards Officer	Ms. Julie Bennett GSL/DP Liaison	Ms. Linda Landvik Repayment Officer
Ms. Carol Barril Collections Officer	Mr. Kevin Hanon Accounting Supervisor	Ms. Peggy Corazza Records Officer

WICHE STUDENT EXCHANGE AND STATE EDUCATIONAL INCENTIVE GRANT PROGRAMS

Ms. Jane Byers Maynard Director, Special Programs	Ms. Robin Stephens Program Assistant

PREFACE

The Annual Report on Alaska Student Financial Aid Programs for 1983-84 is hereby transmitted to the Governor and the Legislature of the State of Alaska. The Student Loan Program is administered by the Alaska Commission on Postsecondary Education with advice and guidance of the Student Financial Aid Advisory Committee. Membership of this advisory committee for 1983-84 included:

Ms. Patricia Abney, Chairman (Anchorage)
Ms. Patricia Clark (Fairbanks)
Ms. Ida Greiner (Fairbanks)
Ms. Carol Johnsen (Sitka)
Ms. Marie MacKenzie (Anchorage)
Dr. Ed Nichols (Anchorage)

The Commission and staff wish to express their gratitude for the work of this advisory committee.

Kerry D. Romesburg
Executive Director

August 1984
(Date)

TABLE OF CONTENTS

	Page
LIST OF TABLES	v
LIST OF FIGURES	vi
INTRODUCTION	1
ALASKA STUDENT LOAN PROGRAM	
PROGRAM SUMMARY	2
LOAN AWARD AMOUNTS	3
UNDERGRADUATE LOANS	6
GRADUATE LOANS	11
LOAN REPAYMENTS	16
DEFAULT	18
STATISTICAL DATA	18
WICHE STUDENT EXCHANGE PROGRAM	
EXCHANGE FIELDS	19
SUPPORT FEES	20
PARTICIPATION RATES	20
STATE EDUCATIONAL INCENTIVE GRANT (SEIG) PROGRAM	
PARTICIPATION RATES	23
APPENDIX: ALASKA STUDENT LOAN PROGRAM - ADDITIONAL DATA	25

LIST OF TABLES

Table		Page
1	MEAN LOAN AMOUNT PER RECIPIENT BY IN-STATE/OUT-OF-STATE STUDENT LEVEL, 1980-81 through 1983-84	5
2	TEN TOP STATES OF ATTENDANCE FOR ALASKANS WITH UNDER-GRADUATE LOANS, 1979-80 through 1983-84	7
3	IN-STATE/OUT-OF-STATE ATTENDANCE BY STUDENT LEVEL, 1982-83 through 1983-84	9
4	TEN TOP STATES OF ATTENDANCE FOR ALASKANS WITH GRADUATE LOANS, 1979-80 through 1983-84	13
5	DISTRIBUTION OF BORROWERS BY FOREIGN COUNTRY OF ATTENDANCE, 1983-84	15
6	ANNUAL DEFAULT RATES OF ALASKA STATE STUDENT LOANS, 1971-72 through 1983-84	18
7	WICHE STUDENT EXCHANGE PROGRAM SUPPORT COSTS, 1976-77 through 1983-84	20
8	WICHE EXCHANGE STUDENTS BY FIELD, 1977-78 through 1983-84	21
9	WICHE SUPPORT COSTS BY FIELD OF STUDY, 1983-84	22
10	DISTRIBUTION OF STUDENTS RECEIVING STATE EDUCATIONAL INCENTIVE GRANTS, 1978-79 through 1983-84	24
11	TWELVE-YEAR SUMMARY, 1971-72 through 1983-84	26
12	YEARLY SUMMARY OF UNDERGRADUATE STUDENT LOANS	27
13	YEARLY SUMMARY OF GRADUATE STUDENT LOANS	28
14	YEARLY SUMMARY OF ALL STUDENT LOANS	29
15	MEAN LOAN AMOUNT PER RECIPIENT, BY IN-STATE/ OUT-OF-STATE INSTITUTIONAL ATTENDANCE	30
16	DISTRIBUTION OF ALASKA STATE LOANS FOR STUDENTS ATTENDING IN ALASKA, 1983-84 Loans	31
17	INSTITUTIONS AT WHICH AT LEAST FIFTY ALASKA STUDENT LOAN BORROWERS ATTENDED, 1983-84 Loans	33

LIST OF FIGURES

Figure		Page
1	MEAN LOAN AMOUNT FOR ALL LOANS IN-STATE, OUT-OF-STATE, AND COMBINED	4
2	PERCENT OF UNDERGRADUATE LOANS USED IN ALASKA	8
3	GEOGRAPHIC DISTRIBUTION OF ALASKANS UTILIZING STATE LOANS FOR UNDERGRADUATE EDUCATION IN 1983-84	10
4	PERCENT OF GRADUATE LOANS USED IN ALASKA	12
5	GEOGRAPHIC DISTRIBUTION OF ALASKANS UTILIZING STATE LOANS FOR GRADUATE EDUCATION IN 1983-84	14
6	STUDENT LOAN COLLECTIONS AND FORGIVENESS BENEFITS . .	17

INTRODUCTION

The State of Alaska provides student financial assistance for postsecondary study through three programs: the Alaska Student Loan Program, the WICHE Student Exchange Program, and the State Educational Incentive Grant (SEIG) Program. The three programs provide Alaskans with access to postsecondary education which otherwise might not be available. Through the loan and grant programs direct financial assistance is awarded to students in an effort to remove or lessen financial barriers to postsecondary education. Through the student exchange program, Alaskans have access to graduate, professional, and highly specialized fields which are unavailable in-state.

This report briefly summarizes each of these programs and the participation levels for 1983-84. The Student Loan Program will be discussed first, then the WICHE Student Exchange Program, and finally, the Incentive Grant Program.

ALASKA STUDENT LOAN PROGRAM

The Alaska Student Loan Program is one of the most successful programs offered by the State of Alaska. Its purpose is to provide low-interest loans to Alaskans wishing to pursue education and training at a postsecondary level. The program has grown from serving just over 1,000 Alaskans, in 1971-72, to the current 1983-84 level of serving nearly 15,000 Alaskans.

The Alaska Student Loan Program had its origin in a program of scholarship loans established by the 1968 Alaska State Legislature. This program was amended in 1970 and completely restructured in 1971, when the Legislature established the loan program generally as it exists at present. In the twelve years of operation since then, nearly 63,000 student loans have been awarded to Alaskan residents, for a total of nearly $150 million.

Educational loans of up to $6,000 and $7,000 per year for undergraduate and graduate study, respectively, are provided to eligible state residents. These loans, to be used only to offset the costs of tuition, room, board, and books, offer the borrower a ten-year repayment period at an annual interest rate of five percent. The loans may be used for full-time attendance at any accredited or approved college, university, or vocational-technical program. An incentive of up to fifty percent cancellation is offered to those borrowers who reside in Alaska after completion of their programs of study.

Program Summary

During the 1983-84 school year over 16,000 loans were awarded, and 14,785 were finalized and used for postsecondary attendance. Of these 14,785 loans, 50.5 percent were for attendance in Alaska, and 49.5 percent were for attendance out-of-state.

Undergraduate loans continue to dominate the loan volume, with only 13.2 percent of the 1983-84 loans going for graduate study. The largest single group of loans were for freshman borrowers, who accounted for 27.7 percent of all the 1983-84 loans.

Alaskans use these loans for study throughout the United States, and in a number of foreign countries. During the 1983-84 loan year, students from Alaska used state loans for attendance in every state in the Union and in seventeen foreign countries. The most frequent choice continues to be Alaska by more than a four-to-one margin over any other state.

Loan Award Amounts

The average loan award continued to rise slightly in 1983-84, following the dramatic rise in 1981-82 when the borrowing maximums were raised. For 1983-84, an undergraduate average loan was $4,171 while the average graduate loan was $5,097. Out-of-state student loans continue to be higher, on the average, than in-state loans, due largely to non-resident tuition fees. This is graphically presented in Figure 1. It is anticipated that the trend toward higher average loans will continue in the years ahead as tuition rates continue to increase.

Table 1 contains average loan amounts by student level for the last three years, 1981-82, 1982-83, and 1983-84. In general all loans, regardless of level, have steadily increased, for students attending in-state, and have leveled, or even dropped slightly, for those attending out-of-state. The out-of-state borrower averages a higher loan amount than the in-state borrower for every classification other than vocational.

FIGURE 1
MEAN LOAN AMOUNT FOR ALL LOANS
IN-STATE, OUT-OF-STATE, AND COMBINED

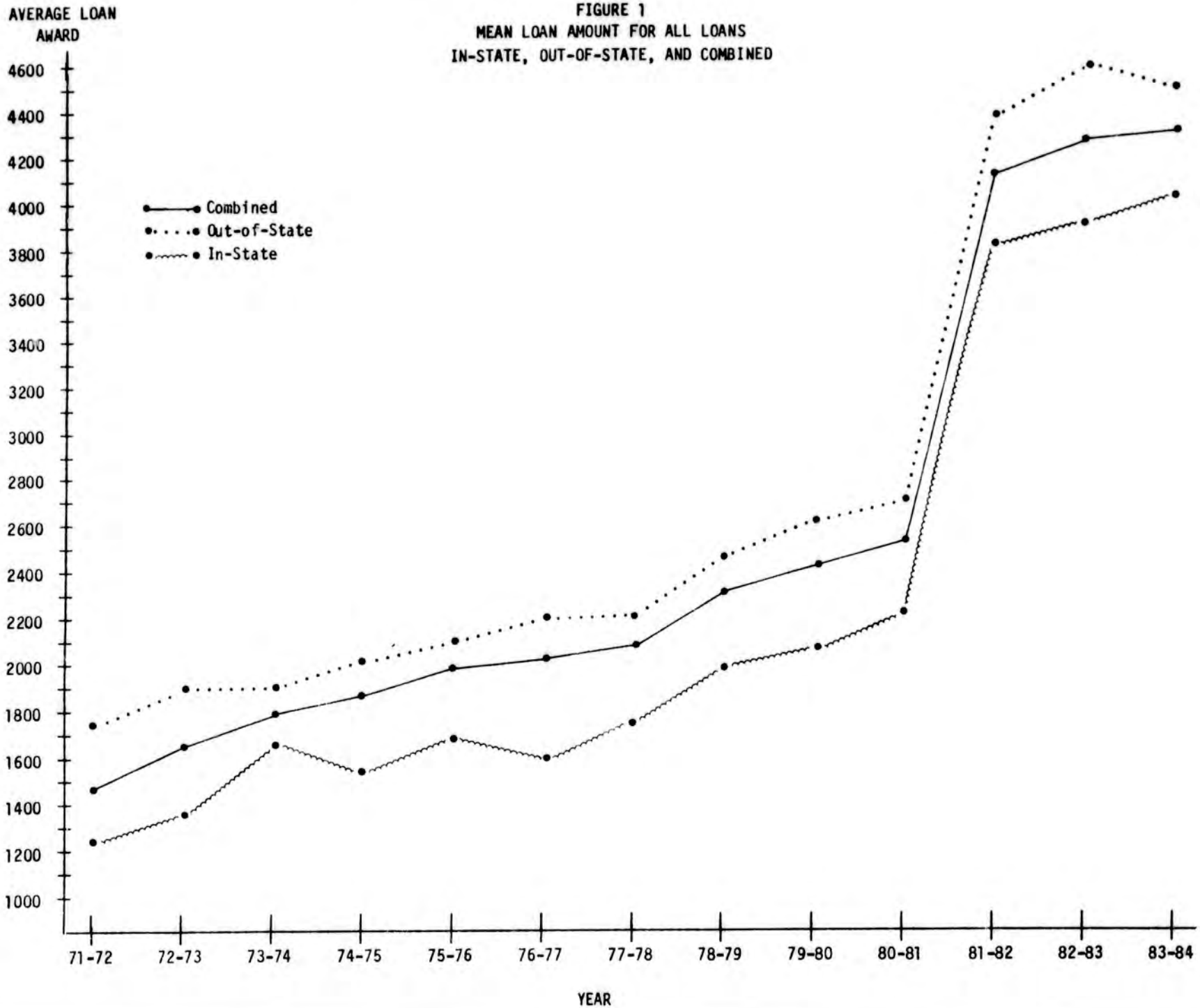


TABLE 1
MEAN LOAN AMOUNT PER RECIPIENT BY
IN-STATE/OUT-OF-STATE AND STUDENT LEVEL
1980-81 thru 1983-84

Student Level	In Alaska			Out-of-State			Combined		
	81-82	82-83	83-84	81-82	82-83	83-84	81-82	82-83	83-84
Freshman	$3,485	$3,236	$3,275	$3,985	$4,322	$4,166	$3,727	$3,739	$3,681
Sophomore	3,782	3,693	3,687	4,056	4,371	4,377	3,925	4,046	4,045
Junior	3,758	3,705	3,889	4,200	4,503	4,541	4,000	4,143	4,249
Senior	3,722	3,745	3,920	4,041	4,480	4,450	3,897	4,140	4,180
Vocational	4,645	5,076	5,224	4,925	4,769	4,544	4,812	4,996	5,028
Undergraduate	3,751	3,847	3,992	4,180	4,432	4,377	3,977	4,122	4,171
Graduate	4,630	4,454	4,527	5,401	5,336	5,257	5,218	5,129	5,097
TOTAL	$3,796	$3,872	$4,013	$4,345	$4,558	$4,502	$4,098	$4,213	$4,255

Undergraduate Loans

The number of undergraduate students receiving loans under the state program has increased greatly over the past twelve years. In 1971-72, 990 undergraduates received assistance, while in 1983-84, the number has grown to 13,449. Of these 13,449 loan recipients, 53.3 percent used their loans for attendance in Alaska, and 46.7 percent used their loans out-of-state. The states most frequently chosen by undergraduates in 1983-84 are presented in Table 2.

The consistency of student choice over the past few years is quite high. Alaska remains the most frequent choice for undergraduate attendance this year, as it has been in the past, followed by Washington, Oregon and California.

The average loan amount increased in almost every case, with the most pronounced increase in loans for attendance in Arizona, Colorado, and Alaska. Hawaii continues to be one of the states for which undergraduate loan amounts are the lowest, ($3,426), and two of the top ten states of attendance have lower average loans than does Alaska.

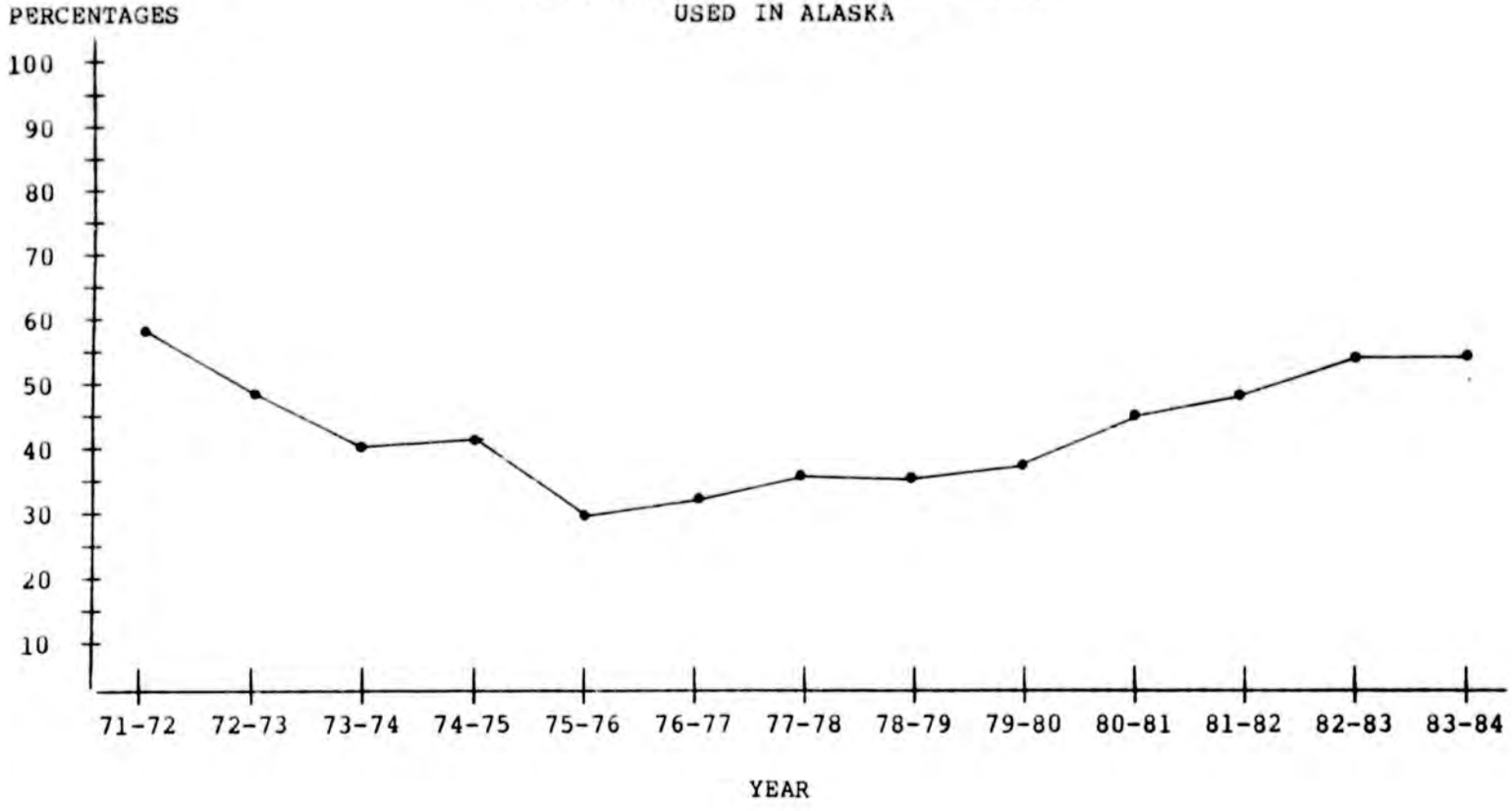
The percent of undergraduates using their loans for attendance in Alaska increased slightly this year. In fact, as can be seen in Figure 2, the 1983-84 rate of 53.3 percent is the highest in-state rate since 1971-72.

The increasing drawing power of Alaskan institutions is hypothesized to be the result of a number of factors including the maturation of Alaska's schools and the accompanying wider array of offerings, as well as the increased cost of attendance at schools outside of Alaska.

TABLE 2
TEN TOP STATES OF ATTENDANCE
FOR ALASKANS WITH
UNDERGRADUATE LOANS
1978-79 through 1983-84

	NUMBER					AVERAGE LOAN				
STATE	79-80	80-81	81-82	82-83	83-84	79-80	80-81	81-82	82-83	83-84
Alaska	1,245	2,606	4,225	6,305	7,175	$1,983	$2,137	$3,751	$3,847	$3,992
Washington	479	700	1,045	1,314	1,549	2,394	2,495	4,091	4,610	4,511
Oregon	372	500	746	908	949	2,360	2,506	4,242	4,756	4,590
California	191	280	373	556	664	2,517	2,519	4,268	4,858	4,919
Colorado	157	151	280	372	408	2,549	2,502	4,584	5,050	5,233
Arizona	104	142	206	352	404	2,261	2,413	4,344	4,444	4,717
Idaho	94	125	199	265	253	2,217	2,407	3,826	3,866	4,002
Hawaii	89	79	160	258	248	1,888	2,076	3,463	3,514	3,426
Utah	53	85	153	202	209	2,091	2,029	3,564	3,664	3,763
Texas	45	93	114	153	187	2,219	2,331	4,003	4,189	4,227
Remaining U.S.	613	1,000	1,442	1,184	1,369	N.A.	N.A.	N.A.	N.A.	N.A.
Foreign	N.A.	N.A.	N.A.	26	34	N.A.	N.A.	N.A.	4,101	4,234
TOTAL	3,448	5,751	8,935	11,879	13,449	$2,393	$2,319	$3,977	$4,139	$4,171

FIGURE 2
PERCENTAGE OF UNDERGRADUATE LOANS
USED IN ALASKA



The wide geographic distribution of Alaskans pursuing undergraduate education is shown most vividly in Figure 3, with Alaskan undergraduates attending institutions in every state of the Union. The predominance of the West and Northwest is quite evident, with only Alaska, Washington, Oregon, California, Colorado, Arizona, Idaho, Hawaii and Utah, receiving over 200 Alaskan undergraduates on state loans. Of the thirteen western states comprising the WICHE compact (Western Interstate Commission for Higher Education), only Wyoming received fewer than 35 Alaska undergraduates on state loans. In fact, the WICHE states account for 90.1 percent of the undergraduate loan recipients.

Under the state loan program, Alaskans may pursue their educational goals in whatever setting seems most appropriate for them. The freedom of choice which this provides is quite evident by the wide geographic distribution of our students.

As can be seen in Table 3, Alaska attendance accounts for a very high percentage of vocational borrowers (71.2% in 1983-84). Also, more than half (54.4%) of the freshman borrowers elected to attend in Alaska in 1983-84. There seems to be an increased tendency toward attendance out-of-state as student level increases, however this could be due to a number of factors including the changing attendance patterns the last few years and the propensity to remain in school rather than stop-out or drop-out. Hence, caution should be used in drawing inferences from these data.

TABLE 3
IN-STATE/OUT-OF-STATE ATTENDANCE
BY STUDENT LEVEL
1982-83 through 1983-84

STUDENT LEVEL	1982-83				1983-84			
	Alaska		Out-of-State		Alaska		Out-of-State	
	No.	%	No.	%	No.	%	No.	%
Freshman	2,041	53.8	1,756	46.2	2,229	54.4	1,868	45.6
Sophmore	1,255	47.9	1,364	52.1	1,331	48.1	1,439	51.9
Junior	871	45.0	1,063	55.0	956	44.8	1,176	55.2
Senior	793	46.3	918	53.7	850	44.5	1,060	55.5
Vocational	1,334	74.0	468	26.0	1,809	71.2	731	28.8
TOTAL	6,294	53.1	5,569	46.9	7,175	53.3	6,274	46.7

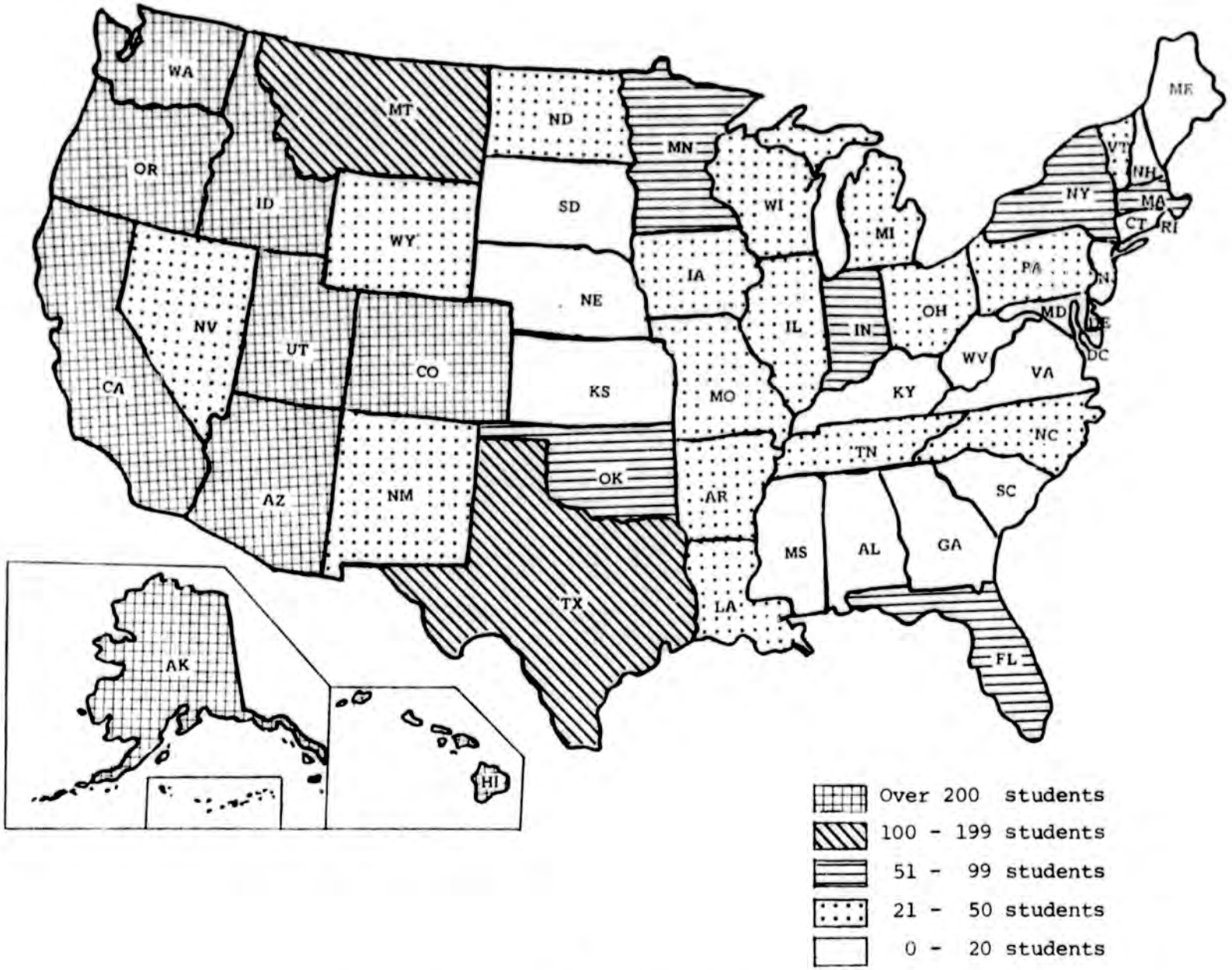


FIGURE 3
GEOGRAPHIC DISTRIBUTION OF ALASKANS UTILIZING
STATE LOANS FOR UNDERGRADUATE EDUCATION IN 1983-84

Graduate Loans

The number of Alaskans receiving loans for graduate study has increased nearly twelve fold since the program began in 1971-72. This year 1,336 students received assistance for the pursuit of graduate study. Of these 1,336, 78.1 percent used their loans for attendance outside of Alaska, while 21.9 percent used them for attending school in-state. The percentage of graduate loan recipients attending school in Alaska has been relatively stable the last few years, after decreasing steadily from 1971-72 through 1977-78. This trend is presented in Figure 4, and is probably largely due to the increased availability of programs in Alaska.

The states most frequently chosen by graduate students from Alaska in 1983-84 are presented in Table 4. Again, as with undergraduates, the students' preference is quite stable.

The average loan award for 1983-84 increased for some states and decreased for others, with the largest increases for students attending graduate institutions in Hawaii and California.

Alaskans pursuing graduate educational goals are also distributed quite widely across the nation, with Alaskan graduate loan recipients attending institutions in all but four of the fifty states. The predominance of the West, and particularly the West Coast, is readily apparent in Figure 5.

Only Alaska, Washington, California, and Oregon received more than 100 Alaskan graduate students on state loans. The thirteen states comprising the WICHE compact account for 74.5 percent of all the graduate Alaskan loan recipients for 1983-84.

FIGURE 4
PERCENT OF GRADUATE LOANS
USED IN ALASKA

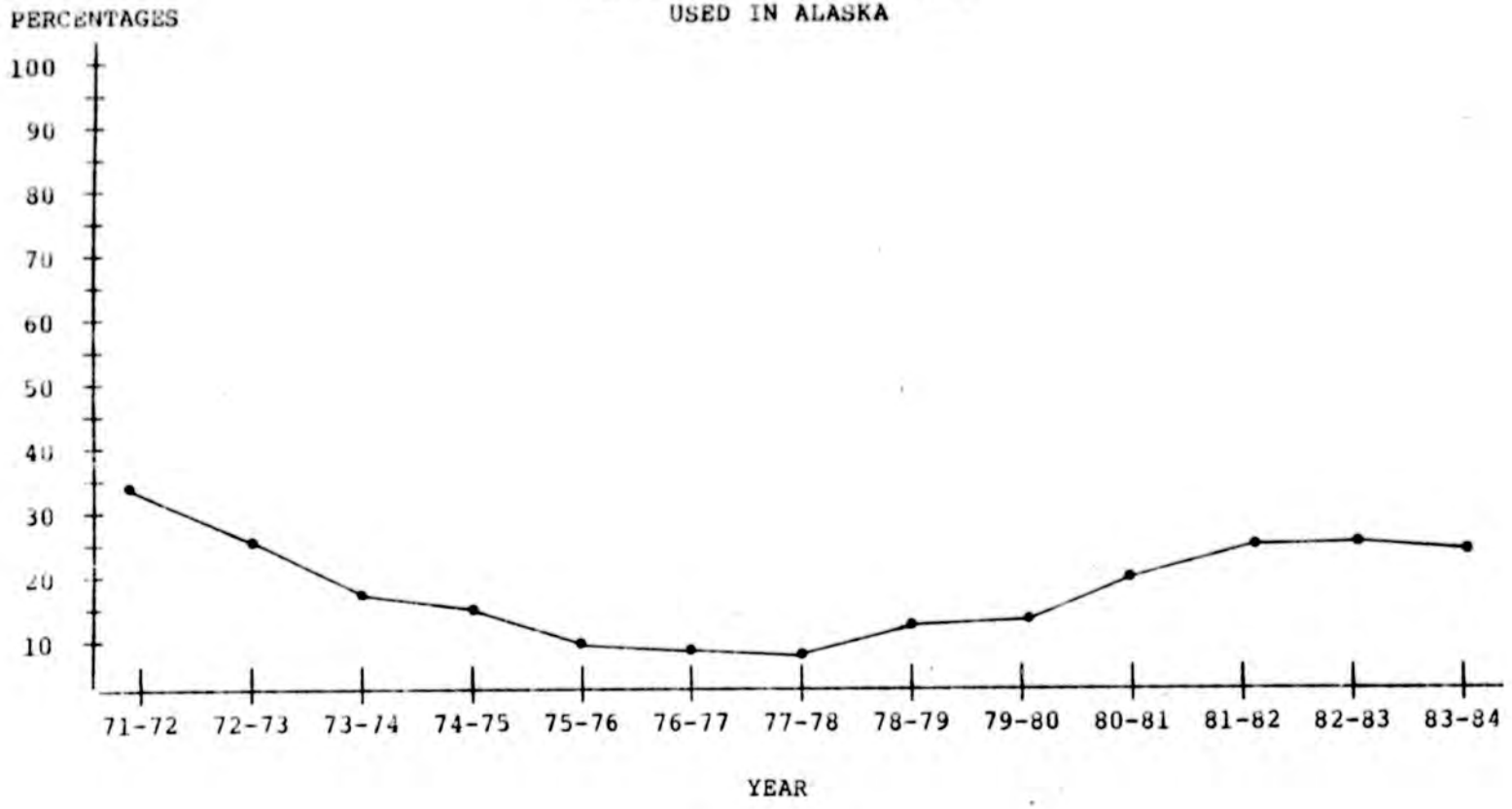


TABLE 4
TEN TOP STATES OF ATTENDANCE
FOR ALASKANS WITH
GRADUATE LOANS
1979-80 through 1983-84

	NUMBER					AVERAGE LOAN				
STATE	79-80	80-81	81-82	82-83	83-84	79-80	80-81	81-82	82-83	83-84
Alaska	58	127	229	276	292	$2,906	$3,086	$4,630	$4,454	$4,527
California	73	90	113	183	237	3,441	3,937	5,693	5,599	5,783
Washington	77	129	148	161	164	3,847	3,848	5,740	5,447	5,535
Oregon	49	75	91	127	143	3,526	4,011	5,103	5,351	4,682
Colorado	18	19	27	35	42	3,972	4,149	5,303	5,369	5,210
Massachusetts	9	18	25	32	33	3,911	4,953	5,927	6,217	6,404
Arizona	9	17	18	29	32	3,586	3,041	4,408	4,822	4,950
Hawaii	8	19	21	26	30	2,988	3,393	5,079	3,909	4,457
Texas	3	10	20	23	28	3,600	3,204	4,445	4,830	4,971
Utan	4	7	10	22	28	3,200	3,426	4,858	4,710	4,644
Remaining U.S.	162	198	261	265	284	N.A.	N.A.	N.A.	N.A.	N.A.
Foreign	N.A.	N.A.	N.A.	14	23	N.A.	N.A.	N.A.	5,084	4,410
TOTAL	470	709	963	1,179	1,336	$3,646	$3,746	$5,218	$5,151	$5,097

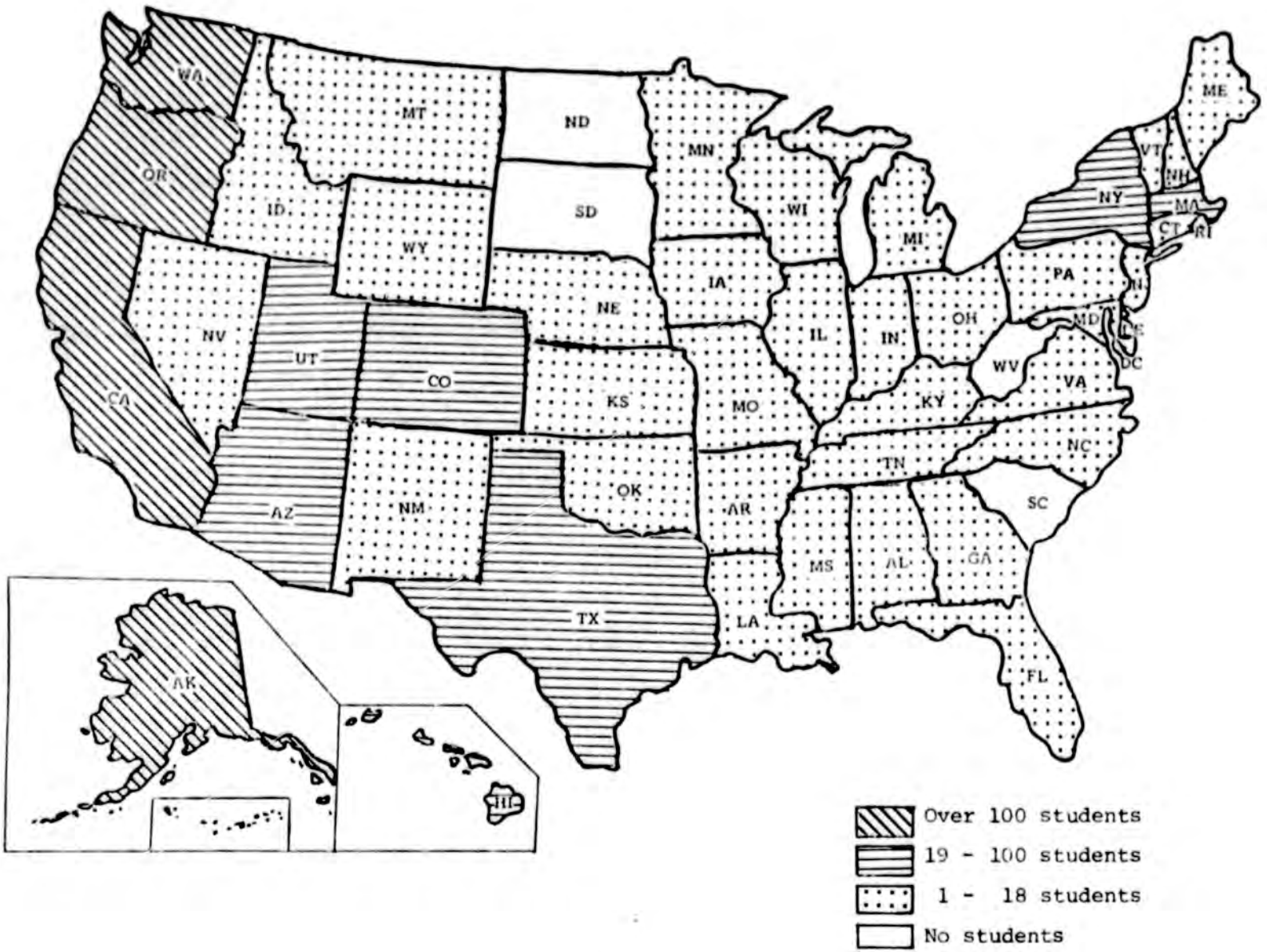


FIGURE 5
GEOGRAPHIC DISTRIBUTION OF ALASKANS UTILIZING
STATE LOANS FOR GRADUATE EDUCATION IN 1983-84

Foreign Study

Alaskans used state loans for study in forty different institutions in seventeen foreign countries in 1983-84. The distribution of these students by country of attendance is presented in Table 5. Not too surprisingly, Canada is the most popular foreign country for attendance of Alaskan students.

TABLE 5
DISTRIBUTION OF BORROWERS
BY FOREIGN COUNTRY OF ATTENDANCE
1983-84

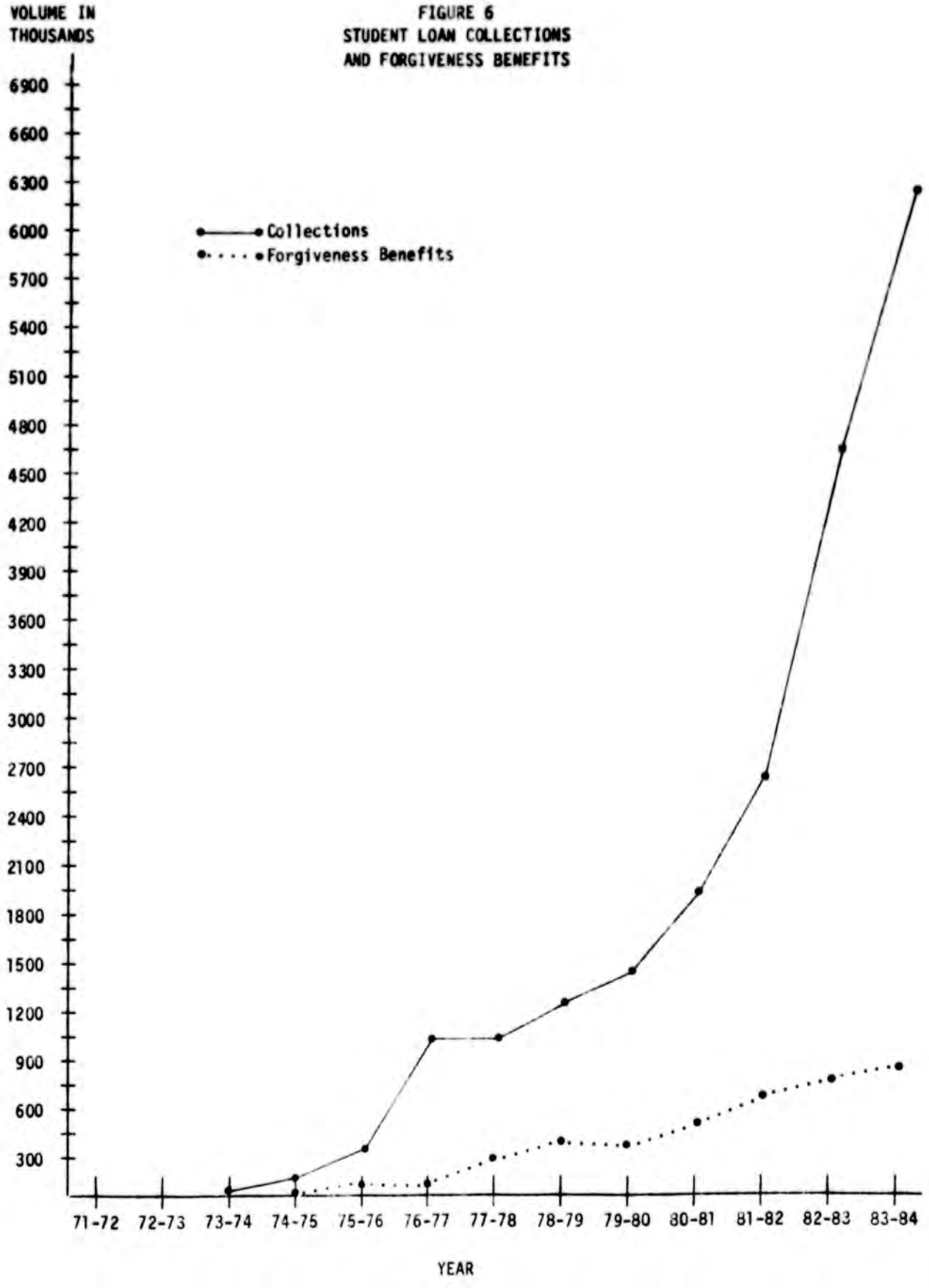
FOREIGN COUNTRY	UNDERGRADUATE		GRADUATE	
	Number	Average Loan	Number	Average Loan
Austria	1	$3,000	--	$ -0-
Australia	2	3,700	1	7,000
Belgium	--	-0-	1	2,100
Canada	12	4,980	12	4,250
Denmark	3	2,850	--	-0-
England	2	3,150	5	4,006
Finland	1	3,550	--	-0-
France	3	4,500	2	5,550
Ireland	1	4,400	--	-0-
Japan	2	6,000	2	5,100
Mexico	1	3,000	--	-0-
New Zealand	1	4,150	--	-0-
Norway	1	4,900	--	-0-
Philippines	1	1,050	--	-0-
Scotland	1	3,000	--	-0-
Spain	1	6,000	--	-0-
Sweden	1	1,700	--	-0-
TOTAL	34	$4,402	23	$4,410

Loan Repayments

The student loan program is based upon a revolving fund with the students' loan repayments being re-utilized for future student loans. Since 1971-72 (actually 1974-75, since there were no repayments received the first few years), Alaskans have repaid over $22 million on their educational loans. The volume of these revolving funds now contribute a significant portion of the loan account, and as can be seen in Figure 6, these repayments are rapidly increasing each year.

Also presented in Figure 6 is a representation of the forgiveness history of the student loan program. Students who reside in Alaska after completion of their course of study are eligible to have up to 50 percent of their loans forgiven. Beginning with the first such forgiveness in 1974-75, the total amount of loan funds (including interest) which the State of Alaska has forgiven has generally shown large annual increases, with the exception of 1979-80 when forgiveness benefits temporarily leveled. During 1983-84 nearly 2,500 Alaskans received partial forgiveness of their student loans. Increases are projected to continue over the next few years as larger numbers of students complete their educational programs.

FIGURE 6
STUDENT LOAN COLLECTIONS
AND FORGIVENESS BENEFITS



Default

Nationally, student loans have a notoriously high default rate, and, unfortunately, Alaska's program also has experienced problems with loan collections. Although the Alaska program had been doing considerably better than the federal loan programs, the default rate has begun to rise during 1983-84. As can be seen in Table 6, the default rate had been steadily decreasing since the concerted effort began in 1975-76 to pursue these bad debts. However, during 1983-84 default volumes outstripped available manpower and the rate rose dramatically. It is anticipated that the use of private collection agencies during 1984-85 will bring the default rate back down.

TABLE 6
ANNUAL DEFAULT RATES OF
ALASKA STATE STUDENT LOANS
1971-72 through 1983-84

LOAN YEAR	DEFAULT RATE* (June 30)
1971-72	N.A.
1972-73	N.A.
1973-74	N.A.
1974-75	80.0%
1975-76	44.6%
1976-77	24.9%
1977-78	22.3%
1978-79	19.3%
1979-80	14.5%
1980-81	11.5%
1981-82	9.2%
1982-83	9.1%
1983-84	13.5%

*Default is 120+ days past due.

Statistical Data

In the Appendix are Tables 11-17 containing data on the Alaska Student Loan Program from 1971-72 through 1983-84. Information on the number and amounts of loans made annually to undergraduate and graduate students attending in-state and out-of-state is presented in Tables 11-14. Table 15 contains summaries of the average size loan awarded each year, and Tables 16 and 17 contain data on institutions most frequently attended by Alaska Student Loan borrowers.

WICHE STUDENT EXCHANGE PROGRAM

Through its participation in the thirteen-state Western Interstate Commission for Higher Education (WICHE), Alaska provides residents with access to sixteen fields of professional education not available in-state. The WICHE Student Exchange Program provides access to these sixteen fields at participating institutions throughout the compact states, and makes these programs available at a reduced tuition rate to the out-of-state WICHE students. These reduced rates usually amount to the normal in-state tuition rate at public colleges and universities and one-third the regular tuition rate at private colleges and universities. Alaskans certified for participation in this exchange program may also expect preferential admissions consideration by the schools to which they apply. For this, Alaska pays the college or university in which the Alaskan exchange student enrolls a set fee for a particular field of study. This fee, the support fee, covers the non-resident portion of the tuition and a portion of the institution's operating costs. The student does not receive any direct payment under this program.

Exchange Fields

The WICHE exchange fields in which Alaska would support students for the 1983-84 year included:

Architecture	Occupational Therapy
Dentistry	Optometry
Forestry	Osteopathy
Graduate Library Studies	Pharmacy
Graduate Nursing	Physical Therapy
Law	Podiatry
Maritime Technology	Public Health
Medicine	Veterinary Medicine

A student eligible for state certification in any of these fields must apply for and gain admission to the program of study. The admission decision rests solely with the receiving institution.

Support Fees

The amount of the support fee to be paid for each field of study is set annually by the WICHE Commission, with membership from all thirteen member states. These fees have increased more or less steadily over the last six years, and at the same time, Alaska's participation level has also steadily increased. As can be seen in Table 7, the total support fees exceeded $1.5 million.

TABLE 7
WICHE STUDENT EXCHANGE PROGRAM SUPPORT COSTS
1976-77 through 1983-84

Academic Year	Total Students	Total Fees
1976-77	114	$ 368,473
1977-78	134	634,114
1978-79	171	639,244
1979-80	209	853,959
1980-81	232	956,509
1981-82	269	1,223,091
1982-83	300	1,498,232
1983-84	284	1,591,440
TOTAL	1,713	$7,770,062

Participation Rates

Law continues to be the most popular field for Alaskan students. In 1982-83 Law students accounted for 60.0 percent of the students supported under the exchange program. In 1983-84, Law represented 58.1 percent of the exchange students. The growth fields for 1983-84 were Architecture, Graduate Nursing, Occupational Therapy, Veterinary Medicine, and Osteopathy. For the first time, Law experienced an appreciable decline. These data are listed in Table 8.

TABLE 8
WICHE EXCHANGE STUDENTS BY FIELD
1976-77 through 1983-84

Field of Study	77-78	78-79	79-80	80-81	81-82	82-83	83-84
Architecture	6	9	7	9	15	17	18
Dental Hygiene*	1	1	1	0	1	0	0
Dentistry	11	13	13	15	18	15	15
Forestry	4	10	9	7	6	6	6
Graduate Library	2	5	2	11	8	7	9
Graduate Nursing	1	1	2	6	3	4	7
Law	64	75	100	142	155	180	165
Maritime Technology	N.A.	N.A.	N.A.	N.A.	7	7	4
Medicine	12	11	8	6	11	11	11
Occupational Therapy	3	1	1	3	3	4	6
Optometry	4	7	7	5	5	4	3
Osteopathy	N.A.	N.A.	N.A.	N.A.	3	6	10
Pharmacy	3	4	3	5	3	5	3
Physical Therapy	4	3	2	2	6	9	4
Podiatry	0	2	2	3	4	2	1
Public Health	1	2	1	10	14	11	7
Veterinary Medicine	7	8	8	8	7	12	15
TOTAL	123	152	166	232	269	300	284

*Discontinued as an exchange field in 1981-82.

The cost of the student exchange for 1983-84 is detailed in Table 9. It can be seen that because of the relatively low support fee for Law, Law exchange students accounted for only 40.0 percent of the total exchange cost (as opposed to accounting for 58.1 percent of the students).

TABLE 9
WICHE SUPPORT COSTS BY FIELD OF STUDY
1983-84

Field of Study	Support Fee	Total Students	Total Costs
Architecture	$ 3,200	18	$ 57,600
Dentistry	10,500	15	185,500
Forestry	3,000	6	16,550
Graduate Library	4,000	9	42,600
Graduate Nursing	5,800	7	31,900
Law	3,800	165	619,030
Maritime Technology	7,300	4	24,334
Medicine	20,000	11	220,000
Occupational Therapy	3,500	6	19,250
Optometry	5,600	3	16,800
Osteopathy	9,000	10	90,000
Pharmacy	4,400	3	15,400
Physical Therapy	4,100	4	19,134
Podiatry	6,200	1	6,200
Public Health	4,900	7	30,626
Veterinary Medicine	13,100	15	196,500
TOTAL	N.A.	284	$1,591,440

STATE EDUCATIONAL INCENTIVE GRANT (SEIG) PROGRAM

The State Educational Incentive Grant (SEIG) Program provides need-based grants to eligible Alaskans enrolled in undergraduate programs. Grant awards range from a minimum of $100 to a maximum of $1,500 each, depending upon demonstrated need. One-half of each grant is federally funded and one-half is provided by the State. Grants are awarded to eligible applicants in order of greatest financial need as measured by a standard need analysis.

Participation Rates

1983-34 was the sixth year of operation of the SEIG Program in Alaska. Over 2,000 Alaskans applied for grant funds in 1983-84, but because of fund limitations, only 126 grants were awarded. As can be seen in Table 10, this is a decrease from 1982-83 when 161 grants were awarded. The decline is the result of reductions in funds at the federal level. The grant funds available in 1983-84 were 13.0 percent less than the previous year.

Also listed in Table 10 are the awards for in-state and out-of-state attendance and an institutional listing of the in-state awards. As in the past, University of Alaska, Anchorage students received the most SEIG awards.

TABLE 10
DISTRIBUTION OF STUDENTS RECEIVING STATE
EDUCATIONAL INCENTIVE GRANTS
1978-79 through 1983-84

Institution	Number of Grants						Award Totals					
	78-79	79-80	80-81	81-82	82-83	83-84	78-79	79-80	80-81	81-82	82-83	83-84
U of Alaska, Anchorage	87	85	84	43	29	17	$ 61,225	$119,219	$118,511	$ 55,750	$ 41,500	$ 25,500
U of Alaska, Fairbanks	42	12	24	25	20	17	30,464	12,357	28,500	36,500	27,000	25,500
U of Alaska, Juneau	11	6	1	2	6	2	6,082	6,798	1,500	3,000	7,500	3,000
Anchorage CC	*	*	35	18	23	17	*	*	52,500	22,744	34,000	25,500
Kenai Peninsula CC	*	5	4	5	10	1	*	7,500	6,000	6,000	14,250	1,500
Mat-Su CC	*	*	3	1	3	2	*	*	4,500	1,500	4,500	3,000
Tanana Valley CC	**	**	0	1	0	0	**	**	0	2,250	0	0
Sheldon Jackson College	46	8	5	6	11	4	26,753	12,000	7,500	9,750	14,250	6,000
Alaska Pacific University	4	0	2	0	1	0	2,265	0	3,000	0	750	0
Alaska Business College	0	0	0	0	1	1	0	0	0	0	1,500	1,500
Kuskokwim Community College	0	0	0	0	1	0	0	0	0	0	1,500	0
Islands Community College	0	0	0	0	0	3	0	0	0	0	0	4,500
Ketchikan Community College	0	0	0	0	0	2	0	0	0	0	0	3,000
Prince William Sound	0	0	0	0	0	1	0	0	0	0	1,500	1,500
Gordon's Aviation	0	0	0	0	0	1	0	0	0	0	1,500	1,500
Total In-State	190	116	158	101	110	68	$126,789	$157,874	$222,011	$136,994	$146,750	$102,000
Total Out-of-State	3	61	80	73	51	58	$ 2,323	$ 82,731	$116,909	$102,030	$ 70,500	$ 87,000
TOTAL	193	177	238	174	161	126	$129,112	$240,605	$338,920	$239,024	$217,250	$189,000

*Reported in UAA totals.
**Reported in UAF totals.

APPENDIX

ALASKA STUDENT LOAN PROGRAM
ADDITIONAL DATA

ALASKA STUDENT LOAN PROGRAM
(1971-72 through 1983-84)

TABLE 11
THIRTEEN-YEAR SUMMARY
(1971-72 through 1983-84)

	STUDENTS ATTENDING IN-STATE				STUDENTS ATTENDING OUT-OF-STATE				TOTAL	
STUDENT LEVEL	Number of Loans	Percent of Total	Loan Amount	Percent of Total	Number of Loans	Percent of Total	Loan Amount	Percent of Total	Number of Loans	Loan Amount
Under-graduate	26,951	47.2	$84,586,275	45.9	29,782	52.8	$ 99,728,023	54.1	56,373	$184,314,298
Graduate	1,245	19.5	$ 4,858,054	17.4	5,152	80.5	$ 23,045,685	82.6	6,397	$ 27,903,739
TOTAL	27,836	44.3	$89,444,329	42.1	34,934	55.7	$122,773,708	57.9	62,770	$212,218,037

TABLE 12
YEARLY SUMMARY
OF
UNDERGRADUATE STUDENT LOANS

	STUDENTS ATTENDING IN-STATE				STUDENTS ATTENDING OUT-OF-STATE				TOTAL	
ACADEMIC YEAR	Loan Recipients	Percent of Total	Loan Amount	Percent of Total	Loan Recipients	Percent of Total	Loan Amount	Percent of Total	Loan Recipients	Loan Amount
1971-72	570	57.6	$ 680,351	50.1	470	42.4	$ 666,536	49.5	990	$ 1,346,887
1972-73	761	48.7	965,274	42.1	801	51.3	1,326,975	57.9	1,562	2,292,249
1973-74	585	40.1	913,284	38.8	874	59.9	1,438,990	61.2	1,459	2,352,274
1974-75	528	41.5	764,872	36.4	745	58.5	1,336,279	63.6	1,273	2,101,151
1975-76	456	30.5	747,112	27.9	1,041	69.5	1,927,334	72.1	1,497	2,674,446
1976-77	561	33.1	858,139	28.6	1,132	66.9	2,143,458	71.4	1,693	3,001,597
1977-78	713	35.9	1,211,203	32.7	1,272	64.1	2,496,063	67.3	1,985	3,707,266
1978-79	861	35.1	1,664,246	31.7	1,591	64.9	3,581,002	68.3	2,452	5,245,248
1979-80	1,245	36.1	2,469,354	32.2	2,203	63.9	5,191,236	67.8	3,448	7,660,590
1980-81	2,606	45.3	5,568,580	41.8	3,145	54.7	7,766,597	58.2	5,751	13,335,177
1981-82	4,225	47.3	15,846,331	44.6	4,710	52.7	19,688,486	55.4	8,935	35,534,817
1982-83	6,305	53.1	24,254,812	49.5	5,574	46.9	24,705,330	50.5	11,879	48,960,142
1983-84	7,175	53.3	28,642,717	51.1	6,274	46.7	27,459,737	48.9	13,449	56,102,454
TOTAL	26,591	47.2	$84,586,275	45.9	29,782	52.8	$99,728,023	54.1	56,373	$184,314,298

TABLE 13
YEARLY SUMMARY
OF
GRADUATE STUDENT LOANS

	STUDENTS ATTENDING IN-STATE				STUDENTS ATTENDING OUT-OF-STATE				TOTAL	
ACADEMIC YEAR	Loan Recipients	Percent of Total	Loan Amount	Percent of Total	Loan Recipients	Percent of Total	Loan Amount	Percent of Total	Loan Recipients	Loan Amount
1971-72	31	34.1	$ 74,613	29.1	60	65.9	$ 181,658	70.9	91	$ 256,271
1972-73	48	25.8	113,990	19.7	138	74.2	464,145	80.3	186	578,135
1973-74	37	18.0	107,988	17.0	169	82.0	525,914	83.0	206	633,902
1974-75	31	16.8	86,266	15.4	153	83.2	472,390	84.6	184	558,656
1975-76	25	11.3	61,424	8.7	197	88.7	647,127	91.3	222	708,551
1976-77	23	10.1	69,833	8.2	205	89.9	779,077	91.8	228	848,910
1977-78	27	9.6	63,919	7.1	253	90.4	832,982	92.9	280	896,901
1978-79	41	12.0	108,130	9.2	302	88.0	1,063,024	90.8	343	1,171,154
1979-80	58	12.3	168,519	9.8	412	87.7	1,544,840	90.2	470	1,713,359
1980-81	127	17.9	391,885	14.8	582	82.1	2,264,218	85.2	709	2,656,103
1981-82	229	23.8	1,060,365	21.1	734	76.2	3,964,317	78.9	963	5,024,682
1982-83	276	23.4	1,229,172	20.3	903	76.6	4,818,081	79.7	1,179	6,047,253
1983-84	292	21.9	1,321,950	19.4	1,044	78.1	5,487,912	80.6	1,336	6,809,862
TOTAL	1,245	19.5	$4,858,054	17.4	5,152	80.5	$23,045,685	82.6	6,397	$27,903,739

TABLE 14
YEARLY SUMMARY
OF
ALL STUDENT LOANS

	STUDENTS ATTENDING IN-STATE				STUDENTS ATTENDING OUT-OF-STATE				TOTAL	
ACADEMIC YEAR	Loan Recipients	Percent of Total	Loan Amount	Percent of Total	Loan Recipients	Percent of Total	Loan Amount	Percent of Total	Loan Recipients	Loan Amount
1971-72	601	55.6	$ 754,964	47.1	480	44.4	$ 848,194	52.9	1,081	$ 1,603,158
1972-73	809	46.3	1,079,264	37.6	939	53.7	1,791,120	62.4	1,748	2,870,384
1973-74	622	37.4	1,021,272	34.2	1,043	62.6	1,964,904	65.8	1,665	2,986,176
1974-75	559	38.4	851,138	32.0	898	61.6	1,808,669	68.0	1,457	2,659,807
1975-76	481	28.0	808,536	23.9	1,238	72.0	2,574,461	76.1	1,719	3,382,997
1976-77	584	30.4	927,972	24.1	1,337	69.6	2,922,535	75.9	1,921	3,850,507
1977-78	740	32.7	1,275,122	27.7	1,525	67.3	3,329,045	72.3	2,265	4,604,167
1978-79	902	32.3	1,772,376	27.6	1,893	67.7	4,644,026	72.4	2,795	6,416,402
1979-80	1,303	33.3	2,637,873	28.1	2,615	66.7	6,736,076	71.9	3,918	9,373,949
1980-81	2,733	42.3	5,960,465	37.3	3,727	57.7	10,030,815	62.7	6,460	15,991,280
1981-82	4,454	45.0	16,906,695	41.7	5,444	55.0	23,652,804	58.3	9,898	40,559,499
1982-83	6,581	50.4	25,483,984	46.3	6,477	49.6	29,523,411	53.7	13,058	55,007,395
1983-84	7,467	50.5	29,964,667	47.6	7,318	49.5	32,947,649	52.4	14,785	62,912,316
TOTAL	27,836	44.3	$89,444,329	42.1	34,934	55.7	$122,773,708	57.9	62,770	$212,218,037

TABLE 15
MEAN LOAN AMOUNT PER RECIPIENT
BY
IN-STATE/OUT-OF-STATE INSTITUTIONAL ATTENDANCE

	STUDENTS ATTENDING IN-STATE			STUDENTS ATTENDING OUT-OF-STATE			TOTAL		
ACADEMIC YEAR	Number of Loan Recipients	Total Amount Loaned	Mean Loan per Recipient	Number of Loan Recipients	Total Amount Loaned	Mean Loan per Recipient	Number of Loan Recipients	Total Amount Loaned	Mean Loan per Recipient
1971-72	601	$ 754,964	$1,256	480	$ 848,194	$1,767	1,081	$ 1,603,158	$1,483
1972-73	809	1,079,264	1,334	939	1,791,120	1,907	1,748	2,870,384	1,642
1973-74	622	1,021,272	1,642	1,043	1,964,904	1,884	1,665	2,986,176	1,793
1974-75	559	851,138	1,523	898	1,808,669	2,014	1,457	2,659,807	1,826
1975-76	481	808,536	1,681	1,238	2,574,461	2,080	1,719	3,382,997	1,968
1976-77	584	927,972	1,589	1,337	2,922,535	2,186	1,921	3,850,507	2,004
1977-78	740	1,275,122	1,723	1,525	3,329,045	2,183	2,265	4,604,167	2,033
1978-79	902	1,772,376	1,965	1,893	4,644,026	2,453	2,795	6,416,402	2,296
1979-80	1,303	2,637,873	2,024	2,615	6,736,076	2,576	3,918	9,373,949	2,393
1980-81	2,733	5,960,465	2,181	3,727	10,030,815	2,691	6,460	15,991,280	2,475
1981-82	4,454	16,906,695	3,796	5,444	23,652,804	4,345	9,898	40,559,499	4,098
1982-83	6,581	25,483,984	3,872	6,477	29,523,411	4,558	13,058	55,007,395	4,213
1983-84	7,467	29,964,667	4,013	7,318	32,947,649	4,502	14,785	62,912,316	4,255
TOTAL	27,836	$89,444,329	$3,213	34,934	$122,773,708	$3,514	62,770	$212,218,037	$3,381

TABLE 16
DISTRIBUTION OF ALASKA STATE LOANS
FOR STUDENTS ATTENDING IN ALASKA
(1983-84 Loans)

Institution	1983-84	
	No.	Amount
University of Alaska, Fairbanks	1,999	$ 6,777,050
University of Alaska, Anchorage	1,264	4,393,700
Anchorage Community College	1,262	4,572,700
Kenai Peninsula Community College	283	1,097,950
University of Alaska, Juneau	233	759,950
New Anchorage Beauty School	231	1,233,000
Testing Institute of Alaska	199	1,085,250
Alaska Pacific University	176	615,150
Alaska Vocational-Technical Center	171	504,200
Tanana Valley Community College	157	545,800
Gordon Aviation, Inc.	149	855,050
Sheldon Jackson College	135	470,650
Alaska Business College	131	753,900
Matanuska-Susitna Community College	111	468,100
North Pacific Business Institute	102	556,200
Wilburs Flight Operation	88	497,650
Aero Tech Flight School	73	405,700
Fort Richardson Flying Club	68	376,850
Trend Setters School of Beauty	61	319,000
World Security Police Academy	56	174,350
Hutchison Career Center	50	180,500
Anchorage Alaska School of Barbering	49	271,250
Academy of Hair Design	49	247,550
Alaska Masonry School	46	275,450
Bookkeeping Concepts	46	193,650
Headquarters Barber & Beauty Academy	44	219,000
Ketchikan Community College	44	165,300
Clerical Skills Training	39	224,650
Alaska Computer Institute of Technology	38	217,050
Islands Community College	30	114,400
Prince William Sound Community College	29	99,050
Flight Training Devices	28	148,050
Peninsula Hair Styling Academy	27	123,400
A.I.R. Center	24	132,750
Elmendorf Aero Club	24	134,500
Larry's Flying Service	19	111,000
Fairbanks Beauty School	16	81,250
St. Herman's Theological Seminary	16	67,950
Kodiak Community College	14	47,100
Alaska Bible College	13	43,650
New Concepts Beauty School	11	43,600
Kotzebue Technical Center	10	52,900

TABLE 16
(Continued)

Institution	1983-84	
	No.	Amount
Alaska Air Academy	9	$ 53,000
Peninsula Institute of Welding Technology	9	50,700
Air Cushion Technologies	9	40,900
Chapman College	8	33,800
Delta Greely Rural Educational Center	7	26,200
Alaska Vocational School	6	23,450
University of LaVerne	5	20,900
Kuskokwim Community College	5	9,900
People Count, Inc.	3	14,000
Scruples II, Action School of Broadcasting	3	8,850
University of Alaska, Rural Education	3	8,550
American Pacific Aviation	2	12,000
Alaska Native Training Institute	2	10,650
Northwest Community College	2	3,050
Eielson AFB Aero Club	1	5,500
Far North Bible College	1	5,150
Abbott Loop Bible College	1	3,000
Far West Travel Services	1	1,700
TOTAL	7,692	$29,987,650

TABLE 17
INSTITUTIONS AT WHICH AT LEAST FIFTY ALASKA
STUDENT LOAN BORROWERS ATTENDED
(1983-84 Loans)

Institution	1983-84	
	No.	Amount
*University of Alaska, Fairbanks	1,999	$6,777,050
*University of Alaska, Anchorage	1,264	4,393,700
*Anchorage Community College	1,262	4,572,700
*Kenai Peninsula Community College	283	1,097,950
University of Oregon	233	1,054,900
*University of Alaska, Juneau	233	759,950
*New Anchorage Beauty School	231	1,233,000
University of Washington	221	1,015,250
Oregon State University	216	1,042,000
*Testing Institute of Alaska	199	1,085,250
Western Washington University	188	738,400
*Alaska Pacific University	176	615,150
*Alaska Vocational-Technical Center	171	504,200
Brigham Young University (UT)	166	572,600
*Tanana Valley Community College	157	545,800
*Gordon Aviation, Inc.	149	855,050
International Air Academy (WA)	135	521,550
*Sheldon Jackson College	135	470,650
Arizona State University	134	677,500
*Alaska Business College	131	753,900
Washington State University	122	591,750
*Matanuska-Susitna Community College	111	468,100
University of Puget Sound (WA)	108	572,000
*North Pacific Business Institute	102	556,200
University of Hawaii, Manoa	102	372,650
Gonzaga University (WA)	93	527,650
Willamette University (OR)	91	476,050
University of Idaho	91	358,450
Northern Arizona University	90	375,900
Pacific Lutheran University (WA)	89	438,350
*Wilbur's Flight Operation	88	497,650
Central Washington University	87	413,150
University of Arizona	82	358,850
Seattle Pacific University (WA)	80	354,300
Montana State University	78	267,350
University of Hawaii, Hilo	77	241,750
*Aero Tech Flight School	73	405,700
*Fort Richardson Flying Club	68	376,850
Lewis and Clark College (OR)	68	336,900
Seattle University (WA)	62	287,350
*Trend Setters School of Beauty	61	319,000

*Alaskan Schools

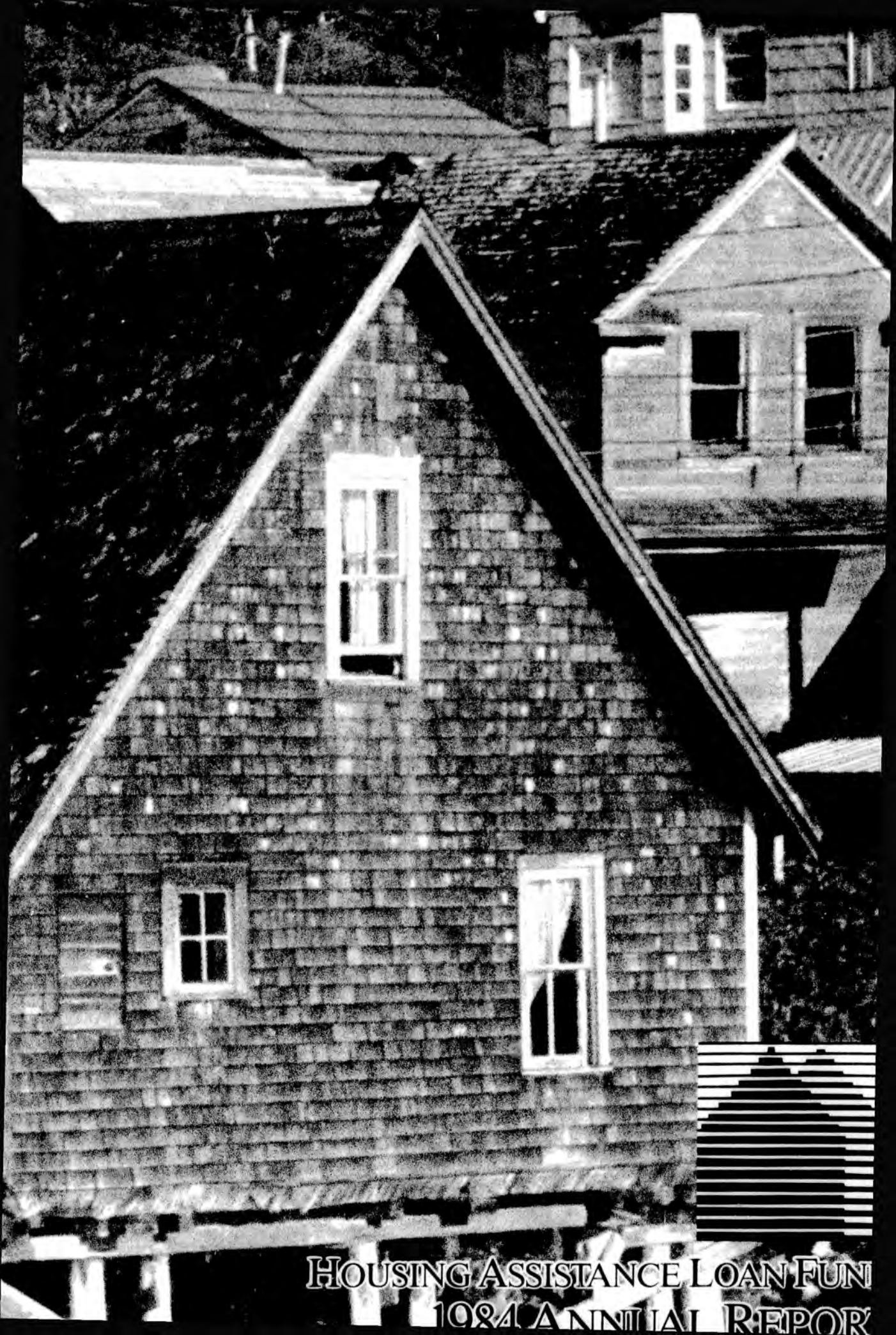
TABLE 17
(Continued)

Institution	1983-84	
	No.	Amount
American Diesel and Automotive School (CO)	59	$ 298,800
University of Montana	59	221,100
Highline Community College (WA)	59	196,800
Colorado State University	58	305,350
University of Colorado, Boulder	56	291,000
Linfield College (OR)	56	276,350
*World Security Police Academy	56	174,350
Eastern Washington University	55	243,800
*Hutchison Career Center	50	180,500

*Alaskan School

SCOMM

#50:3



HOUSING ASSISTANCE LOAN FUND
1984 ANNUAL REPORT

FORWARD

The requirement for an Annual Report to the Legislature is set out in A.S. 44.47.530. It has been our desire to go beyond this statutory requirement in providing both the Legislators and the housing consumer with an overview of our annual activities. A list of our offices is included and we welcome your comments and questions on our programs.

November 30, 1984

Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Ladies and Gentlemen:

It is with pleasure that the Department of Community and Regional Affairs submits its second Annual Report of the Housing Assistance Loan Fund.

This revolving loan fund was established by the Legislature on July 28, 1983. The Housing Assistance Division implemented the two new low income programs starting January 1984, authorized under Chapter 128 SLA 1984—the Homeownership Assistance Fund loan subsidy option and the State Assisted Rental Housing Construction Grant Program.

To more effectively administer the programs, in late February the Department consolidated all of its Anchorage divisions into one location. We believe the relocation will result in improved service to the public and more efficient internal management.

One of the difficulties in administering the loan fund programs has been in defining the term "rural"—a critical definition for distribution of loan funds. In 1984, changes in Section 7 of House Bill 663 created a new definition for "rural." Because of difficulties with the definition, the term "rural" may be rewritten during the Fourteenth Legislative Session.

The goals of the Housing Assistance Division remain intact. As authorized by Alaska statute, the Division seeks to provide decent, safe and sanitary housing at affordable rates for the citizens of Alaska's smaller communities. The programs administered by the Division offer Alaskans opportunities for new housing and for greater private sector participation throughout the State.

Thank you for your interest and support for housing in Alaska. Please contact us whenever we may assist you with housing information.

Sincerely,

Emil Notti

Emil Notti
Commissioner





BILL SHEFFIELD, GOVERNOR

November 28, 1984

Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Ladies and Gentlemen:

Fiscal year 1984 continued to be a busy and productive year for the Housing Assistance Division of Community and Regional Affairs.

In the first month of fiscal year '84, the annual loan appropriations accessed a new revolving loan fund which allowed repayments of principal to be retained by the Division for reinvestment in future loan activities. Interest repayments from annual appropriations are still returning to the State's General Fund.

New regulations for the Home Ownership Assistance Fund (HOAF), the State Assisted Rental Housing Construction Development fund and updates of existing regulations were developed at the conclusion of the 1983 Legislature. Hearings were held throughout the State during the late summer and early fall, and a final draft was sent to the Attorney General's office in November for their review.

Emil Notti assumed his duties as Commissioner of the Department of Community and Regional Affairs in January of '84. Along with this senior management change, new programs were implemented. The Homeownership Assistance Fund subsidy options were created. Training sessions were held in Anchorage for all seller/servicers interested in joining the program. To date 20 of 33 eligible seller/servicers participate in this lower income financing option. Designed with the experiences of the Alaska Housing Finance Corporation in mind, HOAF funds were made available with early applications being processed by April 1984. Final regulations were adopted in September 1984. Concurrently, the State Assisted Rental Housing Construction Grant Program went into effect. In March, grants totaling nearly $5 million were awarded under this new program for low income multifamily housing development. Subsequent financing for the program was approved by the 1984 Legislature at $3,580,000 and is due to be awarded in January 1985.

Also in November 1983, the in-house Automated Accounting System was brought online. With the increase in loan portfolios, this computerized system has enhanced the Division's ability to effectively track loans and control loan receipts and disbursements. Now in progress is the linking of this system to the Anchorage Mainframe Computer for access to PBA, Legislative Information and other State operated computer systems. The Division's advances in this area have allowed the other agencies within the department to also access administrative and legislative data previously unavailable in Anchorage.

The Division continued to meet the needs of housing consumers across the State. This past year many spin-off activities resulted. In November of 1983 the Juneau Regional Office opened to better serve the Southeast area. Guests at the opening celebration included Legislators, aides and representatives from the Governor's Office, other State departments, as well as industry partners from banks, real estate agencies, title firms, and appraisal companies. All concurred that the needs of Southeast for housing assistance would be enhanced by this office expansion.

In late March, the Division initiated their annual spring outreach. A concentrated effort by field staff was made to contact the majority of the communities in each region. The rewards paid off in double—the renovation and nonowner-occupied programs have experienced unprecedented growth. To insure current policy and procedures are being met in the areas of default, foreclosures and assumptions, instructional guideline updates were published and distributed to seller/servicers statewide.

Legislative changes during 1984 included a new definition of *rural*. While there were no changes in the first and second judicial districts, the third and fourth experienced major changes. In the Third Judicial District, a great deal of the area around Fairbanks was opened up due to the rural definition. The Fourth Judicial District experienced an opposite effect. Areas that had previously enjoyed a rural classification are now considered urban, leaving some confusion and some displeasure for residents in adversely affected areas.

In addition to a loan appropriation of $45,000,000, the Legislature appropriated $16.5 million to be awarded statewide in FY 84 for the Housing Grant Programs. Of the $16.5 million, $9.5 was designated for Senior Citizens, $3.5 for Low Income State Assisted Housing, and $3.5 for a Supplemental Housing Development Program.

Cooperation between the Housing Assistance Division and other government agencies generated a new level of involvement for all concerned. Due to limited availability of funds in the area of nonconforming loan financing, a special purchase program of $5 million was implemented between HAD, the Department of Revenue and Alaska Housing Finance Corporation. The Department of Community and Regional Affairs and the Department of Commerce and Economic Development initiated a cross-training seminar for their respective loan divisions. The purpose of the loan examiners' cross training was to facilitate a common working knowledge of all State loan programs. In addition, a State Loan Pamphlet was printed with pertinent information on State loan programs.



Barbara Morse-Quinn
Director 1982–1984

In conclusion, I would like to express my appreciation for your continued guidance and support. The Division looks forward to the new fiscal year, confident in its abilities to fulfill legislative goals, and established in its programs for housing delivery.

Sincerely,

Barbara Morse-Quinn

Barbara Morse-Quinn



Clark D. Boston
Director

SB 1 passes. Creates Housing Assistance Division; $10,000,000 appropriated to Nonconforming Loan Fund. Division also receives Senior Citizen Housing Development Fund from Division of Community Planning.

1980 Legislative Session

First office opens in Anchorage.

August 1980



First loan processes. Dillingham, Nome regional offices open.

February 1981



Kotzebue regional office opens.

March 1981



May 1981

HB 148 passes mandating 80% rural fund emphasis for nonconforming loans. $40,000,000 appropriated to the Nonconforming Loan Fund for FY '82. Supplemental Housing Development Fund authorized within division to augment HUD Indian housing units.

1981 Legislative Session

HOUSING ASSISTANCE DIVISION BACKGROUND

The Housing Assistance Division was created by the 1980 Legislature, (Chapter 120, SLA 1980) to administer the Nonconforming Housing Loan Program. Loan funds were to be distributed on a statewide basis with emphasis on rural Alaska. Administration of these loans was and is primarily through seller/servicer agreements with financial institutions. The initial mandate from the Legislature was twofold; (1) to form a central office and five regional offices and (2) to offer loans for nonconforming housing. First-year loan funds were appropriated at $10 million.

The 1981 Legislature continued funding the Nonconforming Program at a rate of $40 million and directed the Division to divide such funds between rural and urban Alaska at an 80%:20% ratio. The Legislature further directed the Division to offer funds directly to eligible borrowers who could not otherwise get service in rural Alaska (Chapter 82, SLA 1981). This mandate is known as direct lending and has been instituted by the Division.

The Nonconforming Loan Fund was renamed the Housing Assistance Loan Fund during the 1982 Legislature (Chapter 113, SLA 1982). This fund combined the Nonconforming Loan Program with the AHFC Rural Mortgage Purchase Programs for both owner-occupied and nonowner-occupied loans. An FY-82 appropriation to the newly combined Housing Assistance Loan Fund (HALF) was in the amount of $45 million bringing total appropriations to date to $95 million.

The HALF was given another $45 million by the 1983 Legislature and another new program. The new program was called the Homeownership Assistance Fund. The object of this program is to make homeownership a reality for the low to moderate income segment of the State's population by subsidizing a portion of the interest payment on the loan. The Division drafted regulations and held public hearings in October and November of 1983. The regulations were filed with the Attorney General in early December 1983. A workshop for the seller/servicers was held in early February 1984 although the regulations had not been finalized by the Attorney General. We are now in the process of negotiating the HOAF Addendum to the Seller/Servicer Agreement with each seller/servicer, and loans will be made under draft regulations this fiscal year. We currently have over $100,000,000 in loans outstanding, with a 2.14% delinquency rate at June 30, 1984 (principal of delinquent loans compared to total loan principal outstanding).







(Top) Division and department staff attend monthly data processing management committee meeting. (Center) Housing customers receive toll-free assistance from central office staff. (Bottom) Word processing functions interconnect central office with six regional office locations.





Fiscal year closes. 99 loans closed. Rural/urban activities nearly equal.

June 1981

Fairbanks regional office opens.

September 1981

Original management team leaves. Interim manager appointed.

February 1982

New management team appointed.

April 1982

SB 666 passes. HAD receives rural owner-occupied and rural nonowner-occupied programs from AHFC. The sum of $45,000,000 is appropriated to the newly consolidated Housing Assistance Loan Fund. An 80% emphasis in the nonconforming loan program is maintained. New definition of rural is passed for fiscal year 1983.

1982 Legislative Session

Ms. Barbara Morse-Quinn, Director
Department of Community and Regional Affairs
Housing Assistance Division
Anchorage, Alaska

We have examined the balance sheets of the Housing Assistance Loan Funds, Department of Community and Regional Affairs, State of Alaska, as of June 30, 1984 and 1983, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Housing Assistance Loan Funds, Department of Community and Regional Affairs, State of Alaska, as of June 30, 1984 and 1983, and the results of its operations and changes in its fund balances for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Laventhol + Horwath

November 19, 1984



Loan and accounting unit staff coordinate on file review before computerized data is stored.



Fiscal year 1982 audit period closes. Only 275 loans outstanding. Large carryover in funds. Audit exceptions noted. New management begins work on corrections.

June 1982

Division regulations drafted. Public hearings held. Regulations filed with Attorney General.

Fall 1982

New Governor elected. Transition team reviews division activities.

November 1982

New Commissioner appointed to manage department activities. New division management retained. Division handbooks on loan and grant programs published. Brochures printed.

January 1983



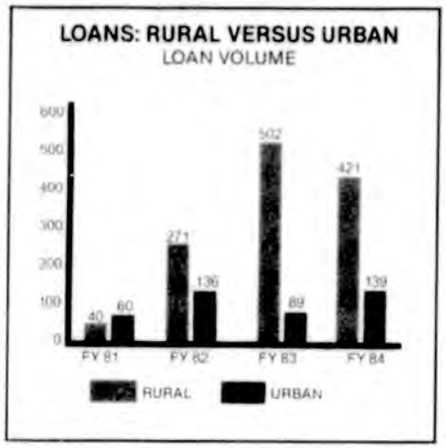
Lt. Governor McAlpine adopts division regulations.

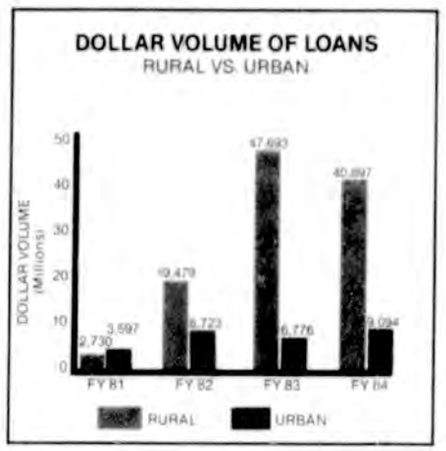
April 1983

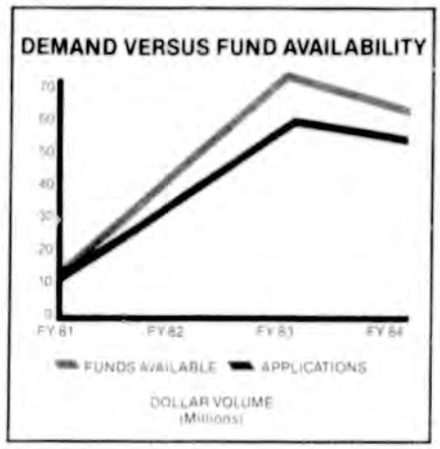


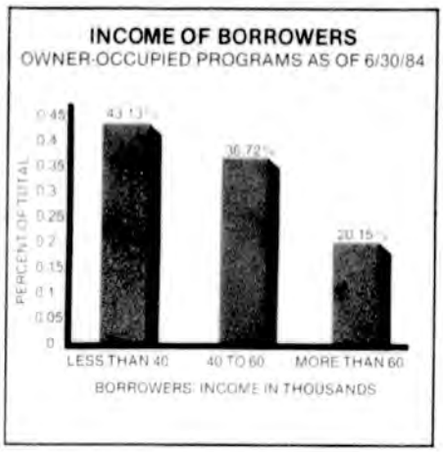
Contract approved to develop and implement automated mortgage loan accounting.

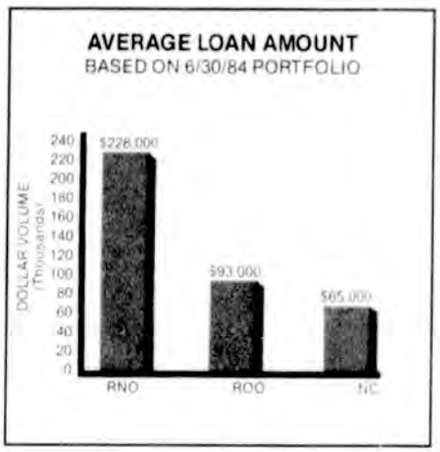
June 1983

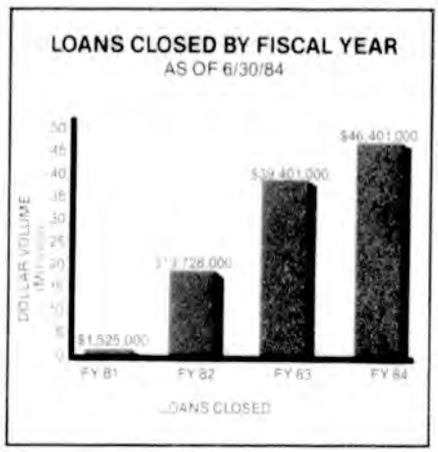


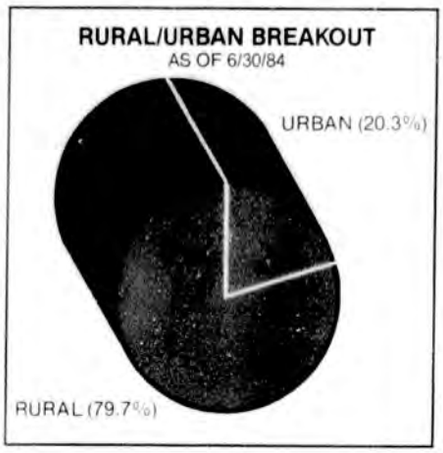


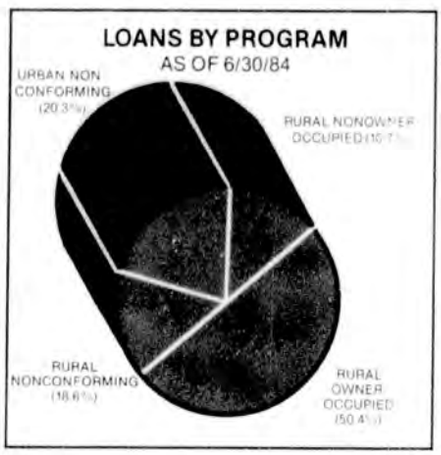


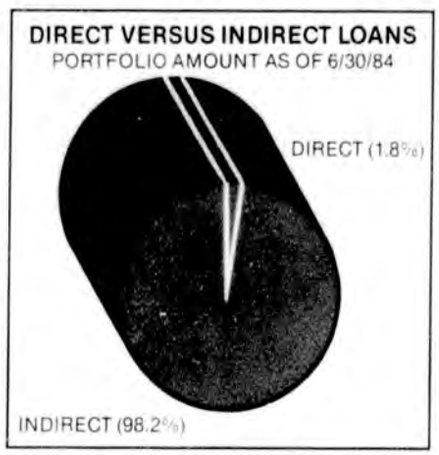












1983 Legislative Session

HB 302 passes. 80% rural emphasis shifted to entire Housing Assistance Loan Fund apropriation. The sum of $45,000,000 is proposed for fiscal year '84 programs. Legislation creates a Home Ownership Assistance Program (deep subsidy) loan and a low-income rental housing construction grant fund to take effect 1/1/84. Annual Report to the Legislature on the loan portfolio is required. Housing Demonstration project funded with Legislative grant for owner/builder townhouses.

June 1983

Fiscal year 1983 closes. Appropriation for next fiscal year posted after fiscal year begins. Portfolio growth exceeds 300% of prior years' activities. 7% staff increase received.



October 1983

Computer system installed in division offices. Account conversion process begins.

November 1983

Fiscal year 1983 audit begins. New programs drafted. Proposed regulations out for public hearings. Division hires staff for new Southeast Regional Office. Senior management change in department. Acting Commissioner appointed.



December 1983

1983 Annual Report drafted with improved audit findings. Draft regulations filed with the Attorney General's Office. Automated account conversion continues.

STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
HOUSING ASSISTANCE LOAN FUNDS

BALANCE SHEETS—JUNE 30, 1984 AND 1983

Assets	*1984*	*1983*
Assets:		
Cash in treasury	$ 31,365,000	$31,934,000
Cash in transit	602,000	201,000
Accrued interest receivable	812,000	511,000
Due from State of Alaska General Fund (Note 4)	250,000	
Mortgage loans receivable, net of loan loss reserve (1984, $1,028,000; 1983, $603,000) (Note 3)	101,745,000	59,722,000
Loans in progress	968,000	1,577,000
Other	98,000	
	$135,840,000	$93,945,000

Liabilities and Fund Balances	*1984*	*1983*
Liabilities:		
Due to State of Alaska General Fund (Note 5)	$ 1,374,000	$ 687,000
Accounts payable	40,000	25,000
Total liabilities	1,414,000	712,000
Fund balances:		
General fund:		
Title loss reserve	1,000,000	1,000,000
Reserve for loans receivable	59,206,000	61,299,000
Reserve for loan commitments		19,925,000
Unreserved fund balance	(16,000)	11,009,000
Total general fund balance	60,190,000	93,233,000
Revolving loan fund (Notes 4 and 6):		
Reserve for loans receivable	43,606,000	
Reserve for loan commitments	18,773,000	
Unreserved fund balance	11,857,000	
Total revolving loan fund balance	74,236,000	
Total fund balances	134,426,000	93,233,000
	$135,840,000	$93,945,000

STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
HOUSING ASSISTANCE LOAN FUNDS

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEARS ENDED JUNE 30, 1984 AND 1983

	1984	*1983*
Revenue:		
Interest earned	$ 7,983,000	$ 4,117,000
Expenditures:		
Provision for loan loss	425,000	379,000
Service fees	406,000	195,000
Other	16,000	
Total expenditures	847,000	574,000
Excess of revenue over expenditures	7,136,000	3,543,000
Other financing sources (uses):		
Appropriations to the revolving loan fund from the State of Alaska General Fund (Note 2)	45,000,000	
Transfers to State of Alaska General Fund (Note 5)	(10,943,000)	(5,242,000)
Total other financing sources (uses)	34,057,000	(5,242,000)
Excess (deficiency) of revenues and other sources over expenditures and other (uses)	41,193,000	(1,699,000)
Beginning fund balances	93,233,000	94,932,000
Ending fund balances	$134,426,000	$93,233,000

See notes to financial statements.



Emil Notti named Commissioner

January 1984

New grant program became effective under AS 44.47.635. This grant program is known as the State Assisted Rental Housing Construction Program.

Home ownership Assistance Fund effective 1/1/84.

February 1984

Official open house for new Southeast Regional office—Juneau.

HAD moves to new location.

March 1984

The first grants totaling $5 million were awarded under the State Assisted Rental Housing Construction Program.

Started accepting HOAF applications 4/2/84.

April 1984

Spring outreach begins.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 1984 AND 1983

1. Summary of significant accounting policies:

The following is a summary of the significant accounting policies of the State of Alaska applicable to the Department of Community and Regional Affairs, Housing Assistance Division (Division) loan programs. The loan programs are appropriations of the General Fund.

Fund Accounting:

The State of Alaska maintains its accounting in accordance with the principles of fund accounting. A fund is a fiscal and accounting entity established by law to segregate and account for designated resources and activities. Housing Assistance Division loan programs are administered through the Housing Assistance Loan Funds.

Basis of Accounting:

The financial statements of the loan programs are reported on the modified accrual basis of accounting. The accrual basis is modified to accrue revenues susceptible to accrual, primarily reimbursable items and investment income. Revenue not susceptible to accrual is reported on the cash basis; this is primarily appropriations.

Basis of Presentation:

The balance sheets are presented in a non-classified format. The Division has few assets that can be defined in terms of a one-year operating cycle.

Budgetary Control:

All money received is deposited in the State Treasury. Funds other than the revolving loan fund may not be expended without appropriation. An appropriation is an authorization to spend money and incur obligations. It is a legal limit as to purpose, time, and amount; however, the appropriations of the loan fund are carried forward until used.

Appropriations are enacted by the Legislature and approved by the Governor. The loan programs record appropriations during the period in which the funds become available. Expenditures are reported at the appropriation level to show compliance with the law.

Other accounting policies:

Mortgage loans receivable:

Mortgage loans receivable are recorded at cost. Cost is defined as the total funds advanced, less repayments applied to principal.

Loans in progress:

Loans in progress consist of warrants issued by the State of Alaska for loan closings in progress at year end.

2. Appropriations:

Appropriations for the fiscal year ended June 30, 1983 were enacted and approved prior to July 1, 1982 and, accordingly, included in the 1982 sources of funds. There was no appropriation during the year ended June 30, 1983. In July 1983, the loan fund received an appropriation of $45,000,000 for the fiscal year ended June 30, 1984.

3. Loan Loss Reserve:

The loan loss reserve account is established for losses on mortgages that may become uncollectible. Current management estimates this amount to be one percent of the current loan balance.

This reserve has been allocated between general fund loans and revolving fund loans and is a reduction of the reserve for loans receivable in the fund balances of the funds.

4. Revolving loan fund:

On July 29, 1983, the State of Alaska established the Division as a revolving loan fund. This fund consists of all unexpended appropriations at July 29, 1983, including commitments and loans in progress. In addition, all principal repayments on loans closed on or after July 29, 1983 are included in the revolving fund. Loans closed before July 29, 1983, are not included in the revolving fund at June 30, 1984. As a consequence of this amendment, $250,000 of principal repayments transferred to the State of Alaska General Fund during the year are now due to the revolving loan fund.

As disclosed in Note 6, subsequent to year end all loans were included in the revolving loan fund.

5. Transfers to the State of Alaska General Fund:

Transfers to the General Fund consist of all interest payments net of service fees charged by the seller/servicer and principal repayments on the general fund loans. The Division has transferred approximately $3,400,000 in principal repayments during the fiscal year ended June 30, 1984 and approximately $5,000,000 in principal repayments since inception.

6. Subsequent Event:

Subsequent to June 30, 1984, the Act establishing the revolving fund was amended. As of July 15, 1984, loans closed prior to July 1, 1983 will also be included in the revolving loan fund balance.

7. Reclassification:

Certain amounts on the 1983 financial statements have been reclassified to conform to 1984 presentation.







Special "noncomforming money AHFC—" special purchase program for nonconforming loans.

Analyst Programmer III starts 5/7.

Default and Foreclosure Guidelines for Program Handbook drafted.

In-house seminar on "Construction Inspection."

New definition of "rural" HB 663, Section 7 signed 6/21 by Governor Sheffield—codified as Chapter 128, SLA 1984.

DCRA/DCED cross training workshop—State Loan Pamphlet.

Experimental field underwriting plan—Fairbanks.

Hookups to Anchorage Mainframe Computer.

Development of a written system of internal controls for the HAD Revolving Loan Fund.

May 1984

June 1984





(Above Top) Dillingham Loan Examiner reviews loan application with central office staff before processing. (Above) First loan application processed in Dillingham, Alaska.

Housing Assistance Division Program Descriptions

Rural Owner-Occupied Program

The rural owner-occupied program provides financing to qualified borrowers for the construction and purchase of a unit which will be used as the borrower's principal residence. The program covers single-family, detached and duplex housing. Under this program, loans will not be made to professional builders who will not occupy the unit(s) or to compensate the borrower for his/her labor.

Rural Nonowner-Occupied Program

The rural nonowner-occupied program provides financing to qualified borrowers for the construction, purchase or rehabilitation of rental housing units. The project may involve two to eight units in a single community or specific area outside a community and up to 16 units in areas demonstrating extraordinary need.

Nonconforming Housing Loan Program

Through this program, financing can be obtained to construct, renovate, or purchase urban or rural housing units that will be occupied by the borrower but do not conform to specified standards. Housing units financed under this program must be occupied by the borrower. Nonconforming housing is structurally sound and poses no health or safety hazards to occupants. But because of outmoded construction practices, changes in current design standards, a lack of normal amenities or utilities, financing cannot be obtained through any other private, state or federal home mortgage loan program.

Also included under this program is property that does not have conventional marketable title because of a pending conveyance under the Alaska Native Claims Settlement Act.

Home Ownership Assistance Program

This program provides assistance to persons of lower and moderate income to purchase or construct single-family, owner-occupied dwellings where the mortgage loan on the dwelling is originated or purchased by the Division under the Nonconforming Housing Loan Program or the Rural Owner-Occupied Program. As a new program, with draft regulations awaiting final review in the Office of The Attorney General, only a few loans will be made in FY 84 under this program.





(Left) Successful grant activities finance major housing projects such as the newly completed Robert W. Rude Senior Housing complex in Anchorage. (Above) Rural owner-occupied project.



With the start of a new fiscal year, the housing grants programs have appropriations of over $165 million to award for projects statewide.

Fiscal year begins.

July 1984

Assumption Guidelines for Handbook sent to all seller servicers.

August 1984

Regulations on HOAF and State Assisted Housing Construction Program adopted. Minor changes in old regulations.

September 1984



Division awarded over $7 million in grants to Senior Citizen Housing projects statewide.

Contract proposal for drafting and publication of Handbook and brochures.

October 1984

STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
HOUSING ASSISTANCE DIVISION

ANCHORAGE:
Mr. Clark Boston, Director
Deputy Director Vacant
Mr. Wayne Mundy, Loan Manager
Mr. Dick Pryor, Housing Administrator
949 East 36th Avenue
(907) 561-0900 or
ZENITH-4585 (Toll Free)

BETHEL:
Ms. Evelyn Fisher, Loan Examiner
P.O. Box 348
Bethel, Alaska 99559
(907) 543-3864

DILLINGHAM:
Mr. Bobby Andrew, Loan Examiner
P.O. Box 10041
Dillingham, Alaska 99576
(907) 842-2245

FAIRBANKS:
Mr. Sam Barnes, Loan Examiner
1514 Cushman, Room 210
Fairbanks, Alaska 99701
(97) 452-4468

JUNEAU:
Ms. Mary Jo Jeans, Loan Examiner
Pouch B
Juneau, Alaska 99811
(907) 465-2267

KOTZEBUE:
Ms. Sophie Ferguson, Loan Examiner
P.O. Box 280
Kotzebue, Alaska 99752
(907) 442-3675

NOME:
Loan Examiner
P.O. Box 41
Nome, Alaska 99762
(907) 443-2655

FOR YOUR INFORMATION THE FOLLOWING BANKS HAVE SIGNED OUR SELLER/SERVICER AGREEMENT AND ARE NOW PARTICIPATING IN THE HOUSING ASSISTANCE LOAN PROGRAMS:

*Alaska Continental Bank
Alaska Federal Savings
*Alaska Mutual Bank
*Alaska National Bank of the North
Alaska Pacific Mortgage Company
*Alaska Statebank
*Alaska Teamsters Federal Credit Union
*B.M. Behrends Bank
*City Mortgage Corporation
Colonial Mortgage Company
*Fedalaska Federal Credit Union
First Alaskan Mortgage & Escrow Company
*First Bank of Ketchikan
*First Federal Bank, S.B.
First Guaranty Mortgage Company of Alaska
*First Interstate Bank of Alaska
*First National Bank of Anchorage
*First National Bank of Fairbanks
General Electric Mortgage Company
*Kodiak Island Housing Authority
*Lomas & Nettleton
Mt. McKinley Mutual Savings Bank
National Bank of Alaska
*Peninsula Savings & Loan Association
Rainier Bank Alaska
*Rainier Mortgage Company
*Security National Bank
*Tlingit-Haida Regional Housing Authority
*United Bank Alaska
*Westland Mortgage Service Company

*Indicates those lenders authorized to initiate HOAF loans under the Housing Assistance Rural Owner-Occupied Loan Program and the Nonconforming Housing Loan Program.

November 15 deadline for submittal of grant applications for the State Assisted Rental Housing Construction program. The Division awarded $3.5 million in grants under this program.

November 1984



Clark D. Boston Appointed Director November 26, 1984

November 1984

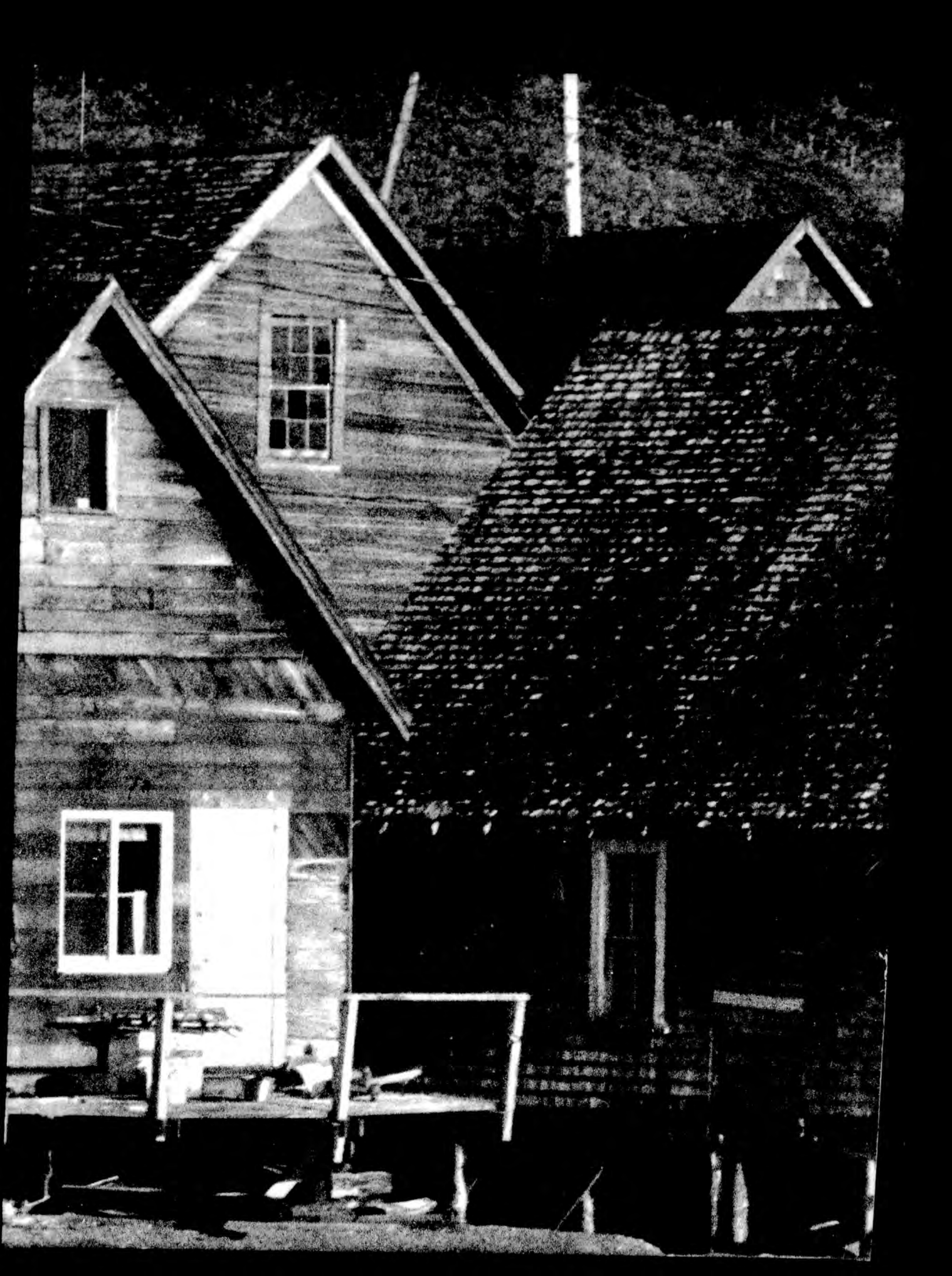


1984 Annual Report drafted

December 1984

In Memoriam

This publication is dedicated to the accomplishments of Fiona Breeden. Loan Examiner, housing advocate, friend and member of the staff from February 23, 1960 to October 30, 1984.



Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
(907) 465-4920

AGENDA

TUESDAY, 1/29/85

3:30 pm, Room 124 (House Judiciary)

Department of Community And Regional Affairs, Housing Assistance Division overview.

For further information contact:

John Hartle, Aide to Rep. John Sund, Chair, House Committee on Loans, Room 411 Capitol 465-4919

Items in folders:

- Housing Assistance Division FY 86 Governor's proposed budget
  - Short Form pages - DC&RA, HAD
  - Detail Budget pages - DC&RA, HAD
  - Loans budget short form pages
- HAD Statutes (AS 44.47) - See page 155
- Program Descriptions
- HAD Annual Report
- House Research Agency Quarterly Activity Report
- CH 102 SLA 83 (CSHB 302)
- List of bills for House Loans Committee

HOUSING ASSISTANCE DIVISION
LOAN PROGRAM INFORMATION

The Housing Assistance Division (HAD) offers four loan programs; the Rural Owner Occupied, Rural Non-Owner Occupied, Nonconforming Housing Loan Program, and the Housing Rehabilitation Program. The following is a brief summary of these programs.

Rural Owner-Occupied Program - Provides financing to qualified borrowers for the construction or purchase of a single family residence and duplex housing for owner occupancy. The maximum loan term is 30 years.

For new construction, the Division may finance 100% of allowable cost incurred during construction or 85% of appraised value, whichever is less. The maximum dollar amount a borrower may receive is $172,900 for single units and $221,200 for duplexes.

For purchase of existing housing, the Division may finance 95% of the sale price or 95% of the appraised value, whichever is less. The maximum dollar amounts are the same for purchase as shown for construction.

Rural Non-Owner Occupied Program - Provides financing to qualified borrowers for the construction, purchase or rehabilitation of non-owner occupied rental housing units. The interest rate for this program is 10.5% with a maximum loan term of 30 years. The project may involve two to eight units in a single community or specific area.

The principal amount of the loan or loans for housing under this program can not exceed $1,250,000.00. Also, the loan must not exceed 80% of the appraised value or 80% of the purchase price whichever is less. The borrower may not reside in the housing financed.

Nonconforming Housing Loan Program - Provides financing to qualified borrowers for the construction, rehabilitation or purchase of single family detached or duplex housing which exhibits one or more characteristics, with respect to design, construction practices, materials, foundation systems, utilities and minimum space requirements, which are not common to the community in which the property is located and which would ordinarily preclude financing by private financial institutions. The maximum loan term is 30 years.

For new construction, the Division may finance 100% of allowable cost incurred during construction or 85% of appraised value, whichever is less. The maximum dollar amount a borrower may receive is $172,900 for single units and $221,200 for duplexes.

For purchase of existing housing, the Division may finance 95% of the sales price or 95% of the appraised value, whichever is less. The maximum dollar amounts are the same for purchase as for construction.

Housing Rehabilitation Program - Provides financing to qualified borrowers for the repair, remodeling or rehabilitation of existing single family and duplex housing. In addition, the Division may provide first or second deeds of trust financing.

For first deeds of trust, the Division may finance 100% of allowable cost of construction, plus pay off any existing liens on the subject property. However, the amount financed may not exceed the lesser of 95% of the appraised value of the property, or $172,900 for single families and $221,200 for duplexes. The maximum term of the loan is 30 years.

For second deeds of trust, the Division may finance up to $45,000 Maximum term for second is 15 years.

Under the Rehabilitation Program, the amount financed may include costs for contracted labor/services other than that of the borrower.

In the event a borrower requires financing for building materials only (no labor), the Division may provide rehab financing up to 80% of the appraised value of the subject property or $45,000 whichever is less and the maximum term is 15 years.

The Homeownership Assistance Fund (HOAF) was created during the 1983 legislative session and became effective January 1, 1984. The purpose of this fund was to subsidize mortgage payments of low to moderate income borrowers. A qualified borrower may have their monthly mortgage payment subsidized to an interest rate as low as 6%. The subsidy amount is determined by how much the borrower can pay. Income limits, loan limits, and asset value limits are taken into consideration.

The borrower(s) household income limits must not exceed the following:

1-2 adults	$30,000, plus
1st child	5,000
Additional children or adult	$ 1,500

The borrower's maximum gross yearly income limit can not exceed $39,500 per household. Additionally, the borrower may not have assets that exceed three times the applicable income limit for the household. Assets do not include permits for business opportunities, restricted title land, or land, acquired through ANCSA or ANILCA.

The loan limits are as follows:

1-2 member family	$105,000
3 member family	110,000
4 or more member family	120,000

Additionally, for those borrowers whose home is owner-built new construction, the following appraised values may not be exceeded:

1-2 member family	$130,000
3 member family	140,000
4 or more member family	150,000

Once the borrower is determined eligible to obtain a loan with a HOAF subsidy, they are required to enter an assistance agreement. The agreement is re-evaluated at least annually to determine continued eligibility, and the monthly subsidy amount for the next year.

How to Apply - Anyone interested in applying for a housing loan of any type through the Division must first contact all approved mortgage lenders which service the area where the property is located. In the event financing cannot be obtained through this source, the Division may provide financing directly to the borrower.

The interest rates for the Rural Owner-Occupied and Nonconforming Housing Loan Programs fluctuate. The information provided is general in nature and other restrictions may apply.

SUPPLEMENTAL HOUSING DEVELOPMENT GRANTS

Governing Regulations: 19 AAC 88.010 - .900

Governing Statutes: AS 18.55.998

Funding Available:

FY84	$3,500,000
FY85	$3,500,000

Program Summary: This grant program provides grants only to regional housing authorities as supplemental funding to their approved HUD housing projects. Statute limits the grants to regional housing authorities. The statute also limits the grant to project site development for road, water and sewer and electrical distribution work. Grant awards are made to each project when HUD submits to this division an approved HUD project budget indicating the need for supplemental funding and signs concurrence in the need for a grant award. Payment under the grant for the work is made to the housing authority upon HUD's providing a copy of the construction contract for the work and requests payment. The work accomplished with State funds is part of the HUD project and is reviewed, in design and construction by HUD. We have a Memorandum of Understanding with HUD, BIA, and PHS on all aspects of this grant program.

Criteria for Award:

1. HUD project approved
2. Housing authority request
3. HUD concurrence
4. HUD budget shows need for supplemental funding and amount for roads, water, sewer amd electrical distribution
5. Construction contract for work provided

Process for Award of Grants: There is no advertisement for grant applications or deadline for grant requests. The grants are awarded on a first come first served basis within the funds available in accordance with the grant award process outlined above.

STATE ASSISTED RENTAL HOUSING CONSTRUCTION PROGRAM

Governing Regulations: 19 AAC 83.010 - .900

Governing Statutes: AS.44.47.630 - .635

Funding Available:

FY84	$5,000,000
FY85	$3,580,000

Program Summary: This program became effective January 1, 1984. The legislature appropriates funds to the Low Cost and Low Income Multiple Family Housing Development Fund to provide grants to municipalities or public or private non profit corporations for planning and construction of low income rental housing.

The division provides notice in newspapers statewide of the grant application period and deadline for grant applications, and also provides this notice to an extensive mailing list of possible interested applicants. The first application deadline is November 15 annually. The applications are reviewed by a committee and awards announced not later that January 31 annually. An appeal period is provided for the applicants not selected. Following the appeal period, grant agreements are entered into with the successful applicants.

Criteria for Selection of Applicants:

1. Need for housing
2. Other funding available
3. Project Feasibility
4. Rental cost
5. Management plan
6. Evidence of community support
7. Project cost per unit
8. Project density

Process of Awarding Grants:

1. Advertise in papers and mailout of mailing list
2. Selection committee established
3. Selection committee sets criteria and rates and ranks grant applicants
4. Grant awards announced by DCRA Commissioner
5. Appeal period of 15 days provided to non selected applicants
6. Grant agreements prepared and executed

SENIOR CITIZEN HOUSING DEVELOPMENT FUND

Governing Regulations: 19 AAC 85.010 - .130

Governing Statutes: AS 44.47.610 - .620

Funding Available:

FY84	$10,000,000
FY85	$ 8,000,000

Program Summary: This grant program awards grants for both the planning and construction of senior citizen housing. The grant applicants are limited to municipalities and public and private non-profit corporations. Notices are placed in newspapers statewide announcing the grant periods and deadlines for grant applications for award. Notice is also sent to an extensive mailing list for this grant program. Planning grant applications are received and grant awards made four times a year, in July, October, January and April. These grants are up to $75,000, depending on the size of the project. Grants for construction are awarded twice annually in November and March, depending on funding. The grant applications are reviewed and ranked by a selection committee and awards announced by the Commissioner. An appeal process is provided for the applicants not selected. This grant program provides senior citizen housing statewide. The program is administered out of the Housing Assistance Division in Anchorage.

Criteria for Selection of Applicants:

A. Planning Grants
1. Satisfactory completion of application
2. Establishment and documentation of housing need
3. Establishment of a senior citizen steering committee

B. Construction Grant
1. Satisfactory completion of application
2. Housing need
3. Other funding and rental subsidy available
4. Feasibility analysis
5. Management plan

Grant Award Process:

1. Advertise in newspapers statewide and send notice to extensive mailing list of grant application period and deadline.
2. Establish a selection committee
3. Committee set criteria and rate and rank applications
4. Grant awards announced by Commissioner
5. Appeal period of 15 days is provided to non selected applicants
6. Grant agreements are prepared and executed

Senior Citizen Housing Development Fund (cont'd)

Grant Award Process:

1. Advertise in newspapers statewide and send notice to extensive mailing list of grant application period and deadline.
2. Establish a selection committee
3. Committee set criteria and rate and rank applications
4. Grant awards announced by Commissioner
5. Appeal period of 15 days is provided to non selected applicants
6. Grant agreements are prepared and executed

STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
HOUSING ASSISTANCE DIVISION

HOUSING ASSISTANCE LOAN PROGRAM
Alaska Statutes 44.47.360-.560

Three kinds of loans are available under this program; Nonconforming Housing, Rural Nonowner-occupied and Rural Owner-occupied.

NONCONFORMING HOUSING LOAN PROGRAM

WHAT IS THIS LOAN PROGRAM FOR?

This program provides financing for construction, rehabilitation or purchase of single family or duplex housing which, because of uncommon design, construction practices, materials, foundation systems, utilities and minimum space requirements may not qualify for financing by private financial institutions.

WHO CAN APPLY FOR A LOAN?

Individuals who are at least 18 years old or older, and a resident of the State of Alaska, may apply for a loan. The borrower must occupy one of the units as a principal residence.

HOW MUCH CAN BE BORROWED?

Maximum loans under the program equal the limits set by the Federal National Mortgage Association, currently $171,000 for a single family residence and $218,700 for a duplex.

WHAT IS THE INTEREST RATE?

The interest rate for nonconforming housing is ¼% higher than the rate based on the most current Alaska Housing Finance Corporation bond sale. A one point discount is available to veterans.

HOW MUCH TIME IS ALLOWED TO REPAY THE LOAN?

You may be allowed up to 30 years or the remaining economic life of the property, whichever is less, to repay the loan.

IS COLLATERAL REQUIRED?

The loan must be secured by collateral. The structure being financed is usually sufficient collateral.

WHERE CAN I APPLY FOR A LOAN?

Loans are available through participating lending institutions. Applying for a loan under this program is basically the same as applying for a conventional home mortgage loan.

STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
HOUSING ASSISTANCE DIVISION

For additional information on this program or loan application forms, please contact a participating lending institution or the Housing Assistance Division office located in your area:

Anchorage:
Housing Assistance Division
949 E. 36th Avenue, Suite 400
Anchorage, Alaska 99508
Telephone: 561-0900
Toll Free Number: ZENITH 4585

Regional Offices:

Housing Assistance Division
P.O. Box 41
Nome, Alaska 99762
Telephone: 443-2655

Housing Assistance Division
Kuskokwim Office Building
P.O. Box 348
Bethel, Alaska 99559
Telephone: 543-3864

Housing Assistance Division
Drift Inn, 2nd Floor
P.O. Box 280
Kotzebue, Alaska 99752
Telephone: 442-3675

Housing Assistance Division
Kangiiqutaq Office Building
P.O. Box 10041
Dillingham, Alaska 99576
Telephone: 842-2245 or 2255

Housing Assistance Division
1514 Cushman St., Room 206
Fairbanks, Alaska 99701
Telephone: 452-4468

Housing Assistance Division
Community Building, Room 209
Pouch B
Juneau, Alaska 99811
Telephone: 465-2267

STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
HOUSING ASSISTANCE DIVISION

HOUSING ASSISTANCE LOAN PROGRAM
Alaska Statutes 44.47.360-.560

RURAL NONOWNER-OCCUPIED PROGRAM

WHAT IS THIS LOAN PROGRAM FOR?

This program provides financing for the construction, purchase or rehabilitation of two, up to eight, rural nonowner-occupied rental housing units. Under extraordinary circumstances, the division may finance up to 16 rental units.

WHO CAN APPLY FOR A LOAN?

Individuals who are at least 18 years old and residents of the State of Alaska, and Alaska businesses may apply for a loan. The borrower may not occupy any of the units as a principal balance.

HOW MUCH CAN BE BORROWED?

The maximum loan amount is $1,250,000.

WHAT IS THE INTEREST RATE?

The interest rate for this program is 10½%

HOW MUCH TIME IS ALLOWED TO REPAY THE LOAN?

You may be allowed up to 30 years or the remaining economic life of the structure, whichever is less, to repay the loan.

IS COLLATERAL REQUIRED?

The loan must be secured by collateral. The structure(s) being financed is (are) usually sufficient collateral.

WHERE CAN I APPLY FOR A LOAN?

Loans are available through participating lending institutions. The division may issue loans directly to borrowers in areas not regularly served by commercial mortgage lending institutions.

STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
HOUSING ASSISTANCE DIVISION

For additional information on this program or loan application forms, please cotnact a participating lending institution or the Housing Assistance Division office located in your area:

Anchorage:
Housing Assistance Division
949 E. 36th Avenue, Suite 400
Anchorage, Alaska 99508
Telephone: 561-0900
Toll Free Number: ZENITH 4585

Regional Offices:

Housing Assistance Division
P.O. Box 41
Nome, Alaska 99762
Telephone: 443-2655

Housing Assistance Division
Kuskokwim Office Building
P.O. Box 348
Bethel, Alaska 99559
Telephone: 543-3864

Housing Assistance Division
Drift Inn, 2nd Floor
P.O. Box 280
Kotzebue, Alaska 99752
Telephone: 442-3675

Housing Assistance Division
Kangiiqutaq Office Building
P.O. Box 10041
Dillingham, Alaska 99576
Telephone: 842-2245 or 2255

Housing Assistance Division
1514 Cushman St., Room 206
Fairbanks, Alaska 99701
Telephone: 452-4468

Housing Assistance Division
Community Building, Room 209
Pouch B
Juneau, Alaska 99811
Telephone: 465-2267

STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
HOUSING ASSISTANCE DIVISION

HOUSING ASSISTANCE LOAN PROGRAM
Alaska Statutes 44.47.360-.560

RURAL OWNER-OCCUPIED PROGRAM

WHAT IS THIS LOAN PROGRAM FOR?

This program provides financing for the construction, rehabilitation or purchase of single family or duplex housing.

WHO CAN APPLY FOR A LOAN?

Individuals who are at least 18 years old and residents of the State of Alaska may apply for a loan. The borrower must occupy one of the units as a principal residence. A borrower is limited to one State subsidized housing loan for owner-occupancy.

HOW MUCH CAN BE BORROWED?

Maximum loans under the program equal the limits set by the Federal National Mortgage Association, currently $171,000 for a single family residence and $218,700 for a duplex.

WHAT IS THE INTEREST RATE?

The interest rate is one point less than the rate based on the most current Alaska Housing Taxable Bond Sale. Traditionally, the interest rate for nonveterans under this program has been in the 8 to 11 percent range. an additional one point discount is available to veterans.

HOW MUCH TIME IS ALLOWED TO REPAY THE LOAN?

You may be allowed up to 30 years or the remaining economic life of the structure, whichever is less, to repay the loan.

IS COLLATERAL REQUIRED?

The loan must be secured by collateral. The structure being financed is usually sufficient collateral.

WHERE CAN I APPLY FOR A LOAN?

Loans are available through participating lending institutions. The division may issue loans directly to borrowers in areas not regularly served by commercial mortgage lending institutions.

STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
HOUSING ASSISTANCE DIVISION

For additional information on this program or loan application forms, please cotnact a participating lending institution or the Housing Assistance Division office located in your area:

Anchorage:
Housing Assistance Division
949 E. 36th Avenue, Suite 400
Anchorage, Alaska 99508
Telephone: 561-0900
Toll Free Number: ZENITH 4585

Regional Offices:

Housing Assistance Division
P.O. Box 41
Nome, Alaska 99762
Telephone: 443-2655

Housing Assistance Division
Kuskokwim Office Building
P.O. Box 348
Bethel, Alaska 99559
Telephone: 543-3864

Housing Assistance Division
Drift Inn, 2nd Floor
P.O. Box 280
Kotzebue, Alaska 99752
Telephone: 442-3675

Housing Assistance Division
Kangiiqutaq Office Building
P.O. Box 10041
Dillingham, Alaska 99576
Telephone: 842-2245 or 2255

Housing Assistance Division
1514 Cushman St., Room 206
Fairbanks, Alaska 99701
Telephone: 452-4468

Housing Assistance Division
Community Building, Room 209
Pouch B
Juneau, Alaska 99811
Telephone: 465-2267

PROGRAM DESCRIPTION

CATEGORY: Loan Programs

AGENCY: Community and Regional Affairs

PROGRAM: Housing Assistance Loan Fund

Pursuant to AS 44.47.380, the Housing Assistance Loan Fund was created as a revolving loan fund for the purpose of originating, purchasing and participating in loans for rural housing and nonconforming urban housing. The primary objective of this program is to ensure that the maximum number of eligible Alaskans have access to safe, affordable housing through the delivery of loan funds. Borrowers are assisted with mortgage loan applications through seven offices located in Anchorage, Juneau, Bethel, Dillingham, Nome, Kotzebue and Fairbanks. Although a large majority of loans made under this program are through financial institutions, direct lending services are also available to qualified buyers whose loan applications are unattractive to private lending institutions.

In addition to loans for rural and nonconforming housing, the Housing Assistance Loan Fund is also used to provide funds for:

1. low and moderate income single family housing; the subsidy for these loans is furnished by the assets of the Housing Ownership Assistance Fund (AS 44.47.382);

2. non-owner occupied housing; up to 20% of the principal amount of loans made to rural and nonconforming urban housing may be used for non-owner occupied housing loans (AS 44.47.520)

For FY85 and prior years, appropriations were also made to the Senior Citizens Housing Development Fund (AS 18.54.070) for the purpose of making grants for the development of senior citizens housing. No funding is requested for this purpose in the Governor's proposed FY86 budget.

AGENCY: DEPARTMENT OF COMMUNITY & REGIONAL AFFAIRS PROGRAM: DIVISION OF HOUSING ASSISTANCE
CATEGORY: LOAN PROGRAMS

COMPONENT DESCRIPTION	FY84 ACT	ADJ BASE	FORMULA	INCREMNT	REQUEST	GOVERNOR	HOUSE	SENATE	C. C.	BILLS	LEG.REC.
HOUSING ASSISTANCE LOAN FUND	45000.0				45000.0	37000.0					
** TOTAL	45000.0				45000.0	37000.0					
** CHANGE VERSUS FY84 ACT				-100.0%		-17.7%	-100.0%	-100.0%	-100.0%		
OBJECT DESCRIPTION											
MISC.	45000.0				45000.0	37000.0					
FUNDING SUMMARY											
GENERAL FUND	45000.0				45000.0	37000.0					
** GENERAL FUND CHANGE VS. FY84 ACT				-100.0%		-17.7%	-100.0%	-100.0%	-100.0%		

11-18-60-10-00 (00-00-0-00-00-00) STATE OF ALASKA -- COMPONENT BUDGET SUMMARY 09:02 12/26/84

AGENCY: DEPARTMENT OF COMMUNITY & REGIONAL AFFAIRS
CATEGORY: LOAN PROGRAMS

PROGRAM: DIVISION OF HOUSING ASSISTANCE
SUB-PROGRAM: HOUSING ASSISTANCE LOAN FUND

FISCAL YEAR 1985

EXPENDITURES & FUNDING	(18) FY83 ACT	(01) FY84 ACT	(02) FY85 ATH	(03) ADJ BASE	(04) FORMULA	(05) INCREMNT	(06) REQUEST	(08) GOVERNOR	(09) HOUSE	(10) SENATE	(11) C. C.	(12) BILLS	(13) LEG.REC.
01 PERS. SERV.													
02 TRAVEL													
03 CONTRACTUAL													
04 COMMODITIES													
05 EQUIPMENT													
06 LANDS/BLDGS													
07 GRANTS, CLMS													
08 MISC.	45000.0	45000.0	45000.0				45000.0	37000.0					
** TOTAL EXPEND	45000.0	45000.0	45000.0				45000.0	37000.0					
09 I-A TRANSFER													
1004 GEN FUND	45000.0	45000.0	45000.0				45000.0	37000.0					
15 FULL TIME													
16 PART TIME													
17 TEMPORARY													
18 STAFF MONTHS													

AGENCY: DEPARTMENT OF COMMUNITY & REGIONAL AFFAIRS
CATEGORY: LOAN PROGRAMS

PROGRAM: DIVISION OF HOUSING ASSISTANCE
SUB-PROGRAM: HOUSING ASSISTANCE LOAN FUND

* * * * * * * * * * GOVERNOR ANALYSIS * * * * * * * * * *

OBJECT GROUP	VARIATION		DESCRIPTION: GOVERNOR ($37,000.0) VERSUS FY85 ATH ($45,000.0)
08 MISC.	-8000.0	-17.8%	
** TOTALS	-8000.0	-17.8%	

MEMORANDUM

State of Alaska

Community and Regional Affairs

TO: Jay Hogan
Associate Director
Division of Budget Review
Office of Management & Budget

DATE: October 3, 1984

FILE NO:

TELEPHONE NO: 465-4700

FROM: Emil Notti
Commissioner

SUBJECT: FY 86 Loan Budget

Attached is the official FY 86 Loan Budget submission for the Department of Community and Regional Affairs.

Attachment

cc: Jeff Smith
Remond Henderson
Marge Listberger
Sana Efird

RECEIVED
OCT 10 1984
BUDGET REVIEW

02.001A(Rev. 10/79)

AGENCY PRIORITY	PROGRAM TITLE	LOCATION	FUNDING	AGENCY REQUEST	GOVERNOR
1	Housing Assistance Development	Statewide	FEDERAL RECEIPTS	-0-	
			GENERAL FUNDS	45,000.0	37,000.0
			OTHER: Prg Rcpts	8,000.0	8,000.0
			Carry Forward	9,000.0	9,000.0
			TOTAL	62,900.0	54,000.0
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		

A3 **AGENCY LOAN PROGRAM**

AGENCY Community & Regional Affairs

PAGE 1 OF 1

REVISED DATE

FY 86

00065

(6/84)-a3

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Housing Assistance Loan Fund	Statewide	86-1	Barbara Morse-Quinn - 561-0900

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	55,400.0	62,400.0	65,000.0	54,000.0
TOTAL APPROPRIATIONS AND REQUESTS	45,000.0	45,000.0	45,000.0	
1002 FEDERAL RECEIPTS	-0-	-0-	-0-	
1004 GENERAL FUNDS	45,000.0	45,000.0	45,000.0	37,000.0
1028 PROGRAM RECEIPTS	-0-	-0-	-0-	
1006 GENERAL OBLIGATION BONDS	-0-	-0-	-0-	
OTHER				
TOTAL OTHER PROGRAM FUNDING				
ESTIMATED CARRY FORWARD BALANCE	12,000.0	15,300.0	9,900.0	
INTEREST RETAINED				
PRINCIPAL REPAID	3,900.0	6,000.0	8,000.0	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	185,000.0
TOTAL INTEREST RETAINED	
TOTAL BONDS ISSUED	-0-
BONDS AUTHORIZED BUT NOT ISSUED	-0-
TOTAL PROGRAM FUNDING	185,000.0

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?

2703.5

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?

829.9

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

The Housing Assistance Loan Fund was created to provide money to originate, purchase or participate in the purchase of loans for rural housing and nonconforming urban housing. Approximately 97% of all loans have been made through a private financial institution and purchased by the Division. The remaining 3% are loans made directly to borrowers by the Division because no private financial institution was willing to service the borrowers' area. The Division has total loans in excess of 1,900 which require computerized accounting. Payments are collected for 30 years and are received for principal and interest. Section 12, Chapter 102, SLA 1983 changed the fund to a revolving loan fund and allows the Division to retain loan principal payments. In FY 86, approximately 14% of the total funds available are from principal payments.

L1 LOAN PROGRAM DESCRIPTION

(6/84)-11

AGENCY Community & Regional Affairs

CATEGORY Economic Development

PROGRAM Development

TITLE Housing Assistance

REVISED DATE

FY 86

RECEIVED

OCT 10 1984

00066

BUDGET REVIEW

Based on past fiscal years' activities, the Division projects financing in FY'86 approximately 643 new loans with $45.0 million in new appropriations, $9.9 million in carryover funds, and $8 million in repaid principal and payoffs. By statute a minimum of 80% of the funds will be utilized in rural Alaska with the remainder available for urban nonconforming properties. The Division is projecting 505 loans for rural housing and 138 loans for nonconforming housing in urban areas. The $50.0 million allocated to rural Alaskan properties represents in most cases the only available source of mortgage funds. These rural funds will construct approximately 231 new dwellings, finance the sale of 208 existing structures, renovate 60 existing structures and finance 160 rental units. It should be noted that in addition to benefits for individual property investors, the expenditure of these loan funds translates into direct employment opportunities for primary consumers in construction labor, materials suppliers, freight companies, and banks. Funds also indirectly affect the local economy when homeowners purchase goods and services in the community.

The analysis of the programmatic effect of receiving 75% of FY 85 general funds in FY 86 must also discuss the overall impact based on the other funds available during FY 85. The FY 85 general fund allocation of $45 million, $15.3 in carry forward funds, and $6.0 in principal repayments will finance 543 loans for rural housing and 128 loans for nonconforming in urban areas. At 75%, the FY 86 general fund allocation would be $33.75 million plus $8 million in principal repayments, and $9.9 million in carryover funds. At 75%, the net dollar effect is a drop from $62.4 million in FY 85 to $47.75 million in FY 86 or about a 24% decrease in the total funding scope of the program. At this level it is estimated that the Division can finance approximately 520 loans, of which about 416 loans would be for rural housing and 104 loans for urban nonconforming housing. This drop in funding would depress economic activity in the regional centers, primarily through a substantial reduction in the number of new housing starts.

L1 **ADDITIONAL EXPLANATION FORM**

AGENCY Community and Regional Affairs

PROGRAM Economic Development

BRU Development

COMPONENT Housing Assistance

FY 86

REVISED DATE

00067

(6/84)-ae1

The impact on the FY 86 program of receiving only 50% of the FY 85 general funds is even more drastic. At 50% of the FY 85 general fund allocation, $22.5 million from the general fund, $9.9 million in carryover funds, and $8 million from principal repayments would be available in FY 86. At the 50% level, the net dollar effect is a drop from $62.4 million in FY 85 to $36.5 million in FY 86, or a decrease of about 47% of the FY 85 total funds available. The results would be a dramatic decrease in the number of total loans made through the program, from 671 in FY 85 to about 400 in FY 86. This decrease would have its greatest impact on the rural regional centers, and a secondary impact on the Anchorage and Fairbanks economies since most of the supplies flow through those cities. It should be noted that the Division projects a demand for financing in FY 86 of $65.0 million and at this level, the Division would only meet about 50% of that demand. With very little other secondary financing available, many Alaskans could not enjoy the safety and affordability of housing now provided.

L1 **ADDITIONAL EXPLANATION FORM**

AGENCY Community and Regional Affairs

PROGRAM Economic Development

BRU Development

COMPONENT Housing Assistance

REVISED DATE

FY 86

00068

(6/84)-ae1

OTHER FINANCIAL AND PROGRAM INFORMATION			
	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY	22,305.0	36,736.0	49,721.0
ESTIMATED RATE OF SUBSIDY	21.9	23.0	23.5
AVERAGE LOAN SIZE	80.0	84.0	91.7
NUMBER OF LOANS MADE	560	671	643
VALUE OF LOANS MADE ANNUALLY	46,700.0	56,400.0	59,000.0
VALUE OF OUTSTANDING LOANS AT FY END	102,000.0	159,778.0	211,653.0
AVERAGE DELINQUENCY RATE	1.77%	1.85%	1.85%
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION			
STATUTORY LOAN RATE	See AE3 Page		
STATUTORY MAXIMUM LOAN MATURITY			
APPROPRIATE U.S. TREASURY INTEREST RATE	12%		
ESTIMATED COST OF FUNDS FOR BOND ISSUE			
ARE PRINCIPAL DEFERMENTS ALLOWED?	YEARS	YES ☐	NO ☒
IF YES, NUMBER OF YEARS:			
ARE INTEREST DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:			
IS LOAN FORGIVENESS ALLOWED?		☐	☒

PROGRAM JUSTIFICATION:

The Housing Assistance Loan Fund BRU is designed to ensure that. through the delivery of loan funds, the maximum number of eligible Alaskans have access to safe, affordable housing. To meet this objective, the Housing Assistance Division offers to eligible Alaskans housing loan programs that focus on the development of rural housing stock and the upgrade or conversion of nonconforming housing stock statewide. Borrowers are assisted with mortgage loan applications through seven offices of the Division, located in Anchorage, Juneau, Bethel, Dillingham, Nome, Kotzebue and Fairbanks. Direct lending services are also available to qualified borrowers whose loan applications are unattractive to private lending institutions.

The administration and delivery of loan funds throughout Alaska assists in meeting the Division's continuous goal of developing safe, affordable, and quality housing for all Alaskan citizens. Economic development is enhanced regionally as well as locally through creation of construction employment, use of professional services, transportation of building materials, expenditures in local areas by construction laborers, and improvements to the community in quality housing stock.

L2 LOAN PROGRAM JUSTIFICATION

AGENCY Community and Regional Affairs

CATEGORY Economic Development

PROGRAM Development

TITLE Housing Assistance

REVISED DATE

FY 86

00969

(6/84)-12

The improvement of rural housing stock is a major factor in stabilizing growth of both regional and remote sites through the enhanced quality of life that it provides. Attractive, affordable housing is a catalyst in encouraging the private investment necessary to develop a healthy diversified economic base and a high standard of living.

As the loan portfolio increases, staff travel needs grow. Current staff activities include assistance with applications, housing inspections, loan closings, and construction management assistance to grant recipients. Further travel funds requested will provide for development of education and information outreach programs within the Division. Such programs will focus on basic mortgage lending information, collection of housing need data and general assistance functions by field staff.

The Division believes that the successful transition to healthy self-sufficient economies in rural communities of Alaska is affected by two factors: (1) loan fund delivery, and (2) an accompanying understanding by potential borrowers of the role such funds play in general economic development of their region. The request for loan funds supports the plans of this division to contribute to the growth and development of rural Alaska.

The Home Ownership Assistance Fund (HOAF) consists of money appropriated to it by the legislature. Money in the fund is used solely to assist persons of lower and moderate income to purchase single-family homes financed under AS 44.47.460 - 44.47.560 by providing a subsidy to those persons in the amount that is necessary to reduce the annual interest rate paid on the mortgage loan to a minimum of six percent.

Approximately 36% of the Housing Assistance Loan Fund BRU request and other available funds will be used to fund 251 loans under the HOAF program. The amount required in subsidy funds for FY 86 is $630,000.

A major benefit of the HOAF subsidy is to increase the number of rural residents served by the housing program. The only positive alternative to a HOAF subsidy would be to lower interest rates for all Housing Assistance loan programs to six percent.

STATUTORY LOAN RATE

Nonconforming Housing: The interest rate on a mortgage loan for nonconforming housing that is not defined as rural, and which is originated or purchased in whole or in part under AS 44.47.380, is one-quarter percent more than the interest rate, as determined under AS 19.56.098(g)(1)-(4), on a mortgage loan purchased under 18.56.098(a) from the proceeds of the most recent applicable issue of taxable bonds before the origination or purchase of the nonconforming housing mortgage loan.

Rural Owner Occupied Housing: The interest rate on a mortgage loan for rural housing originated or purchased in whole or in part under AS 44.47.380 is one percent less than the interest rate, as determined under AS 18.56.098(g)(1)-(4), on a mortgage loan purchased under AS 18.56.098(a) from the proceeds of the most recent applicable issue of taxable bonds before the origination or purchase of the rural housing mortgage loan.

Nonowner Occupied Housing: The interest rate on a mortgage loan for non-owner occupied housing, currently 10.5%, is established in AS 44.47.520(b).

L2 ADDITIONAL EXPLANATION FORM

AGENCY Community and Regional Affairs

PROGRAM Economic Development

BRU Development

COMPONENT Housing Assistance

REVISED DATE

FY 86

00071

(6/84)-ae1

Department of Community and Regional Affairs
Component Fact Sheets

BRU: Housing Assistance Loan Fund (HALF)

COMPONENT: Housing Assistance Administration

DESCRIPTION: Administers a variety of housing loans through the Housing Assistance Loan Fund for owner and nonowner occupancy primarily in smaller, rural communities with some emphasis on nonconventional properties in urban Alaska. Programs include:

Rural Owner-Occupied Housing Loans (ROO)
Rural Nonowner-Occupied Housing Loans (RNOO)
Nonconforming Housing Loans, Urban/Rural (NCU/R)
Home Ownership Assistance Fund Loans (HOAF)
Building Materials Loans (BML)
Renovation/Rehabilitation Loans (R/R)

Performance Measures

1. Loan Portfolio (12/31/84)		$128,388,902
+Outstanding Commitments		32,433,625
+Paid-off Loans		7,916,400
Total Loan Activity		$168,738,927
2. Total Closed Loans	=1671=	$136,305,302
ROO Loans Closed	= 752=	68,160,471
RNOO Loans Closed	= 58=	13,272,681
NCU Loans Closed	= 484=	31,788,885
NCR Loans Closed	= 377=	23,083,265
3. Loan Fund Distribution (Closed Loans)		
77% Rural		104,516,417
23% Urban		31,788,885

Department of Community and Regional Affairs
Component Fact Sheets

FUNDING:	FY'84 ADJ	GOVERNOR'S
GF:	$1,752.5	$1,752.5
INTERAGENCY RECEIPTS:	23.6	23.6
PROGRAM RECEIPTS:	829.9	829.9
TOTAL:	$2,606.0	$2,606.0

ISSUES:

This loan program is the only program adequately servicing markets in areas where conventional financing profits are limited. With the receipt of the rural loan authority from AHFC in FY'83, the division has issued total commitments of nearly $181 million in rural housing loans. This record far exceeds any previous records established by any other program serving rural Alaska for the past decade. The success rate of this activity is primarily attributed to the regionalization of loan staff and the involved outreach and training efforts of the central office staff.

Urban nonconforming loan demand continues to climb. There are no alternatives to conventional financing of Alaska's older urban properties. While the division discourages new construction of nonconforming homes, and while limited by statute to a small portion of available funds, this program is often demanded as a main form of financing in communities such as Fairbanks, Juneau, Anchorage, Sitka and Ketchikan.

Home Ownership Assistance Fund subsidies began on January 1, 1984 and are targeted to owner-occupied loans available through existing programs of the division. This program will reach rural and nonconforming home loan borrowers in need of additional subsidy to purchase housing, build equity, and participate in Alaska's housing investments in their communities.

FY 1981	$10,000,000	SPENT	$9,993,675
		CARRY FORWARD	$6,325
	PROGRAMS:	NONCONFORMING URBAN	
		NONCONFORMING RURAL	
FY 1982	$40,000,000	SPENT	$15,776,750
		CARRY FORWARD	$24,229,575
	PROGRAMS:	NONCONFORMING URBAN	
		NONCONFORMING RURAL	
FY 1983	$45,000,000	SPENT	$56,720,443
	[500,000]	CARRY FORWARD	$12,009,132
	$44,500,000		
	PROGRAMS:	NONCONFORMING URBAN	
		NONCONFORMING RURAL	
		RURAL OWNER-OCCUPIED	
		RURAL NONOWNER-OCCUPIED	
FY 1984	$45,000,000	SPENT	$45,633,350
		CARRY FORWARD	$11,375,782
	PROGRAMS	NONCONFORMING URBAN	
		NONCONFORMING RURAL	
		RURAL NONOWNER-OCCUPIED	
		HOME OWNERSHIP ASSISTANCE FUND PROGRAM	
FY 1985	$45,000,000	SPENT	$40,998,125
	PROGRAMS	NONCONFORMING URBAN	
		NONCONFORMING RURAL	
		RURAL NONOWNER-OCCUPIED	
		HOME OWNERSHIP ASSISTANCE FUND PROGRAM	

LOAN PORTFOLIO (TO DATE)(12/31/84) $128,388,902

TOTAL NUMBER OF LOANS MADE (TO DATE)	1671 for	$136,305,302
NONCONFORMING RURAL	377 for	$23,083,265
NONCONFORMING URBAN	475 for	$31,054,185
RURAL OWNER-OCCUPIED	746 for	$67,594,471
RURAL NONOWNER-OCCUPIED	58 for	$13,272,681
HOAF	15 for	$ 1,300,700

LOAN FUND DISTRIBUTION

RURAL	$104,516,417	FOR 77% OF PORTFOLIO
URBAN	$31,788,885	FOR 23% OF PORTFOLIO

NOTE: Currently the Division has approximately 312 additional loans with outstanding commitments worth approximately $32,433,625.

NONCONFORMING URBAN	$ 4,073,750	(59)
RURAL OWNER-OCCUPIED	$20,286,175	(217)
RURAL NONOWNER-OCCUPIED	$ 8,073,700	(36)

BRU: Housing Assistance

COMPONENT: Housing Construction Development

DESCRIPTION: This component administers all Housing Assistance activities that are not related to loans with a specific emphasis on moderate or lower income housing consumers, senior citizens and Native or Indian housing projects. It is designed to receive and administer any housing project that can leverage federally funded projects in Alaska, and to coordinate housing information data.

Performance Measures

The following have been delivered by this BRU:

Senior Citizen Housing Construction Development
$51,500,000 - 954 units constructed/215 units planned.

Supplemental Housing Development Fund
$26,651,532 - 1923 housing units supplementing 75 project locations and leveraging $177,300,600 of HUD Indian housing funds.

Low Cost/Low Income Multiple Family Housing Development Fund
$8,580,000 - Program began 1/1/84. Funds will finance projects in two to three locations statewide with rents 20% lower than HUD published fair market valuations.

Tlingit-Haida Federal Budget Impact Fund Grant
$419,000 for BIA/Housing Improvement Program funded cuts in FY'83.

Anchorage Neighborhood Housing Services Demonstration grant
$586,300 - 16 units of owner-builder townhouse development.

Housing Information Systems
$250,000 RSA'd to Division of Community Planning in FY'82/83 to study statewide housing needs.

Cook Inlet Housing Authority
$750,000 - grant for planning and design of Robert Rude Intermediate Care Elderly Housing Facility.

Norton Sound Health Corporation
$1,625,000 - for addition to the hospital of elderly long-term care rooms.

Senior Citizens of Kodiak, Inc.
$1,600,000 - fo construct a senior citizens center.

FUNDING:	FY'85 ADJ	GOVERNOR'S
GF:	$98.4	$98.4
TOTAL:	$98.4	$98.4

ISSUES:

This is the only component in the Governor's budget specifically targeted to administer the stated housing goal of providing "affordable" housing by capturing available federal funding.

This component currently runs with minimal administration by one professional and one clerical position. This minimal staff is not able to totally keep current on all new federal housing programs and changes to existing programs that may affect Alaska and to be sure Alaska is in the position to take full advantage of new programs or minimize the impact of changes in programs for all senior citizen low income and native housing programs. Also, due to the heavy workload in administering existing programs, the staff of this component is not able to fully act as the focal point for all information regarding housing programs in Alaska.

In an effort to keep the operating budget within the funding restraints, this component will continue to put its primary emphasis on administering the existing housing programs in an effective manner and not request additional positions to meet the other responsibilities inherent in this component.

BRU NARRATIVE

Housing Assistance

THE HOUSING ADMINISTRATION BRU PROVIDES HOUSING ASSISTANCE TO QUALIFIED ALASKANS THROUGH LOANS AND GRANTS. THE DIVISION ADMINISTERS THE HOUSING ASSISTANCE LOAN FUND. MONEY IN THIS FUND IS USED TO FINANCE THE PURCHASE, CONSTRUCTION OR RENOVATION OF OWNER-OCCUPIED RURAL AND NONCONFORMING HOUSING. IN ADDITION, THIS FUND FINANCES NONOWNER OCCUPIED HOUSING OF TWO TO SIXTEEN UNITS IN RURAL AREAS. 80% OF THE FUND IS DEDICATED TO RURAL ALASKA, WHERE ALTERNATE SOURCES OF MONEY ARE MINIMAL OR NONEXISTENT.

FINANCING OF NEW CONSTRUCTION NOT ONLY MEETS THE HOUSING NEEDS, BUT PROVIDES ECONOMIC STIMULATION IN SMALLER COMMUNITIES. IN URBAN ALASKA, THE FUND FINANCES HOUSING WHICH DOES NOT MEET STRICTER CONVENTIONAL MARKET FINANCING STANDARDS.

THIS BRU ALSO DELIVERS THREE MAJOR HOUSING GRANT PROGRAMS: SENIOR CITIZEN HOUSING DEVELOPMENT FUND, SUPPLEMENTAL HOUSING DEVELOPMENT GRANTS AND STATE ASSISTED RENTAL HOUSING. THESE GRANT PROGRAMS MAY PROVIDE GRANTS TO MUNICIPALITIES AND PUBLIC AND PRIVATE NON-PROFIT CORPORATIONS INCLUDING THE ALASKA STATE HOUSING AUTHORITY AND THE FOURTEEN REGIONAL HOUSING AUTHORITIES.

THE GRANTS PROVIDE FOR SENIOR CITIZEN, LOW INCOME, AND RURAL MUTUAL HELP HOME OWNERSHIP HOUSING THROUGHOUT ALASKA. THESE GRANT PROGRAMS, COMBINED WITH FEDERAL, LOCAL AND PRIVATE FUNDING PROVIDE AN AVERAGE OF OVER 400 HOUSING UNITS ANNUALLY.

STATE OF ALASKA -- BUDGET UNIT SUMMARY 14:13 12/24/84

AGENCY: DEPARTMENT OF COMMUNITY & REGIONAL AFFAIRS PROGRAM: HOUSING ASSISTANCE
CATEGORY: DEVELOPMENT

COMPONENT DESCRIPTION	FY84 ACT	ADJ BASE	FORMULA	INCREMNT	REQUEST	GOVERNOR	HOUSE	SENATE	C. C.	BILLS	LEG.REC.
HOUSING LOAN ADMINISTRATION	1795.8	2535.5		162.1	2697.6	2693.0					
HOUSING CONSTRUCTION DEVEL.	97.8	98.4			98.4	98.4					
** TOTAL	1893.6	2633.9		162.1	2796.0	2791.4					
** CHANGE VERSUS FY84 ACT				-91.4%	47.6%	47.4%	-100.0%	-100.0%	-100.0%		
OBJECT DESCRIPTION											
PERS. SERV.	947.8	1014.1		.4	1014.5	1014.5					
TRAVEL	129.3	84.2		4.6	88.8	84.2					
CONTRACTUAL	678.8	871.5		157.1	1028.6	1028.6					
COMMODITIES	48.2	14.1			14.1	14.1					
EQUIPMENT	89.5										
GRANTS, CLMS		650.0			650.0	650.0					
FUNDING SUMMARY											
GENERAL FUND	1859.0	1797.0		169.1	1966.1	1961.5					
PGM RECEIPTS	3.4	829.9			829.9	829.9					
OTHER FUNDS	31.2	7.0		-7.0							
** GENERAL FUND CHANGE VS. FY84 ACT				-90.9%	5.7%	5.5%	-100.0%	-100.0%	-100.0%		
POSITIONS											
FULL TIME	18.0	21.0			21.0	21.0					
PART TIME	3.0										
STAFF MONTHS	234.0	252.0			252.0	252.0					

08-18-35-01-00 (21-71-4-70-01-00) STATE OF ALASKA -- COMPONENT BUDGET SUMMARY 14:13 12/24/84

AGENCY: DEPARTMENT OF COMMUNITY & REGIONAL AFFAIRS
CATEGORY: DEVELOPMENT

PROGRAM: HOUSING ASSISTANCE
SUB-PROGRAM: HOUSING LOAN ADMINISTRATION

EXPENDITURES & FUNDING	(18) FY83 ACT	(01) FY84 ACT	(02) FY85 ATH	(03) ADJ BASE	(04) FORMULA	(05) INCREMNT	(06) REQUEST	(08) GOVERNOR	(09) HOUSE	(10) SENATE	(11) C. C.	(12) BILLS	(13) LEG.REC.
					FISCAL YEAR 1985								
01 PERS. SERV.	737.2	863.0	941.3	926.8		.4	927.2	927.2					
02 TRAVEL	125.4	122.7	73.8	73.8		4.6	78.4	73.8					
03 CONTRACTUAL	155.4	673.9	874.9	870.9		157.1	1028.0	1028.0					
04 COMMODITIES	12.6	47.7	15.0	14.0			14.0	14.0					
05 EQUIPMENT	1.9	88.5											
06 LANDS/BLDGS													
07 GRANTS, CLMS			650.0	650.0			650.0	650.0					
08 MISC.													
** TOTAL EXPEND	1032.5	1795.8	2555.0	2535.5		162.1	2697.6	2693.0					
09 I-A TRANSFER		27.8				4.4	4.4	4.4					
1004 GEN FUND	1032.5	1761.2	1718.1	1698.6		169.1	1867.7	1863.1					
1005 I/A RCPTS		31.2	7.0	7.0		-7.0							
1028 PGM RCPTS		3.4	829.9	829.9			829.9	829.9					
15 FULL TIME	16.0	16.0	20.0	19.0			19.0	19.0					
16 PART TIME	3.0	3.0	3.0										
17 TEMPORARY													
18 STAFF MONTHS		210.0	258.0	228.0			228.0	228.0					

AGENCY: DEPARTMENT OF COMMUNITY & REGIONAL AFFAIRS
CATEGORY: DEVELOPMENT

PROGRAM: HOUSING ASSISTANCE
SUB-PROGRAM: HOUSING LOAN ADMINISTRATION

* * * * * * * * * * GOVERNOR ANALYSIS * * * * * * * * * *

OBJECT GROUP	VARIATION		DESCRIPTION: GOVERNOR ($2,693.0) VERSUS FY85 ATH ($2,555.0)
01 PERS. SERV.	-14.1	-1.5%	PERSONAL SERVICES ADJUSTMENT $46.9, TRANSFER TWO PFTS (PCN 3019 AND 3023) TO THE ADMINISTRATIVE SERVICES COMPONENT <$50.2>, TRANSFER FROM THE TRAINING/ENERGY FIELD OFFICES COMPONENT TO HELP PAY FOR SHARED POSITION $18.8, REDUCE IA RECEIPTS <$7.0>, DECREASE UNDERFUNDING $7.4.
03 CONTRACTUAL	153.1	17.5%	TRANSFER TO THE ADMINISTRATIVE SERVICES COMPONENT <$4.0>, INCREASE IN SERVICE FEES $157.1.
04 COMMODITIES	-1.0	-6.7%	TRANSFER TO THE ADMINISTRATIVE SERVICES COMPONENT <$1.0>.
** TOTALS	138.0	5.4%	

NOTE: ONE PPT (PCN 3024) IS TRANSFERRED TO ADMINISTRATIVE SERVICES, ONE PPT (PCN 3010) IS TRANSFERRED TO DATA AND WORD PROCESSING, AND ONE PPT (PCN 3008) IS RECLASSIFIED TO A FULL-TIME POSITION.

* * * * PROGRAM DESCRIPTION & PRIOR YEAR INFORMATION * * * *

FY85 INTENT: ALL HOUSING ADMINISTRATION FIELD OFFICES, INCLUDING THE SOUTHEAST OFFICE, SHALL BE MAINTAINED WITHIN EXISTING FUNDS.

AGENCY RESPONSE: HAD FIELD OFFICES ARE MAINTAINED WITHIN EXISTING FUNDS. TO ACHIEVE THIS, HAD DELETED FROM THIS BUDGET, A CLERK TYPIST POSITION IN THE SOUTHEAST OFFICE. FURTHER CLERICAL SUPPORT SERVICES ARE BEING PROVIDED BY THE DIVISION OF ADMINISTRATIVE SERVICES ON A PART TIME BASIS.

08-18-35-05-00 (21-71-4-70-02-00) STATE OF ALASKA -- COMPONENT BUDGET SUMMARY 14:13 12/24/84

AGENCY: DEPARTMENT OF COMMUNITY & REGIONAL AFFAIRS
CATEGORY: DEVELOPMENT

PROGRAM: HOUSING ASSISTANCE
SUB-PROGRAM: HOUSING CONSTRUCTION DEVEL.

EXPENDITURES & FUNDING	(18) FY83 ACT	(01) FY84 ACT	(02) FY85 ATH	(03) ADJ BASE	(04) FORMULA	(05) INCREMNT	(06) REQUEST	(08) GOVERNOR	(09) HOUSE	(10) SENATE	(11) C. C.	(12) BILLS	(13) LEG.REC.
	FISCAL YEAR 1985												
01 PERS. SERV.	81.4	84.8	82.9	87.3			87.3	87.3					
02 TRAVEL	6.3	6.6	10.4	10.4			10.4	10.4					
03 CONTRACTUAL	.7	4.9	.6	.6			.6	.6					
04 COMMODITIES		.5	.1	.1			.1	.1					
05 EQUIPMENT		1.0											
06 LANDS/BLDGS													
07 GRANTS, CLMS													
08 MISC.													
** TOTAL EXPEND	88.4	97.8	94.0	98.4			98.4	98.4					
09 I-A TRANSFER						.3	.3	.3					
1004 GEN FUND	88.4	97.8	94.0	98.4			98.4	98.4					
15 FULL TIME	1.0	2.0	2.0	2.0			2.0	2.0					
16 PART TIME	2.0												
17 TEMPORARY													
18 STAFF MONTHS		24.0	24.0	24.0			24.0	24.0					

AGENCY: DEPARTMENT OF COMMUNITY & REGIONAL AFFAIRS
CATEGORY: DEVELOPMENT

PROGRAM: HOUSING ASSISTANCE
SUB-PROGRAM: HOUSING CONSTRUCTION DEVEL.

* * * * * * * * * * GOVERNOR ANALYSIS * * * * * * * * * *

OBJECT GROUP	VARIATION		DESCRIPTION: GOVERNOR ($98.4) VERSUS FY85 ATH ($94.0)
01 PERS. SERV.	4.4	5.3%	PERSONAL SERVICES ADJUSTMENT $4.4.
** TOTALS	4.4	4.7%	

TABLE I

LOAN PROGRAMS FY 81 - FY 86
General Fund
($ million)

Program	Fiscal Year 86	85	84	83	82	81
Economic Development:						
Agriculture Rev Loans	2.5	5.0	10.0	10.0	14.0	14.6
AIDA Enterprise Fund	.0	.0	.0	21.0	8.0	15.0
AIDA Eco Dev Fund	18.0	.0	.0	.0	.0	.0
AK Resources Corp	.0	.0	.0	.0	1.1	1.1
Commercial Fishing	3.7	3.5	9.1	9.4	9.5	21.0
Fish Enhancement	2.1	5.0	6.5	22.0	8.0	6.4
Fisherman Mtge & Note	.0	.0	.0	.0	1.8	.0
Grain Reserves Loans	1.0	.5	1.6	.0	.0	.0
Mining Loan Fund	.0	.0	.0	15.0	15.0	10.0
Small Business	.0	.0	(16.8)	.0	.0	46.7
Tourism Rev Loans	.0	.0	(2.7)	.0	.0	4.3
Education:						
Scholarship Loans	63.6	60.0	60.0	52.0	37.7	22.8
Teacher Loans	.6	.0	.0	.0	.0	.0
Energy:						
Alternative Tech	1.0	1.0	2.4	4.0	5.2	2.4
Residential Energy	.0	.0	3.1	4.5	3.3	1.6
Rural Electrification	2.0	.0	1.0	.0	6.5	.0
Housing:						
AHFC Programs	.0	16.0	49.1	150.0	265.0	277.0
C&RA Housing Asst	37.0	45.0	45.0	45.0	40.0	21.5
Medical & Child Care:						
Child Care Facility	.0	.0	.9	.4	.3	.0
Med Malpractice	.0	.0	.0	.0	.0	1.5
Res Care Facility	.0	.0	.0	.0	.1	.5
Municipal Assistance:						
Bulk Fuels	.0	.0	.0	1.0	10.0	1.5
Historical Dist	.0	.0	.5	.5	.2	.0
TOTAL	131.5	136.0	169.7	334.8	425.7	447.9

Sources:
FY 86: Governor's Proposed FY 86 Budget
FY 85: SLA 84,CH 171,Sec 301-313
FY 84: SLA 83,CH 107,Sec 15-28; SLA 83,CH 106,Sec 70
FY 83: SLA 82,CH141,Sec242; SLA83,CH106,Sec11; SLA 82,CH 114,Sec 1-13
FY 82: SLA 81,CH 82,Sec 9-15,28; SLA81,CH76,Sec1; SLA81,CH90,Sec19,36,37; SLA 82,CH 141,Sec 257; State Loan Programs, House Research, 12-82.
FY 81: SLA 80,CH 120,Sec 1-13,52; SLA 81,CH15,Sec 1; SLA 81,CH 3,Sec 1,2; SLA 81,Ch 2,Sec 2; State Loan Programs, House Research, 12-82.

Note: The data in this table is post-Revised program and may not equal the amounts specified in the appropriation bills.

LFD/Jan 3,1985

TABLE II

LOAN PROGRAMS FY 81 - FY 86
Interest Rates and Delinquency Rates *

Program / Statute		Delinquency ($ 000)	Rate Pct	Interest Rate
Econ Development:				
Agriculture Rev Loans	03.10	6,953.5	15.6	8.0
AIDA Enterprise Fund	44.88	15,270.2	4.7	varies
AIDA Eco Dev Fund	44.88	n/a	n/a	varies
Ak Resources Corp 1)	37.12	n/a	n/a	varies
Commercial Fishing	16.10	11,551.3	14.4	10.5
Fish Enhancement	16.10	.0	.0	9.5
Fish Mortage & Note 2)	16.10	n/a	n/a	n/a
Grain Reserves Loans	03.12	.0	.0	8.0
Mining Loan Fund	27.09	10,621.0	55.9	10.0
Small Business	45.95	34,198.0	48.1	9.5
Tourism Rev Loans	45.90	1,034.0	16.3	9.5
Education:				
Scholarship Loans	14.43	12,470.1	6.7	5.0
Teacher Loans	14.43	n/a	n/a	5.0
Energy:				
Alternative Tech 3)	45.88	2,408.0	22.3	5.0/15.0
Residential Energy 4)	45.89	1,039.2	19.8	5.0
Rural Electrification	44.83	.0	.0	2.0
Housing:				
C&RA Housing Asst	44.47	1,977.2	2.0	varies
AHFC Programs	18.56	113,615.0	3.0	varies
Medical & Child Care:				
Child Care Facility	44.33	103.0	15.4	7.0
Res Care Facility 2)	44.33	n/a	n/a	n/a
Med Malpractice 5)	21.88	.0	.0	6.0/7.0
Municipal Assistance:				
Bulk Fuels	45.87	148.0	.7	varies
Historical District	45.98	.0	.0	7.5

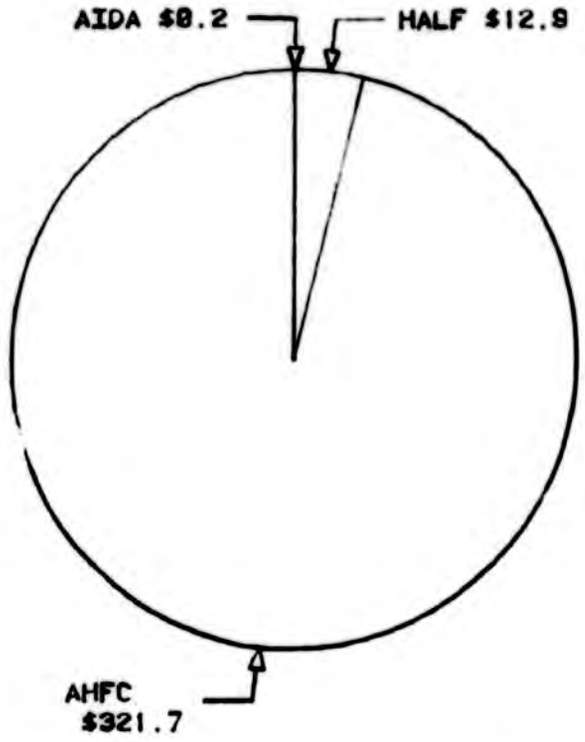
---

* Delinquency rates are from State Loan Program: Quarterly Actitvity Report, Fourth Qtr FY 84; House Research Agency, October 1984.

1). Repealed effective July 1, 1989.
2). Repealed during 1982 session.
3). Interest rate is 5.0% on the first $15,000 and 15% on the excess.
4). On loans made after 12-31/83 the interest rate is the average weekly municipal bond yield rates.
5). Interest rate is 6.0% if the borrower is unable to procure re-insurance from a private casualty insurer.

$ MILLIONS IN HOUSING LOANS APPROVED, BY PROGRAM

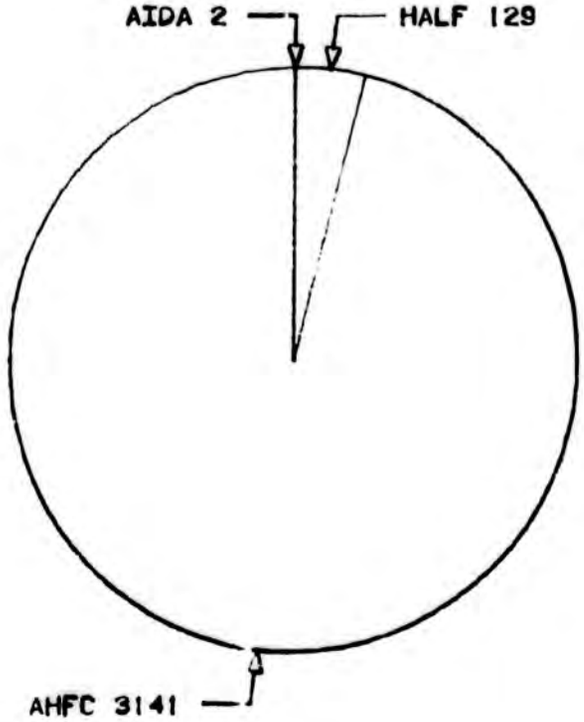
4TH QUARTER, FY 1984



Prepared by House Research Agency

NUMBER OF HOUSING LOANS APPROVED, BY PROGRAM

4TH QUARTER, FY 1984



Prepared by House Research Agency

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$	#	$	#	$	#	$
0	$0	15	1,403,673	3	$348,483	5	$214,017

LOANS IN DEFAULT

#	$
0	0

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-50,000	$50,001-100,000	$100,001-150,000	$150,001-500,000	$500,001+
17	61	35	16	0

MEAN LOAN AMOUNT DURING THE QUARTER

$ 99,693

HOUSING ASSISTANCE LOAN FUND (HALF)*

Department of Community and Regional Affairs, Division of Housing Assistance
4th QUARTER FY 84

	Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
	#	$	#	$	#	$	#	$
Nonconforming Housing	3	$ 170,050	1	$124,000	145	$9,525,400	738	$45,048,822
Rural Owner-Occupied Housing**	116	$10,900,550	6	$536,800	380	$34,107,850	529	$47,175,959
Rural Non-Owner-Occupied Housing**	10	$ 1,789,900	1	$220,000	32	$ 6,057,150	42	$ 9,964,139
Totals	129	$12,860,500	8	$ 880,800	557	$49,690,400	1,309	$102,188,920

*The Alaska Housing Finance Corporation holds the loans made by these programs prior to July 1, 1982.

Chapter 101

hin the
iding

HAZARD DATA DECLARED TO
tion, recording, evalua-
y, location and quality
rface of the ground, or
t and necessary to the
the state.
aluation, archiving and
gineering geology, and
hroughout the state are
derly, safe and cost-

ew paragraphs to read:
ve and distribute data
e state;
ards that might affect

dustry about potential
the state.

HB 379

Chapter 102

AN ACT

Relating to state housing loan and state alternative technology loan programs; and providing for an effective date.

* Section 1. AS 18.55.996(a) is amended by adding a new paragraph to read:

(14) Sitka Community Association (Baranof Island) 18.55.996(a)(14)

* Sec. 2. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.082. ALASKA HOUSING FINANCE REVOLVING FUND. The Alaska housing finance revolving fund is established in the corporation. The revolving fund consists of appropriations made to the revolving fund by the legislature, money or other assets transferred to the revolving fund by the corporation and unrestricted repayments of principal on loans made or purchased by the corporation. Amounts deposited in the revolving fund shall be expended for the purposes of the corporation, set out in this chapter. 18.56.082

* Sec. 3. AS 18.56.089 is amended to read:

Sec. 18.56.089. EXECUTIVE BUDGET ACT. The operating budget of the corporation is subject to the Executive Budget Act (AS 37.07). To further ensure effective budgetary decision making by the legislature, the corporation shall present a complete accounting of all assets of the corporation, including assets of the Alaska housing finance revolving fund, to the legislature by January 10 of each year. The accounting shall be audited by an independent outside auditor and 18.56.089

SCS CSHB 302(Rls)

shall include a full description of all mortgage loan interest and principal repayments and program receipts, including mortgage loan commitment fees, received by or accrued to the corporation during the preceding fiscal year, and all income earned on assets of the corporation during that period, including earnings or assets of the state assisted mortgage fund [FOR FISCAL YEARS BEGINNING AFTER JUNE 30, 1981].

* Sec. 4. AS 18.56.096(1) is amended to read:

18.56.096(1)

(1) a first mortgage loan under this chapter for a duplex, triplex, or four-plex that exceeds the limitations on first mortgage loans for similar housing purchased by the Federal National Mortgage Association as to principal amount and loan-to-value ratio; [OR]

* Sec. 5. AS 18.56.096(2) is amended to read:

18.56.096(2)

(2) a second mortgage loan for a duplex, triplex, or four-plex the amount of which, when combined with the principal balance of a first mortgage loan on the property, exceeds the limitation on the amount set out in (1) of this section or that has a loan-to-value ratio, when considered with the principal balance of the first mortgage loan, that exceeds 90 percent; [.]

* Sec. 6. AS 18.56.096 is amended by adding new paragraphs to read:

18.56.096(4), (5)

(4) a first mortgage loan for a single-family residence that exceeds the limitations on first mortgage loans for similar housing purchased by the Federal National Mortgage Association as to principal amount by more than 10 percent, or has a loan-to-value ratio that exceeds 95 percent, or a second mortgage loan for a single-family residence, the amount of which, when combined with the principal balance of a first mortgage loan on the property, exceeds the limitations on loans for similar housing purchased by the Federal National Mortgage Association as to principal amount by more than 10 percent,

Chapter 102

or has a loan-to-value ratio, when considered with the principal balance of the first mortgage loan, that exceeds 90 percent; or

(5) a first or second mortgage loan for rental housing unless the borrower agrees not to discriminate against tenants or prospective tenants because of sex, marital status, changes in marital status, pregnancy, parenthood, race, religion, color, national origin, or status as a student.

* Sec. 7. AS 18.56.098(g)(1) is amended to read: 18.56.098(g)(1)

(1) The interest rate on the first $90,000 of a mortgage loan purchased with the proceeds of an [THE FIRST] issue of taxable bonds of the corporation is three percent less than [10 PERCENT OR] the cost of funds of that issue, except that

(A) if the cost of funds of that issue is less than 10 percent, the interest rate is equal to the cost of funds; and

(B) if the cost of funds of that issue is more than 10 percent, the interest rate may not be less than 10 percent [, WHICHEVER IS LESS].

* Sec. 8. AS 18.56.098(g)(5) is amended to read: 18.56.098(g)(5)

(5) The interest rate on the first $90,000 of a mortgage loan purchased with [FROM] money that is not the proceeds of either taxable or tax-exempt bonds [APPROPRIATED TO THE CORPORATION] is the rate the corporation determines is appropriate by application of the provision of (1) [- (4)] of this subsection. [THE RATE MAY BE BASED ON AN ESTIMATE OF THE COST OF FUNDS OF A PROPOSED ISSUE OR ISSUES OF BONDS.]

* Sec. 9. AS 18.56.101 is amended to read: 18.56.101

Sec. 18.56.101. ELIGIBILITY FOR VETERANS' INTEREST RATES. The following persons are eligible veterans for the purposes of AS 18.56.-098(g) and (h):

Chapter 102

(1) a person who served in the armed forces of the United States for 90 days or more or whose service was for less than 90 days because of injury or disability incurred in the line of duty, after April 6, 1917,

[(A) WHO AT THE TIME OF INDUCTION INTO THE SERVICE WAS A RESIDENT OF THE TERRITORY OR STATE, WHO HAD BEEN A RESIDENT FOR NOT LESS THAN ONE YEAR IMMEDIATELY BEFORE HIS INDUCTION, AND WHO RETURNED TO THE TERRITORY OR STATE WITHIN ONE YEAR AFTER DISCHARGE AS A RESIDENT WITH THE INTENTION OF REMAINING IN THE TERRITORY OR STATE; OR

(B) WHO, NOT BEING A BONA FIDE RESIDENT OF THE TERRITORY OR STATE AT THE TIME OF ENTRY INTO THE SERVICE, HAS BEEN A RESIDENT OF THE TERRITORY OR STATE FOR AT LEAST ONE YEAR AT THE TIME OF THE LOAN APPLICATION AND HAS BEEN A RESIDENT TO THE TERRITORY OR STATE FOR AT LEAST FIVE YEARS; AND

(C)] whose discharge was under honorable conditions;

(2) the widow or widower of a member of the armed forces or an eligible veteran if

[(A) THE MEMBER OR VETERAN WAS A RESIDENT OF THE TERRITORY OR STATE FOR ONE YEAR BEFORE INDUCTION INTO THE SERVICE;

(B)] the member or veteran served in the armed forces for at least 90 days after April 6, 1917 [;] and

[(C)] the veteran's [HIS] discharge was under honorable conditions;

(3) a person who has served for not less than five years in the Alaska Army National Guard, or the Alaska Air National Guard, [OR THE ALASKA NAVAL MILITIA] or [WHO HAS SERVED IN] a reserve unit of the United States armed forces [IN ALASKA] if the reserve unit required,

Chapter 102

as a minimum, one weekend each month of duty and 15 consecutive days of active duty training each year [FOR NOT LESS THAN FIVE YEARS] and whose discharge was under honorable conditions.

* Sec. 10. AS 18.56.115, is amended to read:

56.115 Sec. 18.56.115. INDEPENDENT FINANCIAL ADVISOR. In negotiating the private sale of bonds or bond anticipation notes to an underwriter, the corporation may [SHALL] retain a financial advisor. A financial advisor retained under this section must be [WHO IS] independent from the underwriter.

* Sec. 11. AS 18.56 is amended by adding a new s tion to read:

56.205 Sec. 18.56.205 RESIDENTIAL MORTGAGE ASSISTANCE FOR MEMBERS OF THE ALASKA DELEGATION TO CONGRESS. The corporation may extend the special mortgage loan purchase program (AS 18.56.098) to purchase a mortgage loan made for the purchase or rehabilitation of a residence located in the District of Columbia or within 50 miles of the District of Columbia to a member of the United State Congress frou Alaska if the member is otherwise qualified for assistance under the special mortgage loan purchase program.

* Sec. 12. AS 44.47.380 is amended to read:

47.380 Sec. 44.47.380. HOUSING ASSISTANCE LOAN FUND. There is created in the Department of Community and Regional Affairs, as a revolving loan fund, the housing assistance loan fund consisting of money appropriated to it by the legislature and repayments of principal on loans made or purchased from the assets of the fund. [INTEREST ON LOANS MADE OR PURCHASED FROM THE ASSETS OF THE FUND MUST BE TRANSFERRED TO THE DEPARTMENT OF REVENUE FOR DEPOSIT IN THE GENERAL FUND.] The director shall administer the housing assistance loan fund in accordance with AS 44.47.360 - 44.47.560 and shall use the money in the housing assistance loan fund to originate, purchase, or

Chapter 102

participate in the purchase of

(1) nonconforming and rural housing mortgage loans;

(2) loans made for building materials for nonconforming and rural housing;

(3) loans made for renovations or improvements to nonconforming and rural housing;

(4) loans made for the construction of owner-occupied nonconforming and rural housing other than loans to builders or contractors or loans that compensate an owner for the owner's labor or services in constructing the owner's own housing.

* Sec. 13. AS 44.47 is amended by adding a new section to read:

44.47.382 Sec. 44.47.382. HOME OWNERSHIP ASSISTANCE FUND. (a) There is created in the Department of Community and Regional Affairs, the home ownership assistance fund consisting of money appropriated to it by the legislature. Money in the fund shall be used solely to assist persons of lower and moderate income to purchase or construct single-family homes financed under AS 44.47.360 - 44.47.560 by providing a subsidy to those persons.

(b) The subsidy provided by this section may not exceed the amount that is necessary to reduce the annual interest rate paid on the mortgage loan to six percent.

(c) A mortgage loan that is subsidized from the home ownership assistance fund may not exceed $120,000.

(d) The division shall adopt regulations that establish maximum income-to-loan payment ratios for persons who apply for a subsidy under this section.

(e) In this section, "persons of lower and moderate income" means individuals considered by the division to require assistance under this section because of inadequate income or other limited

personal financial resources, taking into consideration

(1) the amount of total income available for housing needs;

(2) the size of the family;

(3) the cost and condition of available housing;

(4) standards established in various federal programs for determining eligibility based on income;

(5) the ability to enter the private housing market and to pay market amounts for decent, safe, and sanitary housing; and

(6) other factors considered relevant by the division.

* Sec. 14. AS 44.47.390(4) is amended to read

(4) originate a direct loan for nonconforming or rural housing or purchase or participate in the purchase of a nonconforming or rural housing mortgage loan, other than a loan for the repair, remodeling, rehabilitation, or expansion of an existing owner-occupied residence, if the borrower has an outstanding housing loan made under a state loan program, other than a loan for nonowner-occupied housing under AS 44.47.520, that bears interest at a rate that was less than the prevailing market interest rate for similar housing loans at the time the loan was made. 44.47.390(4)

* Sec. 15. AS 44.47.390 is amended by adding a new paragraph to read:

(5) originate a direct mortgage loan or purchase or participate in the purchase of a mortgage loan for rental housing unless the borrower agrees not to discriminate against tenants or prospective tenants because of sex, marital status, changes in marital status, pregnancy, parenthood, race, religion, color, national origin, or status as a student. 44.47.390(5)

* Sec. 16. AS 44.47.410 is amended to read:

Sec. 44.47.410. INTEREST ON LOANS. (a) The interest rate on a mortgage loan originated or purchased in whole or in part under 44.47.410

Chapter 102

AS 44.47.380 for a nonconforming housing that is not rural housing is one-quarter percent more than [EQUAL TO] the interest rate, as determined under AS 18.56.098(g)(1) - (4), on a mortgage loan purchased under AS 18.56.098(a) from the proceeds of the most recent applicable issue of taxable bonds before the origination or purchase of the mortgage loan originated or purchased under AS 44.47.380.

(b) The interest rate on a mortgage loan originated or purchased in whole or in part under AS 44.47.380 for rural housing is one percent less than the interest rate, as determined under AS 18.56.098(g)(1) - (4), on a mortgage loan purchased under AS 18.56.098(a) from the proceeds of the most recent applicable issue of taxable bonds before the origination or purchase of the mortgage loan originated or purchased under AS 44.47.380 [10-1/2 PERCENT].

* Sec. 17. AS 44.47 is amended by adding a new section to read:

44.47.530 Sec. 44.47.530. ANNUAL REPORT. To further ensure effective budgetary decision making by the legislature, the division shall present a complete accounting of the housing assistance revolving fund to the legislature by January 10 of each year. The accounting shall be audited by an independent outside auditor and shall include a full description of all mortgage loan interest and principal repayments and program receipts, including mortgage loan commitment fees, received by or accrued to the division during the preceding fiscal year, and all income earned on assets of the division during that period.

* Sec. 18. AS 44.47.385 is repealed and reenacted to read:

44.47.385 Sec. 44.47.385. ELIGIBLE LOCATIONS. Not more than 20 percent of the total amount appropriated to the housing assistance loan fund may be allocated in communities other than those defined in AS 44.47.-560(5).

* Sec. 19. AS 45.88.030(c)(1) is amended to read:

rural housing is
rate, as deter-
ed loan purchased
recent applicable
purchase of the
380.
nated or purchased
using is one per-
under AS 18.56.-
or AS 18.56.098(a)
of taxable bonds
loan originated or

to read:
ensure effective
he division shall
nce revolving fund
accounting shall
ll include a full
pal repayments and
fees, received by
cal year, and all
period.
read:
than 20 percent of
nce loan fund may
ed in AS 44.47.-

(1) the cost of purchase, construction, and installation of an alternative energy system or "centralized multifuel heating systems" which is likely to result in energy conservation or energy cost savings; or 45.88.030(c)(1)

* Sec. 20. AS 45.88.500 is amended to read:

Sec. 45.88.500. DEFINITIONS. (a) In this chapter, "alternative energy system" 45.88.500

(1) means a source of thermal, mechanical or electrical energy which is not dependent on oil or gas or a nuclear fuel for the supply of energy for space heating and cooling, refrigeration and cold storage, electrical power, mechanical power, or the heating of water;

(2) includes

(A) an alternative energy property as defined by sec. 48(l)(3)(A) of the Internal Revenue Code (26 U.S.C. sec. 48(l)(3)(A));

(B) a method of architectural design and construction which provides for the collection, storage and use of direct radiation from the sun;

(C) any other device approved by the Commissioner of Commerce and Economic Development under AS 44.33.040(12); [AND]

(D) a woodstove with a catalytic converter or a catalytic converter for a wood stove; and

(E) a steam, hot water, or ducted hot air central heating system that uses wood or coal for fuel;[.]

(3) does not include

(A) a stove that uses only wood, coal or oil for fuel [A WOOD, COAL, OR MULTIFUEL HEATING STOVE]; or

(B) a fireplace or fireplace insert.

(b) Notwithstanding any other provision in this chapter, a

multifuel heating system which uses the combination of wood or fossil fuel for fuel does qualify under this loan fund.

* Sec. 21. AS 44.47 is amended by adding new sections to read:

ARTICLE 12. LOW COST AND LOW INCOME MULTIPLE FAMILY HOUSING DEVELOPMENT FUND.

44.47.630 AS 44.47.630. DECLARATION OF PURPOSE. There exists in the state a serious shortage of low cost multiple family residential housing available at low rentals. There also exists in the state organizations whose purposes are to provide the housing needed to alleviate rhis shortage. Development work to provide this housing involves substantial expense that is often beyond the resources of the organizations.

44.47.635 Sec. 44.47.635. LOW COST AND LOW INCOME MULTIPLE FAMILY HOUSING DEVELOPMENT. (a) There is created in the Department of Community and Regional Affairs a low cost and low income multiple family housing development fund. Subject to appropriation the department shall make grants to municipalities or public or private nonprofit corporations designated as tax exempt under 26 U.S.C. 501(c)(3) and (4) (Internal Revenue Code of 1954) for the purpose of developing low cost, low income multiple family housing.

(b) Application for a grant under (a) of this section shall be in the form prescribed by the department. The application shall demonstrate the need for low cost, low income multiple family housing in the area to be served, the feasibility of the proposed project, and an adequate management plan that shall demonstrate the ability of the eligible recipient to sustain the proposed project.

(c) All projects under this section shall be in accordance with facility procurement policies developed under AS 35.10.160 - 35.10.200 and are public facilities under those sections.

(d) The department shall adopt regulations to carry out the purposes of this section. The provisions of the Administrative Procedure Act (AS 44.62) apply to regulations adopted under this section.

(e) In this section "low cost and low income multiple family housing" means a specific work or improvement undertaken primarily to provide multiple family dwelling accommodations for low income persons. Low cost and low income multiple family housing includes the acquisition, construction, or rehabilitation of land, buildings, improvements, and other nonhousing facilities that are incidental or appurtenant to the housing.

* Sec. 22. Section 69(c)(8), ch. 113, SLA 1982, is amended to read:

(8) to use assets of the multifamily housing loans security fund to establish capital reserve funds to secure bonds issued in connection with the financing of multifamily housing projects and to provide a loan loss reserve for loans purchased by the multifamily housing loan account of the enterprise development fund.

* Sec. 23. Section 69(e), ch. 113, SLA 1982, is amended to read:

(e) A capital reserve fund established under this section to secure bonds issued in connection with the financing of multifamily housing projects is not subject to the $10,000,000 limitation stated in AS 44.88.105(a). The provisions of AS 44.88.105(f) do not apply to capital reserve funds established to secure bonds issued to finance one or more multifamily housing projects.

* Sec. 24. Section 69(f), ch. 113, SLA 1982, is amended to read:

(f) A multifamily housing loan account is established in the enterprise development fund of the authority (AS 44.88.155), consisting of money and other assets of the enterprise development fund that the authority deposits into it. [HOWEVER, THE AUTHORITY MAY NOT DEPOSIT PROCEEDS FROM THE SALE OF BONDS OF THE AUTHORITY INTO THE

Chapter 102

MULTIFAMILY HOUSING LOAN ACCOUNT.] The multifamily housing loan account shall be used only to purchase or originate loans for multifamily housing projects. The authority may not use proceeds from the sale of bonds of the authority to finance secondary loans for multifamily housing. Notwithstanding the provisions of AS 44.88.155(d), a loan purchased or originate by the authority for the multifamily housing loan account

(1) may not be for a term longer than 30 years from the date the loan is made;

(2) shall be secured by a mortgage or other security instrument in the manner the authority determines is feasible to assure timely repayment under a loan agreement entered into with the borrower; the mortgage or other security instrument constitutes a first lien against the multifamily housing project, except that it may be subordinated by the authority to a loan made directly or indirectly with the proceeds of a sale of bonds by the authority, the Alaska State Housing Authority, or a municipality of the state during the time when the loan from these proceeds is outstanding, and may be subordinated to a loan that refinances the original loan, if the authority considers it appropriate to do so;

(3) shall provide for a schedule of payments of principal and interest that is satisfactory to the authority, and that may include, without limitation, deferrals or reductions of payments, variable payments, balloon payments, sharing in equity appreciation, and other arrangements;

(4) shall be in the form and contain the terms and provisions with respect to insurance, repairs, alterations, payment of taxes and assessments, default reserves, delinquency charges, default remedies, acceleration of maturity, secondary liens, and other matters

as the authority prescribes.

* Sec. 25. Section 69(h), ch. 113, SLA 1982, is amended to read:

(h) The multifamily housing loans security fund is established in the authority. The multifamily housing loans security fund consists of money and assets appropriated or transferred to it, the income produced from its investments and holdings, and deposits that the authority may make from repayments of multifamily housing loans purchased by the multifamily housing loan account of the enterprise development fund. The assets of the multifamily housing loans security fund may be used to establish capital reserve funds to secure bonds issued in connection with the financing of multifamily housing projects. The assets of [THE PURPOSE OF] the multifamily housing loans security fund may also be used [IS] to provide a loan loss reserve for the enterprise development fund for multifamily housing loans made by the authority from the multifamily housing loan account of the enterprise development fund. The multifamily housing loans security fund is not a general asset of the authority and may not be pledged or committed in any way except as provided in this subsection [TO PROVIDE A LOAN LOSS RESERVE FOR THE ENTERPRISE DEVELOPMENT FUND FOR MULTIFAMILY HOUSING LOANS MADE BY THE AUTHORITY FROM THE MULTIFAMILY HOUSING LOAN ACCOUNT OF THE ENTERPRISE DEVELOPMENT FUND]. The authority may

(1) establish separate accounts in the multifamily housing loans security fund for multifamily housing loans, as it finds appropriate, and may establish other accounts that it considers appropriate;

(2) hold and invest money and other assets of the multifamily housing loans security fund at competitive national market rates in the types of investments described in AS 37.10.070(a).

Chapter 102

* Sec. 26. Section 69(k)(2), ch. 113, SLA 1982, is amended to read:

(2) "multifamily housing project" means a specific building, structure, work, or improvement of five or more dwelling units, or a group of these buildings, structures, works, or improvements, the primary purpose of which is to provide rental dwelling accommodations and which qualifies for tax-exempt financing under sec. 103 of the Internal Revenue Code of 1954, as amended (26 U.S.C. sec. 103), or sec. 11(b) of the National Housing Act of 1937, as amended [, AND WHICH IS ORIGINALLY FINANCED BEFORE JANUARY 1, 1984]; "multifamily housing project" includes the acquisition, construction, or rehabilitation of land, buildings, and improvements for rental dwellings, accommodations, and other facilities that may be incidental or appurtenant to rental dwelling accommodations.

18.56.098(g)(2)

* Sec. 27. AS 18.56.098(g)(2) is repealed.

* Sec. 28. Sections 13 and 21 of this Act take effect January 1, 1984.

* Sec. 29. Sections 1 - 12, 14 - 20 and 22 - 26 of this Act take effect immediately in accordance with AS 01.10.070(c).

Eff. §§ 1-12, 14-20 and 22-26 take effect 7/28/83; §§ 13 and 21 take effect 1/1/84

LOANS BUDGET SUMMARY

00691

DEPARTMENT/PROGRAM	FY 85 AUTHORIZED GF	FY 85 AUTHORIZED Total	FY 86 GOVERNOR GF	FY 86 GOVERNOR Total
EDUCATION				
Alaska Student Loan Program	$60,000,000	$60,500,000	$63,600,000	63,825,000
Teacher Scholarship Loan Program	0	0	600,000	600,000
DEPARTMENT TOTAL:	$60,000,000	$60,500,000	$64,200,000	$64,425,000
COMMERCE AND ECONOMIC DEVELOPMENT				
Fisheries Enhancement Loan Program	$5,000,000	$5,000,000	$2,071,700	2,071,700
Commercial Fishing Loan Program	3,500,000	3,500,000	3,710,000	3,710,000
Alt. Tech. and Energy Loan Program	1,000,000	1,000,000	1,060,000	1,060,000
Alaska Power Authority Rural Electrification Revolving Loan Program	0	0	2,000,000	2,000,000
Alaska Industrial Development Authority Economic Development Fund - DeLong Mountains Regional Transportation Facility	0	0	18,000,000	18,000,000
DEPARTMENT TOTAL:	$9,500,000	$9,500,000	$26,841,700	$26,841,700
NATURAL RESOURCES				
Agricultural Revolving Loan Fund	$5,000,000	$5,000,000	$2,500,000	2,500,000
Grain Reserve Program	500,000	500,000	1,000,000	1,000,000
DEPARTMENT TOTAL:	$5,500,000	$5,500,000	$3,500,000	$3,500,000
REVENUE				
Alaska Housing Finance Revolving Fund Special Mortgage Loan Purchase Program	$16,000,000	$16,000,000	0	0
DEPARTMENT TOTAL:	$16,000,000	$16,000,000	0	0
COMMUNITY AND REGIONAL AFFAIRS				
Housing Assistance Loan Program	$45,000,000	$45,000,000	$37,000,000	37,000,000
DEPARTMENT TOTAL:	$45,000,000	$45,000,000	$37,000,000	$37,000,000
TOTAL:	$136,000,000	$136,500,000	$131,541,700	$131,766,700

BILL #	ABBREVIATED TITLE	SPONSOR	DATE	REFERRALS
HB 4	AGENCY, STATE & MUNICIPAL DEBT PROCEDURES	UEHLING	01/14/85	FINANCE
HB 16	MOBILE HOME RELOCATION LOANS	UEHLING	01/14/85	FINANCE
HB 51	INTEREST ON ESCROW ACCTS FOR MORTGAGE LOA	DUNCAN	01/14/85	FINANCE
HB 59	APPROP; YOUTH HOSTEL LOANS	MILLER,MM	01/16/85	RESOURCES
HB 61	YOUTH HOSTEL LOAN PROGRAM	MILLER,MM	01/16/85	RESOURCES
HB 96	STUDENT LOANS; STUDENTS IN MORE THAN ONE	DAVIS	01/23/85	HESS
HB 102	POWERS OF THE AK RESOURCES CORP BOARD	RULES	01/23/85	FINANCE
HB 109	SETTING INTEREST RATES FOR STATE LOANS	RULES	01/25/85	FINANCE
HB 135	SMALL BUSINESS DEVELOPMENT LOANS	DUNCAN	01/28/85	FINANCE

****

SCOMM

#50:4

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

District 5

Kenai	Sterling
Soldotna	Anchor Point
Homer	Point Graham
Seldovia	English Bay
Kachemak	Nikolaevsk
Kasilof	Halibut Cove
Ninilchik	Clam Gulch

Representative Andre Marrou

5 March, 1985

TO: Rep. John Sund, Chrmn., Loans Committee

FROM: Rep. Andre Marrou

RE: Zero-Use Loan Programs

Today in the Fisheries Committe, we received some information on commercial fishing loans, which also touched upon other DCED loan programs (see copy enclosed).

Specifically, during the last 3 years, there have been several programs that have not been utilized, as follows:
In FY 83, 4 loan programs with zero use;
In FY 84, 6 loan programs with zero use;
In FY 85, 9 loan programs with zero use.

Obviously, with this decreasing use of the programs, there arises the question as to whether they should be discontinued. Perhaps your committee is already pursuing this matter.

Also, testimony today by DCED officials indicated that "Type C" commercial fishing loans are now at a 100% delinquency rate and "should be dumped", to use their term.

AVM/mc

During Session: Pouch V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

MARGU
5 MAR 85

DEPARTMENT of COMMERCE & ECONOMIC DEVELOPMENT

Division of Accounting & Collections

Commercial Fish Summary

March 5, 1985

STATISTICS ON DCED LOAN PROGRAMS
(Thousands of Dollars)

January 31, 1985

	Veterans	Small Business	Commercial Fish	Tourism	Bulk Fuel	Child Care	Hist Dist	Mining	Alternate Energy	Resid. Energy	Fish Enhance	Power Dev.	Water Resource	Total
Commitments														
Total No. Loans Committed FY '72-85	7,718	1,338	2,657	59	148	42	9	65	2,691	2,173	97	3	5	17,005
Total Dollar Amount Committed FY '72-85	371,795.2	202,529.3	154,396.7	29,874.7	5,482.6	1,320.4	667.7	28,160.0	17,140.9	8,151.2	37,084.1	191,165.0	2,500.0	1,050,267.8
Total No. Loans Committed FY '85	-0-	-0-	110	-0-	28	6	-0-	2	183	159	9	3	-0-	500
Total Dollar Amount Committed FY '85	-0-	-0-	6,148.1	-0-	962.9	276.2	-0-	1,128.1	1,394.2	404.4	3,780.1	191,165.0	-0-	205,259.0
Appropriations														
FY '83	-0-	-0-	9,400.0	-0-	1,000.0	400.0	500.0	15,000.0	4,000.0	4,500.0	22,000.0 [1]	N/A	-0-	56,800.0
FY '84	0	0	9,091.0	-0-	-0-	869.5	500.0	-0-	2,400.0	3,123.4	6,500.0	N/A	-0-	22,483.9
FY '85	0-	-0-	3,500.0	-0-	-0-	-0-	-0-	-0-	1,000.0	-0-	5,000.0	210,000.0	-0-	219,500.0
Loans Outstanding														
Owned by Fund														
Number of Loans Outstanding	135	268	999	5	49	25	3	48	1,944	1,571	81	3	1	5,132
Principal Amount Outstanding	6,129.4	33,835.6	48,402.5	3,258.2	1,257.0	867.0	339.9	18,833.6	12,051.7	4,966.0	31,116.2	191,165.0	909.8	353,131.9
Average Loan Amount Outstanding	45.5	201.4	48.5	651.6	25.7	34.7	113.9	392.4	6.2	3.2	38.5	63,721.7	909.8	68.8
Serviced for the Dept. of Revenue														
Number of Loans Outstanding	1,841	225	764	14	N/A	3	3	N/A	N/A	N/A	14	N/A	N/A	2,864
Principal Amount Outstanding	83,241.0	18,587.5	30,215.1	2,578.9		16.9	124.3				6,604.2			141,367.9
Average Loan Amount Outstanding	45.2	82.6	39.5	184.2		5.6	41.4				471.7			49.4
Summary														
Total No. of Loans Outstanding	1,976	493	1,763	19	49	28	6	48	1,944	1,571	95	3	1	7,996
Total Principal Amount Outstanding	89,370.4	52,423.1	78,617.6	5,837.1	1,257.0	883.9	464.2	18,833.6	12,051.7	4,966.0	37,720.4	191,165.0	909.8	494,499.8
Delinquency Rates (includes defaults)														
Number of Loans %	18.3%	32.8% [2]	14.9% [3]	10.5% [2]	20.4%	14.8%	-0-	47.9%	16.6%	15.8%	N/A	N/A	-0-	17.8%
Outstanding Balance %	19.2%	34.1%	18.5%	3.5%	11.1%	13.9%	-0-	56.3%	15.8%	16.0%	N/A	N/A	-0	24.0%

1 See Ch 114, Sec 5 and Ch 141, Sec 242 SLA 1982, and Ch 106 Sec 11 SLA 1983.
2 Adjusted for Bank Participation system inaccuracies
3 Adjusted for approved extension requests

Prepared by: Division of Accounting and Collections, 465-2555

2/25/85

DEPARTMENT of COMMERCE and ECONOMIC DEVELOPMENT 2-25-85

Division of Accounting & Collections

Commercial Fishing Loan Delinquency Analysis by Type:

	Total	Delinquency Rate (Unadjusted)	Delinquency Rate[1] (Adjusted)
Commercial Fish Loans			
Type 0 (Other, Old)	1205	21.5%	16.4%
Type A	257	12.0%	7.8%
Type B	274	22.6%	11.7%
Type C	2	100.0%	100.0%
FM&N	25	48.0%	48.0%
TOTAL	1763	20.8%	14.9%
Outstanding Balances:			
Type 0	$49,880.0	27.7%	21.8%
Type A	13,845.0	13.1%	7.4%
Type B	12,884.0	27.9%	14.4%
Type C	94.0	100.0%	100.0%
FM&N	1,380.0	44.6%	44.6%
TOTAL	$78,085.0	25.5%	18.5%

[1]Adjusted for approved 1984 payment extension requests

DEPARTMENT of COMMERCE & ECONOMIC DEVELOPMENT

Division of Accounting & Collections

Commercial Fish Summary

March 5, 1985

STATISTICS ON DCED LOAN PROGRAMS
(Thousands of Dollars)

January 31, 1985

	Veterans	Small Business	Commercial Fish	Tourism	Bulk Fuel	Child Care	Hist Dist	Mining	Alternate Energy	Resid. Energy	Fish Enhance	Power Dev.	Water Resource	Total
Commitments														
Total No. Loans Committed FY 72 85	7,718	1,338	2,657	59	148	42	9	65	2,691	2,173	97	3	5	17,005
Total Dollar Amount Committed FY 72 85	371,795.2	202,529.3	154,396.7	29,874.7	5,482.6	1,320.4	667.7	28,160.0	17,140.9	8,151.2	37,084.1	191,165.0	2,500.0	1,050,267.8
Total No. Loans Committed FY 85	0	0	110	0	28	6	0	2	183	159	9	3	0	500
Total Dollar Amount Committed FY 85	0	0	6,148.1	0	962.9	276.2	0	1,128.1	1,394.2	404.4	3,780.1	191,165.0	0	205,259.0
Appropriations														
FY 83	0	0	9,400.0	0	1,000.0	400.0	500.0	15,000.0	4,000.0	4,500.0	22,000.0 [1]	N/A	0	56,800.0
FY 84	0	0	9,091.0	0	0	869.5	500.0	0	2,400.0	3,123.4	6,500.0	N/A	0	22,483.9
FY 85	0	0	3,500.0	0	0	0	0	0	1,000.0	0	5,000.0	210,000.0	0	219,500.0
Loans Outstanding														
Owned by Fund														
Number of Loans Outstanding	135	268	999	5	49	25	3	48	1,944	1,571	81	3	1	5,132
Principal Amount Outstanding	6,129.4	33,835.6	48,402.5	3,258.2	1,257.0	867.0	339.9	18,833.6	12,051.7	4,966.0	31,116.2	191,165.0	909.8	353,131.9
Average Loan Amount Outstanding	45.5	201.4	48.5	651.6	25.7	34.7	113.9	392.4	6.2	3.2	38.5	63,721.7	909.8	68.8
Serviced for the Dept. of Revenue														
Number of Loans Outstanding	1,841	225	764	14	N/A	3	3	N/A	N/A	N/A	14	N/A	N/A	2,864
Principal Amount Outstanding	83,241.0	18,587.5	30,215.1	2,578.9		16.9	124.3				6,604.2			141,367.9
Average Loan Amount Outstanding	45.2	82.6	39.5	184.2		5.6	41.4				471.7			49.4
Summary														
Total No. of Loans Outstanding	1,976	493	1,763	19	49	28	6	48	1,944	1,571	95	3	1	7,996
Total Principal Amount Outstanding	89,370.4	52,423.1	78,617.6	5,837.1	1,257.0	883.9	464.2	18,833.6	12,051.7	4,966.0	37,720.4	191,165.0	909.8	494,499.8
Delinquency Rates (Includes Default)														
Number of Loans %	18.3%	32.8% [2]	14.9% [3]	10.5% [2]	20.4%	14.8%	0	47.9%	16.6%	15.8%	N/A	N/A	0	17.8%
Outstanding Balance %	19.2%	34.1%	18.5%	3.5%	11.1%	13.9%	0	56.3%	15.8%	16.0%	N/A	N/A	0	24.0%

1 See Ch 114, Sec 5 and Ch 141, Sec 242 SLA 1982, and Ch 106 Sec 11 SLA 1983.
2 Adjusted for Bank Participation system inaccuracies
3 Adjusted for approved extension requests

Prepared by: Division of Accounting and Collections, 465-2555

2/25/85

Department of Commerce and Economic Development
Commercial Fish Loan Commitments

Dollar Amount of Loans Approved
(Thousands of Dollars)

	FY 72/73	FY 74/75	FY 76/77	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85 thru 01/31/85	Total
Commercial Fish Loan Act	11.5	3,460.5	9,419.1	13,044.3	29,733.6	32,548.1	21,205.6	9,054.3	2,282.2			120,759.2
Fisherman's Mortgage & Note								1,797.6				1,797.6
Commercial Fish - Type "A"									5,914.9	6,527.0	2,613.4	15,055.3
"B"									5,743.7	7,371.2	3,534.7	16,649.6
"C"									118.4	16.5	ø	134.9
Total	11.5	3,460.5	9,419.1	13,044.3	29,733.6	32,548.1	21,205.6	10,851.9	14,059.2	13,914.7	6,148.1	154,396.6

Number of Loans Approved

Commercial Fish Loan Act	2	87	211	234	357	555	352	197	11			2,006
Fisherman's Mortgage & Note								31				31
Commercial Fish - Type "A"									147	95	34	276
"B"									121	144	76	341
"C"									2	1	ø	3
Total	2	87	211	234	357	555	352	228	281	240	110	2,657

Prepared by Division of Accounting and Collections - 465-2555

DEPARTMENT of COMMERCE and ECONOMIC DEVELOPMENT 2-25-85

Division of Accounting & Collections

Commercial Fishing Loan Delinquency Analysis by Type:

	Total	Delinquency Rate (Unadjusted)	Delinquency Rate[1] (Adjusted)
Commercial Fish Loans			
Type 0 (Other, Old)	1205	21.5%	16.4%
Type A	257	12.0%	7.8%
Type B	274	22.6%	11.7%
Type C	2	100.0%	100.0%
FM&N	25	48.0%	48.0%
TOTAL	1763	20.8%	14.9%
Outstanding Balances:			
Type 0	$49,880.0	27.7%	21.8%
Type A	13,845.0	13.1%	7.4%
Type B	12,884.0	27.9%	14.4%
Type C	94.0	100.0%	100.0%
FM&N	1,380.0	44.6%	44.6%
TOTAL	$78,085.0	25.5%	18.5%

[1]Adjusted for approved 1984 payment extension requests

Department of Commerce & Economic Development
Division of Accounting and Collections

1984 COMMERCIAL FISH LOAN PAYMENT EXTENSION REQUESTS
(1-25-85)

	PAID[1]	APPROVED	TABLED[2]	DENIED	TOTAL
Bristol Bay	1	61	0	6	68
Cook Inlet	1	36	2	7	46
Prince William Sound	0	22	0	5	27
Kodiak	0	16	0	5	21
Southeastern	1	10	1	1	13
Norton Sound	0	3	0	0	3
Yakutat	0	0	0	1	1
Peninsula/Aleutians	0	1	0	1	2
Kotzebue	0	1	0	0	1
Chignik	0	0	0	1	1
Other	0	15	3	7	25
TOTAL	3	165	6	34	208

REQUEST HISTORY

	1983	1984	Change	% Change
Bristol Bay	18	68	+50	+278%
Cook Inlet	22	46	+24	+109%
Prince William Sound	48	27	-21	-43.8%
Kodiak	62	21	-41	-66.1%
Southeastern	56	13	-43	-76.8%
Norton Sound	N/A	3	Unk	Unk
Yakutat	N/A	1	Unk	Unk
Peninsula/Aleutians	14	2	-12	-85.7%
Kotzebue	N/A	1	Unk	Unk
Chignik	5	1	-4	-80.0%
Other	11	25	+14	+127.7%
TOTAL	236	208		-11.9%

---

[1]Borrower paid current before extension request was reviewed.

[2]Requests tabled by loan committee (or returned prior to committee review) for additional information.

DG/cwl184c
22785a

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

POLICY AND PROCEDURES

P & P No.	Page
COL-001	1 OF 1
Effective Date: March 1, 1984	
Supersedes P & P No.	Dated: 10/1/83
APPROVED BY: [signature]	

SUBJECT: LOAN PAYMENT EXTENSION

DIVISION: Accounting & Collections

SECTION: Collections/Customer Service

PURPOSE

To provide guidelines for evaluating requests for loan payment extensions.

POLICY & PROCEDURE

The borrower:

1. Should not have funds available to make the payment;
2. Should not have had any nonessential expenditures within a reasonable time prior to payment due date;
3. Should have a strong payment history on the loan, and should not demonstrate excessive problems keeping contractual agreements;
4. Should demonstrate good faith effort to earn payment money; and
5. Should have reasonable potential to make future payments.

The loan should still be well-secured after the extension. Additional collateral must be required when loan-to-value ratio is excessive.

The following subjective questions should be answerable in the affirmative:

1. Is the requested action reasonable?
2. Will granting the requested action be in the best interest of both the borrower and the State?
3. Will granting the extension promote the intent of the program as specified by law?

A loan which was not in default at the time of the division's receipt of the extension application will not be considered delinquent during the time the request is under consideration. Should the extension be denied, in this instance, the borrower shall have 45 days from the date notice of denial is mailed to make the payment without being considered delinquent, and the payment will not accrue a late fee.

When an extension is granted, an extension fee equal to the contractual late fee will be charged, subject to a maximum of $125.00 for all annual payment extensions less than $35,000. Extensions of annual payments greater than $35,000 shall bear a fee equal to the contractual late fee subject to a maximum of $2,500.

A modification agreement may:

1. Add interest to principal and defer payment to maturity (will cause loan to amortize incorrectly and should be used only when borrower/State agree there is no other option).
2. Extend term of loan to statutory maximum. (NOTE: recording fee must be collected from borrower to record an amendment to First Preferred Ship Mortgage or any other legal document which may require it.)
3. Reamortize loan.
4. Allow double payment the following year.
5. Include other mutually-agreeable work-out arrangements.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

POLICY AND PROCEDURES

P & P No.	Page
COL-003	1 OF 1
Effective Date: December 1, 1984	
Supersedes P & P No.	Dated
APPROVED BY: Wyatt Hunter	

SUBJECT: Commercial Fish Problem Loans Requesting Assumption Approval

DIVISION: Accounting & Collections

SECTION: Collections

PURPOSE

To establish guidelines for borrowers who are requesting approval of an assumption as a "cure" for a problem commercial fishing loan, when an extension is not feasible and foreclosure is impending.

POLICY

We believe there is a strong probability that legislation will be introduced in January 1985 which would allow assumptions of commercial fishing loans in most cases where they are not assumable at present.

Present statutes are interpreted as not allowing assumptions for individuals and/or loans that do not meet all the requirements of the current loan program for new loans. This eliminates assumption of any vessel where the assumed balance would be greater than $100,000; an assuming borrower for any vessel less than $100,000 presently must meet Type B loan requirements: (1) no alternative financing, (2) limited by training or location to fishing, (3) fishing is only occupation, (4) fishing has been way of life.

The Department of Commerce and Economic Development has recommended statutory changes allowing assumptions because we feel viable assumptions are in every case a better solution for the borrower and the State than foreclosure.

Pending action on the proposed legislation, the department's policy will be:

(1) to continue to examine problem loans on individual basis;

(2) to approve extensions where requests meet extension guideline criteria;

(3) where extensions are denied, and an assumption has been proposed by the borrower as "the solution," to hold legal action until after 6-30-85, when it is known whether the assumption legislation passed; a letter will be sent to any borrower where foreclosure action is being delayed pending action on this proposed legislation (see attached).

1462t

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF ACCOUNTING AND COLLECTIONS

POUCH D
JUNEAU, ALASKA 99811
PHONE: (907) 465-2555

_____ AC.94
Wang #1100t
12/4/84

_____

_____

_____

Dear _____:

Re: _____
_____

Your loan has been reviewed by the loan committee and it has been determined that no legal action will be taken at this time; we believe that an assumption of your loan could be a reasonable solution for both you and the State. However, the statutes currently do not allow assumptions for individuals who do not meet all the requirements of the current loan program for new loans. Many vessels used as security on older loans exceed the $100,000 statutory limit as well.

We believe that new legislation relating to commercial fish loans has a good chance of passing the 1985 Legislature, especially if commercial fishermen and women around the State let their legislators know the importance of this issue. We are delaying legal action on your loan _____-_____-_____ until July 1, 1985, at which time we will know whether your loan legally can be assumed. (This letter is not an approval of the assumption; if the proposed legislation becomes law, assumption applications will be reviewed individually by the Division of Investments to determine acceptability.)

Please contact our Collections Section at (907) 465-2555 or Zenith 5500 if you have any questions.

Yours truly,

Margaret I. Hamley
Director

MIH/_____

08-H3LH

2and - 40

UNASSUMABLE STATE LOANS

Currently the state makes unassumable loans for commercial fishing boats. Fishermen who can't make the payments on their boats are having difficulty selling them because qualified buyers cannot assume the loans under the present restrictions. The end result is that the state ends up repossessing the boat and selling it at auction for much less than what is owed. The state takes a beating at the auction and one of the reasons is that there is no financing for repossessed boats. Commercial loaning institutions have prohibitive interest rates and also are understandably reluctant to loan money on commercial fishing boats at this time.

The bottom line is that the fishermen in financial difficulties cannot sell their boats to people who are financially qualified, where the state could recover their loans. Boats are being repossessed by the state and put on the auction block, sold at tremendous loss. It is unclear if this situation is occurring because of legislative intent or bureaucratic regulation, but the state agencies involved are blaming it on the legislature.

H Dale Young
To K.

FROM REP. DICK SHULTZ

Jack Goddard (Rep. Shultz)

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

POUCH D
JUNEAU, ALASKA 99811
PHONE: (907) 465-2510

February 25, 1985

The Honorable Peter Goll, Chairman
House Special Committee on Fisheries
Alaska State House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Representative Goll:

I am writing to you, as Chairman of the House Special Committee on Fisheries, to discuss the effects of the current State commercial fishing loan program on the transfer of limited entry permits from rural to urban Alaska. As Director of the Division of Investments for the Department of Commerce & Economic Development which administers the commercial fishing loan program, I believe further discussion will be helpful.

There are at least four reports that have been published by the Alaska Commercial Fisheries Entry Commission (CFEC) that discuss the impact of the commercial fishing loan programs on the transfer of limited entry permits from rural to urban Alaska:

CFEC Report Number 83-8: Low-interest Loans and the Markets for Limited Entry Permits in the Alaska Salmon Fisheries.

CFEC Report Number 84-2: Alaska's Subsidized Fishing Loan Program. A Study of Distributional Aspects of Permit Related Loans During Fiscal Years 1979 Through 1982.

CFEC Report Number 84-8: Alaskan Natives and Limited Fisheries of Alaska. A Study of Changes in the Distribution of Permit Ownership amongst Alaskan Natives, 1975-1983.

CFEC Report Number 84-10: Changes in the Distribution of Permit Ownership in Alaska's Limited Fisheries, 1975-1983.

As you are aware, the commercial fishing loan programs were extensively amended by the Legislature effective June 25, 1982. Consequently, the reports that have been published by the Alaska Commercial Fisheries Entry Commission, for the most part, discuss loan programs that no longer exist. Unfortunately, many readers of these reports erroneously conclude that these reports are discussing the current commercial fishing loan program.

There are some statements and conclusions contained in these reports relating to earlier commercial fishing loan programs administered by the Department of Commerce & Economic Development that I question. Please refer to my memorandum to Kurt Schelle dated April 3, 1984 regarding the draft report for CFEC Report Number 84-3.

I believe highlighting the important changes in the various commercial fishing loan programs would be beneficial and help to put the issues into perspective.

6-21-72 COMMERCIAL FISHING LOAN ACT. When this loan program was initially established, the statutory policy was to promote the development and continued maintenance of commercial gear and vessels throughout the state by means of long term, low interest loans. An individual must have been a resident for five continuous years and held a commercial gear license for three years. Loans were limited to $100,000, 7% interest, with a maximum term of 15 years.

4-24-73 For the first time, the financing of limited entry permits was allowed; however, permits could not be used as collateral. The statutory policy was also amended by referencing a predominately Alaska resident fishery.

6-4-75 The statutory policy was again amended to include language promoting the rehabilitation of the state's fisheries.

6-24-77 The loan limit was increased from $100,000 to $150,000.

6-28-78 Now, for the first time, limited entry permits could be pledged as security for a loan. The loan limit was increased from $150,000 to $500,000. The five year continuous residency had to be immediately preceding the date of the loan application and the license requirement now encompassed a crew member or commercial fishing license or ownership of a limited entry permit. The license or permit must have been held for any one of the past five years and the owner must have actively participated in the fishery during that period. Eligibility was expanded to include corporations, partnerships or joint ventures. Bank participation was, for the first time, provided for in the statutes.

6-1-79 Retroactive to 7-1-78, the interest rate was increased from 7% to 9 1/2% and other minor miscellaneous changes were made.

6-21-80 Language was included to require that all sources of income must be considered in determining whether or not an applicant could service the loan debt.

6-21-80 FISHERMEN'S MORTGAGE AND NOTE PROGRAM. A new loan program was created in addition to the existing Commercial Fishing Loan Act. The purpose of this new loan program was to curb the outflow of limited entry permits from rural Alaska by alleviating the difficulties in obtaining financing for limited entry permits, vessels and gear. Unlike the existing Commercial Fishing Loan Act, this was an indirect loan program. All loans were first made by banks and the State was then authorized to purchase the loans from the banks. The State was not authorized to make direct loans under this program. To be eligible under this program, an applicant must have been a resident for five years and could not have participated in or qualify for any state or federal loan program for similar loan purposes established under the new Fishermen's Mortgage and Note Program. The applicant must have demonstrated to the satisfaction of the bank that because of the lack of training or employment opportunities in the area of residence the applicant did not have occupational opportunities available other than commercial fishing or was economically dependent on commercial fishing for a livelihood and commercial fishing was a cultural and traditional way of life. Additionally, the applicant had to demonstrate to the satisfaction of the bank that there was a reasonably good chance that the loan debt would be repaid. The banks could consider all sources of income in determining the applicant's ability to repay the loan. The State could not refuse to purchase the loan from the bank due solely to the credit history of the applicant. Loans were limited to $200,000, 10 1/2% interest, with a maximum term of 15 years.

7-1-81 Except for the purchase of limited entry permits, all lending functions of the Commercial Fishing Loan Act were transferred to the Alaska Industrial Development Authority.

7-27-81 The Fishermen's Mortgage and Note Program was amended to allow the State to precommit to the banks to purchase loans authorized under this program. The amendment also eliminated a large number of lending restrictions that previously caused banks to refuse to participate in the Fishermen's Mortgage and Note Program. The loan limit was also reduced from $200,000 to $100,000.

6-25-82 The Fishermen's Mortgage and Note Program, in actuality, was repealed and the Commercial Fishing Loan Act was rewritten. All assets of the Fishermen's Mortgage and Note Program were transferred to the newly rewritten Commercial Fishing Loan Act. Three separate loan sections were established under the rewritten program. SECTION A was exclusively for the purchase of limited entry permits. An individual must have been a resident for five continuous years immediately preceding the date of application for the loan and held a crew member or commercial fishing license or owned a limited entry permit for one of the past five years and must have actively participated in the fishery during that period of time. Loans were limited to $300,000, 10 1/2% interest, with a maximum term of 15 years. SECTION B was for the purchase of limited entry permits, vessels and gear. An individual must have been a resident for five continuous years immediately preceding the date of application for the loan and, because of the lack of training or lack of employment opportunities in the area of residence, did not have occupational opportunities available other than commercial fishing, or was economically dependent on commercial fishing for a livelihood and commercial fishing was a traditional way of life in Alaska. Loans were limited to $100,000, 10 1/2% interest, with a maximum term of 15 years. SECTION C was for

the purchase or restoration of vessels or gear. Applicants included corporations, partnerships or joint ventures which were 100% owned by individual commercial fishermen who were state residents for a continuous period of five years immediately preceding the date of application for a loan. Applicants also had to satisfy the remaining eligibility requirements of both Sections A and B. Loans were limited to $100,000, 10 1/2% interest, with a maximum term of 15 years.

4-17-83 The state residency under Sections A, B and C was reduced from five to two continuous years immediately preceding the date of the loan application. In addition, under Section A, the applicant must have had the license or permit the year immediately preceding the date of the loan application and any other two of the past five years. Active participation in the fishery was increased from one to three years, including the year immediately preceding the date of the loan application.

With the creation of the Fishermen's Mortgage and Note Program in June 1980, the Legislature intended to improve the availability of funding for rural Alaskans to purchase limited entry permits, vessels and gear. Under this program this objective was never achieved. During the first year of its existence, no loans were made by the banks, so no loans could be purchased by the State. The reason why no loans were made is simply the fact that the statutes placed so many lending restrictions upon the banks, that the administrative costs outweighed earnings. Most of these restrictions were contained in AS 16.10.710. The following year, AS 16.10.710 was amended and many of the provisions that were objectionable to the banks were removed. All available funds (approximately $1.8 million) were lent out; however the loan program still proved unprofitable to the banks. Of the 29 loans that were made, virtually all were made by the Commercial Fishing and Agricultural Bank (CFAB) and only two or three were made by other banks. CFAB told the State that they were only processing these loans as a service to their members; however, it was costing considerably more than the $100 loan application fee they were charging and they were not interested in continuing these losses.

As a result of the shortcomings of FM&N indirect loan program, the statutes were again amended and the program was made a direct loan program under the Department of Commerce & Economic Development. The basic eligibility requirements of the FM&N program were incorporated into Sections B and C of the rewritten Commercial Fishing Loan Act. Since the state was now administering the entire loan program by making direct loans, the administrative costs of the program were borne by the state. The Legislature appropriated sufficient funding to underwrite the loan program and within a very short period of time both the number and dollar amount of loans increased.

An indication of the success of the current commercial fishing loan program is the number of loans that have been made under Section B. Since the inception of Section B through January 1985, 340 loans have been approved and $16,615,661 has been committed. (During the first seven months of FY 85, 75 loans were approved and $5,131,400 was committed.) This section is targeted for rural Alaskans. In order to qualify for a loan under this section, the applicant must either live in an area that does not provide occupational opportunities other than commercial fishing, or the applicant must be economically dependent on commercial fishing for a livelihood and commercial fishing must have been a traditional way of life in Alaska. Also, applicants cannot have alternative sources of financing available to them. This criteria is important in understanding the success of the loan program.

If there were no commercial fishing loan program, then I believe there would be little argument that urban Alaska would fare much better than rural Alaska in competing for fishing loan financing in the private sector. The financial institutions are established in the urban areas, borrowers are accustomed to the cash/credit economy and have the collateral to support loan requests. Besides the traditional private sector, CFAB would then be the only other source of financing. CFAB will lend for limited entry permits; however, due to the high risks and losses involved in the commercial fishing industry, CFAB will not take the permit as collateral to secure the loan. The loan must be secured by other collateral. For vessel loans, CFAB requires a minimum 25% cash down payment and 10% additional collateral. Only 65% of the vessel cost can be used as collateral to secure the loan. As a result of these lending restrictions, CFAB has only made approximately six limited entry permit and 12 vessel loans during the last half of 1984. Obviously, these restrictions do not favor rural Alaska. However, in defense of CFAB, they are trying to minimize their losses.

If it weren't for the state commercial fishing loan program, particularly Section B, very few commercial fishing loans would be made in rural Alaska. Remember, Section B provides rural Alaska with the capital for the purchase of limited entry permits as well as for vessels and gear in support of the permits. Without vessels and gear to fish the limited entry permits, the permits produce no income, unless sold. Without a Section B loan program, there probably would have been a larger outflow of limited entry permits from rural Alaska. Additionally, without a loan program for Alaskans like the Commercial Fishing Loan Act, there would be greater competition from individuals outside the state for Alaska limited entry permits.

As discussed during the meeting we attended on December 19, 1984, regarding limited entry permit transfer issues, some additional time will be needed to compile data on the commercial fishing loan program. The Division of Accounting & Collections, DCED, has been gathering this data. This entails a sizeable effort as many records have to be manually researched. As soon as this effort is completed, the information will be made available to you.

Sincerely,

Paul B. Arnoldt
Director

PBA/wfs0462C
22585a
Enclosure
cc: Terry Elder, Deputy Commissioner, DCED
Margaret Hamley, Director,
Division of Accounting & Collections, DCED
Greg Baker, Director,
Office of Commercial Fisheries Development, DCED

MEMORANDUM State of Alaska

TO: Kurt Schelle
Director of Research
Commercial Fisheries Entry Commission
Department of Fish and Game

DATE: April 3, 1984

FILE NO:

TELEPHONE NO: 465-2510

FROM: Paul B. Arnoldt, Director
Division of Investments
Department of Commerce and Economic Development

SUBJECT: Loan Paper Draft Report (Commercial Fishing Loan Program)

Thank you for the opportunity to comment on the draft of your study regarding the distribution of permit related loans. I would first like to address a couple of small details in the introduction section of the report.

On page 13, it states that the Fishermens Mortgage and Note Program was largely unsuccessful because many people were unaware of the program and the application procedure was complicated. This is partially correct in that the legislation creating the program made it virtually inoperable the first year (FY '81) and that private financial institutions did not actively promote the program. However, in FY '82 virtually all of the $1.8 million appropriated by the Legislature was committed for loans. Also, as you pointed out, in 1982 the Fishermens Mortgage and Note Program was rolled into the Commercial Fishing Revolving Loan Fund. This simplified the application process because an applicant could apply directly to the State without involving a private financial institution.

On page 15, the last paragraph talks about the active participation requirement as amended by the 1983 Legislature. I think that it is important to note that this only affects Section A of the current Commercial Fishing Loan Program and does not affect Section B which is targeted for rural Alaska fishermen.

One of the important issues is the impact of the loan program on rural Alaska. While the data appears to indicate that urban fishermen were more likely to receive subsidized loans than rural fishermen over the 1979-1982 period, this does not mean that the loan program played a significant role in the decline of rural-held permits over that time period. In fact, the statistics in Table 3 and Table 6 would indicate that the loan program played a very slight role, if any, in this process. Table 3 shows that this shift was well underway by 1976 even though the permit loan program was virtually nonexistent until 1979.

There was a significant shift in 1980 when the total number of loans increased from 62 (in 1979) to 159 (in 1980) and the net urban shift increased from 47 to 65. This is understandable because the permit loan program was relatively new and it generally took longer for the word to spread to rural Alaska. However, in 1981 the loan program made another

significant increase from 159 (in 1980) to 202 (in 1981) loans while the net urban shift decreased from 65 to 52. Then in 1982, the loan program remained relatively constant, 197 loans, and the net urban shift made another dramatic decrease down to 46. This permit transfer is approximately the same number that occurred in 1977 and 1978 before the permit loan program even existed. Thus, it appears that factors other than the loan program were primarily responsible for the shift of permits from rural to urban Alaska. It is important to note that any slight shift from rural to urban caused by the loan program would surely be offset by the number of permits that would have transferred out of State had there been no loan program. I think the 1.1% permit transfer increase to non-residents mentioned in your report is of far greater concern.

Also, as you have mentioned, the "targeted loan program" (Sections B and C) are aimed at rural rather than urban fishermen. During the past two years, there has been a substantial increase in the number of loans made under those sections of the statutes.

To conclude, while the report mentions that there is no direct evidence that links the loan program to a decline in rural-held permits, the overall impression left is that the loan program played a significant role. This would be especially true if the report was not examined in detail. To that extent, I disagree with your findings.

Please feel free to contact me or Greg Winegar at 465-2510 if you have any questions.

BPA/wfs2/16
4284d

Special Fisheries Committee
Tues, 2/26, 8:30 am

Met w/ Rep from Howard

Frank Waite (Petersburg) is a commercial troller. Two years ago he obtained a type A fishing loan to buy a limited entry troll permit (at that time he lived at Pt. Baker.)

Now he would like to purchase a new boat and finds that he is not, nor will he ever be, eligible for a type B or C loan.
(see page 1 of booklet

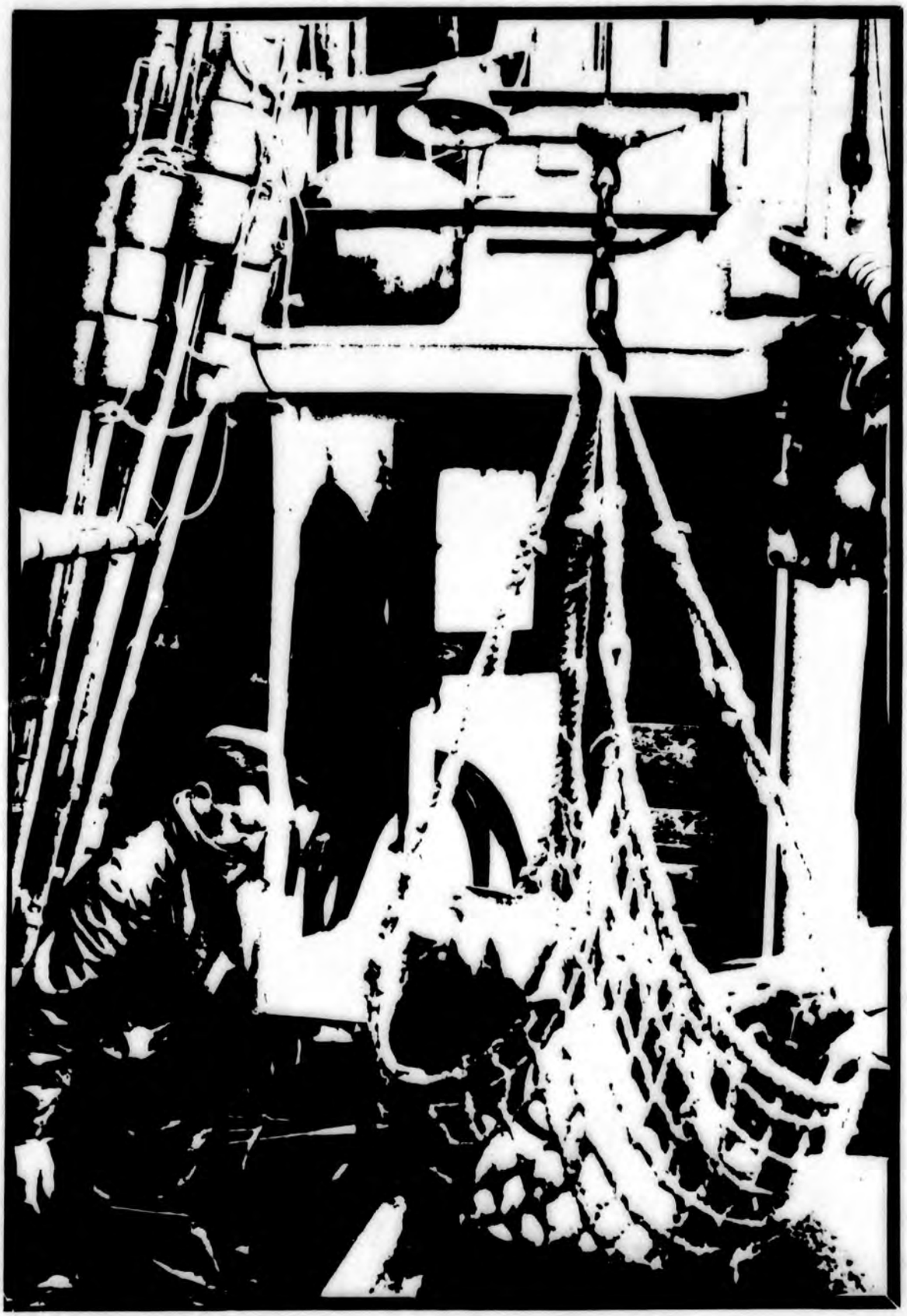
Questions

1. Why is a recipient of type A loan not eligible at any future time for ~~an~~ a type B or C loan?

2. Is a type A loan recipient eligible for another type A loan?

3. Are there any exceptions to the rule? Is there any way about of ~~legisla~~ a change in the statutes to reconsider his Type A loan and turn it into a Type B loan, which would then allow him to purchase a boat? This assuming, of course, that he meets the criteria of a Type B loan?

commercial fishing



Loan Application

State of Alaska

Department of Commerce and Economic Development

Division of Investments

FIELD OFFICES

All applications must be submitted to the Department of Commerce and Economic Development, Division of Investments, at one of the following offices:

Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone Number: 465-2510

Division of Investments
3601 "C" Street, Suite 740
Anchorage, Alaska 99503
Telephone Number: 562-3779

Division of Investments
675 7th Avenue, Station A
Fairbanks, Alaska 99701
Telephone Number: 452-8182

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone Number: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

LOAN POLICIES AND PROCEDURES

COMMERCIAL FISHING REVOLVING LOAN FUND
AS 16.10.310-.370

The Commercial Fishing Revolving Loan Fund consists of three separate sections (A, B and C). Each relates to different types of loans and has its own eligibility requirements. Because the requirements for each section are similar and you may qualify for more than one section, it is imperative that you carefully read the following information.

SECTION A
(Permit Loans to Individuals)

Note: If you receive a loan under this section, you will not be eligible to borrow under Sections B or C at any future date.

LOAN PURPOSE

Loans may only be made to finance the purchase of limited entry permits. Loan funds may not be used to reimburse an applicant for permits which were obtained more than one year before receipt of the application by the Division.

ELIGIBILITY

Loans may be made to individual commercial fisherman who have been State residents for a continuous period of two years immediately preceding the date of application and have held a limited entry permit, commercial fishing or crew member license for the year immediately preceding the date of application and any other two of the past five years. You must have actively participated in the fishery during those periods and have reported commercial fishing income.

LENDING LIMITS

The maximum loan amount is $300,000 less any loan amounts borrowed from any previous State commercial fishing loan programs and any loan amounts borrowed under Sections A, B or C of this program.

INTEREST RATE

Interest will be charged at the rate of ten and one-half (10½) percent.

LOAN TERMS

The maximum loan term is 15 years. Terms of all loans will be fixed by the loan committee in consideration of the purpose of the loan, the needs of the borrower, the collateral offered and the ability to repay the loan.

COLLATERAL

All loans must be secured by adequate collateral to protect the investment of the State in the event of default. The loan shall be secured by a first priority lien and may not exceed 90 percent of the appraised value or cost (whichever is lower) of the collateral being used to secure the loan. The specific amount to be loaned against any collateral offered shall be determined by the loan committee and the loan committee may require additional collateral.

SECTION B

(Permit, Vessel and Gear Loans to Individuals)

LOAN PURPOSES

Loans may be made for the repair, restoration or upgrading of existing vessels and gear, and for the purchase of limited entry permits, gear, and vessels. Loan funds may not be used to reimburse an applicant for permits which were obtained or vessels and gear which were paid for more than one year before receipt of the application by the Division.

ELIGIBILITY

Loans may be made to individuals who have been State residents for a continuous period of two years immediately preceding the date of application and because of lack of training or lack of employment opportunities in the area of residence do not have occupational opportunities available other than commercial fishing or are economically dependent on commercial fishing for a livelihood and commercial fishing has been a traditional way of life in Alaska.

These loans are intended to be made to individuals who do not have alternative sources of financing available to them.

LENDING LIMITS

The maximum loan amount is $100,000 less any loan amounts borrowed from any previous State commercial fishing loan programs and any loan amounts borrowed under Sections B or C of this program.

Two or more individual commercial fishermen applying jointly under this section may combine their eligibilities on a single loan, up to $100,000 per individual less any loan amounts borrowed from any previous State commercial fishing loan programs and any loan amounts borrowed under Section B or C of this program. This paragraph applies only to the purchase or construction of a vessel.

INTEREST RATE

Interest will be charged at the rate of ten and one-half (10½) percent.

LOAN TERMS

The maximum loan term is 15 years. Terms of all loans will be fixed by the loan committee in consideration of the purpose of the loan, the needs of the borrower, the collateral offered and the ability to repay the loan.

COLLATERAL

All loans must be secured by adequate collateral to protect the investment of the State in the event of default. The loan shall be secured by a first priority lien and may not exceed 90 percent of the appraised value or cost (whichever is lower) of the collateral being used to secure the loan. The specific amount to be loaned against any collateral offered shall be determined by the loan committee and the loan committee may require additional collateral.

A loan for the purchase of a limited entry permit may be made up to 100 percent of the appraised value of the collateral used to secure the loan if the borrower has at least three years of experience as a commercial fisherman in the fishery to which the entry permit applies; and has not owned an Alaska limited entry permit in the year immediately preceding the application for the loan. (Three years of experience as a commercial fisherman in the fishery means that for a total of three fishing seasons in the same fishery the borrower has actively participated in the commercial harvest of fish under the direction of a limited entry permit holder.)

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOMENT
DIVISION OF INVESTMENTS

LOAN POLICIES AND PROCEDURES

SECTION C
(Vessel and Gear Loans to Corporations, Partnerships and Joint Ventures)

LOAN PURPOSES

Loans may be made for the repair, restoration or upgrading of existing vessels and gear, and for the purchase of gear and vessels. Loan funds may not be used to reimburse an applicant for vessels and gear which were paid for more than one year before receipt of the application by the Division.

ELIGIBILITY

Loans may be made to corporations, partnerships or joint ventures, 100 percent of which are owned by individual commercial fishermen who qualify under Section B and who have held a limited entry permit, commercial fishing or crew member license the year immediately preceding the date of application and any other two of the past five years, and have actively participated in the fishery during those periods and have reported commercial fishing income.

These loans are intended to be made to borrowers who do not have alternative sources of financing available to them.

LENDING LIMITS

The maximum loan amount is $100,000 less any amounts borrowed from any previous State commercial fishing loan programs and any loan amounts borrowed under Sections B or C of this program.

INTEREST RATE

Interest will be charged at the rate of ten and one-half (10½) percent.

LOAN TERMS

The maximum loan term is 15 years. Terms of all loans will be fixed by the loan committee in consideration of the purpose of the loan, the needs of the borrower, the collateral offered and the ability to repay the loan.

COLLATERAL

All loans must be secured by adequate collateral to protect the investment of the State in the event of default. The loan shall be secured by a first priority lien and may not exceed 90 percent of the appraised value or cost (whichever is lower) of the collateral being used to secure the loan. The specific amount to be loaned against any collateral offered shall be determined by the loan committee and the loan committee may require additional collateral.

LOAN CONDITIONS
(Sections A, B and C)

RESIDENCY

For purposes of eligibility under the Commercial Fishing Loan Program, "resident" is defined as an individual who, except for brief intervals, periods of military service, or attendance at an educational or training institution, has resided in the State for two years. "Residence" is determined by where the individual maintains a permanent place of abode and

(a) is registered to vote;

(b) files tax returns;

(c) registers or licenses personal property, including but not limited to cars, boats, trucks and trailers;

(d) is licensed to drive;

(e) maintains bank accounts, savings accounts, lines of credit and other financial relationships; and

(f) any other information that may show the applicant's residency.

INTERIM FINANCING

Interim construction financing is not available under this program. No loan funds may be disbursed until construction or renovation is 100% complete. Applicants should obtain written loan approval prior to obtaining interim financing. To be considered interim financing, promissory notes must have a term of one year or less and the debt must have been incurred and the note executed within one year prior to receipt of the application by the Division.

REFINANCING

Refinancing is not allowed under this program. An interim note may be refinanced it if has a term of one year or less and the debt was incurred and the note executed within one year prior to receipt of the application by the Division.

ASSUMPTIONS

Assumptions will not be allowed unless it is in the State's best interest to do so and the applicant meets all statutory eligibility requirements. Assumptions, if granted, must serve the policies and purposes of the loan program.

LOAN APPROVAL

Authority for approval of all loans rests with the loan committee appointed by the Commissioner of the Department of Commerce and Economic Development. The loan committee will independently evaluate all relevant information before taking action on loan applications. The committee may also consider, but is not bound by, the recommendations of the loan examiner assigned to process the application. No loan will be granted without approval of a majority of the loan committee.

LOAN COSTS

The borrower shall pay all direct costs incurred by the State in processing the application for a loan, including, but not limited to the cost of credit reports, title insurance, appraisals, surveys, inspections, or other direct costs. The State is not liable for any costs incurred by the borrower during the application process.

REGULATIONS

The Department of Commerce and Economic Development has adopted administrative regulations governing loan policies and procedures, and public disclosure of information in an individual loan file. Copies of these regulations may be obtained by contacting the Division of Investments.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

COMMERCIAL FISHING LOAN APPLICATION CHECK-OFF LIST

The following information **is required** in order to process your application. Please use this list to make sure all information is submitted (incomplete applications will not be accepted). Please retain a copy of this application for your records.

_____ 1. **Application for Commercial Fishing Loan:** Must be notarized in Alaska. (pages 7 and 8)

_____ 2. **Residency Questionnaire:** Must be notarized in Alaska. (page 9)

_____ 3. **Letter of Intent.** (page 10)

_____ 4. **Individual Fisherman Financial Statement:** If your most recent income tax return does not include your most recent fishing season, then you must complete a Statement of Actual Profit and Loss form for your most recent fishing season. You must submit copies of your cannery settlement sheets or your fish tickets to verify your income. (pages 11 and 12)

_____ 5. **Actual Statement of Profit and Loss.** (page 13)

_____ 6. **Projected Statement of Profit and Loss.** (page 14)

_____ 7. **Credit Authorization:** You must submit a form for each loan you have outstanding with any lender. Whether or not you have outstanding loans, a minimum of three credit authorizations are required. (page 15)

_____ 8. **Authorization to Verify Financial Information.** (page 16)

_____ 9. **Federal Tax Returns:** You must submit signed copies of your complete federal tax returns for the last three years and a copy of any other return(s) necessary to document your eligibility (i.e., fourth or fifth year). Do not send original documents as they will not be returned.

_____ 10. **Commercial Fishing Resume.** (page 17)

_____ 11. **Consent to Release Information.** (page 18)

_____ 12. **Copy of your purchase agreement and down payment receipt:** If applicable.

_____ 13. **Pictures of Vessels and Gear:** Be sure to include photographs of vessels and gear if they are being offered as collateral.

_____ 14. **Marine Survey:** If applicable, it must be less than 90 days old.

_____ 15. **Bids, Quotes, receipts and contracts:** To document the costs of the use of loan proceeds.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

APPLICATION FOR COMMERCIAL FISHING LOAN

Applicant Name: (Last, First, M.I.)	Current Date
	Social Security Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Applicant's Telephone Number ( )
	How Long at Mailing Address (Yrs./Mos)
	Date of Birth
I hereby apply for a loan of $_____ to be repaid in _____ years with ☐ Monthly Payments/☐ Quarterly Payments/☐ Other If other, please specify _____	Place of Birth (City and State)
	☐ Married (including separated) ☐ Unmarried (including single, divorced, widowed)
	Number of Dependents (excluding Applicant)

Applicant: Business Name	☐ Individual ☐ Business ☐ Partnership ☐ Corporation	Current Date
		Taxpayer Identification Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)		Business Telephone Number ( )

Spouse/Co-Applicant: Name (Last, First, M.I.)	Social Security Number
	Date of Birth
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Place of Birth (City and State)
	Gross Monthly Salary (before deductions)
Spouse/Co-Applicant's Employer Occupation/Position How Long? Yrs. Mos.	Employer's Telephone Number ( )

Nearest Relative not living with you/Contact Person: Name (Last, First, M.I.)	Telephone Number ( )
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Put your nearest relative not living with you or a contact person who knows how to reach you when your current mailing address or telephone number may have changed.

ADDITIONAL INCOME (Applicant or Co-Applicant)	Source	Amount	
		Monthly	Yearly

Have you ever had a commercial fishing loan either fully or partially funded by the State or by Alaska Industrial Development Authority? Yes No

If yes, complete the following:

Date Loan Received	Amount	Current Balance

I have been a resident of Alaska since _____ (year) _____ (month)

List below the addresses of each place you have resided during the past three years:

DATES FROM	DATES TO	STREET ADDRESS	NAME OF LANDLORD IF RENTING	PHONE CONTACT

I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Commerical Fishing Loan Program.

I understand that the division will, in its discretion, release information contained in this application to the Commercial Fisheries Entry Commission and that the division may also obtain information about me from the commission.

_____ _____
Date Signature

_____ _____
Date Signature

STATE OF ALASKA)
) ss.
_____ JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____,

by _____
(Name of person who acknowledged)

_____
Notary Public in and for Alaska

My commission expires: _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

COMMERCIAL FISHING RESIDENCY QUESTIONNAIRE

Name _____ Social Security Number _____

1. Are you presently a United States citizen? ☐ Yes ☐ No
   If no, explain _____

2. Have you claimed any residency benefits in any other state other than Alaska in the last three years? ☐ Yes ☐ No If yes, explain _____

3. Are you now or have you registered to vote in a state other than Alaska in the last three years? ☐ Yes ☐ No If yes, explain _____

4. a. During the past three years have you had a driver's license in a state other than Alaska?
   ☐ Yes ☐ No If yes, explain _____

   b. Do you currently have an Alaska driver's license?
   ☐ Yes ☐ No If yes, state number _____

5. Were you out of Alaska for more than 90 consecutive days during the last two years?
   ☐ Yes ☐ No If yes, explain reason for each absence. _____

6. Do you maintain a year-round permanent place of abode in Alaska?
   If yes, indicate street address and phone number _____
   If no, explain _____

7. Does your spouse live with you year-round in your permanent place of abode in Alaska?
   ☐ Yes ☐ No If no, explain _____

8. Do your children live with you in your permanent place of abode in Alaska? ☐ Yes ☐ No
   If no, explain _____

9. Do you maintain or own any residential property other than that mentioned in question 6?
   ☐ Yes ☐ No If yes, please give the address(es) and telephone number(s) and state who currently occupies that property.

Address	Telephone Number	Occupant

I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Commercial Fishing Loan Program.

I understand that the division will, in its discretion, release information contained in this application to the Commercial Fisheries Entry Commission and that the division may also obtain information about me from the commission.

_____ _____
Date Signature

_____ _____
Date Signature

STATE OF ALASKA)
) ss.
_____ JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____, by _____
(Name of person who acknowledged)

SUBSCRIBED AND SWORN to before me this _____ day of _____, 19 _____, at _____, Alaska.

_____
Notary Public in and for Alaska

My commission expires _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

COMMERCIAL FISHING
LETTER OF INTENT
(Attach additional sheets as necessary)

Applicant's Name _____

I. Use of Loan Proceeds:

I am applying for a loan under Section A B C (circle one)

If you receive a loan under Section A, you will not be eligible to borrow under Sections B or C at any future date.

(Check appropriate box and fill in loan amount)

☐	Purchase Permit (attach purchase agreement)	$ _____
☐	New Vessel Construction (attach bid or contract)	$ _____
☐	New Vessel Purchase (attach purchase agreement and marine survey)	$ _____
☐	Upgrade Existing Vessel (attach bid or contract)	$ _____
☐	Gear Purchase (attach bid)	$ _____
☐	Other (explain)	$ _____
	Total	$ _____

II. Describe in detail how you plan to use the borrowed funds. Include any additional information you might consider significant in determining the merits of this request.

III. Collateral Offered to Secure Loan:

Describe in detail and include documentation to verify the value of the collateral being offered. Include current photographs of the collateral being offered.

1) _____

2) _____

3) _____

4) _____

IV. Number of jobs created if loan is approved _____

V. Applicant's Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

COMMERCIAL FISHING LOAN
FINANCIAL STATEMENT (Individual)

Name	Social Security Number	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19_____.

ASSETS		LIABILITIES	
Cash on hand	$	Vessel Mortgages (Schedule 4)	$
Cash in Banks (Schedule 1)		Real Estate Mortgages (Schedule 5)	
Notes, Contracts & Accounts Receivables (Schedule 2)		Notes payable to banks (Schedule 6)	
		Notes Payable to Others (Schedule 7)	
Due from Canneries		Owing to Canneries - Open Account	
Securities (Schedule 3)		Owing to Canneries - Other	
Real Estate Owned (Schedule 4)		Other Payables Not Listed Above	
Vessels Owned (Schedule 4)			
Automobiles			
Personal Property			
Fishing Equipment			
Nets			
Pots			
Long Lines			
Other			
Limited Entry Permits (by fishery)			
Other		TOTAL LIABILITIES	$
TOTAL ASSETS	$	NET WORTH (Total Assets minus Total Liabilities equal Net Worth)	$

CONTINGENT LIABILITIES

☐ Yes ☐ No Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom? Amount $ _____

☐ Yes ☐ No Are there any unsatisfied judgments against you? Amount $ _____

☐ Yes ☐ No Have you been declared bankrupt in the last 14 years? Year _____

Other Obligations: Child Support, Alimony, etc.

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Date _____

Signature _____ Date _____

SCHEDULE NO. 1: CASH ACCOUNTS

Bank/Branch	Checking Acct. No.	Current Balance	Savings Acct. No.	Current Balance
Savings and Loan/Branch	Location		Savings Acct. No.	Current Balance
Credit Union	Location		Savings Acct. No.	Current Balance
Other	Location		Savings Acct. No.	Current Balance

SCHEDULE NO. 2: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 3: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 4: VESSELS OWNED

Description of Vessel and Year Built	Year Acquired	Cost	Present Value	Amount Owned		Owed To	Payment Amount	When Due
				Original	Present			

SCHEDULE NO. 5: REAL ESTATE OWNED

Description and Location	City and State	Date Acquired	Cost	Current Assessed Value	Current Market Value	Mortgages		
						Original Balance	Present Balance	Payment Amount

Is any real estate being purchased on a contract of sale? _____ If so, which one? _____
From whom? _____

SCHEDULE NO. 6: NOTES PAYABLE TO BANKS (Do not include mortgages listed in Schedule 5)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

SCHEDULE NO. 7: NOTES PAYABLE TO OTHERS

Name and Address of Creditor	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

COMMERCIAL FISHING
ACTUAL PROFIT AND LOSS STATEMENT

Applicant's Name _____ Social Security Number _____

For the period beginning _____ and ending _____

INCOME		EXPENSES	
Gross Sales: Salmon (Troll)		Crew Shares	
Salmon (Seine)		Fuel	
Salmon (Gillnet)		Groceries	
Salmon (Beach)		Bait and Ice	
Halibut		Vessel Repair	
Crab		Gear Repair	
Shrimp		Insurance	
Black Cod		Vessel Lease or Rent	
Herring		Gear & Equipment Purchases	
Other		Other	
Other Income			
TOTAL INCOME	$	TOTAL FISHING EXPENSES	$
Comments:		Personal Living Expense	
		Food Allowance	
		Utilities	
		Insurance	
		Medical Expenses	
		Child Support	
		Other	
		TOTAL LIVING EXPENSES	$
		TOTAL EXPENSES	$

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

COMMERCIAL FISHING
PROJECTED PROFIT AND LOSS STATEMENT
(First Year After Receiving Loan)

Applicant's Name _____ Social Security Number _____

For the period beginning _____ and ending _____

INCOME		EXPENSES	
Gross Sales: Salmon (Troll)		Crew Shares	
Salmon (Seine)		Fuel	
Salmon (Gillnet)		Groceries	
Salmon (Beach)		Bait and Ice	
Halibut		Vessel Repair	
Crab		Gear Repair	
Shrimp		Insurance	
Black Cod		Vessel Lease or Rent	
Herring		Gear & Equipment Purchases	
Other		Other	
Other Income			
TOTAL INCOME	$	TOTAL FISHING EXPENSES	$
Comments:		Personal Living Expense	
		Food Allowance	
		Utilities	
		Insurance	
		Medical Expenses	
		Child Support	
		Other	
		TOTAL LIVING EXPENSES	$
		TOTAL EXPENSES	$

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)

authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)

authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)

authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

AUTHORIZATION TO VERIFY FINANCIAL INFORMATION

I, _____, of _____,
(Print Full Name) (City and State)
authorize the following named financial institution to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my account balances and loan balances with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions and the current balance, if any is outstanding.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

Name of Financial Institution _____

Checking Account Number _____ Savings Account Number _____

Loan Number _____ Loan Number _____

Address _____

City _____ State _____ Zip _____

Applicant's Signature _____ Date _____
This form should be returned with the application package. The division will forward all authorizations to the creditors.

BANK VERIFICATION OF FINANCIAL INFORMATION
(For Bank Use Only)

Checking Account Balance	Savings Account Balance	Other Account Balance
Date Account was opened	Date Account was opened	Date Account was opened

Loans	Date	Original Balance	Payments	Current Balance	Rating
Secured					
Unsecured					

The information provided above is essentially correct as of this date and accurately reflects the individual's financial dealings with this institution.

Remarks _____

_____ _____ _____
Signature of Bank Official Title Date

Please return to:

Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

COMMERCIAL FISHING RESUME

Name _____ Social Security No. _____

Briefly describe your commercial fishing experience:

Year	Fishery	Name of Vessel & Skipper	Description of Duties

REFERENCES:

List three persons in your vicinity who know you well and to whom we may refer (excluding relatives or previous employers).

Name	Telephone	Mailing Address

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

COMMERCIAL FISHING
CONSENT TO RELEASE INFORMATION

I authorize the State of Alaska to obtain copies of:

1. State Income Tax Returns
2. U.S. Income Tax Returns
3. U.S. Civil Service Personnel Records
4. U.S. Social Security Records
5. U.S. Military Service Records
6. U.S. Department of Labor Employment Records
7. State and U.S. Fisheries Records
8. State and Federal Enrollment and Financial Aids Records
9. Telephone, Utility and Water Records
10. U.S. Postal Service Information
11. Commercial Fisheries Entry Commission (Limited Entry) records
12. Any other records which would relate to my stated claim of Alaska Domicile/Residency.

I also authorize the release of any information contained in this application and attachments to the Commercial Fisheries Entry Commission.

_____	_____
Applicant's Signature	Signature of spouse if joint filings-records maintained
_____	_____
Applicant's Name - Please Print	Spouse's Name - Please Print
_____	_____
Applicant's Social Security No.	Spouse's Social Security No.

STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF ACCOUNTING AND COLLECTIONS

BILL SHEFFIELD, GOVERNOR

POUCH D
JUNEAU, ALASKA 99811
PHONE: (907) 465-2555

Dear Borrower:

We would like to take this opportunity to introduce ourselves to you. We are the Division of Accounting and Collections (Department of Commerce and Economic Development) and we will be servicing the loan you recently received from the Division of Investments. Our office is located on the 9th Floor of the State Office Building in Juneau, and our phone number is 465-2555. Our mailing address is:

Division of Accounting and Collections
Department of Commerce and Economic Development
Pouch D-0800
Juneau, Alaska 99811

This servicing packet has been designed as a convenience for you. It contains an annual supply of payment cards, forms for a variety of standard requests, a statement of our payment policies, a supply of labels and pre-addressed envelopes. (In the interest of economy, we are using the supply of old envelopes which shows the division's previous name.)

May we suggest that you place your other papers pertaining to your loan in this folder for reference and safekeeping. Also, future statements and correspondence can be added so that you will have a convenient and complete record.

Please be sure to let us know if there is any way we can be of service to you during the term of your loan.

Yours truly,

Margaret I. Hamley
Director

MIH/wfs0613W
91784d
Enclosures

08-507b

08-H3LH

_____

_____

_____

☐ PLEASE CHECK IF THIS IS A CHANGE OF ADDRESS.

STATE OF ALASKA

DIVISION OF LOANS & VETERANS' AFFAIRS

POUCH D

JUNEAU, ALASKA 99811

CHANGE OF ADDRESS

To notify our office of a change of permanent contact address, you can

- Complete the return address and check the box on the enclosed pre-addressed envelope.

  or

- Fill in the space below and mail this form.

Name _____

Address _____

_____

Loan # _____

08-541A

Alaska Division of Accounting & Collections
Pouch D, MS 0800
Juneau, Alaska 99811
Phone: (907) 465-2555

PAYMENT CARD REQUEST

If you need more payment cards, please

- Affix one of the enclosed labels showing your name, address and loan number.

  or

- Fill in the space below.

A pre-addressed envelope is enclosed for your convenience.

Place label here
Show address corrections at right

Name _____

Address _____

_____

Loan # _____

Alaska Division of Accounting and Collections, Pouch D, MS 0800,
Juneau, AK 99811 (907) 465-2555

08-541B

ALASKA LITHO INC

WHAT TO DO IF YOU CANNOT MAKE YOUR PAYMENT

We urge you to contact our staff **before your payment is due** if you are unable to meet your payment obligation. Call (907) 465-2555 or toll free Zenith 5500 to discuss your situation. You can also contact us by mailing this form to us. Simply

- Affix one of the enclosed labels.

  or

- Fill in the space below.

When we receive this form we will send you an extension application packet, which you should complete and return. Each application for extension is evaluated on an individual basis.

A pre-addressed envelope is enclosed for your convenience.

Place label here
Show address corrections at right

Name _____

Address _____

_____

Loan # _____

Daytime phone number

_____

Alaska Division of Accounting and Collections, Pouch D, MS 0800,
Juneau, AK 99811 (907) 465-2555

08-541D

SCOMM

#50:5

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

M E M O R A N D U M

DATE: February 26, 1985

TO: Mike Greany, Director
Legislative Finance Division

FROM: P.S. Dhillon, Fiscal Analyst (SD)
Legislative Finance Division

SUBJ: Loan Programs

The following are estimates of prior year appropriations for loan programs that may be available for reappropriation this year due to over capitalization.

	$ Millions
DCED Revolving Loans	$36.6
Power Development	12.0
Power Projects	4.0
Fishery Products	38.5
Total	$91.1

ENERGY PROGRAM FOR AK.

1981 AUTHORIZED LOAN (CAN NOT APPLY FOR LOAN)

* see attached Table 1

The Legislative Audit Division also reports that audits in progress could yield $10.0 million in additional lapse from various agencies' operating budgets.

The DCED Revolving Loans, Power Development and Power Project loan program estimates are from the Department of Commerce and Economic Development. These numbers are based on DCED's estimates of loan demand and loan repayments for FY85 and FY86. The Power Projects funds relate to an appropriation for a district heating loan to the City of Fairbanks in 1981 (SLA 81,Ch. 90,Sec. 16). Apparently, the Alaska Power Authority intends to lapse this money at the end of FY85. The Power Development funds of $12.0 million relate to last year's $210.0 million appropriation for the Four-Dam pool (SLA 84,Ch. 171,Sec. 313).

11-Q1LH

The attached Table II shows historical activity in the Fishery Products Revolving Loan Guarantee program. It may be noted that no loans have been made under this program in FY84 or FY85, and there is no pending loan application.

'Exh 5'

Loan Programs Cash Flow
FY 85 & FY 86
($ 000)

	cash at 1-31-85	est cash 6-30-85	FY 86 Demand	FY 86 Receipts	est cash 6-30-86	est cash Surplus
Mining Loan Fund	29,424.8	26,789.1	(9,600.0)	2,742.0	19,931.1	19,931.0
Small Business	5,161.7	6,474.9	.0	3,151.8	3,151.8	n/a 1)
Tourism Dev Loans	561.3	663.9	.0	471.4	471.4	n/a 1)
Veteran's	9,089.0	9,320.9	.0	556.6	9,877.5	8,824.9
Residential Energy	8,186.3	7,973.7	(1,200.0)	718.5	7,492.2	7,312.5
Child Care Facility	764.1	566.0	(601.5)	102.2	66.7	.0
Historical District	913.3	776.0	(300.0)	30.6	506.6	500.0
	54,100.5	52,564.5	(11,701.5)	7,773.1	41,497.3	36,568.4

1) Transfer to General Fund at end of fiscal year

<6-month>
FY-86

Source: Department of Commerce & Econ Development

LFD/2-25-85
Loanfinl

Table II
Fish Product Revolving Loan Guarantee
Appropiations and Activity
($ millions)

Appropriations:

SLA 81,CH 42,Sec 1 amd by SLA 82,CH 34,Sec 2	40.0
SLA 82,CH 34, Sec 5	100.0
Lapse into Rainy Day Fund	-100.0
TOTAL	40.0
Balance at 6/30/84	38.5
Write-off of bad Loans	1.5

Activity:

FY 80	7 loans	22.8
FY 81	16	22.1
FY 82	17	31.0
FY 83	1	.8
FY 84	0	.0
FY 85(ytd)	0	.0
no pending applications		
Total		75.9

Source:Department of Revenue

LFD/2-25-85:LOANFPRL

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF–STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

DATE: February 28, 1985

TO: John Hartle, Aide
House Special Committee on Loans

FROM: P.S. Dhillon, Fiscal Analyst PSD
Legislative Finance Division

SUBJ: Loan Programs

Attached is Table I which presents cash flows for DCED and Student revolving loan funds for FY85 and FY86.

Anticipated funding and loan activity for AHFC loan programs is provided in the the attached AHFC memo.

For C&RA and DNR loan programs, using 'cash in treasury' as a starting point for determining over-capitalization (under-capitalization) may be misleading since a high proportion of this cash is restricted for commitments already made, reserves against losses, and accounts payable.

31-Q1LH

DELINQUENCY

Table I
Loan Programs Cash Flow
FY 85 & FY 86
($ 000)

	cash at 1-31-85	est cash 6-30-85	FY 86 Demand	FY 86 Receipts	est cash 6-30-86	est cash Surplus
Commercial Fish	14,249.5	4,274.7	(15,204.0)	6,107.2	(4,822.1)	(4,822.1)
Fish Enhancement	15,840.4	5,635.1	(6,447.0)	.0	(811.9)	(811.9)
Alternative Tech	3,815.3	2,444.6	(4,122.5)	1,110.3	(567.6)	(567.6)
Mining Loan Fund	29,424.8	26,789.1	(9,600.0)	2,742.0	19,931.1	19,931.0
Small Business	5,161.7	6,474.9	.0	3,151.8	3,151.8	n/a 1)
Tourism Rev Loans	561.3	663.9	.0	471.4	471.4	n/a 1)
Veteran's	9,089.0	9,320.9	.0	556.6	9,877.5	8,824.9
Residential Energy	8,186.3	7,973.7	(1,200.0)	718.5	7,492.2	7,312.5
Child Care Facility	764.1	566.0	(601.5)	102.2	66.7	.0
Historical District	913.3	776.0	(300.0)	30.6	506.6	500.0
Total DCED	88,005.7	64,918.9	(37,475.0)	14,990.6	35,295.7	(30,366.8)
Student loans	n/a 2)	5,300.0	(81,004.8)	11,879.8	(63,825.0)	(63,825.0)

1) Transfer to General Fund at end of fiscal year
2) Cash at 6-30-84 is $8745.4

Source: Department of Commerce & Econ Development; Gov's Budget Forms L1 & L2.

LFD/2-28-85
loanfin1

Alaska HOUSING FINANCE CORPORATION

October 17, 1984

Mr. Guy Bell
Division of Budget Review
Pouch AM
Juneau, AK 99811

Dear Guy:

Find attached a copy of a memo presented to our Board of Directors at the September 18, 1984 Board meeting. It provides the justification for not requesting a general fund appropriation for FY86. If you should need more information or an update, please contact Mark or myself.

Very truly yours,

Donald V. Elliott

Donald V. Elliott
Controller

DVE:lmg

Attachment

Telephone (907) 276-5599

235 East 8th Avenue
Third Floor

P.O. Box 101020
Anchorage, Alaska 99510

Alaska HOUSING FINANCE CORPORATION

P.O. Box 1020, Anchorage, Alaska 99510

TO: The Board of Directors DATE: September 5, 1984

FROM: Mark K. Cameron MKC
Finance Director

RE: FY 86 CAPITAL BUDGET

The mortgage demand and subsidy requirements for FY 85 have been revised to reflect the balances available as of July 1, 1984, and current projections. An analysis for FY 86 has also been prepared in connection with the State capital budget submission process. Based upon these projections assets available in the Alaska Housing Finance Corporation Revolving Fund as of July 1, 1985, combined with those estimated to be made available, are sufficient to operate the mortgage purchase activities of the Corporation through FY 86.

Mortgage demand for FY 85 was estimated to decrease 11% from that of the previous year followed by a 10% increase in FY 86. These are felt to be conservative in light of the current activity in the mortgage market. The portion of first mortgage loan activity in the Veterans Mortgage Program was dropped almost 24% in response to the change in the Federally defined eligibility requirements of qualified veterans.

As of June 30, 1983, the Corporation owned in the Alaska Housing Finance Revolving Fund $93,254,000 of mortgage loans originated by Commerce and Economic Development, Division of Veteran's Affairs, bearing interest rates of 7% and 7 1/2%. The attached schedules reflect these loans in the "non conforming" column of the Revolving Fund since the loans were closed on non uniform documents. Staff is exploring the possibility of converting these loans to a security form guaranteed by FNMA or FHLMC enabling them to become "conforming" and available to collateralize subsequent bond issues.

The increase in amounts available for future subsidy requirements as of July 1, 1985 is a result of:

1) Utilization of July 1, 1984, actual balances.

2) Decrease in estimated FY 85 mortgage demand.

3) Increase in projected investment earnings.

4) Re-implementation of the tax exempt bond funded First Time Homebuyers Program pursuant to extension of the "sunset provisions" of the Mortgage Subsidy Bond Tax Act of 1980.

5) Decreases in the level of subsidy required reflecting more efficient methods of raising mortgage capital.

Based upon the current projections it is not anticipated that an appropriation to the Alaska Housing Finance Corporation Revolving Fund is necessary for FY 86. Accordingly, submission of a capital budget will not be required.

su

Exhibit 1

1/14/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Six Months Ending June 30, 1985
(In Millions)

	Mortgage Loan Funds Available 1-1-85	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mtg. Demand Six Months Ending 6-30-85	Mortgage Loan Funds Available 6-30-85
Bonded Programs								
Taxable First Mortgage Program	$139(3)	33(1)	-0-	-0-	-0-	-0-	$127	$ 45
First Mortgage Veterans Program State Guaranteed Bonds	324		-0-	-0-	-0-	-0-	144	180
Home Mortgage Bond Program First Time Homebuyer	177		-0-	-0-	-0-	-0-	127	50
Internally Funded Programs								
Second Mortgage Program	-0-	7(2)					7	
Mobile Home Loan Program	-0-	18(2)	—	—	—	—	18	—
	$640	$ 58	—	—	—	—	$423	$275

(1) Housing and Insured Mortgage Bond prepayments.

(2) Portion of earnings and prepayments of Revolving Fund including HOF Account.

(3) Includes amounts related to subsequent issuance of $300 million collateral notes to be sold directly to FNMA.

Exhibit 2

1/14/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Six Months Ending June 30, 1985
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: January 1, 1985	$110	$ (4)	$202	$135	$ 27[1]	$470
Prepayments and principal reductions	(5)	5		(6)	6	-0-
Earnings		7			16	23
Home ownership assistance subsidies		(3)				(3)
Series G subsidy return					25	25
IMB earnings released					16	16
FY 85 legislative appropriation					16	16
Non-bonded mortgage programs						
Second mortgages				7	(7)	-0-
Mobile home loans	5	(5)		18	(18)	-0-
Balance: June 30, 1985	$110	-0-	$202	$154	$ 81	$547

(1) Includes $5 million receivable from HOF Account.

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

1/14/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1986
(In Millions)

	Mortgage Loan Funds Available 7-1-85	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 87	Mortgage Loan Funds Available 6-30-86
Bonded Programs								
Taxable First Mortgage Program	$ 45(4)	$ 70(1)	$ 200	$ (3)	$ 48	$ 64	$354	$ 70
First Mortgage Veterans Program State Guaranteed Bonds	180	20(2)	303	(8)	36	(28)	316	187
First Time Homebuyers Program Home Mortgage Bonds	50	7(2)	275	(8)	44	(36)	260	72
Internally Funded Programs								
Second Mortgage Program	-0-	10(3)					10	
Mobile Home Loan Program	-0-	40(3)					40	
	$275	$147	778	$(19)	128	-0-	$980	$329
Deferred FNMA Note Closings			300		60			
			$1,078		$188			

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

(4) Includes amounts related to subsequent issuance of $300 million collateral notes to be sold directly to FNMA.

Exhibit 4

1/14/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1986
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1985	$110	-0-	$202	$154	$ 81	$547
Prepayments and principal reductions	(10)	$10		(15)	15	-0-
Earnings		11			30	41
Home ownership assistance subsidies		(7)				(7)
IMB earnings released					16	16
Non-bonded mortgage programs						
Second mortgages				10	(10)	-0-
Mobile home loans	14	(14)		26	(26)	-0-
Reduction in loans warehoused			(92)		92	-0-
Required subsidy transfers	___	___	___	___	(188)	(188)
Balance: June 30, 1986	$114	-0-	$110	$175	$ 10	$409

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

Alaska HOUSING FINANCE CORPORATION

February 21, 1985

The Honorable Rick Uehling
Alaska House of Representatives
State Capitol
Pouch V
Juneau, Alaska 99811

Dear Representative Uehling:

You have requested an analysis of the assets which are expected to remain in the Alaska Housing Finance Revolving Fund at the end of FY 86. Enclosed are two schedules of "Projected Revolving Fund Activity" covering the balance of the current fiscal year as well as FY 86. As noted in the schedules, the Revolving Fund had approximately $470,000,000 in assets as of January 1, 1985. Since no bonds are scheduled to be issued prior to the end of the current fiscal year, these assets are expected to grow to $547,000,000 at June 30, 1985.

The issuance of an estimated $778,000,000 in bonds and delivery of $300,000,000 FNMA Collateralized Notes during FY 86 will require transfers from the Revolving Fund of approximately $196,000,000. This will put the total assets of the Revolving Fund at $409,000,000 as of June 30, 1986.

The following provides a description of the investments expected to be held by the Revolving Fund at June 30, 1986 in the amounts indicated in the attached schedules:

Account	Investment Category	Amount	Investment Description
HOF Account	Loans	$114,000,000	Nonconforming loans purchased under the rural, mobile home and second mortgage programs.
General Account	Loans/Conforming	110,000,000	Mortgage loans and mortgage backed securities held pending delivery and purchase out of bond proceeds.
General Account	Loans/Nonconforming	175,000,000	Nonconforming loans purchased under the rural, mobile home and second mortgage programs and loans originated by the Dept. of Commerce and Economic Development Division of Veterans Affairs and transferred to AHFC in 1980.
General Account	Investments	10,000,000	Liquid short term investments including Euro CD's and Collateralized Repurchase Agreements.
	TOTAL	$409,000,000	

Telephone (907) 276-5599

235 East 8th Avenue
Third Floor

P.O. Box 101020
Anchorage, Alaska 99510

Included in the "nonconforming" loans held in the General Account are approximately $90 million of 7% and 7-1/2% loans originated by the Division of Veterans Affairs and transferred to the Corporation in 1980. These loans are currently being reviewed to determine their eligibility for conversion to a guaranteed mortgage security which would make them eligible for a subsequent bond issue. This would increase the liquidity in the Revolving Fund but result in higher subsidy transfers since the Corporation would be leveraging with lower rate mortgages.

The conforming loan category in the General Account represents the warehousing of loans purchased pending their delivery for funding from bond proceeds. Loans are purchased twice each month. When enough loans bearing the same interest rate and allocated to the same bond issue have been purchased, they are "pooled" and delivered to FNMA for conversion to a FNMA Mortgage Backed Security. The Mortgage Backed Security is then delivered to the trustee for the bondholders with the funds related to the bonds released. This loan warehousing activity creates a substantial liquidity requirement. While the Corporation is reviewing its purchasing procedures in an effort to reduce the amount of funds necessary to hold the loans, it is expected that some liquidity will always be necessary.

I hope the above has adequately addressed your questions regarding the Revolving Fund. If you do require any additional information, please contact me at your convenience.

Sincerely,

Mark K. Cameron

Mark K. Cameron
Finance Director

MKC:lmg

Enclosures

1/14/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Six Months Ending June 30, 1985
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: January 1, 1985	$110	$ (4)	$202	$135	$ 27[1]	$470
Prepayments and principal reductions	(5)	5		(6)	6	-0-
Earnings		7			16	23
Home ownership assistance subsidies		(3)				(3)
Series G subsidy return					25	25
IMB earnings released					16	16
FY 85 legislative appropriation					16	16
Non-bonded mortgage programs						
Second mortgages				7	(7)	-0-
Mobile home loans	5	(5)		18	(18)	-0-
Balance: June 30, 1985	$110	-0-	$202	$154	$ 81	$547

(1) Includes $5 million receivable from HOF Account.

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

02/04/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1986
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1985	$110	-0-	$202	$154	$ 81	$547
Prepayments and principal reductions	(10)	$10		(15)	15	-0-
Earnings		11			38	49
Home ownership assistance subsidies		(7)				(7)
IMB earnings released					16	16
Non-bonded mortgage programs						
Second mortgages				10	(10)	-0-
Mobile home loans	14	(14)		26	(26)	-0-
Reduction in loans warehoused			(92)		92	-0-
Required subsidy transfers	___	___	___	___	(196)	(196)
Balance: June 30, 1986	$114	-0-	$110	$175	$ 10	$409

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

Alaska HOUSING FINANCE CORPORATION

RECEIVED 2/19/85

February 11, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Representative Grussendorf:

In accordance with AS 37.05.035, the following is a report of loans purchased by Alaska Housing Finance Corporation during fiscal year 1984.

	Number of Loans	Note Amount	Weighted Average Interest Rate Charge on Loans	Estimated Prevailing Market Rate	Difference Between Rate Charged and Prevailing Market Rate
First mortgage loans funded by issuance of taxable debt	4,612	$523,278,050	10.72%	13.8%	3.08%
First mortgage loans funded by issuance of tax-exempt Home Mortgage Bonds	3,272	270,847,450	9.89%	13.8%	3.91%
First mortgage loans funded by issuance of State Guaranteed Bonds (Veterans Mortgage Program)	4,016	467,310,100	9.51%	13.5%	3.99%
Second mortgage program	141	5,645,350	11.90%	14.2%	2.30%
Mobile home loan program	1,619	59,677,888	10.22%	15.0%	4.78%

The analysis of the income groups benefited under the loan programs is on the attached schedules.

Sincerely,

Mark K Cameron

Mark K. Cameron
Finance Director

Telephone (907) 276-5599
235 East 8th Avenue
Third Floor
P.O. Box 101020
Anchorage, Alaska 99510

ALASKA HOUSING FINANCE CORPORATION

Annual Loan Report: July 1, 1983 - June 30, 1984
Annual Family Income of Participants in Loan Programs

Second Mortgage Program

Annual Income Range	Number of Loans	Amount Purchased	Weighted Average Interest Rate Charged on Loans
$ 0 - 23,999	-0-	-0-	
24,000 - 29,999	6	$ 95,800	11.01
30,000 - 35,999	5	119,400	11.69
36,000 - 41,999	12	314,200	11.71
42,000 - 47,999	20	774,500	11.80
48,000 - 53,999	15	440,600	11.87
54,000 - 59,999	25	934,050	12.12
60,000 - 65,999	11	543,300	11.90
66,000 - 71,999	11	486,600	11.75
72,000 - 77,999	9	426,400	12.57
78,000 - 83,999	3	167,000	11.97
84,000 - 89,999	4	188,250	12.11
90,000 - 95,999	10	531,350	12.14
96,000 - 101,999	3	195,000	12.38
102,000 - 107,999	1	64,500	12.38
108,000 and above	6	364,400	12.02
Total	141	$5,645,350	

ALASKA HOUSING FINANCE CORPORATION

Annual Loan Report: July 1, 1983 - June 30, 1984
Annual Family Income of Participants in Loan Programs

Mobile Home Loan Program

Annual Income Range	Number of Loans	Amount Purchased	Weighted Average Interest Rate Charged on Loans
$ 0 - 23,999	266	$ 6,830,530	10.24
24,000 - 29,999	360	11,753,305	10.29
30,000 - 35,999	391	14,673,141	10.18
36,000 - 41,999	256	11,252,496	10.20
42,000 - 47,999	153	6,477,335	10.12
48,000 - 53,999	84	3,649,480	10.09
54,000 - 59,999	54	2,585,869	10.16
60.000 - 65,999	25	1,068,532	10.22
66,000 - 71,999	13	571,071	9.69
72,000 - 77,999	6	234,879	10.21
78,000 - 83,999	2	122,450	10.12
84,000 - 89,999	2	66,500	10.00
90,000 - 95,999	4	258,850	10.24
96,000 - 101,999	2	74,650	9.60
102,000 - 107,999	-0-	-0-	
108,000 and above	1	58,800	11.25
Total	1,619	$59,677,888	

ALASKA HOUSING FINANCE CORPORATION

Annual Loan Report: July 1, 1983 - June 30, 1984
Annual Family Income of Participants in Loan Programs

Special Mortgage Loan Purchase Program - First Mortgage
Loans Funded by Issuance of Tax-Exempt Home Mortgage Bonds

Annual Income Range	Number of Loans	Amount Purchased	Weighted Average Interest Rate Charged on Loans
$ 0 - 23,999	462	$ 31,072,350	9.93
24,000 - 29,999	762	57,611,250	9.90
30,000 - 35,999	550	43,477,800	9.81
36,000 - 41,999	507	43,636,700	9.85
42,000 - 47,999	442	41,400,150	9.90
48,000 - 53,999	268	25,806,500	9.98
54,000 - 59,999	147	14,476,750	9.93
60,000 - 65,999	72	7,172,750	10.08
66,000 - 71,999	30	3,142,750	10.10
72,000 - 77,999	20	1.928,600	9.94
78,000 - 83,999	2	189,600	10.24
84,000 - 89,999	3	263,100	10.05
90,000 - 95,999	4	395,750	10.13
96,000 - 101,999	-0-	-0-	
102,000 - 107,999	1	98,800	10.13
108,000 and above	2	174,600	10.07
Total	3,272	$270,847,450	

ALASKA HOUSING FINANCE CORPORATION

Annual Loan Report: July 1, 1983 - June 30, 1984
Annual Family Income of Participants in Loan Programs

Special Mortgage Loan Purchase Program - First Mortgage Loans Funded by Issuance of Taxable Debt

Annual Income Range	Number of Loans	Amount Purchased	Weighted Average Interest Rate Charged on Loans
$ 0 - 23,999	40	$ 2,649,050	10.40
24,000 - 29,999	138	9,450,800	10.19
30,000 - 35,999	349	27,678,500	10.11
36,000 - 41,999	501	44,856,000	10.30
42,000 - 47,999	626	63,098,550	10.52
48,000 - 53,999	630	68,054,500	10.69
54,000 - 59,999	577	67,060,250	10.87
60,000 - 65,999	497	62,183,500	11.03
66,000 - 71,999	360	47,644,700	11.15
72,000 - 77,999	279	38,983,900	11.25
78,000 - 83,999	200	28,818,350	11.31
84,000 - 89,999	128	18,461,350	11.21
90,000 - 95,999	82	12,138,250	11.27
96,000 - 101,999	55	8,598,000	11.56
102,000 - 107,999	42	6,652,550	11.48
108,000 and above	108	16,949,800	11.50
Total	4,612	$523,278,050	

ALASKA HOUSING FINANCE CORPORATION

Annual Loan Report: July 1, 1983 - June 30, 1984
Annual Family Income of Participants in Loan Programs

Special Mortgage Loan Purchase Program - First Mortgage Loans Funded by Issuance of State Guaranteed Bonds (Veterans Mortgage Program)

Annual Income Range	Number of Loans	Amount Purchased	Weighted Average Interest Rate Charged on Loans
$ 0 - 23,999	14	$ 854,800	9.52
24,000 - 29,999	50	3,573,550	9.28
30,000 - 35,999	173	14,259,550	9.29
36,000 - 41,999	454	42,951,250	9.37
42,000 - 47,999	692	72,146,500	9.46
48,000 - 53,999	677	76,036,750	9.51
54,000 - 59,999	570	68,733,300	9.52
60,000 - 65,999	414	52,663,000	9.59
66,000 - 71,999	305	40,050,350	9.59
72,000 - 77,999	221	30,624,900	9.70
78,000 - 83,999	142	20,266,550	9.67
84,000 - 89,999	84	12,343,050	9.65
90,000 - 95,999	79	11,491,950	9.70
96,000 - 101,999	37	5,437,900	9.72
102,000 - 107,999	34	5,323,450	9.63
108,000 and above	70	10,553,250	9.82
Total	4,016	$467,310,100	

SCOMM
#50:6

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF–STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

M E M O R A N D U M

DATE: February 28, 1985

TO: John Hartle, Aide
House Special Committee on Loans

FROM: P.S. Dhillon, Fiscal Analyst PSD
Legislative Finance Division

SUBJ: Loan Programs

Attached is Table I which presents cash flows for DCED and Student revolving loan funds for FY85 and FY86.

Anticipated funding and loan activity for AHFC loan programs is provided in the the attached AHFC memo.

For C&RA and DNR loan programs, using 'cash in treasury' as a starting point for determining over-capitalization (under-capitalization) may be misleading since a high proportion of this cash is restricted for commitments already made, reserves against losses, and accounts payable.

31-Q1LH

Table I
Loan Programs Cash Flow
FY 85 & FY 86
($ 000)

	cash at 1-31-85	est cash 6-30-85	FY 86 Demand	FY 86 Receipts	est cash 6-30-86	est cash Surplus
Commercial Fish	14,249.5	4,274.7	(15,204.0)	6,107.2	(4,822.1)	(4,822.1)
Fish Enhancement	15,840.4	5,635.1	(6,447.0)	.0	(811.9)	(811.9)
Alternative Tech	3,815.3	2,444.6	(4,122.5)	1,110.3	(567.6)	(567.6)
Mining Loan Fund	29,424.8	26,789.1	(9,600.0)	2,742.0	19,931.1	19,931.0
Small Business	5,161.7	6,474.9	.0	3,151.8	3,151.8	n/a 1)
Tourism Rev Loans	561.3	663.9	.0	471.4	471.4	n/a 1)
Veteran's	9,089.0	9,320.9	.0	556.6	9,877.5	8,824.9
Residential Energy	8,186.3	7,973.7	(1,200.0)	718.5	7,492.2	7,312.5
Child Care Facility	764.1	566.0	(601.5)	102.2	66.7	.0
Historical District	913.3	776.0	(300.0)	30.6	506.6	500.0
Total DCED	88,005.7	64,918.9	(37,475.0)	14,990.6	35,295.7	30,366.8
Student loans	n/a 2)	5,300.0	(81,004.8)	11,879.8	(63,825.0)	(63,825.0)

1) Transfer to General Fund at end of fiscal year
2) Cash at 6-30-84 is $8745.4

Source: Department of Commerce & Econ Development; Gov's Budget Forms L1 & L2.

LFD/2-28-85
loanfinl

Alaska HOUSING FINANCE CORPORATION

October 17, 1984

Mr. Guy Bell
Division of Budget Review
Pouch AM
Juneau, AK 99811

Dear Guy:

Find attached a copy of a memo presented to our Board of Directors at the September 18, 1984 Board meeting. It provides the justification for not requesting a general fund appropriation for FY86. If you should need more information or an update, please contact Mark or myself.

Very truly yours,

Donald V. Elliott
Controller

DVE:lmg

Attachment

Telephone (907) 276-5599

235 East 8th Avenue
Third Floor

P.O. Box 101020
Anchorage, Alaska 99510

HOUSE LOANS COMMITTEE - 4/23/85
LOAN PROGRAM FUNDING (000 GENERAL FUND)

PROGRAM/DEPT	FY 85 AUTH	GOV REVISED	REC #1
EDUCATION			
STUDENT LOAN PROGRAM	60000	63600	63600
TEACHER SCHOLARSHIP LOAN	0	600	600
DEPT TOTAL	60000	64200	64200
COMMERCE & ECONOMIC DEV			
FISHERIES ENHANCEMENT	5000	812	2071.7
COMMERCIAL FISHING	3500	3710	3710
ALT TECH & ENERGY	1000	845	845
APA RURAL ELECTRIFICATIO	0	2000	1000
APA POWER PROJECT		0	3500
RED DOG PROJECT	0	0	0
DEPT TOTAL	9500	7367	11126.7
NATURAL RESOURCES			
AGRICULTURE	5000	2500	2500
GRAIN RESERVE	500	500	500
DEPT TOTAL	5500	3000	3000
REVENUE			
AHFC	16000	0	0
DEPT TOTAL	16000		0
C&RA			
HOUSING ASSISTANCE	45000	4000	4000
DEPT TOTAL	45000	4000	4000
TOTAL LOANS (GF)	136000	78567	82326.7

Alaska State Legislature

ANCHORAGE
DOWNTOWN
DISTRICT TWELVE

AIRPORT HEIGHTS
CITY VIEW
DOWNTOWN
FAIRVIEW
GOVERNMENT HILL
INLET VIEW
SOUTH ADDITION

House of Representatives

Representative
RICK UEHLING

MEMBER
HOUSE FINANCE COMMITTEE
HOUSE SPECIAL COMMITTEE ON STATE LOANS
HOUSE FINANCE SUBCOMMITTEE ON ADMINISTRATION, REVENUE AND THE GOVERNOR'S OFFICE

To: Rep. John Sund, Chair
House Special Committee on State Loans

From: Rep. Rick Uehling

Subject: FY 86 Loans Budget

Date: April 22, 1985

I would like to express support for two programs which have been funded historically as part of the Loans Budget. First, the Senior Citizen's Housing Development Fund and second, the Low Cost and Low Income Multiple Family Housing Development Fund. I believe that the Loans Committee should consider funding these two programs at 5 million and 2.5 million dollars respectively. Below, is a proposed Loans Budget which would allow for these programs to be funded. Thank you for considering this proposal.

DEPARTMENT/PROGRAM	PROPOSED GOVERNOR	PROPOSED LOANS
EDUCATION		
Alaska Student Loan Program	$63,825,000	$63,825,000
Teacher Scholarship Loan Program	600,000	0
COMMERCE AND ECONOMIC DEVELOPMENT		
Fisheries Enhancement Loan Program	$ 812,000	$ 812,000
Commercial Fishing Loan Program	3,710,000	3,710,000
Alt. Tech. and Energy Loan Program	845,000	0
Alaska Power Authority Rural Electrification Revolving Loan Program	2,000,000	1,000,000
Alaska Industrial Development Authority Economic Development Fund - Delong Mountains Regional Transportation Facility	0	0

1526 K STREET • ANCHORAGE, ALASKA 99501 • (907) 274-4256
POUCH V • JUNEAU, ALASKA 99811 • (907) 465-4821

NATURAL RESOURCES		
Agricultural Revolving Loan Fund	$2,500,000	$1,000,000
Grain Reserve Program	500,000	1,000,000
REVENUE		
Alaska Housing Finance Revolving Fund Special Mortgage Loan Purchase Program	0	0
COMMUNITY AND REGIONAL AFFAIRS		
Housing Assistance Loan Programs	$4,000,000	$4,000,000
Senior Housing Development Fund	2,000,000	5,000,000
Low Cost Low Income Multi-Family Housing Fund	1,000,000	2,500,000
TOTAL	$81,792,000	$82,847,000

c.c. Rep. Al Adams, Chair
House Finance Committee
Members, House Special Committee on State Loans

Alaska HOUSING FINANCE CORPORATION

April 17, 1985

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

Dear Representative Sund:

John Hartle requested I respond to you with my thoughts on two topics of current interest: the transfer of the urban nonconforming loan program administered by DCRA/HAD to AHFC and the reappropriation of $50 million from the Corporation's Revolving Fund to the State's General Fund.

The transfer of the urban nonconforming loan program can be accomplished smoothly and may be a logical consolidation of programs. Every attempt would be made to categorize a loan as being "conforming" as the mortgage would then be available to be leveraged with bond funds, thereby reducing the required initial capital outlay. Without legislative direction to the contrary, the following changes to the program as operated by DCRA/HAD would be suggested to conform the program to those operated by AHFC:

- A 1/2 of 1% commitment fee would be assessed.
- Primary Mortgage Insurance would be required when the loan to value ratio exceeds 80%.
- The mortgage note used would be that of the Alaska Building Equity ("ABE") Mortgage with payment increases effective the fourth through the ninth year.
- The AHFC Mortgage Program Rider would be required imposing continued owner occupancy and the "due on sale" clause.
- The 1/4 of 1% rate premium over AHFC "conforming" loans would be maintained to create an incentive for the borrower to get the housing considered conforming.
- Newly constructed nonconforming housing would be permitted only in those cases where the construction of "conforming" housing is not possible or impractical.

Telephone (907) 276-5599
235 East 8th Avenue
Third Floor
P.O. Box 101020
Anchorage, Alaska 99510

Current projections indicate that the reappropriation of $50 million will result in the acceleration of future legislative appropriation requests by the Corporation from FY 89 to FY 88. Instead of having a $28 million balance of liquid assets in the general account of the Revolving Fund as of the end of FY 88, a $33.5 million shortfall would exist.

The Corporation's concerns related to the reappropriation fall into two categories: legal aspects and housing market psychology.

AHFC has in excess of $4 billion in bonds outstanding, all of which were issued as "general obligations" of the Corporation. We are urging that the question of whether the State has the ability to reappropriate assets back to the General Fund be resolved prior to passage of the legislation. For the Corporation to reduce the security available to bondholders by $50 million, the requirement to return the funds should be a valid and binding obligation.

The second aspect of the reappropriation question is what effect it will have on the perception as to the permanence of the loan programs. If the State's financial situation this year requires a withdrawal of AHFC funds in the magnitude of $50 million, how will the State be able to accommodate the future appropriations which may be required? If the ability of AHFC to fund future mortgage demand from currently available assets is diminished by reappropriation, will the State meet the full subsidy requirements which could approximate $100 million in future fiscal years?

If the real estate community doubts that the program will be available much longer, a rush to take advantage of it now could be expected. Residential values generally appreciate significantly during a period of accelerated activity. What happens to the values of these homes if the program is dropped suddenly should the legislature choose not to fund a future appropriation request?

If funds are to be taken from AHFC without a reasonable expectation of continuing the programs in the future when surpluses have either been returned to the State or used to subsidize mortgage loan activity, a gradual reduction in the scope of the programs should be considered. With slight program modification, however, the Corporation could operate possibly as long as FY 94 or FY 95 without future requests. While recently introduced bills in both the House and the Senate (HB 378 and SB 281) effectively shut the program down in 1988, such a drastic approach may not be necessary to prevent the requirement of future appropriation requests over the next 7 to 8 years.

I hope the above assists you in the consideration of those legislative matters affecting the Corporation. Should you require anything else, please contact me at your convenience.

Sincerely,

Mark K Cameron

Mark K. Cameron
Acting Executive Director

MKC:lmg

DRAFT A

FY 86 LOANS BUDGET

DEPARTMENT/PROGRAM	FY 86 GOVERNOR GF	FY 86 GOVERNOR Total	REVISED GF	REVISED Total
EDUCATION				
Alaska Student Loan Program	$63,600,000	$63,825,000	$60,900,000[a]	$61,125,000
Teacher Scholarship Loan Program	600,000	600,000	600,000	600,000
DEPARTMENT TOTAL:	$64,200,000	$64,425,000	$61,500,000	$61,725,000
COMMERCE AND ECONOMIC DEVELOPMENT				
Fisheries Enhancement Loan Program	$ 2,071,700	$ 2,071,700	$ 812,000	$ 812,000
Commercial Fishing Loan Program	3,710,000	3,710,000	3,710,000	3,710,000
Alt. Tech. and Energy Loan Program	1,060,000	1,060,000	845,000	845,000
Alaska Power Authority Rural Electrification Revolving Loan Program	2,000,000	2,000,000	2,000,000	2,000,000
Alaska Industrial Development Authority Economic Development Fund - DeLong Mountains Regional Transportation Facility	18,000,000	18,000,000	0	0
DEPARTMENT TOTAL:	$26,841,700	$26,841,700	$ 7,367,000	$ 7,367,000
NATURAL RESOURCES				
Agricultural Revolving Loan Fund	$ 2,500,000	$ 2,500,000	$ 2,500,000	$ 2,500,000
Grain Reserve Program	1,000,000	1,000,000	500,000	500,000
DEPARTMENT TOTAL:	$ 3,500,000	$ 3,500,000	$ 3,000,000	$ 3,000,000
REVENUE				
Alaska Housing Finance Revolving Fund Special Mortgage Loan Purchase Program	0	0	0	0
DEPARTMENT TOTAL:	0	0	0	0
COMMUNITY AND REGIONAL AFFAIRS				
Housing Assistance Loan Program	$37,000,000	$37,000,000	$ 4,000,000[b]	$ 4,000,000
DEPARTMENT TOTAL:	$37,000,000	$37,000,000	$ 4,000,000	$ 4,000,000
TOTAL:	$131,541,700	$131,766,700	$75,867,000	$76,092,000

a Reduced $2.7 million below the Governor's budget.

b Assume FY 85 interest earnings in the amount of $11,600,000 are reappropriated to the Housing Assistance Loan Fund (HALF). Assume legislative passage of statutory change to make HALF eligible to receive interest payments in FY 86 (estimated to be $14 million).

Alaska HOUSING FINANCE CORPORATION

P.O. Box 1020, Anchorage, Alaska 99510

TO: The Board of Directors DATE: September 5, 1984

FROM: Mark K. Cameron MKC
Finance Director

RE: FY 86 CAPITAL BUDGET

The mortgage demand and subsidy requirements for FY 85 have been revised to reflect the balances available as of July 1, 1984, and current projections. An analysis for FY 86 has also been prepared in connection with the State capital budget submission process. Based upon these projections assets available in the Alaska Housing Finance Corporation Revolving Fund as of July 1, 1985, combined with those estimated to be made available, are sufficient to operate the mortgage purchase activities of the Corporation through FY 86.

Mortgage demand for FY 85 was estimated to decrease 11% from that of the previous year followed by a 10% increase in FY 86. These are felt to be conservative in light of the current activity in the mortgage market. The portion of first mortgage loan activity in the Veterans Mortgage Program was dropped almost 24% in response to the change in the Federally defined eligibility requirements of qualified veterans.

As of June 30, 1983, the Corporation owned in the Alaska Housing Finance Revolving Fund $93,254,000 of mortgage loans originated by Commerce and Economic Development, Division of Veteran's Affairs, bearing interest rates of 7% and 7 1/2%. The attached schedules reflect these loans in the "non conforming" column of the Revolving Fund since the loans were closed on non uniform documents. Staff is exploring the possibility of converting these loans to a security form guaranteed by FNMA or FHLMC enabling them to become "conforming" and available to collateralize subsequent bond issues.

The increase in amounts available for future subsidy requirements as of July 1, 1985 is a result of:

1) Utilization of July 1, 1984, actual balances.

2) Decrease in estimated FY 85 mortgage demand.

3) Increase in projected investment earnings.

4) Re-implementation of the tax exempt bond funded First Time Homebuyers Program pursuant to extension of the "sunset provisions" of the Mortgage Subsidy Bond Tax Act of 1980.

5) Decreases in the level of subsidy required reflecting more efficient methods of raising mortgage capital.

Based upon the current projections it is not anticipated that an appropriation to the Alaska Housing Finance Corporation Revolving Fund is necessary for FY 86. Accordingly, submission of a capital budget will not be required.

su

Exhibit 1

1/14/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Six Months Ending June 30, 1985
(In Millions)

	Mortgage Loan Funds Available 1-1-85	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mtg. Demand Six Months Ending 6-30-85	Mortgage Loan Funds Available 6-30-85
Bonded Programs								
Taxable First Mortgage Program	$139(3)	33(1)	-0-	-0-	-0-	-0-	$127	$ 45
First Mortgage Veterans Program State Guaranteed Bonds	324		-0-	-0-	-0-	-0-	144	180
Home Mortgage Bond Program First Time Homebuyer	177		-0-	-0-	-0-	-0-	127	50
Internally Funded Programs								
Second Mortgage Program	-0-	7(2)					7	
Mobile Home Loan Program	-0-	18(2)	—	—	—	—	18	—
	$640	$ 58	—	—	—	—	$423	$275

(1) Housing and Insured Mortgage Bond prepayments.

(2) Portion of earnings and prepayments of Revolving Fund including HOF Account.

(3) Includes amounts related to subsequent issuance of $300 million collateral notes to be sold directly to FNMA.

Exhibit 2

1/14/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Six Months Ending June 30, 1985
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: January 1, 1985	$110	$ (4)	$202	$135	$ 27(1)	$470
Prepayments and principal reductions	(5)	5		(6)	6	-0-
Earnings		7			16	23
Home ownership assistance subsidies		(3)				(3)
Series G subsidy return					25	25
IMB earnings released					16	16
FY 85 legislative appropriation					16	16
Non-bonded mortgage programs						
Second mortgages				7	(7)	-0-
Mobile home loans	5	(5)		18	(18)	-0-
Balance: June 30, 1985	$110	-0-	$202	$154	$ 81	$547

(1) Includes $5 million receivable from HOF Account.

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

Exhibit 3

1/14/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1986
(In Millions)

	Mortgage Loan Funds Available 7-1-85	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 87	Mortgage Loan Funds Available 6-30-86
Bonded Programs								
Taxable First Mortgage Program	$ 45(4)	$ 70(1)	$ 200	$ (3)	$ 48	$ 64	$354	$ 70
First Mortgage Veterans Program State Guaranteed Bonds	180	20(2)	303	(8)	36	(28)	316	187
First Time Homebuyers Program Home Mortgage Bonds	50	7(2)	275	(8)	44	(36)	260	72
Internally Funded Programs								
Second Mortgage Program	-0-	10(3)					10	
Mobile Home Loan Program	-0-	40(3)					40	
	$275	$147	778	$(19)	128	-0-	$980	$329
Deferred FNMA Note Closings			300		60			
			$1,078		$188			

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

(4) Includes amounts related to subsequent issuance of $300 million collateral notes to be sold directly to FNMA.

Exhibit 4

1/14/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1986
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1985	$110	-0-	$202	$154	$ 81	$547
Prepayments and principal reductions	(10)	$10		(15)	15	-0-
Earnings		11			30	41
Home ownership assistance subsidies		(7)				(7)
IMB earnings released					16	16
Non-bonded mortgage programs						
Second mortgages				10	(10)	-0-
Mobile home loans	14	(14)		26	(26)	-0-
Reduction in loans warehoused			(92)		92	-0-
Required subsidy transfers	___	___	___	___	(188)	(188)
Balance: June 30, 1986	$114	-0-	$110	$175	$ 10	$409

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

TABLE I

LOAN PROGRAMS FY 81 - FY 86
General Fund
($ million)

Program	Fiscal Year 86	85	84	83	82	81
Economic Development:						
Agriculture Rev Loans	2.5	5.0	10.0	10.0	14.0	14.6
AIDA Enterprise Fund	.0	.0	.0	21.0	8.0	15.0
AIDA Eco Dev Fund	18.0	.0	.0	.0	.0	.0
AK Resources Corp	.0	.0	.0	.0	1.1	1.1
Commercial Fishing	3.7	3.5	9.1	9.4	9.5	21.0
Fish Enhancement	2.1	5.0	6.5	22.0	8.0	6.4
Fisherman Mtge & Note	.0	.0	.0	.0	1.8	.0
Grain Reserves Loans	1.0	.5	1.6	.0	.0	.0
Mining Loan Fund	.0	.0	.0	15.0	15.0	10.0
Small Business	.0	.0	(16.8)	.0	.0	46.7
Tourism Rev Loans	.0	.0	(2.7)	.0	.0	4.3
Education:						
Scholarship Loans	63.6	60.0	60.0	52.0	37.7	22.8
Teacher Loans	.6	.0	.0	.0	.0	.0
Energy:						
Alternative Tech	1.0	1.0	2.4	4.0	5.2	2.4
Residential Energy	.0	.0	3.1	4.5	3.3	1.6
Rural Electrification	2.0	.0	1.0	.0	6.5	.0
Housing:						
AHFC Programs	.0	16.0	49.1	150.0	265.0	277.0
C&RA Housing Asst	37.0	45.0	45.0	45.0	40.0	21.5
Medical & Child Care:						
Child Care Facility	.0	.0	.9	.4	.3	.0
Med Malpractice	.0	.0	.0	.0	.0	1.5
Res Care Facility	.0	.0	.0	.0	.1	.5
Municipal Assistance:						
Bulk Fuels	.0	.0	.0	1.0	10.0	1.5
Historical Dist	.0	.0	.5	.5	.2	.0
TOTAL	131.5	136.0	169.7	334.8	425.7	447.9

Sources:
FY 86: Governor's Proposed FY 86 Budget
FY 85: SLA 84,CH 171,Sec 301-313
FY 84: SLA 83,CH 107,Sec 15-28; SLA 83,CH 106,Sec 70
FY 83: SLA 82,CH141,Sec242; SLA83,CH106,Sec11; SLA 82,CH 114,Sec 1-13
FY 82: SLA 81,CH 82,Sec 9-15,28; SLA81,CH76,Sec1; SLA81,CH90,Sec19,36,37; SLA 82,CH 141,Sec 257; State Loan Programs, House Research, 12-82.
FY 81: SLA 80,CH 120,Sec 1-13,52; SLA 81,CH15,Sec 1; SLA 81,CH 3,Sec 1,2; SLA 81,Ch 2,Sec 2; State Loan Programs, House Research, 12-82.

Note: The data in this table is post-Revised program and may not equal the amounts specified in the appropriation bills.

LFD/Jan 3,1985

TABLE II

LOAN PROGRAMS FY 81 - FY 86
Interest Rates and Delinquency Rates *

Program / Statute		Delinquency Rate ($ 000)	Pct	Interest Rate
Econ Development:				
Agriculture Rev Loans	03.10	6,953.5	15.6	8.0
AIDA Enterprise Fund	44.88	15,270.2	4.7	varies
AIDA Eco Dev Fund	44.88	n/a	n/a	varies
Ak Resources Corp 1)	37.12	n/a	n/a	varies
Commercial Fishing	16.10	11,551.3	14.4	10.5
Fish Enhancement	16.10	.0	.0	9.5
Fish Mortage & Note 2)	16.10	n/a	n/a	n/a
Grain Reserves Loans	03.12	.0	.0	8.0
Mining Loan Fund	27.09	10,621.0	55.9	10.0
Small Business	45.95	34,198.0	48.1	9.5
Tourism Rev Loans	45.90	1,034.0	16.3	9.5
Education:				
Scholarship Loans	14.43	12,470.1	6.7	5.0
Teacher Loans	14.43	n/a	n/a	5.0
Energy:				
Alternative Tech 3)	45.88	2,403.0	22.3	5.0/15.0
Residential Energy 4)	45.89	1,039.2	19.8	5.0
Rural Electrification	44.83	.0	.0	2.0
Housing:				
C&RA Housing Asst	44.47	1,977.2	2.0	varies
AHFC Programs	18.56	113,615.0	3.0	varies
Medical & Child Care:				
Child Care Facility	44.33	103.0	15.4	7.0
Res Care Facility 2)	44.33	n/a	n/a	n/a
Med Malpractice 5)	21.88	.0	.0	6.0/7.0
Municipal Assistance:				
Bulk Fuels	45.87	148.0	.7	varies
Historical District	45.98	.0	.0	7.5

---

* Delinquency rates are from State Loan Program: Quarterly Actitvity Report, Fourth Qtr FY 84; House Research Agency, October 1984.

1). Repealed effective July 1, 1989.
2). Repealed during 1982 session.
3). Interest rate is 5.0% on the first $15,000 and 15% on the excess.
4). On loans made after 12-31/83 the interest rate is the average weekly municipal bond yield rates.
5). Interest rate is 6.0% if the borrower is unable to procure re-insurance from a private casualty insurer.

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF AGRICULTURE

P.O. BOX 949
PALMER, ALASKA 99645
PHONE (907) 745-7200

TELECOPIER COVER LETTER

PLEASE DELIVER THE FOLLOWING PAGES TO:

NAME Representative John Sund

LOCATION Alaska State Legislature - Juneau

FROM Peter Probasco - Loan Manager - Div of Agriculture - Palmer

TELEPHONE/TELECOPIER NUMBER 465-3700

TOTAL # OF PAGES 2 INCLUDING COVER SHEET

WE ARE TRANSMITTING ON THE FOLLOWING SPEED _____

DATE 3/20/85 TIME 11:00 am

IF YOU DO NOT RECEIVE ALL THE PAGES, PLEASE CALL US BACK AS SOON AS POSSIBLE.

TELEPHONE NUMBER (FOR PROBLEMS) _____

COMMENTS: _____

DRAFT

March 20, 1985

Representative John Sund
Pouch V
Juneau, Alaska 99811

Attn: John Hartle:

As per our phone conversation March 19 regarding the Agricultural Revolving Loan Fund.

At the February 6, 1985 meeting of the Loan Board of the Agricultural Revolving Loan Fund priority loan categories were established as follows:

- New dairies at Point MacKenzie.
- New dairies at Delta.
- Expanded crop products.
- Clearing loans for smaller agricultural parcels on development schedule.
- Miscellaneous needs of existing borrowers.
- Farm product processing other than red meat and dairy.
- Chattal loan other than dairy and red meat projects.

If the proposed 2.5 million appropriation to the Agricultural Revolving Loan Fund is reduced. ARLF would most likely reduce Point MacKenzie dairy loans since that is the largest category. A $500,000 reduction would eliminate a dairy or more - if the dairy were to have 150 cows, that would reduce milk to [illegible] Matanuska Maid plant by approximately 2,000,000 lbs. this coming year. A $1,000,000 reduction would have a proportionately larger impact.

Since loans must be approved by the Loan Fund Board final determination remains with the Board.

Sincerely,

Peter M. Pemberton
Loan Manager

STATE OF ALASKA

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

BILL SHEFFIELD, GOVERNOR

POUCH FP
JUNEAU, ALASKA 99811
PHONE: (907) 465-2854

M E M O R A N D U M

TO: John Hartle
Legislative Assistant to
the Special Committee on Loans

FROM: Kerry D. Romesburg, Executive Director
Alaska Commission on Postsecondary Education

DATE: March 19, 1985

The effects of less than full-funding of the Alaska Student Loan Program are outlined in the table below. If you wish additional information, please let me know.

General Fund Approp	Students Not Funded	Beginning Turning Down Loans
$63.0 million	-0-	March 1986
62.0	220	December 1985
61.0	440	October 1985
60.0	660	September/October 1985
59.0	880	August 1985
58.0	1,100	August 1985
57.0	1,320	August 1985
56.0	1,540	August 1985
55.0	1,760	July 1985
54.0	1,980	June 1985
53.0	2,200	June 1985
52.0	2,420	June 1985
51.0	2,640	June 1985
50.0	2,860	June 1985

LOANS BUDGET SUMMARY

16000

DEPARTMENT/PROGRAM	FY 85 AUTHORIZED GF	FY 85 AUTHORIZED Total	FY 86 GOVERNOR GF	FY 86 GOVERNOR Total
EDUCATION				
Alaska Student Loan Program	$60,000,000	$60,500,000	$63,600,000	63,825,000
Teacher Scholarship Loan Program	0	0	600,000	600,000
DEPARTMENT TOTAL:	$60,000,000	$60,500,000	$64,200,000	$64,425,000
COMMERCE AND ECONOMIC DEVELOPMENT				
Fisheries Enhancement Loan Program	$5,000,000	$5,000,000	$2,071,700	2,071,700
Commercial Fishing Loan Program	3,500,000	3,500,000	3,710,000	3,710,000
Alt. Tech. and Energy Loan Program	1,000,000	1,000,000	1,060,000	1,060,000
Alaska Power Authority Rural Electrification Revolving Loan Program	0	0	2,000,000	2,000,000
Alaska Industrial Development Authority Economic Development Fund - DeLong Mountains Regional Transportation Facility	0	0	18,000,000	18,000,000
DEPARTMENT TOTAL:	$9,500,000	$9,500,000	$26,841,700	$26,841,700
NATURAL RESOURCES				
Agricultural Revolving Loan Fund	$5,000,000	$5,000,000	$2,500,000	2,500,000
Grain Reserve Program	500,000	500,000	1,000,000	1,000,000
DEPARTMENT TOTAL:	$5,500,000	$5,500,000	$3,500,000	$3,500,000
REVENUE				
Alaska Housing Finance Revolving Fund Special Mortgage Loan Purchase Program	$16,000,000	$16,000,000	0	0
DEPARTMENT TOTAL:	$16,000,000	$16,000,000	0	0
COMMUNITY AND REGIONAL AFFAIRS				
Housing Assistance Loan Program	$45,000,000	$45,000,000	$37,000,000	37,000,000
DEPARTMENT TOTAL:	$45,000,000	$45,000,000	$37,000,000	$37,000,000
TOTAL:	$136,000,000	$136,500,000	$131,541,700	$131,766,700

STATE LOAN PROGRAMS

State loan programs are administered by the following departments: Commerce and Economic Development, Community and Regional Affairs, Education, Natural Resources, and Revenue. They cover such diverse areas as agriculture, housing, power development, education, and commercial fishing. Over $5.0 billion in State subsidized loans will be committed by the end of FY 85.

Student Loans

The Alaska Student Loan program provides loans to Alaska residents to finance postsecondary education. The loans may be used for attendance at any accredited or approved college, university, or vocational-technical program. The terms and conditions of the loans are intended to encourage students to remain in or return to Alaska after completing their schooling. Up to $6,000 per year is available to undergraduates and up to $7,000 per year is available to graduate students. Loans must be repaid within ten years of termination of studies and a maximum of 50 percent of a loan can be forgiven (for five years residence in Alaska after graduation). The FY 86 request for $63,600,000 in general funds combined with the carry forward from previous years, principal repaid, interest retained, and $225,000 in Federal receipts will provide an estimated $81,004,800 for this program in FY 86.

The Teacher Scholarship Loan program was established by the 1984 Legislature to encourage teachers to seek employment in rural communities. The program will provide loans for up to $10,000 per academic year to Alaskans who intend to obtain teaching certificates. With an appropriation of $600,000 in general funds the Council on Postsecondary Education will meet an estimated demand for 80 loans averaging $7,500 in FY 86.

Department of Commerce and Economic Development Business Loans

The Department of Commerce and Economic Development administers eight active revolving loan funds:

1. Commercial Fishing Loan Fund: Limited entry permits are required for commercial salmon fishing in Alaskan waters. Currently, the State provides the only active source of permit financing through the Division of Investments. The Division also provides loans for the purchase or upgrade of commercial fishing vessels to resident commercial fishermen who do not have alternative sources of income and for whom commercial fishing is a traditional way of life. The general fund request for $3,710,000, combined with carry forward, interest retained, and principal repaid, will provide approximately $13,572,100 for this program in FY 86.

2. Fisheries Enhancement Loan Fund: This loan fund promotes the enhancement of Alaska's fisheries through the provision of long-term, low-interest loans to regional and private nonprofit aquaculture associations for hatchery planning, construction, and operation. The Division of Investments anticipates that it will make one operational and seven capital improvement loans totaling $6,857,000 in FY 86, of which $2,071,700 will be funded by general fund and the remainder by carry forward from FY 85.

3. Alternative Technology and Energy Loan Fund: This fund promotes energy production alternatives to fossil or nuclear fuel. Loans assist in

the purchase, construction, and installation of wood stoves, multifuel furnaces, wind and hydroelectric systems, and passive energy systems. The general fund request for $1,060,000, combined with principal repaid and interest retained, will enable the Division of Investments to make 362 loans totaling $3,334,500 in FY 86.

4. Residential Energy Conservation Loan Fund: This fund provides low-interest loans for the purchase, construction, and installation of energy improvements in residential buildings as recommended by an energy auditor. No general fund appropriation is being requested for FY 86. The Division of Investments anticipates that it will make 308 loans totaling $1,200,000 in FY 86, all of which will be funded by carry forward, principal repaid, and interest retained.

5. Historical District Loan Fund: This loan fund promotes the restoration, improvement, rehabilitation, and maintenance of structures within the boundaries of historical districts established by Alaska statute. The Division of Investments relies heavily upon the endorsement of the local and State advisory boards in granting loans. No general fund appropriation is requested for FY 86. The Division of Investments anticipates that it will make two loans totaling $150,000 in FY 86, all of which will be funded by carry forward, principal repaid, and interest retained.

6. Child Care Facility Loan Fund: This loan program helps child care facilities in Alaska to comply with State licensing and certification standards by providing low-interest loans for facility construction, renovation, and equipment. No general fund appropriation is requested for FY 86. The Division of Investments anticipates that it will make 12 loans totaling $450,000 in FY 86, all of which will be funded by carry forward, principal repaid, and interest retained.

7. Bulk Fuel Loan Fund: This fund provides financing to small communities for the purchase of bulk fuel. Since these loans are for one year only, principal and interest payments will fund all 44 FY 86 loans.

8. Mining Loan Fund: The Mining Loan Fund provides financing for advanced mineral exploration, development, and mining in Alaska. The Division of Investments anticipates that it will make 20 loans totaling $7,000,000 in FY 86, all of which will be funded by carry forward, principal repaid, and interest retained.

Alaska Power Authority Power Development Loans

The Alaska Power Authority (APA), under the Department of Commerce and Economic Development, administers two loan programs: the Rural Electrification Revolving Loan Fund (RERLF), and the Power Project Loan Fund. The RERLF provides loans to electric utilities for the extension of transmission lines in rural areas to a minimum of three new customers. The interest rate is two percent with a 20-year maturity. The FY 86 general fund request is for $2,000,000. The Power Project Loan Fund provides financing for preconstruction, construction, modification, improvement, and expansion of power production facilities which utilize fossil fuel, wind power, tidal, geothermal, hydroelectric, solar, or waste energy. No general fund appropriation is requested for FY 86.

Alaska Industrial Development Authority Economic Development Fund

The appropriation of $18,000,000 in general funds to the Economic Development Fund of the Alaska Industrial Development Authority (AIDA) for the DeLong Mountains Regional Transportation Project is to be used for the final design of the port and road facilities for the Red Dog Mine. The repayment terms of the loan shall be established by agreement between AIDA and the Department of Revenue with terms consistent with the DeLong Mountains Transportation Project finance plan required pursuant to AS 44.88.173.

Department of Natural Resources Agricultural Loans

Sources of credit for farming and related industries are limited in Alaska. Until Alaska develops sufficient acreage and production for a viable industry, the Agriculture Revolving Loan Fund (ARLF) will remain a prime source of credit for the State's agricultural sector. The Governor's budget includes a $2,500,000 FY 85 general fund request for the ARLF which, combined with the carry forward from previous years, principal repaid, and interest retained, will provide an estimated $12,900,000 for this program in FY 86. The Governor's FY 86 budget also includes a $1,000,000 general fund request for the Grain Reserve Loan Program, which assists State grain producers in developing markets for their products by making loans secured by grain reserves.

Housing Loans

Alaska's housing loan programs are administered by the Department of Revenue, Alaska Housing Finance Corporation, and the Department of Community and Regional Affairs, Housing Assistance Division.

1. ALASKA HOUSING FINANCE CORPORATION (AHFC)

Special Mortgage Loan Purchase Program (SMLPP): This is AHFC's principal financing program, accounting for approximately 90 percent of the Corporation's lending activity. The program assists Alaskans in the acquisition and development of land and in the construction, rehabilitation, and refinancing of homes. Borrowers apply to participating lending institutions which sell the mortgages to AHFC. The borrower must reside in the dwelling to which the loan would apply. SMLPP loans are funded through the sale of taxable and tax exempt bonds combined with State appropriations. No general fund subsidy is requested for FY 86.

Mobile Home Loan Purchase Program (MHLPP): This program provides low-cost financing for mobile homes. No general fund appropriation is requested for FY 86.

Home Ownership Fund: Under this program, qualified low- and moderate-income persons receive home mortgage subsidies greater than those offered by conventional AHFC programs. In FY 86, the fund will have invested assets to generate revenues in amounts sufficient to accommodate the FY 86 demand; therefore, no general fund appropriation has been requested by AHFC for FY 86.

2. HOUSING ASSISTANCE DIVISION

Housing Assistance Loan Fund (HALF): HALF is designed to fulfill the housing needs of rural borrowers who lack adequate service from AHFC

and those who would not qualify for home loans through conventional mortgage lenders because of housing which does not conform to building codes. HALF provides State-subsidized, low-interest loans for the purchase, construction, and rehabilitation of owner and nonowner occupied, single family homes and duplexes. Six statewide offices provide direct lending services to rural areas. Like AHFC's Home Ownership Fund, HALF provides additional home mortgage subsidies to low- and moderate-income persons. The FY 86 request for $37,000,000 in general funds, combined with carry forward and principal repaid, will provide a total of $54,000,000 for this program in FY 86 which will finance approximately 600 new loans.

00035

AGENCY PRIORITY	PROGRAM TITLE	LOCATION	FUNDING	AGENCY REQUEST	GOVERNOR
1	ALASKA STUDENT LOAN PROGRAM AS 14.43.751-806	STATEWIDE	FEDERAL RECEIPTS	225.0	225.0
			GENERAL FUNDS	67,079.3	63,600.0
			OTHER:		
			TOTAL	67,304.3	63,825.0
2	TEACHER SCHOLARSHIPS AS 14.43.600-700	STATEWIDE	FEDERAL RECEIPTS		
			GENERAL FUNDS	600.0	600.0
			OTHER:		
			TOTAL	600.0	600.0
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		

A3 **AGENCY LOAN PROGRAM**

AGENCY ACPE

PAGE 1 OF 1

REVISED DATE

FY 86

00096

(6/84)-a3

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
ALASKA STUDENT LOAN PROGRAM	STATEWIDE	86-1	PAUL GULYAS/465-2854

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	62,912.3	73,818.0	84,484.1	81,004.8
TOTAL APPROPRIATIONS AND REQUESTS	60,522.5	60,500.0	67,304.3	
1002 FEDERAL RECEIPTS	522.5	500.0	225.0	225.0
1004 GENERAL FUNDS	60,000.0	60,000.0	67,079.3	63,600.0
1028 PROGRAM RECEIPTS				
1006 GENERAL OBLIGATION BONDS				
OTHER				
TOTAL OTHER PROGRAM FUNDING	11,135.2	18,672.5	17,179.8	
ESTIMATED CARRY FORWARD BALANCE	4,725.1	8,745.4	5,300.0	
INTEREST RETAINED	1,100.1	1,638.0	1,960.2	
PRINCIPAL REPAID	5,310.0	8,289.1	9,919.6	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	257,850.1
TOTAL INTEREST RETAINED	6,043.7
TOTAL BONDS ISSUED	--
BONDS AUTHORIZED BUT NOT ISSUED	--
TOTAL PROGRAM FUNDING	263,893.8

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?

NONE

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

Program is administered as a component of the Commission on Postsecondary Education. Beginning with FY 85, legislation has made it possible to pay the costs of collection from the Revolving Loan Fund. At this time it is not possible to determine what the fiscal impact will be on the fund since the collections function will probably be awarded to a private vendor.

L1 **LOAN PROGRAM DESCRIPTION**

(6/84)-11

AGENCY ACPE

CATEGORY EDUCATION

PROGRAM ADULT & POSTSECONDARY

TITLE STUDENT LOAN REVOLVING FUND

REVISED DATE 12/12/84

FY 86

00007

OTHER FINANCIAL AND PROGRAM INFORMATION	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY	28,213.2	33,369.6	38,190.9
ESTIMATED RATE OF SUBSIDY	44.8	45.2	45.2
AVERAGE LOAN SIZE	4.3	4.5	4.8
NUMBER OF LOANS MADE	14.8	16.4	17.7
VALUE OF LOANS MADE ANNUALLY	62,912.3	73,818.0	84,484.1
VALUE OF OUTSTANDING LOANS AT FY END	188,728.1	252,619.0	325,223.3
AVERAGE DELINQUENCY RATE	11.9%		
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION			
STATUTORY LOAN RATE	5%		
STATUTORY MAXIMUM LOAN MATURITY	10 yrs.		
APPROPRIATE U.S. TREASURY INTEREST RATE	12%		
ESTIMATED COST OF FUNDS FOR BOND ISSUE	-0-		
ARE PRINCIPAL DEFERMENTS ALLOWED?	YEARS	YES	NO
IF YES, NUMBER OF YEARS:	1	X	
ARE INTEREST DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	1	X	
IS LOAN FORGIVENESS ALLOWED?		X	

PROGRAM JUSTIFICATION:

The objective of the loan program is to permit qualified Alaskans an opportunity and choice in the pursuit of their individual educational goals that may otherwise not be available to them because of economic or proximal factors. The intangible and immeasurable benefits that accrue to the State because of its broadly and diversely educated citizens is evident through a cosmopolotanism that ameliorates the parochial view, and through the appreciation for Alaska that develops only when Alaskans can compare what they have to what exists elsewhere. The benefits of education cannot be adequately measured; however, the conditions that accompany ignorance are commonly witnessed.

The Alaska State Student Loan Program permits qualified residents of Alaska (two-year minimum residency) to receive up to $6,000/year for undergraduate study or $7,000/year for graduate study for up to eight years (five years maximum of undergraduate or graduate) to attend institutions that are accredited by recognized accrediting agencies. Loans carry 5% simple interest and ten year payback terms. If a student elects to return to Alaska and reside here upon completion of studies, up to 50% of the principal and interest may be forgiven. See continuation sheets for history and projections.

L2 LOAN PROGRAM JUSTIFICATION

AGENCY ACPE

CATEGORY EDUCATION

PROGRAM ADULT & POSTSECONDARY

TITLE STUDENT LOAN REVOLVING FUND

REVISED DATE

FY 86

00098

(6/84)-12

TABLE II
STUDENT FINANCIAL AIDS ADMINISTRATION
Personnel Requirements
Projected to 1989-90

Year	Loan Awards	Accounts In Repayment	Awards Staff	Repayment Staff	Records Staff	Accounting/ Support	Seasonal Staff	Total Staff Full-Time	Total Staff Seasonal
1971-72	1,081	0	2.0	0	0	0	0	2.0	0
1972-73	1,748	0	3.0	0	0	0	0	3.0	0
1973-74	1,665	0	3.0	0	0	0	1.0	3.0	1.0
1974-75	1,457	278	3.0	2.0	0	0	1.0	5.0	1.0
1975-76	1,719	550	3.0	4.0	0	0	2.0	7.0	2.0
1976-77	1,921	1,350	3.0	4.0	0	0	2.0	7.0	2.0
1977-78	2,265	1,500	3.0	5.0	0	1.0	4.0	9.0	4.0
1978-79	2,795	2,100	4.0	7.0	0	3.0	4.0	14.0	4.0
1979-80	3,918	3,510	4.0	9.0	0	5.0	0	18.0	0
1980-81	6,460	6,008	6.0	9.0	0	5.0	4.0	20.0	4.0
1981-82	9,898	11,156	7.0	10.0	1.0	6.0	5.0	24.0	5.0
1982-83	13,058	15,669	13.0	16.0	6.0	13.0	8.0	48.0	8.0
*1983-84	14,681	21,771	13.0	14.0	6.0	13.0	8.0	46.0	8.0
1984-85	16,404	29,326	14.0	15.0	6.0	13.0	9.0	48.0	9.0*
1985-86	17,693	37,435	14.0	19.0	7.0	13.0	11.0	53.0	11.0
1986-87	17,894	46,280	14.0	23.0	7.0	14.0	11.0	58.0	11.0
1987-88	17,178	55,123	14.0	27.0	8.0	14.0	11.0	63.0	11.0
1988-89	15,212	63,380	14.0	31.0	8.0	15.0	9.0	68.0	9.0
1989-90	15,465	70,254	14.0	34.0	9.0	15.0	9.0	72.0	9.0

*Below this line are projections; staffing estimates are based upon Division Staff Formula and derived from banking and loan industry standards.

Revised 9/84

L2 ADDITIONAL EXPLANATION FORM

AGENCY ACPE

PROGRAM ADULT & POSTSECONDARY

TITLE STUDENT LOAN REVOLVING FUND

PAGE 2 OF 4

REVISED DATE

FY 86

00099

(6/84)-ar1

TABLE I
STUDENT FINANCIAL AIDS ADMINISTRATION
STATE STUDENT LOAN ACTIVITY
Projected to 1989-90

Year	Loan Awards	Loan Volume	Cumulative Total	Average Loan	Loan Collections	Federal Funds	Loan Forgiveness	General Fund
1971-72	1,081	$ 1,603,158	$ 1,603,158	$1,483	$ -0-	$ -0-	$ -0-	$ 1,603,158
1972-73	1,748	2,870,384	4,473,542	1,642	-0-	-0-	-0-	2,870,384
1973-74	1,665	2,986,176	7,459,718	1,793	-0-	-0-	-0-	2,986,176
1974-75	1,457	2,659,807	10,119,525	1,826	235,476	-0-	703	2,424,331
1975-76	1,719	3,382,997	13,502,522	1,968	465,530	-0-	44,233	2,977,467
1976-77	1,921	3,850,507	17,353,029	2,004	1,141,461	-0-	64,746	2,709,046
1977-78	2,265	4,604,167	21,957,196	2,033	1,191,851	-0-	314,306	3,412,316
1978-79	2,795	6,416,402	28,373,598	2,296	1,391,643	-0-	445,985	5,024,758
1979-80	3,918	9,373,949	37,747,547	2,393	1,603,436	-0-	409,501	7,770,513
1980-81	6,460	15,957,717	53,705,264	2,475	2,225,388	-0-	555,494	13,732,329
1981-82	9,898	40,559,499	94,264,763	4,098	2,779,900	1,000,000	785,769	36,819,599
1982-83	13,058	55,007,395	149,272,158	4,213	4,609,051	1,200,000	(846,028)	49,198,344
1983-84	14,785	62,912,316	212,184,474	4,255	6,410,124	522,481	1,171,239	56,162,552
1984-85	16,404	73,818,000	286,002,474	4,500	9,927,084	350,000	1,950,101	63,540,916
1985-86	17,693	84,484,075	370,486,549	4,775	11,879,790	225,000	2,325,078	72,379,285
1986-87	17,894	90,364,700	460,851,249	5,050	15,103,702	150,000	2,944,162	75,110,998
1987-88	17,178	92,761,200	553,612,449	5,400	18,421,086	65,000	3,581,196	74,275,114
1988-89	15,212	87,088,700	640,701,149	5,725	21,667,004	25,000	4,204,507	65,396,696
1989-90	15,465	92,016,750	732,717,899	5,950	24,475,215	N.A.	4,743,765	67,541,535

*1984-85 through 1989-90 are projections

Revised 9/84

L2 ADDITIONAL EXPLANATION FORM

AGENCY ACPE

PROGRAM ADULT & POSTSECONDARY

TITLE STUDENT LOAN REVOLVING FUND

PAGE 3 OF 4

REVISED DATE

FY 86

00010

(6/84)-ael

TABLE III: ALASKA STUDENT LOAN BORROWING PATTERN
CUMULATIVE--BY MONTH

MONTH	1982-83 NUMBER	1982-83 AMOUNT	1983-84 NUMBER	1983-84 AMOUNT	1984-85 NUMBER	1984-85 AMOUNT
July	4,680	$22,726,850	9,786	$48,324,850	12,132	$62,227,500
August	11,160	53,216,600	11,908	58,301,100		
September	11,895	56,597,800	12,679	61,742,800		
October	12,225	57,877,591	13,026	62,557,928		
November	12,670	59,015,013	13,333	63,104,118		
December	13,233	60,478,565	13,320	62,019,340		
January	13,249	59,577,042	13,778	63,008,166		
February	12,827	56,635,639	14,118	63,271,889		
March	12,863	55,673,321	14,240	62,926,298		
April	12,910	55,249,483	14,435	63,401,389		
May	12,990	55,213,197	14,637	63,517,081		
June	13,053	55,007,395	14,785	62,912,316		

9/84

L2 ADDITIONAL EXPLANATION FORM

AGENCY ACPE

PROGRAM ADULT & POSTSECONDARY

TITLE STUDENT LOAN REVOLVING FUND

REVISED DATE

FY 86

00011

(6/84)-ael

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
TEACHER SCHOLARSHIPS	STATEWIDE	86-2	PAUL GULYAS/465-2854

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND			600.0	600.0
TOTAL APPROPRIATIONS AND REQUESTS			600.0	
1002 FEDERAL RECEIPTS				
1004 GENERAL FUNDS			600.0	600.0
1028 PROGRAM RECEIPTS				
1006 GENERAL OBLIGATION BONDS				
OTHER				
TOTAL OTHER PROGRAM FUNDING				
ESTIMATED CARRY FORWARD BALANCE				
INTEREST RETAINED				
PRINCIPAL REPAID				

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	0.0
TOTAL INTEREST RETAINED	--
TOTAL BONDS ISSUED	--
BONDS AUTHORIZED BUT NOT ISSUED	--
TOTAL PROGRAM FUNDING	0.0

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?

NONE

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

First year funding for the program as established by the 1984 Legislature. See next form (L2) for justification.

L1 **LOAN PROGRAM DESCRIPTION**

(6/84)-11

AGENCY ACPE

CATEGORY EDUCATION

PROGRAM ADULT & POSTSECONDARY

TITLE TEACHER SCHOLARSHIPS

REVISED DATE

FY 86

00012

OTHER FINANCIAL AND PROGRAM INFORMATION

	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY			600.0
ESTIMATED RATE OF SUBSIDY			
AVERAGE LOAN SIZE			7.5
NUMBER OF LOANS MADE			8.0
VALUE OF LOANS MADE ANNUALLY			
VALUE OF OUTSTANDING LOANS AT FY END			
AVERAGE DELINQUENCY RATE			
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION

STATUTORY LOAN RATE	
STATUTORY MAXIMUM LOAN MATURITY	
APPROPRIATE U.S. TREASURY INTEREST RATE	12%
ESTIMATED COST OF FUNDS FOR BOND ISSUE	

	YEARS	YES	NO
ARE PRINCIPAL DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☐
ARE INTEREST DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☐
IS LOAN FORGIVENESS ALLOWED?		☐	☐

PROGRAM JUSTIFICATION:

The 1984 Legislature passed HB 504 (now AS 14.43.600-700) creating the Teacher Scholarship Program. The program is intended to make loans for up to $10,000 per academic year available to Alaskans who intend to obtain teaching certificates. The program is designed to encourage teachers to seek employment in rural communities and it discourages the high teacher turnover now experienced.

The estimated demand for these funds is based upon an average loan of $7,500 for 80 students.

L2 **LOAN PROGRAM JUSTIFICATION**

(6/84)-12

AGENCY ACPE

CATEGORY EDUCATION

PROGRAM ADULT & POSTSECONDARY

TITLE TEACHER SCHOLARSHIPS

REVISED DATE

FY 86

30913

MEMORANDUM

State of Alaska

00014

TO: Peter B. McDowell, Director
Office of Management and Budget
Office of the Governor

DATE: September 28, 1984

FILE NO:

TELEPHONE NO: 465-2500

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

SUBJECT: FY 86 Loan Budget

The attached loan budget submission is the department's formal budget proposal.

RAL/JB/mlm

RECEIVED
OCT 4 - 1984
BUDGET REVIEW

02-001A(Rev. 10/79)

AGENCY PRIORITY	PROGRAM TITLE	LOCATION	FUNDING	AGENCY REQUEST	GOVERNOR
1	Rural Electrication Revolving Loan Fund	Statewide	FEDERAL RECEIPTS		
			GENERAL FUNDS	2,000.0	2,000.0
			OTHER:		
			TOTAL	2,000.0	
2	Commercial Fishing Loan Act	Statewide	FEDERAL RECEIPTS		
			CENERAL FUNDS	5,500.0	3,710.0
			OTHER:		
			TOTAL	5,500.0	
3	Fisheries Enhancement Loan Program	Statewide	FEDERAL RECEIPTS		
			GENERAL FUNDS	2,071.7	2,071.7
			OTHER:		
			TOTAL	2,071.7	
4	Alternative Energy Loan Program	Statewide	FEDERAL RECEIPTS		
			GENERAL FUNDS	1,775.5	1,060.0
			OTHER:		
			TOTAL	1,775.5	
5	DeLong Mountains Regional Transportation Project	ED 22	FEDERAL RECEIPTS		
			GENERAL FUNDS	18,000.0	18,000.0
			OTHER:		
			TOTAL	18,000.0	
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		

A3 **AGENCY LOAN PROGRAM**

AGENCY Commerce & Economic Development

PAGE 1 OF 1

REVISED DATE

FY 86

00015

(6/84)-a3

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Rural Electrification Revolving Loan Fund, AS 44.83.361	Statewide		William H. Batt Associate Executive Director, Finance/Administration (276-0001)

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	2,000.0	1,100.0	4,500.0	4,500.0
TOTAL APPROPRIATIONS AND REQUESTS	1,000.0	0	2,000.0	
1002 FEDERAL RECEIPTS				
1004 GENERAL FUNDS	1,000.0	0	2,000.0	2,000.0
1028 PROGRAM RECEIPTS				
1006 GENERAL OBLIGATION BONDS				
OTHER				
TOTAL OTHER PROGRAM FUNDING	4,600.0	3,600.0	2,500.0	
ESTIMATED CARRY FORWARD BALANCE	4,600.0	3,600.0	2,500.0	
INTEREST RETAINED				
PRINCIPAL REPAID				

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	7,500.0
TOTAL INTEREST RETAINED	0
TOTAL BONDS ISSUED	0
BONDS AUTHORIZED BUT NOT ISSUED	0
TOTAL PROGRAM FUNDING	7,500.0

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86? $25,000 incl legal fees (DOL), pers. svces. Travel

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?
0

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

This Loan Fund was created by the Legislature in Sec. 1, Ch. 118 SLA 1981. It was originally funded by a $6.5 million appropriation in FY81. Loans can be made to certified public utilities for loans to extend transmission and distribution lines to bring central generation service to a minimum of three new customers. Loans bear an interest rate of two percent per annum on the unpaid balance. The loan must be secured by pledge of revenue, lien/mortgage, or pledge of the taxing power of the borrower. Loans must be approved by the Alaska Power Authority which is assisted by a loan advisory committee made up of local residents of the area served by the applicant utility. Loans maximum repayment term is twenty years. Loan demand is anticipated to increase during FY86 because of changes in the legislation which regulates fund, to be considered by the Legislature in SLA 1985, to remove conflict between the Rural Electrification Association (REA) and the State security requirements. REA is the federal program which provides rural utilities with low cost financing for extension and distribution of service to customers but this program has suffered substantial cutbacks and no other alternative funding sources are available to Alaska rural communities.

L1 **LOAN PROGRAM DESCRIPTION**

5153/184

(6/84)-11

AGENCY Department of Commerce-Alaska Power Authority

CATEGORY Development

PROGRAM Energy Development

TITLE Rural Electrification Revolving Loan Fund

REVISED DATE

FY 86

00016

L1 Cont..ed

Replenishment of this loan fund through repayment of outstanding loans will not occur for several years. This funding request is to maintain the fund at a level where rural utilities demands/needs can be satisfied.

No appropriation was made to this fund in FY85. Funding this request at 75 percent or 50 percent would influence the rural communities and utilities on a direct basis. In such occurrences further restrictions regarding the size of the loans would be necessary, a clear cut analysis as to the urgency of the loan would have to be prepared, and strengthening of the definition for which the proceeds of the loan could be utilized. Funds may not be available at all for communities applying for loans later in the FY.

OTHER FINANCIAL AND PROGRAM INFORMATION			
	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY	1,000.0	0	4,500.0
ESTIMATED RATE OF SUBSIDY	10%	10%	15%
AVERAGE LOAN SIZE	595.0	370.0	-
NUMBER OF LOANS MADE	4	3	-
VALUE OF LOANS MADE ANNUALLY	2,375.0	1,100.0	-
VALUE OF OUTSTANDING LOANS AT FY END	3,845.0	4,945.0	-
AVERAGE DELINQUENCY RATE	0	0	-
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION			
STATUTORY LOAN RATE	2%		
STATUTORY MAXIMUM LOAN MATURITY	20 years		
APPROPRIATE U.S. TREASURY INTEREST RATE	12%		
ESTIMATED COST OF FUNDS FOR BOND ISSUE			
	YEARS	YES	NO
ARE PRINCIPAL DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	[X]	[ ]
ARE INTEREST DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	[ ]	[X]
IS LOAN FORGIVENESS ALLOWED?		[ ]	[X]

PROGRAM JUSTIFICATION:

It is the policy of State to reduce consumer power costs (AS 44.83.010)
This loan fund AS 44.83.362 was created to provide low cost financing for the extension of electric service lines into rural areas for utilities which do not have access to the Rural Electrification Administration (REA) loan programs and for REA utility borrowers which are experiencing difficulty in obtaining REA loans due to federal cutbacks in the REA program. Utilities cannot extend service into new areas because the costs would impact rates significantly for the utilities existing customers unless the potential new customers can guarantee payments to the utility to repay the investment cost of the new subdivisions cannot afford the out front financial obligations imposed by utilities in order to extend new service. This situation continues from year to year until a new rural area is sufficiently developed to permit the utility and the new customers to come to agreement on the merits of a line extension.

L2 LOAN PROGRAM JUSTIFICATION

AGENCY Department of Commerce - Alaska Power Authority

CATEGORY Development

PROGRAM Energy Development

TITLE Rural Electrification Revolving Loan Fund

PAGE 1 OF 1

REVISED DATE

FY 86

00018

6/85)/17184

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Commercial Fishing Loan Act	Statewide	1	Paul Arnoldt 465-2510

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	13,904.8	15,000.0	15,000.0	13,572.1
TOTAL APPROPRIATIONS AND REQUESTS	9,091.0	3,500.0	5,500.0	
1002 FEDERAL RECEIPTS	-0-	-0-	-0-	
1004 GENERAL FUNDS	9,091.0	3,500.0	5,500.0	3,710.0
1028 PROGRAM RECEIPTS	-0-	-0-	-0-	
1006 GENERAL OBLIGATION BONDS	-0-	-0-	-0-	
OTHER	-0-	-0-	-0-	
TOTAL OTHER PROGRAM FUNDING	14,035.1	14,762.1	9,862.1	
ESTIMATED CARRY FORWARD BALANCE	6,135.9	8,762.1	3,262.1	
INTEREST RETAINED	3,136.4	2,900.0	3,400.0	
PRINCIPAL REPAID	4,762.8	3,100.0	3,200.0	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	55,291.0
TOTAL INTEREST RETAINED	10,706.4
TOTAL BONDS ISSUED	-0-
BONDS AUTHORIZED BUT NOT ISSUED	-0-
TOTAL PROGRAM FUNDING	65,997.4

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?

567.3

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?

None

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

Description: This is a revolving loan fund which means that, as payments are collected, then those funds become available to be lent out to new borrowers. Interest accrues from the date of the loan and is generally payable on an annual basis.

Under Section A (AS 16.10.310), loans may be made for the purchase of limited entry permits. The maximum loan amount is $300,000; the maximum maturity is 15 years and the interest rate is 10-1/2%. Limited entry permits are required for several fisheries and are expensive to purchase. Since only two entities (the Department of Commerce and Economic Development and the Commercial Fishing and Agriculture Bank) can legally take limited entry permits as collateral, Alaskan fishermen rely on these programs to assist them in purchasing permits. Currently, CFAB is not making loans for the purchase of permits and, thus, the State provides the only active source of permit financing.

L1 **LOAN PROGRAM DESCRIPTION**

(6/84)-11

AGENCY Commerce & Economic Development

CATEGORY Development

PROGRAM Economic Development

TITLE Commercial Fishing Loan Act

REVISED DATE

FY 86

00019

(Description continued)

Under Section B (individuals) and Section C (partnership and corporations), loans may be made to commercial fishermen who do not have alternative sources of financing available to them for the purchase of limited entry permits, and the purchase or upgrading of commercial fishing vessels and gear. The maximum loan amount is $100,000; the maximum maturity is 15 years and the interest rate is 10-1/2%.

25% Reduction: A 25% reduction in FY '86 requested general funds will result in a corresponding reduction of 28 loans that could have been made. Since permit lending is limited primarily to the State, permit financing will become the State's top priority. As a result, the reduction of all 28 loans will take place in the purchase, construction or upgrading of commercial fishing vessels and gear under Section B cannot be made.

50% Reduction: A 50% reduction in FY '86 requested general funds will result in a corresponding reduction of 50 loans that could have been made. Again, permit financing will become the State's top priority. As a result, these loans will not be made for the purchase, construction or upgrading of commercial fishing vessels and gear under Section B.

L-1 **ADDITIONAL EXPLANATION FORM**

AGENCY Commerce & Economic Development

PROGRAM Development

BRU Economic Development

COMPONENT Commercial Fishing Loan Act

REVISED DATE

FY 86

00020

(6/84)-ae1

OTHER FINANCIAL AND PROGRAM INFORMATION

	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY	1,095.9	1,182.2	1,182.2
ESTIMATED RATE OF SUBSIDY	7.9%	7.9%	7.9%
AVERAGE LOAN SIZE	58.0	50.0	50.0
NUMBER OF LOANS MADE	240	300	300
VALUE OF LOANS MADE ANNUALLY	13,914.8	15,000.0	15,000.0
VALUE OF OUTSTANDING LOANS AT FY END	48,783.3	60,683.3	72,483.3
AVERAGE DELINQUENCY RATE	25.2	25.0	20.0
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION

STATUTORY LOAN RATE	10.5%
STATUTORY MAXIMUM LOAN MATURITY	15 yrs.
APPROPRIATE U.S. TREASURY INTEREST RATE	12%
ESTIMATED COST OF FUNDS FOR BOND ISSUE	-0-

	YEARS	YES	NO
ARE PRINCIPAL DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☒
ARE INTEREST DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☒
IS LOAN FORGIVENESS ALLOWED?		☐	☒

PROGRAM JUSTIFICATION:

The purpose of the loan fund is to encourage and promote Alaska's commercial fishing industry and to develop a predominantly resident fishery by making low-interest, long-term fishing loans. Section A authorizes financing of limited entry permits and is presently the only active source of funding for permits. Section B authorizes financing of permits, vessels and gear for commercial fishermen who, because of marginal earnings and credit history, cannot obtain financing from private lending institutions. Low-interest, long-term fishing loans with relaxed credit requirements would assure continuation of current lifestyles for many Alaskans and will help to retain limited entry permits in rural Alaska. The current loan subsidy should help to promote one of Alaska's main revenue resources as well as reduce the financial aid given to rural and coastal Alaskan fishing communities through the Departments of Labor and Health & Social Services.

Expected economic benefits will be seen in the growth of Alaska's fishing industry, by creating direct jobs, and by assisting in maintaining the percentage of Alaskans holding limited entry permits. The loan program strengthens and diversifies Alaska's economic base by supporting a self-sustaining, private economic base in rural and coastal Alaska.

L2 **LOAN PROGRAM JUSTIFICATION**

(6/84)-12

AGENCY Commerce & Economic Development

CATEGORY Development

PROGRAM Economic Development

TITLE Commercial Fishing Loan Act

REVISED DATE

FY 86

00021

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Fisheries Enhancement Loan Program	Statewide	2	Paul Arnoldt 465-2510

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	6,775.8	15,260.0	6,857.0*	6,857.0
TOTAL APPROPRIATIONS AND REQUESTS	6,500.0	5,000.0	-0-	
1002 FEDERAL RECEIPTS	-0-	-0-	-0-	
1004 GENERAL FUNDS	6,500.0	5,000.0	2,071.7	2,071.7
1028 PROGRAM RECEIPTS	-0-	-0-	-0-	
1006 GENERAL OBLIGATION BONDS	-0-	-0-	-0-	
OTHER	-0-	-0-	-0-	
TOTAL OTHER PROGRAM FUNDING	15,496.9	15,045.3	4,785.3	
ESTIMATED CARRY FORWARD BALANCE	15,190.9	15,045.3	4,785.3	
INTEREST RETAINED	56.0	-0-	-0-	
PRINCIPAL REPAID	250.0	-0-	-0-	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	47,500.0
TOTAL INTEREST RETAINED	-0-
TOTAL BONDS ISSUED	N/A
BONDS AUTHORIZED BUT NOT ISSUED	N/A
TOTAL PROGRAM FUNDING	47,500.0

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?

$150.2

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?

None

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

Description: This program promotes the private ownership of salmon hatcheries by qualified nonprofit corporations for the purpose of contributing to the rehabilitation of Alaska's salmon fishery. These State loans further the economic development of commercial and sportfishing industries and benefit subsistence fisheries.

AS 16.10.500-620 authorizes loans for hatchery planning, construction and operation and for enhancement and rehabilitation activities, including, but not limited to, lake fertilization and habitat improvement. The maximum loan amount is $10,000,000 per project for a qualified regional aquaculture association and $1,000,000 per project for a local nonprofit corporation as approved by the regional aquaculture association. The maximum loan maturity is 30 years and the interest rate is 9-1/2%. This is a revolving loan fund which means that, as payments are collected, then those funds become available to be lent out to new borrowers. Interest does not accrue during the initial period of the loan, which is a period of time (as determined by the Commissioner), of not less than six years nor more than 10 years from the date the loan is made. In addition, repayment of principal and interest does not begin until after this initial period. Payments are generally made on an annual basis.

*Includes contingency loans (see page 6 of 8).

L1 LOAN PROGRAM DESCRIPTION

(6/84)-11

AGENCY Commerce & Economic Development

CATEGORY Economic Development

PROGRAM Investments

TITLE Fisheries Enhancement Loan Program

REVISED DATE 11/08/84

FY 86

00622

(Description continued)

25% Reduction: A 25% reduction in FY '86 requested general funds will result in a reduction in the number of loans that could be made. Operation loans to existing facilities would receive highest priority and would account for $2,955,000 of the FY '86 request. This would leave $3,384,175 available to fund capital improvement and contingency loans that are estimated to be $3,902,000. Some capital improvement and contingency loans to existing facilities would not be funded, placing the financial feasibility of the facilities in jeopardy.

50% Reduction: A 50% reduction in FY '86 requested general funds would have a more drastic effect. Again, continuation of operating loans would account for $2,955,000 leaving $2,866,150 available to make capital improvement and contingency loans to existing hatchery facilities capital improvement and contingency loans again are estimated to be $3,902,000. The shortfall would require allocation of loans for capital improvement and contingencies, most likely on a first-come-first-serve basis. This also would mean that loans to existing facilities would not be funded, placing the financial feasibility of these facilities in jeopardy.

The Governor has placed a moratorium on loans for new hatcheries in FY '85. The Governor's Mini-cabinet on Fisheries is reviewing State policy on all hatchery development in the State. The following summary indicates which projects will be funded under the moratorium in FY '85 and if continued in FY '86 as well as additional proposed projects which would not be funded under a moratorium in FY '85 or FY '86.

PROJECTS NOT SUBJECT TO MORATORIUM AND TO BE FUNDED IN FY '85

Operation Loan Requests - During the start up period of each hatchery, until broodstock and surplus returns can be built to capacity, assistance in meeting the annual operating costs will be given in the form of operating loans. Without these loans most facilities would be forced to close their doors.

Facility Name	FY '85 Request
Alaska Aquaculture Foundation (Burnett Inlet)	$ 80,000
Armstrong-Keta, Inc. (Port Armstrong)	251,000

(Description Continued)

Facility Name	FY '85 Request
Cook Inlet Aquaculture (Eklutna Lake)	$ 130,000
Douglas Island Pink & Chum (Sheep Creek)	5,000
Kake Nonprofit Fishery (Gunnuk Creek)	170,000
Meyers Chuck Aquaculture Association	98,000
Nerka, Inc. (Perry Island)	44,000
Northern Southeast Regional Aquaculture Association (Salmon Creek)	300,000
Northern Southeast Regional Aquaculture Association (Medvejie)	210,000
Southern Southeast Regional Aquaculture Association (Whitman Lake)	500,000
Southern Southeast Regional Aquaculture Association (Neets Bay)	200,000
Tlingit Haida Fisheries (Sandy Bay)	230,000
Valdez Fisheries Development (Solomon Gulch)	450,000
Additional Requests and Increases	300,000
TOTAL Operation Loans	$ 2,968,000

Capital Improvement Loans - These loans are to be made to existing facilities who are building in phases or purcnasing capital items to bring a facility to its maximum permitted potential.

Facility Name	FY '85 Request
Alaska Aquaculture Foundation (Burnett Inlet)	$ 300,000
Armstrong-Keta, Inc. (Port Armstrong)	85,000
Cook Inlet Aquaculture (Eklutna Lake)	200,000
Kake Nonprofit Fishery (Gunnuk Creek)	85,000
Meyers Chuck Aquaculture Association	44,000
Northern Southeast Regional Aquaculture Association (Salmon Creek)	500,000
Southern Southeast Regional Aquaculture Association (Whitman Lake)	50,000
Southern Southeast Regional Aquaculture Association (Neets Bay)	150,000
Valdez Fisheries Development (Solomon Gulch)	300,000
TOTAL Capital Improvement Loans	$ 1,714,000

L-1 ADDITIONAL EXPLANATION FORM

AGENCY Commerce & Economic Development

PROGRAM Economic Development

BRU Investments

COMPONENT Fisheries Enhancement Loan Program

REVISED DATE 10/23/84

FY 86

00624

(6/84)-ae1

(Description Continued)

Additional new construction projects to be funded in FY '85:

Prince William Sound Aquaculture Association (Ester Lake) new construction	$10,000,000
Meyers Chuck Aquaculture Association	570,000
TOTAL	$10,578,000

SUMMARY OF PROJECTS TO BE FUNDED IN FY '85:

Operations Loans	$ 2,968,000
Capital Improvements	1,714,000
Additional New Construction Projects	10,578,000
TOTAL	$15,260,000

PROJECTS SUBJECT TO MORATORIUM AND NOT FUNDED IN FY '85:

Preconstruction Loans - These loans are made to preliminary permit holders who need engineering work done before ADF&G will issue a final permit.

Facility Name	FY '85 Request
Douglas Island Pink & Chum (Fish Creek)	$ 100,000
Northern Southeast Regional Aquaculture Association (Medvejie)	125,000
Projects Receiving New Permits	104,000
TOTAL, Preconstruction Loans	$ 329,000

L-1 ADDITIONAL EXPLANATION FORM

AGENCY: Commerce & Economic Development

PROGRAM: Economic Development

BRU: Investments

COMPONENT: Fisheries Enhancement Loan Program

REVISED DATE: 10/25/84

FY 86

00625

(6/84)-ae1

(Description Continued)

New Construction Loans - for the initial phase of new facilities.

Facility Name	FY '85 Request
Douglas Island Pink & Chum (Fish Creek)	$ 3,000,000
Nerka, Inc. (Perry Island)	861,000
Northern Southeast Regional Aquaculture Association (Medvejie)	1,500,000
Projects Not Yet Permitted	1,200,000
TOTAL, New Construction Loans	$ 6,561,000

SUMMARY OF PROJECTS NOT FUNDED IN FY '85

Preconstruction Loans	$ 329,000
New Construction Loans	6,561,000
TOTAL	$ 6,890,000

PROJECTS NOT SUBJECT TO MORATORIUM AND TO BE FUNDED IN FY '86

Operations Loans	FY '86 Request
Alaska Aquaculture Foundation (Burnett Inlet)	$ 130,000
Armstrong-Keta (Port Armstrong)	250,000
Cook Inlet Aquaculture Association (Eklutna Lake)	150,000
Douglas Island Pink & Chum (Sheep Creek)	225,000
Kake Nonprofit (Gunnuck Creek)	195,000
Meyers Chuck Aquaculture Association (Meyers Chuck)	145,000

L-1 ADDITIONAL EXPLANATION FORM

AGENCY Commerce & Economic Development

PROGRAM Economic Development

BRU Investments

COMPONENT Fisheries Enhancement Loan Program

REVISED DATE 10/26/84

FY 86

00926

(6/84)-ae1

(Description Continued)

Northern Southeast Regional Aquaculture Association (Medvejie)	250,000
Prince William Sound Aquaculture Association (Ester Lake)	750,000
Southern Southeast Regional Aquaculture Association (Neets Bay)	200,000
Tlingit-Haida Fisheries (Sandy Bay)	410,000
Valdez Fish Development Association (Solomon Gulch)	450,000
TOTAL	$ 2,955,000

Capital Improvement Loans	FY '86 Request
Alaska Aquaculture Foundation (Burnett Inlet)	$ 50,000
Kake Nonprofit (Gunnuck Creek)	155,000
Meyers Chuck Aquaculture Association (Meyers Chuck)	75,000
Northern Southeast Regional Aquaculture Association (Medvejie)	200,000
Southern Southeast Regional Aquaculture Association (Neets Bay)	1,000,000
Tlingit-Haida Fisheries (Sandy Bay)	272,000
Valdez Fish Development Association (Solomon Gulch)	150,000
TOTAL	$ 1,902,000

Contingency

Both private nonprofit and regional aquaculture association hatcheries have experienced unscheduled shortfalls in funds due to inadequate returns on fish, natural disasters and other contingencies.

(Description Continued)

Based on this experience, the department anticipates that by the end of FY '86 an additional $2,000,000 will be necessary for these kinds of loans to assure the viability of existing hatchery operations. Management of the return of fish to the hatcheries to permit economic operation of the hatcheries is a problem that is being addressed by the Division of Commercial Fisheries, Department of Fish and Game.

TOTAL	$ 2,000,000

SUMMARY OF PROJECTS TO BE FUNDED:

Operations Loans	$ 2,955,000
Capital Improvement Loans	1,902,000
SUBTOTAL	$ 4,857,000
Contingency	2,000,000
TOTAL	$ 6,857,000

PROJECTS SUBJECT TO MORATORIUM AND NOT FUNDED IN FY '86

Preconstruction Loans

Cook Inlet Aquaculture Association (Ekultna Lake)	$ 250,000
Gro-Fish Incorporated (Santa Ana Creek)	50,000
Kodiak Regional Aquaculture Association	500,000
TOTAL	$ 800,000

L-1 ADDITIONAL EXPLANATION FORM

(6/84)-ae1

AGENCY Commerce & Economic Development

PROGRAM Economic Development

BRU Investments

COMPONENT Fisheries Enhancement Loan Program

(Description continued)

New Construction Loans

Douglas Island Pink and Chum (Eastern)		$ 5,000,000
Douglas Island Pink and Chum (Fish Creek)		3,000,000
Gro-Fish Incorporated (Santa Ana Creek)		155,000
	TOTAL	$ 8,155,000

Operations Loans

Douglas Island Pink and Chum (Eastern)		$ 300,000
Douglas Island Pink and Chum (Fish Creek)		250,000
Gro-Fish Incorporated (Santa Ana Creek)		182,000
Kodiak Regional Aquaculture Association		200,000
Nerka		200,000
		$ 1,132,000

SUMMARY OF PROJECTS NOT FUNDED IN FY '86

Preconstruction		$ 800,000
New Construction		8,155,000
Operations		1,132,000
	TOTAL	$10,087,000

L-1 ADDITIONAL EXPLANATION FORM

(6/84)-ae1

AGENCY Commerce & Economic Development

PROGRAM Economic Development

BRU Investments

COMPONENT Fisheries Enhancement Loan Program

OTHER FINANCIAL AND PROGRAM INFORMATION

	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY	3,912.6	8,811.7	3,959.5
ESTIMATED RATE OF SUBSIDY	57.7	57.7	57.7
AVERAGE LOAN SIZE	374.4	610.4	269.8*
NUMBER OF LOANS MADE	18	25	18*
VALUE OF LOANS MADE ANNUALLY	6,775.8	15,260.0	6,857.2
VALUE OF OUTSTANDING LOANS AT FY END	27,108.2	42,368.2	49,225.2
AVERAGE DELINQUENCY RATE	-0-	-0-	-0-
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION

STATUTORY LOAN RATE	9 1/2%
STATUTORY MAXIMUM LOAN MATURITY	30 yrs.
APPROPRIATE U.S. TREASURY INTEREST RATE	12%
ESTIMATED COST OF FUNDS FOR BOND ISSUE	-0-

	YEARS	YES	NO
ARE PRINCIPAL DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	6-10	[X]	[ ]
ARE INTEREST DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	6-10	[X]	[ ]
IS LOAN FORGIVENESS ALLOWED?		[X]	[ ]

Interest Only - First six years

PROGRAM JUSTIFICATION:

Long-term, low-interest loans to qualified nonprofit corporations will enhance the development of Alaska's salmon resources, increase egg production, and create additional jobs. The measure of success of the program will be increased egg capacity due to construction of new nonprofit hatcheries and funding of operational and enhancement loans for existing nonprofit facilities.

Egg production should increase by 90.0 million eggs as a result of three new loans to be made in FY '86. In addition, a total of 11 operational and enhancement loans will be made. Existing facilities currently have a combined egg capacity of 633.7 million eggs.

Financing for these projects is not available from the private sector because of the subsidized interest rates and liberal loan terms necessary to make the projects feasible. Private financial institutions cannot afford to forgive interest and forego principal payments for a six-to-ten year period, nor incur the high risk involved in these loans. It takes several years before revenue from the sale of returning fish is available to make payments.

*Does not include contingency loans.

L2 **LOAN PROGRAM JUSTIFICATION**

(6/84)-12

AGENCY Commerce & Economic Development

CATEGORY Economic Development

PROGRAM Investments

TITLE Fisheries Enhancement Loan Program

REVISED DATE 11/08/84

FY 86

00030

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Alternative Technology and Energy Revolving Loan Fund	Statewide		Paul Arnoldt 465-2510

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	3,509.4	5,290.0	4,050.0	3,334.5
TOTAL APPROPRIATIONS AND REQUESTS	2,400.0	1,000.0	1,775.5	
1002 FEDERAL RECEIPTS	-0-	-0-	-0-	
1004 GENERAL FUNDS	2,400.0	1,000.0	1,775.5	1,060.0
1028 PROGRAM RECEIPTS	-0-	-0-	-0-	
1006 GENERAL OBLIGATION BONDS	-0-	-0-	-0-	
OTHER	-0-	-0-	-0-	
TOTAL OTHER PROGRAM FUNDING	4,286.4	4,714.5	2,274.5	
ESTIMATED CARRY FORWARD BALANCE	1,897.7	3,053.2	424.5	
INTEREST RETAINED	524.9	500.0	550.0	
PRINCIPAL REPAID	1,863.8	1,161.3	1,300.0	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	15,035.4
TOTAL INTEREST RETAINED	1,774.9
TOTAL BONDS ISSUED	-0-
BONDS AUTHORIZED BUT NOT ISSUED	-0-
TOTAL PROGRAM FUNDING	16,810.3

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?

$398.5

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?

None

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

Description: AS 45.88.010-500 authorizes making loans for energy production utilizing energy sources other than fossil or nuclear fuel. The maximum loan amount is $30,000; the maximum maturity is 20 years and the interest rate is 5% for the first $15,000 of the loan and 15% for the amount of the loan that exceeds $15,000. This is a revolving loan fund which means that, as payments are collected, then those funds become available to be lent out to new borrowers. Interest accrues from the date of the loan and is generally payable on a monthly basis. Loan projects will emphasize the use of renewable energy resources within the State as opposed to nonrenewable resources. These loans will promote economic development in the alternative energy industry and the construction industry.

25% Reduction: A 25% reduction in FY '86 authorized funding will result in a corresponding reduction of 113 loans that could have been made. Lending priorities that emphasize wood stoves, multi-fuel furnaces, wind and hydroelectric systems as top priorities would be established. This will result in a reduction in passive energy systems such as solar heating units and solar sunspaces.

L1 **LOAN PROGRAM DESCRIPTION**

AGENCY Commerce & Economic Development

CATEGORY Economic Development

PROGRAM Investments

TITLE ~~Alternative Technology and~~ Energy Revolving Loan Fund

FY 86

REVISED DATE 11/15/84

00031

(6/84)-11

(Description continued)

50% Reduction: A 50% reduction in FY '86 authorized funding will result in a corresponding reduction of 225 loans that could have been made. Again, woodstoves, multi-furnaces, wind and hydro-electric systems would be identified as top priorities. These loans will be in lieu of other types of energy loans.

L-1 ADDITIONAL EXPLANATION FORM

AGENCY: Commerce & Economic Development

PROGRAM: Economic Development

BRU: Investments

COMPONENT: Alternative Technology and Energy Revolving Loan Fund

REVISED DATE: 11/15/84

FY 86

00032

(6/84)-ael

OTHER FINANCIAL AND PROGRAM INFORMATION			
	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY	1,361.9	2,052.8	1,571.6
ESTIMATED RATE OF SUBSIDY	38.8%	38.8%	38.8%
AVERAGE LOAN SIZE	9.0	9.2	9.2
NUMBER OF LOANS MADE	392	575	450
VALUE OF LOANS MADE ANNUALLY	3,509.4	5,290.0	4,050.0
VALUE OF OUTSTANDING LOANS AT FY END	11,571.2	15,699.9	18,449.9
AVERAGE DELINQUENCY RATE	8.0	8.0	7.0
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION			
STATUTORY LOAN RATE	5% up to $15,000 *15% over $15,000		
STATUTORY MAXIMUM LOAN MATURITY	20		
APPROPRIATE U.S. TREASURY INTEREST RATE	12%		
ESTIMATED COST OF FUNDS FOR BOND ISSUE	N/A		
ARE PRINCIPAL DEFERMENTS ALLOWED?	YEARS	YES ☐	NO ☒
IF YES, NUMBER OF YEARS:	____	☐	☒
ARE INTEREST DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☒
IS LOAN FORGIVENESS ALLOWED? *		☐	☒

PROGRAM JUSTIFICATION:

The purpose of the loan fund is to encourage the use of renewable energy resources within Alaska and limit Alaska's dependence on nonrenewable resources. Recognizing that it takes several years to achieve substantial energy savings, a long-term, low-interest loan program was established. Although some funding is available through private lending institutions, this funding is at a higher interest rate and under stricter terms.

Long-term, low-interest loans make alternative energy projects attractive to homeowners. Energy planning and development is a goal of the State; therefore, alternative energy projects should be encouraged through State loan subsidies.

Expected economic benefits will be seen through a decrease in the number of power projects required to supply the State's energy needs and a decrease in the State's dependence on oil and gas. Subsidizing renewable energy projects now is money which will reduce the long-term costs of additional power projects and the dependency of the State on fossil fuel.

* For purposes of subsidy calculation, a composite interest rate of 5.25 per cent is assumed. This is based upon actual data in FY '84.

L2 **LOAN PROGRAM JUSTIFICATION**

(6/84)-12

AGENCY: Commerce & Economic Development

CATEGORY: Economic Development

PROGRAM: Investments

TITLE: Alternative Technology and Energy Revolving Loan Fund

REVISED DATE: 11/15/84

FY 86

90033

Some of the types of loans being made under this program that have shown to be cost-effective are catalytic wood-stoves, multi-fuel furnaces, wind generators and hydroelectric systems. Solar heating units and solar sunspaces are not proving to be as cost effective as these other types of energy loans.

L-2 **ADDITIONAL EXPLANATION FORM**

AGENCY Commerce & Economic Development

PROGRAM Economic Development

BRU Investments

COMPONENT Alternative Technology and Energy Revolving Loan Fund

REVISED DATE

FY 86

00034

(6/84)-ae1

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
DeLong Mountains Regional Transportation Project	Northwest Alaska		Bertram Wagnon 274-1651

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND			18,000.0	18,000.0
TOTAL APPROPRIATIONS AND REQUESTS			18,000.0	
1002 FEDERAL RECEIPTS				
1004 GENERAL FUNDS			18,000.0	
1028 PROGRAM RECEIPTS				
1006 GENERAL OBLIGATION BONDS				
OTHER				
TOTAL OTHER PROGRAM FUNDING				
ESTIMATED CARRY FORWARD BALANCE				
INTEREST RETAINED				
PRINCIPAL REPAID				

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	
TOTAL INTEREST RETAINED	
TOTAL BONDS ISSUED	
BONDS AUTHORIZED BUT NOT ISSUED	
TOTAL PROGRAM FUNDING	

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?

0.0

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?

0.0

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

In FY '85, AIDA received a $3,400.0 appropriation to design a 55 mile road and regional port system linking DeLong Mountains mineral resource area with the coast. This request will fund first year of estimated three to four years construction program for road, dock and port facilities. The total transportation project is estimated to cost approximately $155 - $160 million. A finance plan is being prepared that will outline alternative feasible sources of funding. User fees will be charged to pay operational costs and recover capital costs, including loan repayments. Since the finance plan has not been completed, the terms of the loan are not yet known. Hence, the extent of the subsidy requested, if any, is not known at this time.

L1 LOAN PROGRAM DESCRIPTION

(6/84)-11

AGENCY Alaska Industrial Development Authority

CATEGORY Development

PROGRAM Economic Development Fund

TITLE DeLong Mountains Regional Transportation Project

REVISED DATE

FY 86

00035

OTHER FINANCIAL AND PROGRAM INFORMATION

	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY			**
ESTIMATED RATE OF SUBSIDY			
AVERAGE LOAN SIZE			
NUMBER OF LOANS MADE			
VALUE OF LOANS MADE ANNUALLY			
VALUE OF OUTSTANDING LOANS AT FY END			
AVERAGE DELINQUENCY RATE			
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION

STATUTORY LOAN RATE	
STATUTORY MAXIMUM LOAN MATURITY	
APPROPRIATE U.S. TREASURY INTEREST RATE	12%
ESTIMATED COST OF FUNDS FOR BOND ISSUE	

	YEARS	YES	NO
ARE PRINCIPAL DEFERMENTS ALLOWED?		☐	☐
IF YES, NUMBER OF YEARS:	____		
ARE INTEREST DEFERMENTS ALLOWED?		☐	☐
IF YES, NUMBER OF YEARS:	____		
IS LOAN FORGIVENESS ALLOWED?		☐	☐

PROGRAM JUSTIFICATION:

**Subsidy unknown at this time, since terms of loan have not yet been decided (see L1). If completed, project will be used to open up DeLong Mountains area to major mineral development. The initial user would be Cominco Alaska, for the Red Dog mine. This project will create an estimated 350 - 400 new direct permanent jobs, with a payroll between $11.2 to $12.9 million. Additionally, approximately 225 secondary and indirect jobs will be created. State taxes generated from this project are estimated to range from $9 to $20 million annually.

L2 LOAN PROGRAM JUSTIFICATION

(6/84)-12

AGENCY Alaska Industrial Development Authority

CATEGORY Development

PROGRAM Economic Development Fund

TITLE DeLong Mountains Regional Transportation Project

FY 86

REVISED DATE

00036

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Bulk Fuel Revolving Loan Fund	Statewide		Paul Arnoldt 465-2510

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	1,979.5	1,700.0	1,700.0	
TOTAL APPROPRIATIONS AND REQUESTS	-0-	-0-	-0-	
1002 FEDERAL RECEIPTS	-0-	-0-	-0-	
1004 GENERAL FUNDS	-0-	-0-	-0-	
1028 PROGRAM RECEIPTS	-0-	-0-	-0-	
1006 GENERAL OBLIGATION BONDS	-0-	-0-	-0-	
OTHER	-0-	-0-	-0-	
TOTAL OTHER PROGRAM FUNDING	2,509.0	2,609.4	2,759.4	
ESTIMATED CARRY FORWARD BALANCE	1,107.4	609.4	909.4	
INTEREST RETAINED	-0-	-0-	-0-	
PRINCIPAL REPAID	1,401.6	2,000.0	1,850.0	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	3,500.0
TOTAL INTEREST RETAINED	-0-
TOTAL BONDS ISSUED	-0-
BONDS AUTHORIZED BUT NOT ISSUED	-0-
TOTAL PROGRAM FUNDING	3,500.0
WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?	$78.7
WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?	None

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

The loan program provides financing for small communities to purchase bulk fuel oil. An organized municipality or unincorporated village with a population under 2,000, or an individual endorsed by the municipality may apply for a loan. Depending upon a community's needs, up to $50,000 can be borrowed. In most cases, a community is not required to pay any interest on its first bulk fuel loan. An interest rate of 5 percent may be assessed on a community's second bulk fuel loan, and an interest rate based upon the municipal bond rate may be charged on subsequent loans. A bulk fuel loan must be repaid within one year.

No general fund appropriation is requested in FY '86. Loans will be made from the existing loan fund balance and repayments of principal and interest from prior loans.

L1 **LOAN PROGRAM DESCRIPTION**

(6/84)-11

AGENCY Commerce & Economic Development

CATEGORY Development

PROGRAM Economic Development

TITLE Bulk Fuel Revolving Loan Fund

REVISED DATE

FY 86

00037

OTHER FINANCIAL AND PROGRAM INFORMATION

	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY	79.1	48.8	37.3
ESTIMATED RATE OF SUBSIDY	4.0%	2.9%	2.2%
AVERAGE LOAN SIZE	38.8	38.8	38.8
NUMBER OF LOANS MADE	51	44	44
VALUE OF LOANS MADE ANNUALLY	1,979.5	1,700.0	1,700.0
VALUE OF OUTSTANDING LOANS AT FY END	403.9	400.0	400.0
AVERAGE DELINQUENCY RATE	12%	12%	12%
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION

STATUTORY LOAN RATE	*
STATUTORY MAXIMUM LOAN MATURITY	1 year
APPROPRIATE U.S. TREASURY INTEREST RATE	12%
ESTIMATED COST OF FUNDS FOR BOND ISSUE	N/A

	YEARS	YES	NO
ARE PRINCIPAL DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☒
ARE INTEREST DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☒
IS LOAN FORGIVENESS ALLOWED?		☐	☒

PROGRAM JUSTIFICATION:

This loan program, established in 1980, is to assist communities in purchasing bulk fuel. A community, or a private individual who has written endorsement from the governing body of the community is eligible for a loan. The program is part of the overall goal of the Investments BRU: "to promote economic development through direct State lending within those industries that are not adequately served by the private sector." The program intended to reduce the cost of energy in the State by promoting regional and local energy self-sufficiency and development of efficient methods to distribute local energy resources.

Economic benefits from the program consist primarily in creating economies of scale for small communities in purchasing bulk fuel and the avoidance of high cost emergency fuel shipments in the winter. Given the magnitude of the subsidy, the direct economic benefits that can accrue to a community are a highly effective way of distributing State resources.

If this program was eliminated, private financial institutions might fill the need for this assistance. However, it is unlikely that the terms of such loans would be as favorable as the loans under this program and collateral requirements might be imposed.

* The interest rate under the program varies according to the number of prior loans under the program. See 3 AAC 87.030. For purposes of subsidy calculation interest rates are assumed to be 4.5% in FY '84, 6.5% in FY '85 and 8.0% in FY '86.

L2 **LOAN PROGRAM JUSTIFICATION**

(6/84)-12

AGENCY Commerce & Economic Development

CATEGORY Development

PROGRAM Economic Development

TITLE Bulk Fuel Revolving Loan Fund

REVISED DATE

FY 86

00038

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Child Care Facility Revolving Loan Fund	Statewide		Paul Arnoldt 465-2510

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	391.4	450.0	450.0	
TOTAL APPROPRIATIONS AND REQUESTS	869.5	-0-	-0-	
1002 FEDERAL RECEIPTS	-0-	-0-	-0-	
1004 GENERAL FUNDS	869.5	-0-	-0-	
1028 PROGRAM RECEIPTS	-0-	-0-	-0-	
1006 GENERAL OBLIGATION BONDS	-0-	-0-	-0-	
OTHER	-0-	-0-	-0-	
TOTAL OTHER PROGRAM FUNDING	509.9	1,038.6	695.6	
ESTIMATED CARRY FORWARD BALANCE	355.1	902.6	588.6	
INTEREST RETAINED	31.5	36.0	42.0	
PRINCIPAL REPAID	123.3	100.0	65.0	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	1,578.5
TOTAL INTEREST RETAINED	117.4
TOTAL BONDS ISSUED	-0-
BONDS AUTHORIZED BUT NOT ISSUED	-0
TOTAL PROGRAM FUNDING	1,695.9

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?

$26.7

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?

None

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

The loan program provides financing for the construction, renovation, or purchase of equipment for the operation of child care facilities in the State. Depending upon the needs of the applicant, up to $50,000 can be borrowed at an interest rate of 7 percent on the outstanding loan balance. Up to 20 years may be allowed to repay the loan. Collateral will be required to secure the loan.

No general fund appropriation is requested in FY '86. Loans will be made from the existing loan fund balance and repayments of principal and interest from prior loans.

L1 **LOAN PROGRAM DESCRIPTION**

AGENCY: Commerce & Economic Development

CATEGORY: Development

PROGRAM: Economic Development

TITLE: Child Care Facility Revolving Loan Fund

REVISED DATE

FY 86

00039

(6/84)-11

OTHER FINANCIAL AND PROGRAM INFORMATION

	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY	115.9	133.3	133.3
ESTIMATED RATE OF SUBSIDY	29.6%	29.6%	29.6%
AVERAGE LOAN SIZE	35.6	37.5	37.5
NUMBER OF LOANS MADE	11	12	12
VALUE OF LOANS MADE ANNUALLY	391.4	450.0	450.0
VALUE OF OUTSTANDING LOANS AT FY END	708.6	1,058.6	1,443.6
AVERAGE DELINQUENCY RATE	5.0	5.0	3.0
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION

STATUTORY LOAN RATE	7%
STATUTORY MAXIMUM LOAN MATURITY	20 years
APPROPRIATE U.S. TREASURY INTEREST RATE	12%
ESTIMATED COST OF FUNDS FOR BOND ISSUE	N/A

	YEARS	YES	NO
ARE PRINCIPAL DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☒
ARE INTEREST DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☒
IS LOAN FORGIVENESS ALLOWED?		☐	☒

PROGRAM JUSTIFICATION:

This loan program, established in 1976, is intended to make funds available for the construction, renovation and equipping of child care facilities, including private nonprofit child care facilities. This program is part of the overall goal of the Investments BRU: "to promote economic development through direct State lending within those industries that are not adequately served by the private sector." Loans under the program will make additional child care facilities available statewide.

Success of the program is generally measured by the number of new facilities opened pursuant to loans granted by the department and the number of new child care slots created. The overall level of subsidy is modest when compared to the social and economic benefits of the program. The availability of child care services in the State permits many individuals to enter the workforce and engage in productive careers.

While loans from private financial institutions would be available to potential borrowers under this program if the program were discontinued, it would be at higher interest rates. Additionally, there would be a substantial risk that borrowers might be crowded out by other requests for financing from more traditional enterprises.

L2 **LOAN PROGRAM JUSTIFICATION**

(6/84)-12

AGENCY Commerce & Economic Development

CATEGORY Development

PROGRAM Economic Development

TITLE Child Care Facility Revolving Loan Fund

REVISED DATE

FY 86

00040

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Historical District Revolving Loan Fund	Statewide		Paul Arnoldt 465-2510

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	100.0	150.0	150.0	
TOTAL APPROPRIATIONS AND REQUESTS	500.0	-0-	-0-	
1002 FEDERAL RECEIPTS	-0-	-0-	-0-	
1004 GENERAL FUNDS	500.0	-0-	-0-	
1028 PROGRAM RECEIPTS	-0-	-0-	-0-	
1006 GENERAL OBLIGATION BONDS	-0-	-0-	-0-	
OTHER	-0-	-0-	-0-	
TOTAL OTHER PROGRAM FUNDING	496.6	1,019.7	891.9	
ESTIMATED CARRY FORWARD BALANCE	475.8	997.7	869.7	
INTEREST RETAINED	17.4	18.0	17.7	
PRINCIPAL REPAID	3.4	4.0	4.5	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	1,200.0
TOTAL INTEREST RETAINED	76.9
TOTAL BONDS ISSUED	-0-
BONDS AUTHORIZED BUT NOT ISSUED	-0-
TOTAL PROGRAM FUNDING	1,276.9

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?

$13.4

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?

None

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

The loan program is for the restoration, improvement, rehabilitation, or maintenance of historical buildings. Individuals 18 years old or older, firms, businesses or municipalities may apply for a loan. The building must be located in a historical district and the project must be approved by a local Historical District Commission and by the Historic Sites Advisory Committee. Up to $250,000 can be borrowed under the loan program. An interest rate of 7 1/2 percent per year will be charged on the total amount of outstanding loan balance and up to 30 years may be allowed for repayment. Collateral is required to secure loans.

No general fund appropriation is requested in FY '86. Loans will be made from the existing balance of the loan fund.

L1 LOAN PROGRAM DESCRIPTION

(6/84)-11

AGENCY Commerce & Economic Development

CATEGORY Development

PROGRAM Economic Development

TITLE Historical District Revolving Loan Fund

REVISED DATE

FY 86

00941

OTHER FINANCIAL AND PROGRAM INFORMATION			
	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY	32.0	48.0	48.0
ESTIMATED RATE OF SUBSIDY	32.0%	32.0%	32.0%
AVERAGE LOAN SIZE	100.0	75.0	75.0
NUMBER OF LOANS MADE	1	2	2
VALUE OF LOANS MADE ANNUALLY	100.0	150.0	150.0
VALUE OF OUTSTANDING LOANS AT FY END	242.7	388.7	534.2
AVERAGE DELINQUENCY RATE	-0-	-0-	-0-
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION			
STATUTORY LOAN RATE	7-1/2%		
STATUTORY MAXIMUM LOAN MATURITY	30 years		
APPROPRIATE U.S. TREASURY INTEREST RATE	12%		
ESTIMATED COST OF FUNDS FOR BOND ISSUE	-0-		
	YEARS	YES	NO
ARE PRINCIPAL DEFERMENTS ALLOWED?		☐	☒
IF YES, NUMBER OF YEARS:	____		
ARE INTEREST DEFERMENTS ALLOWED?		☐	☒
IF YES, NUMBER OF YEARS:	____		
IS LOAN FORGIVENESS ALLOWED?		☐	☒

PROGRAM JUSTIFICATION:

This loan program, established in 1977, is intended to make funds available to those seeking to restore or improve buildings of historic value. Accordingly, the program is part of the overall objective of the Investments BRU - "to promote economic development through direct State lending within those industries that are not adequately served by the private sector.

In establishing the program, the Legislature declared: "It is the intent of the Legislature to foster an awareness of the need to preserve our historic past; to protect those visible aspects of our invaluable heritage so that present and future generations may continue to be enriched by the originality and strength of Alaska's architectural and cultural beginnings."

Financing projects under the program will be of benefit to the local construction and tourism industries. Most program benefits are unquantifiable, although in the subjective view of some citizens individual projects may be of great importance and value given the modest degree of the subsidy.

Absent this program, private financing for improvements to historical properties would continue to be available through traditional lending sources, although at higher interest rates. No new funds for this program are requested in FY '84. The last appropriation for the program was in FY '84. The program has little effect on private lending institutions.

L2 **LOAN PROGRAM JUSTIFICATION**

AGENCY Commerce & Economic Development

CATEGORY Development

PROGRAM Economic Development

TITLE Historical District Revolving Loan Fund

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Mining Loan Fund	Statewide		Paul Arnoldt 465-2510

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	3,863.2	7,000.0	4,000.0	
TOTAL APPROPRIATIONS AND REQUESTS	-0-	-0-	-0-	
1002 FEDERAL RECEIPTS	-0-	-0-	-0-	
1004 GENERAL FUNDS	-0-	-0-	-0-	
1028 PROGRAM RECEIPTS	-0-	-0-	-0-	
1006 GENERAL OBLIGATION BONDS	-0-	-0-	-0-	
OTHER	-0-	-0-	-0-	
TOTAL OTHER PROGRAM FUNDING	32,993.0	30,861.1	26,661.1	
ESTIMATED CARRY FORWARD BALANCE	28,691.6	28,361.1	23,861.1	
INTEREST RETAINED	2,206.5	1,000.0	1,000.0	
PRINCIPAL REPAID	2,094.9	1,500.0	1,800.0	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	55,000.0
TOTAL INTEREST RETAINED	3,830.0
TOTAL BONDS ISSUED	-0-
BONDS AUTHORIZED BUT NOT ISSUED	-0-
TOTAL PROGRAM FUNDING	58,830.5

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?

$186.6

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?

None

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

The loan program provides funds for advanced mineral exploration, development or mining in the State. Residents with five or more years mining or prospecting experience in the State may apply for loans as may partnerships if at least half of the partners each have five years mining or prospecting experience and at least half are residents. A corporation may apply if at least 51 percent of its shares are held by persons with at least five years mining or prospecting experience and are residents.

Up to $5,000,000 may be borrowed under the program. Interest is charged at a rate of 10 percent on the total amount of the outstanding loan. Collateral, in the form of mortgages on real property, an assignment of a leasehold interest in mining claims or a security interest in machinery or equipment, may be required to protect the investment of the State. Up to 15 years may be allowed to repay the loan.

No general fund appropriation is requested in FY '86. Loans will be made from the existing loan fund balance and repayments of principal and interest from prior loans.

L1 **LOAN PROGRAM DESCRIPTION**

(6/84)-11

AGENCY Commerce & Economic Development

CATEGORY Development

PROGRAM Economic Development

TITLE Mining Loan Fund

REVISED DATE

FY 86

00043

OTHER FINANCIAL AND PROGRAM INFORMATION			
	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY	1,014.9	1,839.0	1,839.0
ESTIMATED RATE OF SUBSIDY	26.3	26.3	26.3
AVERAGE LOAN SIZE	275.9	350.0	350.0
NUMBER OF LOANS MADE	14	20	20
VALUE OF LOANS MADE ANNUALLY	3,863.2	7,000.0	7,000.0
VALUE OF OUTSTANDING LOANS AT FY END	20,811.9	26,311.9	28,511.9
AVERAGE DELINQUENCY RATE	40.0	40.0	40.0
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION			
STATUTORY LOAN RATE	10 %		
STATUTORY MAXIMUM LOAN MATURITY	15 years		
APPROPRIATE U.S. TREASURY INTEREST RATE	12%		
ESTIMATED COST OF FUNDS FOR BOND ISSUE	N/A		
	YEARS	YES	NO
ARE PRINCIPAL DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	up to 5 years*	[X]	[ ]
ARE INTEREST DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	[ ]	[X]
IS LOAN FORGIVENESS ALLOWED?		[ ]	[X]

*Assumed on average to be two years for purposes of subsidy calculation.

PROGRAM JUSTIFICATION:

This program, established in 1980, is intended to make funds available "to underwrite advanced mineral exploration, development, or mining in the State." Accordingly, it is a key part of the overall objective of the Investments BRU: "to promote economic development through direct State lending within those industries that are not adequately served by the private sector." This program represents one of the classic methods of economic development available to a State Government and should be continued.

The economic benefits that are generated from the program are directly tied to the successful development of a primary industry: mineral production. Operating mines produce economic development and benefits across a broad spectrum of the economy including construction, direct employment, processing, manufacturing, transportation, finance and service industries. The benefits of the program cannot be fully appreciated by reference to the sudsidy. Mining ventures traditionally have difficulty in raising investment capital and, therefore, perhaps the primary benefit under the program is the simple availability of funds. Given the potential that exists for mineral development in the State and the permanent economic benefit that can be created through operating mines, the subsidy represents an appropriate expenditure of State funds.

Few, if any, alternatives exist that can generate the kinds of direct benefits offered by this loan program. A technical assistance program to mining enterprises would supplement but not replace the loan program. If available, private financing would only be possible at substantially higher cost.

L2 LOAN PROGRAM JUSTIFICATION

(6/84)-12

AGENCY Commerce & Economic Development

CATEGORY Development

PROGRAM Economic Development

TITLE Mining Loan Fund

REVISED DATE

FY 86

00944

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Residential Energy Conservation Fund	Statewide		Paul Arnoldt 465-2510

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	1,280.0	1,500.0	1,200.0	
TOTAL APPROPRIATIONS AND REQUESTS	3,123.4	-0-	-0-	
1002 FEDERAL RECEIPTS	-0-	-0-	-0-	
1004 GENERAL FUNDS	3,123.4	-0-	-0-	
1028 PROGRAM RECEIPTS	-0-	-0-	-0-	
1006 GENERAL OBLIGATION BONDS	-0-	-0-	-0-	
OTHER	-0-	-0-	-0-	
TOTAL OTHER PROGRAM FUNDING	5,787.4	9,057.5	8,982.5	
ESTIMATED CARRY FORWARD BALANCE	4,244.3	7,707.5	7,557.5	
INTEREST RETAINED	268.9	250.0	225.0	
PRINCIPAL REPAID	1,274.2	1,100.0	1,200.0	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	13,330.0
TOTAL INTEREST RETAINED	869.9
TOTAL BONDS ISSUED	-0-
BONDS AUTHORIZED BUT NOT ISSUED	-0-
TOTAL PROGRAM FUNDING	14,226.9

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?

$344.9

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?

None

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

The program is for the purchase, construction or installation of energy conservation improvements in existing residential buildings. Depending upon the needs of the borrower and the potential energy benefits from the improvements, up to $5,000 can be borrowed under the loan program. Up to 10 years may be allowed for repayment of the loan. Collateral will be required to secure the obligation to the State. The interest rate charged under the program is based upon an index of municipal bond and varies slightly from month to month. As an example, the interest rate charged in January 1984 was 10.25 percent and the rate for April 1984 was 10.05 percent.

No general fund appropriation is requested in FY '86. Loans will be made from the existing loan fund balance and repayments of principal and interest from prior loans.

L1 **LOAN PROGRAM DESCRIPTION**

(6/84)-11

AGENCY Commerce & Economic Development

CATEGORY Development

PROGRAM Economic Development

TITLE Residential Energy Conservation Fund

REVISED DATE

FY 86

00045

OTHER FINANCIAL AND PROGRAM INFORMATION

	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY	281.2	88.6	62.5
ESTIMATED RATE OF SUBSIDY	26.1%/7.0%	5.9%	5.2%
AVERAGE LOAN SIZE	3.9	3.9	3.9
NUMBER OF LOANS MADE	322	385	308
VALUE OF LOANS MADE ANNUALLY	1,280.0	1,500.0	1,200.0
VALUE OF OUTSTANDING LOANS AT FY END	5,352.6	5,752.6	5,752.6
AVERAGE DELINQUENCY RATE	5.9	5.0	5.0
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION

STATUTORY LOAN RATE	*
STATUTORY MAXIMUM LOAN MATURITY	10 years
APPROPRIATE U.S. TREASURY INTEREST RATE	12%
ESTIMATED COST OF FUNDS FOR BOND ISSUE	-0-

	YEARS	YES	NO
ARE PRINCIPAL DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☒
ARE INTEREST DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☒
IS LOAN FORGIVENESS ALLOWED?		☐	☒

PROGRAM JUSTIFICATION:

This loan program, established in 1980, is intended to make funds available to those seeking to make energy conservation improvements to residential buildings. As has been seen on the national level in recent years, these kinds of improvements, when taken in the aggregate, can have a significant impact on the growth of energy demand.

The program is part of the overall objective of the Investment BRU: "to promote economic development through direct State lending within those industries that are not adequately served by the private sector." The program additionally serves as an ongoing incentive to residents of the State to make energy conservation improvements. Under the terms of the program's enabling legislation, loans may not exceed the total energy savings attributable to the improvement over a 10 year period or $5,000, whichever is less.

Economic benefits in the form of sustained demand and availability of energy saving products and energy savings to consumers accrue to local merchants and borrowers. The State, in general, benefits from reduced reliance on high cost energy sources such as oil, natural gas and electrical generation facilities. The 10 year payback calculation, expressed in terms of energy dollars, and the number of loans made, are good indicators of the success of the program.

* The interest rate for the program was changed by the Legislature on January 1, 1984. Loans made prior to that date were at 5%. Loans made after that date vary according to an average of municipal revenue bond yields. For the second half of the FY '84, the rate is assumed to 10.25%. For FY '85, 10.5% and FY '86, 10.75%.

L2 **LOAN PROGRAM JUSTIFICATION**

(6/84)-12

AGENCY Commerce & Economic Development

CATEGORY Development

PROGRAM Economic Development

TITLE Residential Energy Conservation Fund

REVISED DATE

FY 86

00946

The rate of subsidy under the program has been reduced and stabilized following the implementation of a market-related interest rate in January 1984. Alternatives to the loan program include reinstitution of the grant program for energy conservation improvements which existed prior to July 1983 and elimination of the loan fund. The grant program would have a far greater impact on the State's general fund if the same improvements would be eligible for funding and the funds are made available on an equitable basis throughout the State. Elimination of the loan program would simply shift the demand for these kinds of home improvements to private financial institutions. While interest rates would be higher through private lending institutions, the lack of eligibility would ensure that the new demand would be easily absorbed. Obviously, however, an effective incentive to making energy conservation improvements would be lost.

L-2 **ADDITIONAL EXPLANATION FORM**

(6/84)-ae1

AGENCY Commerce & Economic Development

PROGRAM Development

BRU Economic Development

COMPONENT Residential Energy Conservation Fund

REVISED DATE

FY 86

00047

AGENCY PRIORITY	PROGRAM TITLE	LOCATION	FUNDING	AGENCY REQUEST	GOVERNOR
	Agricultural Revolving Loan Fund	Statewide	FEDERAL RECEIPTS		
			GENERAL FUNDS	15,000.0	2,500.0
			OTHER:		
			TOTAL	15,000.0	
	Grain Reserve Program	Statewide	FEDERAL RECEIPTS		
			GENERAL FUNDS	1,500.0	1,000.0
			OTHER:		
			TOTAL	1,500.0	
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		

A3 **AGENCY LOAN PROGRAM**

AGENCY Natural Resources

PAGE 1 OF 1

REVISED DATE

FY 86

00048

(6/84)-a3

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Agricultural Revolving Loan Fund	Statewide		Pete Probasco, Loan Manager 745-7200

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND *	14,000.0	20,000.0	30,000.0	12,923.2
TOTAL APPROPRIATIONS AND REQUESTS	10,000.0	5,000.0	15,000.0	
1002 FEDERAL RECEIPTS				
1004 GENERAL FUNDS	10,000.0	5,000.0	15,000.0	2,500.0
1028 PROGRAM RECEIPTS				
1006 GENERAL OBLIGATION BONDS				
OTHER				
TOTAL OTHER PROGRAM FUNDING	11,630.5	15,217.5	12,818.9	
ESTIMATED CARRY FORWARD BALANCE	8,109.1**	10,772.2**	7,259.7**	
INTEREST RETAINED	1,092.1	1,329.6	1,616.5	
PRINCIPAL REPAID	2,429.3	3,165.7	3,942.7	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	67,500.0
TOTAL INTEREST RETAINED	7,994.8
TOTAL BONDS ISSUED	
BONDS AUTHORIZED BUT NOT ISSUED	
TOTAL PROGRAM FUNDING	75,494.8
WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?	691.3
WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?	100%

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

* We used this line to represent actual loan demands. It does not represent the amount of actual loans made for each fiscal year. Please see L2 for actual amounts of loans made or projected annually.

** The total amount is not available for loans since administrative costs are deducted and 67% of this is unavailable total remains in reserve per Department of Revenue categories for doubtful account reserves, loan amounts committed but not drawn, and other authorizations.

The program provides long-term, low-interest loans to qualified applicants throughout agricultural areas in Alaska for development capital and operating funds for farms and agricultural processing plants. Sources of credit generally available to farmers and related industries are limited in Alaska. Until such time as Alaska establishes sufficient acreage and production to become a viable low-risk industry, the Ag Revolving Loan Fund will continue to be the prime source of credit available, supplying an estimated 90-95% of all ag funding in the state. An example of the need for low-interest loans to provide for an increased chance for a postitive cash flow as quickly as possible to allow self-sufficiency of the farming units and weaning to other financing sources is provided:

L1 LOAN PROGRAM DESCRIPTION

AGENCY: Natural Resources

CATEGORY: Agricultural Management

PROGRAM: Agricultural Management

TITLE: Agricultural Revolving Loan Fund

REVISED DATE 11-30-84

FY 86

00949

(6/84)-11 ARLP

Average ARLF investment for Pt. MacKenzie dairy farm = $900.0		Average Total Investment Pt. MacKenzie dairy farm = $1,500.0	
$121.5	$900,000 @ 13.5%	$1,500.0	total
72.0	$900,000 @ 8%	900.0	ARLF financed
$ 49.5	Average difference in Interest between Commercial & ARLF	$ 600.0	non-ARLF financed (private)

Full funding is needed to prevent failure in the final stages of dairy development on the Pt. MacKenzie Agricultural Project. Marketing questions with Matanuska Maid slowed the development of some of the dairy parcels. This delayed development at Pt. MacKenzie was the major reason the limited funding of FY 85 was able to meet the loan demand. The ninth Pt. MacKenzie dairy loan was closed in August 1984, leaving nine projects to be funded and completed. The full appropriation is needed to provide funding for the remaining dairy development loans, plus the increasing number of spring planting loans. A reserve of $5 million is being designated by the ARLF Board to meet operating loan demands, which would almost eliminate making any types of loans other than operating for that year. Nine more dairy parcels at Pt. MacKenzie will need to be funded by FY 86 at approximately $900,000 per farm. Without a $15 million appropriation, other development loans will not be met and other agricultural-rights contract owners with development requirements would lose their parcels due to lack of financing.

Increased loan demand is expected due to increasing numbers of Alaska farms. The USDA Statistical Reporting Service estimates the number of farms in Alaska during 1984 at a record 650, up 50 farms from 1983. This is double the 320 farms reported in 1970. New loan demand also comes as more state and borough disposal agricultural lands have clearing and planting development contractual requirements that must be met or the farmers wil have their properties foreclosed by the state and borough. Increased road access construction during 1984 will increase loan demand as farmers in some areas will for the first time be able to effectively execute their development programs and also realistically look at marketing farm produce. A number of development schedules have been delayed pending completion of road access. Since 1978, 440 DNR agricultural tracts, 68 project tracts, and 50 borough tracts have moved into private hands.

Growth of the red meat processing industry is expected to continue to generate demand for loans to expand existing livestock bases and increased grain production. A couple of groups have been evaluating large pork production units

L1 ADDITIONAL EXPLANATION FORM

AGENCY Natural Resources
PROGRAM Agricultural Management
BRU Agricultural Management
COMPONENT Agricultural Revolving Loan Fund

REVISED DATE

FY 86

00050

(6/84)-ae1
ARLF

in Delta and in the Matanuska Valley. If one of these groups moves as indicated to the press and to others, a significantly increased market for Alaska barley will be available. The addition of the slaughter facility at Fairbanks will further increase loan demand for expanded red meat production. The increased barley production (6,000 acres increase in 1983) held in 1984 with a possible 1,000 to 2,000 acres above the 1983 total. The development requirements required to qualify for land and clearing loan payment moratorium under SB 45 and SB 47 will further stimulate loan demands for increased crop acreage. If 50 existing and/or new borrowers have new loan demands for expanded crops and/or increased red meat production for an average of $150,000 each, increased loan demand in this area alone would exceed $7 million.

Agricultural development remains in a critical stage where continued fianancing to meet the essential demands from existing agricultural production and from the newly developing parcels must be met. Failure to do so at this point will cripple the existing industry as well as seriously curtail the present agricultural expansion.

CARRY FORWARD CALCULATIONS:	FY 84	FY 85	FY 86
Est carryforward balance	8,109.1	10,772.2	7,259.7
x 67% to indicate reserves and funds unavailable for loans	x .67	x .67	x .67
Carryforward available for making loans	5,433.1	7,217.4	4,864.0
+ interest retained	+ 1,092.1	+ 1,329.6	+ 1,616.5
+ prinicipal repaid	+ 2,429.3	+ 3,165.7	+ 3,942.7
+ appropriation	+ 10,000.0	+ 5,000.0	+ 15,000.0
Available for loans	18,954.5	16,712.7	25,423.2
- loans made (from L2)	- 8,182.3	- 9,453.0	- 21,319.0
Balance becomes next carryforward	10,772.2	7,259.7	4,104.2

L1 ADDITIONAL EXPLANATION FORM

AGENCY Natural Resources

PROGRAM Agricultural Management

BRU Agricultural Management

COMPONENT Agricultural Revolving Loan Fund

REVISED DATE 11-30-84

FY 86

00051

(6/84)-ac1
ARLF

OTHER FINANCIAL AND PROGRAM INFORMATION				INFORMATION FOR SUBSIDY CALCULATION			
	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST	STATUTORY LOAN RATE	8%		
				STATUTORY MAXIMUM LOAN MATURITY	1 to 30 years		
ESTIMATED TOTAL SUBSIDY				APPROPRIATE U.S. TREASURY INTEREST RATE	12%		
ESTIMATED RATE OF SUBSIDY				ESTIMATED COST OF FUNDS FOR BOND ISSUE			
AVERAGE LOAN SIZE	46.2	47.3	96.9				
NUMBER OF LOANS MADE	177	200	220	ARE PRINCIPAL DEFERMENTS ALLOWED?	YEARS	YES	NO
VALUE OF LOANS MADE ANNUALLY	8,182.3	9,453.0	21,319.0	IF YES, NUMBER OF YEARS:	5	X	
VALUE OF OUTSTANDING LOANS AT FY END	44,516.0	49,569.0	65,388.0	ARE INTEREST DEFERMENTS ALLOWED?			
AVERAGE DELINQUENCY RATE	29.13	31.0	25.0	IF YES, NUMBER OF YEARS:		X	
OTHER PROGRAM INDICATORS							
				IS LOAN FORGIVENESS ALLOWED?			X

PROGRAM JUSTIFICATION:

*Principal deferments have been allowed on 9 loans (760 as of 6/30/84 in resume) which were specifically designed for periods up to 18 months only as dairy farms in order to allow time for construction and generation of cash flow--repayments to occur as soon as milking begins with maximum of 18 months deferment.

Long-term, low-interest loans for farming and farm processing operations has been the purpose of ARLF since its formation in 1953. Growth of the fund from $7.0 in 1978 to $68.0 in FY 85 has been a result of the major commitment made to agriculture by the state in disposal of ag lands and in major Ag Projects such as Pt. MacKenzie and Delta I & II. ARLF is the major source of funding for agriculture in the state, supplying 90-95% of all ag funding, in spite of attempts by the state to encourage other ag funding participation such as CFAB (which has less than 1% of its portfolio in ag loans, and they include all timber loans under that category). Long established existing farmers depend annually on ARLF for operating funds and equipment replacement monies as well as the new farms being developed. More than 163,000 acres of ag rights land has been disposed of and is in various stages of development required by land purchase contracts which must be financed in order to fulfill their contractual obligations. Those, plus the ag project developments in grains and dairy, are at a critical stage. Ag processing facilities for these products have been financed by either ARLF or Ag Action Council and are depending on the expanding production capacities from these developing farms. Because of the fact that both infrastructure and ag production are interdependent and being financed simultaneously, any decrease in funding at this point could create a devestating collapse of the existing ag production and marketing structure, including those well established farms.

L2 LOAN PROGRAM JUSTIFICATION

AGENCY Natural Resources

CATEGORY Agricultural Management

PROGRAM Agricultural Management

TITLE Agricultural Revolving Loan Fund

REVISED DATE

FY 86

00952

(6/84)-12
ARLF

Until such time as Alaska has established sufficient acreage in production to become a low-risk industry, financing participation from the private section will occur only for the blue-chip farmers, who when they are forced to pay the higher interest rates may well become non-competitive with neighboring farmers. Sources of such credit are quite limited to even well established farmers, although ARLF encourages joint participation in funding with private financing institutions.

Present capitalization of $68.5 million into the revolving fund and a projected demand for $20.0 during FY 85 indicates continued need to increase the funding available. Detailed justification based on types of production, known production costs, geographic differences, and known loan demands from development schedules will be supplied during the budget process.

L-2 ADDITIONAL EXPLANATION FORM

AGENCY Department of Natural Resources

CATEGORY Agricultural Management

PROGRAM Agricultural Management

TITLE Agricultural Revolving Loan Fund

Page 2 of 2

Revised Date

FY85/6

00053

ARLF

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Grain Reserve Program	Statewide		Pete Probasco, Loan Manager 745-7200

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	218.0	1,800.0	1,800.0	1,299.4
TOTAL APPROPRIATIONS AND REQUESTS	1,582.4	500.0	1,500.0	
1002 FEDERAL RECEIPTS				
1004 GENERAL FUNDS	1,582.4	500.0	1,500.0	1000.0
1028 PROGRAM RECEIPTS				
1006 GENERAL OBLIGATION BONDS				
OTHER				
TOTAL OTHER PROGRAM FUNDING	104.4	1,364.4	299.4	
ESTIMATED CARRY FORWARD BALANCE	104.4	1,364.4	64.0	
INTEREST RETAINED			17.4	
PRINCIPAL REPAID			218.0	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	2,082.4
TOTAL INTEREST RETAINED	
TOTAL BONDS ISSUED	
BONDS AUTHORIZED BUT NOT ISSUED	
TOTAL PROGRAM FUNDING	2,082.4

WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?

68.0

WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?

none

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

The loan program is designed to allow farmers to handle grain that is not marketable at harvest time by placing it in the grain reserve program. They are able to borrow money to cover crop expenses for that season and then market the grain in response to demand during the course of the year. The program allows the farmers to realize short term cash flow through the loan and then sell by orderly marketing. Grain quality standards, which parallel the USDA program, determine elegibility for loans. Periodic inspections insure conformance of quantity and quality and secure the state's collateral.

The effect of reduced funding in FY 86 should be viewed with knowledge of the constraints that limited loans in FY84. Since loan qualification is entirely dependent upon grain that meets a specified grade and moisture content, the effect of the weather at harvest time creating high moisture content in the grain and additional storage problems due to wet grain resulted in several farmers who were interested in the program not qualifying. At this date, the Delta grain harvest is underway with good weather conditions which will minimize grain drying costs and maximize the number

L1 LOAN PROGRAM DESCRIPTION

AGENCY Natural Resources

CATEGORY Agricultural Management

PROGRAM Agricultural Management

TITLE Grain Reserve Project

REVISED DATE

FY 86

00054

(6/84)-11
Grain Reserve

of farmers who can qualify with good grain for the program. We anticipate significantly increased participation in the program for both this reason and the fact that farmers have experienced positive results from the program which has mitigated initial skepticism and reticence to participate.

The grain reserve program was passed by legislation in 1984 and had $1.6 million appropriated. The current acreage planted could utilize the entire amount of carryover FY 84 and additional FY 85 funding. We realistically project that 20,000 acres will be planted in FY 86 which could qualify for this loan program. This year's acreage is betwee 16,000-18,000 planted in barley; the exact numbers will be known after harvest. The FY 84 carryover funds and the FY 85 appropriation of $.5 million will adequately provide funding through FY 85. Cutting the FY 86 request to eith 75% or 50% of the FY 85 request would severly effect the program at a time when the loan demand is increasing. The Governor's request for FY 85 was $3 million and the appropriation was $.5 million. The projected loan demand indicates that any decrease in funding below the $.5 million could mean that insufficient loan funds were available

The Governor's plan for agriculture was to have $1.0 appropriated annually for three years. Since only $.5 million was appropriated for FY 85, and projected demand justifies it, the FY 86 request is for $1.5 million.

L-1 ADDITIONAL EXPLANATION FORM

AGENCY Department of Natural Resources

CATEGORY Agricultural Management

PROGRAM Agricultural Management

TITLE Grain Reserve Project

Page 2 of 2

Revised Date

FY85/86

00055

Grain Reserve

OTHER FINANCIAL AND PROGRAM INFORMATION

	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY			
ESTIMATED RATE OF SUBSIDY			
AVERAGE LOAN SIZE	36.3	99.4	78.3
NUMBER OF LOANS MADE	6	15	23
VALUE OF LOANS MADE ANNUALLY	218.0	1,500.0	1,800.0
VALUE OF OUTSTANDING LOANS AT FY END	218.0	1,718.0	3,518.0
AVERAGE DELINQUENCY RATE	-0-	-0-	-0-
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION

STATUTORY LOAN RATE	8%
STATUTORY MAXIMUM LOAN MATURITY	3 years
APPROPRIATE U.S. TREASURY INTEREST RATE	12%
ESTIMATED COST OF FUNDS FOR BOND ISSUE	

	YEARS	YES	NO
ARE PRINCIPAL DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☒
ARE INTEREST DEFERMENTS ALLOWED?			
IF YES, NUMBER OF YEARS:	____	☐	☒
IS LOAN FORGIVENESS ALLOWED?		☐	☒

PROGRAM JUSTIFICATION:

This loan program was established by HB 309 in the 1983 legislature. The first loan in FY 84 in this program was closed in March 1984 and the last loans apprved in June 1984. Difficult harvest due to rain, high moisture grain and storage problems reduced grain quality which limited the FY 84 participation. crop and harvest conditions appear to be considerably different in early September 1984, part.cipation in FY 85 could result in 14,000 to 16,000 tons requiring loans under the grain reserve program.

Since the loan program requirements can allow up to three years for storage before repayment, operation funding to continue moisture testing, and fulfilling USDA grain grading requirements must be funded for three successive years, as must be administration of the loans themselves which will occur through the Agricultural Revolving Loan Fund staff and the governor appointed Agricultural Revolving Loan Fund Board.

L2 LOAN PROGRAM JUSTIFICATION

AGENCY Natural Resources

CATEGORY Agricultural Management

PROGRAM Agricultural Management

TITLE Agricultural Revolving Loan Fund

FY 86

PAGE OF

REVISED DATE

00056

(6/84)-12
Grain Reserve

Alaska HOUSING FINANCE CORPORATION

00057

October 17, 1984

Mr. Guy Bell
Division of Budget Review
Pouch AM
Juneau, AK 99811

Dear Guy:

Find attached a copy of a memo presented to our Board of Directors at the September 18, 1984 Board meeting. It provides the justification for not requesting a general fund appropriation for FY86. If you should need more information or an update, please contact Mark or myself.

Very truly yours,

Donald V Elliott

Donald V. Elliott
Controller

DVE:lmg

Attachment

Telephone (907) 276-5599

235 East 8th Avenue
Third Floor

P.O. Box 101020
Anchorage, Alaska 99510

Alaska HOUSING FINANCE CORPORATION

P.O. Box 1020, Anchorage, Alaska 99510

00058

TO: The Board of Directors

DATE: September 5, 1984

FROM: Mark K. Cameron MKC
Finance Director

RE: FY 86 CAPITAL BUDGET

The mortgage demand and subsidy requirements for FY 85 have been revised to reflect the balances available as of July 1, 1984, and current projections. An analysis for FY 86 has also been prepared in connection with the State capital budget submission process. Based upon these projections assets available in the Alaska Housing Finance Corporation Revolving Fund as of July 1, 1985, combined with those estimated to be made available, are sufficient to operate the mortgage purchase activities of the Corporation through FY 86.

Mortgage demand for FY 85 was estimated to decrease 11% from that of the previous year followed by a 10% increase in FY 86. These are felt to be conservative in light of the current activity in the mortgage market. The portion of first mortgage loan activity in the Veterans Mortgage Program was dropped almost 24% in response to the change in the Federally defined eligibility requirements of qualified veterans.

As of June 30, 1983, the Corporation owned in the Alaska Housing Finance Revolving Fund $93,254,000 of mortgage loans originated by Commerce and Economic Development, Division of Veteran's Affairs, bearing interest rates of 7% and 7 1/2%. The attached schedules reflect these loans in the "non conforming" column of the Revolving Fund since the loans were closed on non uniform documents. Staff is exploring the possibility of converting these loans to a security form guaranteed by FNMA or FHLMC enabling them to become "conforming" and available to collateralize subsequent bond issues.

The increase in amounts available for future subsidy requirements as of July 1, 1985 is a result of:

1) Utilization of July 1, 1984, actual balances.

2) Decrease in estimated FY 85 mortgage demand.

3) Increase in projected investment earnings.

00959

4) Re-implementation of the tax exempt bond funded First Time Homebuyers Program pursuant to extension of the "sunset provisions" of the Mortgage Subsidy Bond Tax Act of 1980.

5) Decreases in the level of subsidy required reflecting more efficient methods of raising mortgage capital.

Based upon the current projections it is not anticipated that an appropriation to the Alaska Housing Finance Corporation Revolving Fund is necessary for FY 86. Accordingly, submission of a capital budget will not be required.

su

Revised 9-1-84

ALASKA HOUSING FINANCE CORPORATION
SUMMARY OF MORTGAGE DEMAND AND PROPOSED FINANCING

EXHIBIT A

Fiscal Year 1985
(In Millions)

09060

	REVOLVING FUND					
	HOF Acct		Loans			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1984	$103		$100	$153	$135	$491
Funding of currently warehoused mortgages into Euro issue			(77)		77	
Loan transfers to IMB & HMB			(23)		23	
Non-bonded mortgage programs						
Second mortgages				13	(13)	
Mobile home loans	17	$(17)		33	(33)	
Prepayments and principal reduction	(12)	12		(22)	22	
Earnings		11			35	46
Equity returned from N.V. Subsidiary					33	33
Return of Series G Subsidy					25	25
IMB earnings released from indenture					44	44
FY 85 Legislative appropriation					16	16
Home Ownership Assistance Program-Subsidy		(6)				(6)
Withdrawal of SMIF Contributions					12	12
FY 85 Subsidy utilization					(200)	(200)
Balance: June 30, 1985	$108	$-0-	$-0-	$177	$176	$461

sb:fd/24

Revised 9-1-84

EXHIBIT B

ALASKA HOUSING FINANCE CORPORATION
SPECIAL MORTGAGE LOAN PURCHASE PROGRAM
SUMMARY OF MORTGAGE DEMAND AND PROPOSED BOND FINANCINGS
Fiscal Year 1985

(In Millions)

	Estimated Carry-Over From FY '84	Program Repayments And Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Carry-Over To FY '86	Estimated FY '85 Mortgage Demand
Taxable First Mortgage Program	$ 93 (1)	57 (5)	$ 350 (3)	$ (6)	$ 80	$ 65	$ 100	$ 539
First Mortgage Veterans' Program - State Guaranteed Veterans' Bonds	58		400	(10)	44	(34)	160	298
Home Mortgage Bond Program			200	(6)	22	(16)	20	180
Taxable Second Mortgage Program - Second Mortgage Bonds		$ 13 (4)					-0-	13
Mobile Home Loan Program		50 (4)					-0-	50
Reserve to Complete Open Series					15	(15)		
TOTAL	$ 151	$ 120	$ 950	$(22)	$ 161	$ -0-	$ 280	$ 1080
Deferred FNMA Note Closings			175		39 (2)			
			$1,125		$ 200			

(1) Includes amounts related to subsequent issuance of $175 million collateral notes to be sold directly to FNMA.
(2) $35 million of overcollateralization and 2% commitment fee to FNMA.
(3) Allocated as follows: $125 million FNMA collateral notes; $275 million publicly sold Bonds.
(4) Earnings and prepayments of Revolving Fund including HOF Account.
(5) Housing and Insured Mortgage Bond prepayments.

sb-fd/23

9-1-84

EXHIBIT C

00962

ALASKA HOUSING FINANCE CORPORATION
SUMMARY OF MORTGAGE DEMAND AND PROPOSED FINANCING

Fiscal Year 1986
(In Millions)

	REVOLVING FUND				
	HOF Account		Non-Conforming		
	Loans	Investments	Loans	Investment	Total
Balance: July 1, 1985	$108		$177	$176	$461
Earnings		$ 12		27	39
Prepayments and principal reduction	(13)	13	(23)	23	
Non-bonded mortgage programs:					
Second Mortgages			13	(13)	
Mobile home loans	18	(18)	32	(32)	
IMB earnings released				10	10
Home Ownership Assistance Program Subsidy		(7)			(7)
FY 86 Subsidy utilization				(162)	(162)
	$113	$-0-	$199	$ 29	$341

sb:fd/25

Revised 9-1-84

EXHIBIT D

ALASKA HOUSING FINANCE CORPORATION
SPECIAL MORTGAGE LOAN PURCHASE PROGRAM
SUMMARY OF MORTGAGE DEMAND AND PROPOSED BOND FINANCINGS
Fiscal Year 1986

(In Millions)

	Estimated Carry-Over From FY '84	Program Repayments And Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Carry-Over To FY '86	Estimated FY '85 Mortgage Demand
Taxable First Mortgage Program	$100	$ 80 (1)	$ 400	$ (7)	$ 92	$ 57	$ 95	$ 627
First Mortgage Veterans' Program - State Guaranteed Veterans' Bonds	160		300	(7)	33	(26)	150	310
Home Mortgage Bond Program	20		200	(6)	22	(16)	30	190
Second Mortgage Bonds		13 (2)					-0-	13
Mobile Home Loan Program		50 (2)					-0-	50
Reserve to Complete Open Series					15	(15)		
TOTAL	$ 280	$143	$ 900	$(20)	$ 162		$ 275	$1,190

*Anticipates existing mortgages held by the Corporation utilized for subsidy overcollateralization requirements.
(1) Housing and Insured Mortgage Bond prepayments
(2) Earnings and prepayments in Revolving Fund (including HOF Account).

sb-fd/22

00963

MEMORANDUM

State of Alaska

Community and Regional Affairs

00964

TO: Jay Hogan
Associate Director
Division of Budget Review
Office of Management & Budget

DATE: October 3, 1984

FILE NO:

TELEPHONE NO: 465-4700

FROM: Emil Notti
Commissioner

SUBJECT: FY 86 Loan Budget

Attached is the official FY 86 Loan Budget submission for the Department of Community and Regional Affairs.

Attachment

cc: Jeff Smith
Remond Henderson
Marge Listberger
Sana Efird

RECEIVED
OCT 10 1984
BUDGET REVIEW

02-001A(Rev. 10/79)

AGENCY PRIORITY	PROGRAM TITLE	LOCATION	FUNDING	AGENCY REQUEST	GOVERNOR
1	Housing Assistance Development	Statewide	FEDERAL RECEIPTS	-0-	
			GENERAL FUNDS	45,000.0	37,000.0
			OTHER: Prg Rcpts	8,000.0	8,000.0
			Carry Forward	9,000.0	9,000.0
			TOTAL	62,900.0	54,000.0
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		
			FEDERAL RECEIPTS		
			GENERAL FUNDS		
			OTHER:		
			TOTAL		

A3 **AGENCY LOAN PROGRAM**

(6/84)-a3

AGENCY Community & Regional Affairs

PAGE 1 OF 1

REVISED DATE

FY 86

00065

TITLE	LOCATION	AGENCY PRIORITY	NAME AND PHONE OF AGENCY CONTACT
Housing Assistance Loan Fund	Statewide	86-1	Barbara Morse-Quinn - 561-0900

PROGRAM FUNDING	FY 84	FY 85	FY 86	GOVERNOR
TOTAL ANNUAL LOAN DEMAND	55,400.0	62,400.0	65,000.0	54,000.0
TOTAL APPROPRIATIONS AND REQUESTS	45,000.0	45,000.0	45,000.0	
1002 FEDERAL RECEIPTS	-0-	-0-	-0-	
1004 GENERAL FUNDS	45,000.0	45,000.0	45,000.0	37,000.0
1028 PROGRAM RECEIPTS	-0-	-0-	-0-	
1006 GENERAL OBLIGATION BONDS	-0-	-0-	-0-	
OTHER				
TOTAL OTHER PROGRAM FUNDING				
ESTIMATED CARRY FORWARD BALANCE	12,000.0	15,300.0	9,900.0	
INTEREST RETAINED				
PRINCIPAL REPAID	3,900.0	6,000.0	8,000.0	

OTHER FINANCIAL INFORMATION (INCLUDING FY 85)	TOTAL
TOTAL APPROPRIATIONS	185,000.0
TOTAL INTEREST RETAINED	
TOTAL BONDS ISSUED	-0-
BONDS AUTHORIZED BUT NOT ISSUED	-0-
TOTAL PROGRAM FUNDING	185,000.0
WHAT ARE THE TOTAL ADMINISTRATIVE COSTS FOR OPERATING THE LOAN PROGRAM FOR FY 86?	2703.5
WHAT AMOUNT OF TOTAL ADMINISTRATIVE COSTS ARE OBTAINED FROM LOAN INTEREST, PRINCIPAL OR FEES?	829.9

DESCRIBE THE PROGRAM AND EXPLAIN IMPACTS ON THE PROGRAM OF RECEIVING IN FY 86 75% OF FY 85 AUTHORIZED GENERAL FUNDS AND 50% OF FY 85 AUTHORIZED GENERAL FUNDS:

The Housing Assistance Loan Fund was created to provide money to originate, purchase or participate in the purchase of loans for rural housing and nonconforming urban housing. Approximately 97% of all loans have been made through a private financial institution and purchased by the Division. The remaining 3% are loans made directly to borrowers by the Division because no private financial institution was willing to service the borrowers' area. The Division has total loans in excess of 1,900 which require computerized accounting. Payments are collected for 30 years and are received for principal and interest. Section 12, Chapter 102, SLA 1983 changed the fund to a revolving loan fund and allows the Division to retain loan principal payments. In FY 86, approximately 14% of the total funds available are from principal payments.

L1 **LOAN PROGRAM DESCRIPTION**

(6/84)-11

AGENCY Community & Regional Affairs

CATEGORY Economic Development

PROGRAM Development

TITLE Housing Assistance

REVISED DATE

FY 86

RECEIVED
OCT 10 1984
00066
BUDGET REVIEW

Based on past fiscal years' activities, the Division projects financing in FY'86 approximately 643 new loans with $45.0 million in new appropriations, $9.9 million in carryover funds, and $8 million in repaid principal and payoffs. By statute a minimum of 80% of the funds will be utilized in rural Alaska with the remainder available for urban nonconforming properties. The Division is projecting 505 loans for rural housing and 138 loans for nonconforming housing in urban areas. The $50.0 million allocated to rural Alaskan properties represents in most cases the only available source of mortgage funds. These rural funds will construct approximately 231 new dwellings, finance the sale of 208 existing structures, renovate 60 existing structures and finance 160 rental units. It should be noted that in addition to benefits for individual property investors, the expenditure of these loan funds translates into direct employment opportunities for primary consumers in construction labor, materials suppliers, freight companies, and banks. Funds also indirectly affect the local economy when homeowners purchase goods and services in the community.

The analysis of the programmatic effect of receiving 75% of FY 85 general funds in FY 86 must also discuss the overall impact based on the other funds available during FY 85. The FY 85 general fund allocation of $45 million, $15.3 in carry forward funds, and $6.0 in principal repayments will finance 543 loans for rural housing and 128 loans for nonconforming in urban areas. At 75%, the FY 86 general fund allocation would be $33.75 million plus $8 million in principal repayments, and $9.9 million in carryover funds. At 75%, the net dollar effect is a drop from $62.4 million in FY 85 to $47.75 million in FY 86 or about a 24% decrease in the total funding scope of the program. At this level it is estimated that the Division can finance approximately 520 loans, of which about 416 loans would be for rural housing and 104 loans for urban nonconforming housing. This drop in funding would depress economic activity in the regional centers, primarily through a substantial reduction in the number of new housing starts.

The impact on the FY 86 program of receiving only 50% of the FY 85 general funds is even more drastic. At 50% of the FY 85 general fund allocation, $22.5 million from the general fund, $9.9 million in carryover funds, and $8 million from principal repayments would be available in FY 86. At the 50% level, the net dollar effect is a drop from $62.4 million in FY 85 to $36.5 million in FY 86, or a decrease of about 47% of the FY 85 total funds available. The results would be a dramatic decrease in the number of total loans made through the program, from 671 in FY 85 to about 400 in FY 86. This decrease would have its greatest impact on the rural regional centers, and a secondary impact on the Anchorage and Fairbanks economies since most of the supplies flow through those cities. It should be noted that the Division projects a demand for financing in FY 86 of $65.0 million and at this level, the Division would only meet about 50% of that demand. With very little other secondary financing available, many Alaskans could not enjoy the safety and affordability of housing now provided.

L1 ADDITIONAL EXPLANATION FORM

AGENCY Community and Regional Affairs

PROGRAM Economic Development

BRU Development

COMPONENT Housing Assistance

OTHER FINANCIAL AND PROGRAM INFORMATION

	FY 84 ACTUAL	FY 85 AUTHORIZED	FY 86 REQUEST
ESTIMATED TOTAL SUBSIDY	22,305.0	36,736.0	49,721.0
ESTIMATED RATE OF SUBSIDY	21.9	23.0	23.5
AVERAGE LOAN SIZE	80.0	84.0	91.7
NUMBER OF LOANS MADE	560	671	643
VALUE OF LOANS MADE ANNUALLY	46,700.0	56,400.0	59,000.0
VALUE OF OUTSTANDING LOANS AT FY END	102,000.0	159,778.0	211,653.0
AVERAGE DELINQUENCY RATE	1.77%	1.85%	1.85%
OTHER PROGRAM INDICATORS			

INFORMATION FOR SUBSIDY CALCULATION

STATUTORY LOAN RATE	See AE3 Page
STATUTORY MAXIMUM LOAN MATURITY	
APPROPRIATE U.S. TREASURY INTEREST RATE	12%
ESTIMATED COST OF FUNDS FOR BOND ISSUE	

	YEARS	YES	NO
ARE PRINCIPAL DEFERMENTS ALLOWED?		☐	☒
IF YES, NUMBER OF YEARS:	____		
ARE INTEREST DEFERMENTS ALLOWED?		☐	☒
IF YES, NUMBER OF YEARS:	____		
IS LOAN FORGIVENESS ALLOWED?		☐	☒

PROGRAM JUSTIFICATION:

The Housing Assistance Loan Fund BRU is designed to ensure that, through the delivery of loan funds, the maximum number of eligible Alaskans have access to safe, affordable housing. To meet this objective, the Housing Assistance Division offers to eligible Alaskans housing loan programs that focus on the development of rural housing stock and the upgrade or conversion of nonconforming housing stock statewide. Borrowers are assisted with mortgage loan applications through seven offices of the Division, located in Anchorage, Juneau, Bethel, Dillingham, Nome, Kotzebue and Fairbanks. Direct lending services are also available to qualified borrowers whose loan applications are unattractive to private lending institutions.

The administration and delivery of loan funds throughout Alaska assists in meeting the Division's continuous goal of developing safe, affordable, and quality housing for all Alaskan citizens. Economic development is enhanced regionally as well as locally through creation of construction employment, use of professional services, transportation of building materials, expenditures in local areas by construction laborers, and improvements to the community in quality housing stock.

L2 LOAN PROGRAM JUSTIFICATION

(6/84)-12

AGENCY Community and Regional Affairs

CATEGORY Economic Development

PROGRAM Development

TITLE Housing Assistance

REVISED DATE

FY 86

00069

The improvement of rural housing stock is a major factor in stabilizing growth of both regional and remote sites through the enhanced quality of life that it provides. Attractive, affordable housing is a catalyst in encouraging the private investment necessary to develop a healthy diversified economic base and a high standard of living.

As the loan portfolio increases, staff travel needs grow. Current staff activities include assistance with applications, housing inspections, loan closings, and construction management assistance to grant recipients. Further travel funds requested will provide for development of education and information outreach programs within the Division. Such programs will focus on basic mortgage lending information, collection of housing need data and general assistance functions by field staff.

The Division believes that the successful transition to healthy self-sufficient economies in rural communities of Alaska is affected by two factors: (1) loan fund delivery, and (2) an accompanying understanding by potential borrowers of the role such funds play in general economic development of their region. The request for loan funds supports the plans of this division to contribute to the growth and development of rural Alaska.

The Home Ownership Assistance Fund (HOAF) consists of money appropriated to it by the legislature. Money in the fund is used solely to assist persons of lower and moderate income to purchase single-family homes financed under AS 44.47.460 - 44.47.560 by providing a subsidy to those persons in the amount that is necessary to reduce the annual interest rate paid on the mortgage loan to a minimum of six percent.

Approximately 36% of the Housing Assistance Loan Fund BRU request and other available funds will be used to fund 251 loans under the HOAF program. The amount required in subsidy funds for FY 86 is $630,000.

A major benefit of the HOAF subsidy is to increase the number of rural residents served by the housing program. The only positive alternative to a HOAF subsidy would be to lower interest rates for all Housing Assistance loan programs to six percent.

L2 ADDITIONAL EXPLANATION FORM

AGENCY Community and Regional Affairs

PROGRAM Economic Development

BRU Development

COMPONENT Housing Assistance

REVISED DATE

FY 86

30970

(6/84)-ae1

STATUTORY LOAN RATE

Nonconforming Housing: The interest rate on a mortgage loan for nonconforming housing that is not defined as rural, and which is originated or purchased in whole or in part under AS 44.47.380, is one-quarter percent more than the interest rate, as determined under AS 19.56.098(g)(1)-(4), on a mortgage loan purchased under 18.56.098(a) from the proceeds of the most recent applicable issue of taxable bonds before the origination or purchase of the nonconforming housing mortgage loan.

Rural Owner Occupied Housing: The interest rate on a mortgage loan for rural housing originated or purchased in whole or in part under AS 44.47.380 is one percent less than the interest rate, as determined under AS 18.56.098(g)(1)-(4), on a mortgage loan purchased under AS 18.56.098(a) from the proceeds of the most recent applicable issue of taxable bonds before the origination or purchase of the rural housing mortgage loan.

Nonowner Occupied Housing: The interest rate on a mortgage loan for non-owner occupied housing, currently 10.5%, is established in AS 44.47.520(b).

L2 ADDITIONAL EXPLANATION FORM

AGENCY Community and Regional Affairs

PROGRAM Economic Development

BRU Development

COMPONENT Housing Assistance

REVISED DATE

FY 86

00071

(6/84)-ae1

Cook
4/18/85

Original sponsor: Rules/Governor

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 105 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes, establishing conditions under which the bonds or notes for the DeLong Mountain transportation project may be issued; and providing for an effective date."

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

* Section 1. AS 37.15.410 is amended to read:

Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of providing part or all of the money to be used, with or without any grants or other money that [WHICH] may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed $86,525,000 [$62,825,000] is authorized to acquire, equip, construct, and install the additions, improvements, extensions, and facilities authorized in AS 37.15.510. The principal of and interest on these bonds shall be paid out of and secured by the gross revenues derived by the state from the ownership, lease, use, and operation of the airports, and of all the facilities of them and out of any other revenues or money that [WHICH] the state legislature may provide exclusive of any state tax or license.

* Sec. 2. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 3. Before bonds or notes authorized under sec. 2 of this Act may be issued the Alaska Industrial Development Authority shall comply with

AS 44.88.173 and, to the extent feasible, shall incorporate into the final finance plan for the DeLong Mountain transportation project the following terms and conditions:

(1) Cominco, Ltd. is required to agree in writing that

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco Alaska makes of the facilities compared to the use made by others;

(B) if Cominco Alaska ceases to develop the Red Dog Mine after costs or debts have been incurred for the project, Cominco, Ltd. will repay the Alaska Industrial Development Authority for those costs and debts;

(C) toll fees paid by Cominco Alaska for the use of facilities constructed as part of the project to the Alaska Industrial Development Authority may be periodically adjusted if the price of zinc rises above a level that yields a return on investment commensurate with risk;

(2) land in the Cape Krusenstern National Monument is conveyed to NANA Regional Corporation by the United States Department of the Interior;

(3) NANA Regional Corporation is required to agree in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the project and land needed for future expansion of the road and port;

(4) tax exempt financing for the project is used to the maximum extent possible;

(5) a toll schedule, that may be periodically adjusted, is established for use of facilities constructed as part of the project that

(A) ensures a reasonable return on the state's investment in the project; and

(B) guarantees equitable access to the facilities by all users.

* Sec. 4. Before bonds or notes authorized under sec. 2 of this Act may be issued the Alaska Industrial Development Authority shall

(1) report in writing to the legislative budget and audit committee that the conditions under sec. 3 of this Act have been met; and

(2) agree with the Department of Revenue in writing to deliver all money generated by the DeLong Mountain transportation project, other than money necessary for payment of the principal and interest on bonds or notes issued under sec. 2 of this Act, to the Department of Revenue for deposit in the general fund.

* Sec. 5. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Department of Commerce & Economic Development
Division of Accounting and Collections
Loan Program Funding Summary

(in thousands of dollars)

October 28, 1985

			WWII Veterans	Small Business	Commercial Fish	Tourism	Bulk Fuel	Child Care	Historical District	Mining	Alternative Technology & Energy	Residential Energy	Fisheries Enhance.	Water Resources	Residential Care	Fisherman's Mtg & Note	Power Develop.	Line Total
		Established	SLA 1946 Ch 27	SLA 1971 Ch 108 § 1	SLA 1972 Ch 134 § 1	SLA 1972 Ch 171 § 1	SLA 1980 Ch 83 § 41	SLA 1976 Ch 253 § 9	SLA 1977 Ch 139 § 3	SLA 1980 Ch 106 § 35	SLA 1980 Ch 29 § 1	SLA 1980 Ch 83 § 35	SLA 1976 Ch 190 § 1	SLA 1975 Ch 218 § 1	SLA 1978 Ch 153 § 6	SLA 1980 Ch 106 § 9	SLA 1984 Ch 169	
		Repealed		SLA 1980 Ch 106 § 71		SLA 1980 Ch 106 § 71								SLA 1980 Ch 83	SLA 1982 Ch 113 § 72	SLA 1982 Ch 113 § 72		
SLA 55	Ch 5		1,000.0															1,000.0
SLA 60	Ch 136		1,200.0															1,200.0
SLA 72	Ch 109				1,000.0													1,000.0
SLA 72	Ch 158					1,000.0												1,000.0
SLA 72	Ch 34			135.4														135.4
SLA 76	Ch 237													2,500.0				2,500.0
SLA 77	Ch 153	Vetoed																
SLA 80	Ch 120	Sec 6		36,500.0	24,000.0	6,500.0		300.0			600.0		6,000.0		400.0	6,500.0		80,800.0
SLA 80	Ch 120	Sec 7								10,000.0								10,000.0
SLA 80	Ch 120	Sec 52					1,500.0					1,600.0						3,100.0
SLA 80	Ch 120	Sec 52 Lapsed 6-30-81					[1,450.0]					[995.0]						[2,445.0]
RP 08-81-	258X	(JV 81-2222)		11,000.0	[3,000.0]	[5,000.0]										[3,000.0]		0.0
RP 08-81-	292X	(JV 81-2436)									1,000.0					[1,000.0]		0.0
RP 08-81-	486X	(JV 81-13626)		[1,700.0]							1,700.0							0.0
SLA 81	Ch 82	Sec 13			4,500.0		1,000.0	180.0	200.0	20,000.0	500.0	500.0	8,000.0		120.0	1,800.0		36,800.0
SLA 81	Ch 72	Sec 1 (FY 82 only)								10,000.0								10,000.0
SLA 81	Ch 90	Sec 36									3,750.0	3,750.0						7,500.0
SLA 81	Ch 90	Sec 37									1,250.0	1,250.0						2,500.0
RP 08-81-	635X	(JV 81-14253)				1,739.0										[1,739.0]		0.0
RP 08-81-	664X	(JV 82-0062)		886.8		1,079.8		[291.0]			[914.6]		354.1		[354.1]	[761.0]		0.0
SLA 82	Ch 141	Sec 257 Repealed Ch 90 Sec 37 SLA 81									[1,250.0]	[1,250.0]						[2,500.0]
SLA 82	Ch 114	Sec 5			9,400.0		1,000.0	400.0	500.0	15,000.0	4,000.0	4,500.0	17,000.0					51,800.0
SLA 82	Ch 141	Sec 242											6,350.0					6,350.0
RP 08-82-	472X	(JV 82-4742)			5,000.0					[5,000.0]								0.0
RP 08-82-	524X	(JV 82-4836)						120.0							[120.0]			0.0
RP 08-82-	634X	(JV 82-5378)									1,000.0	[1,000.0]						0.0
SLA 83	Ch 107	Sec 22			9,091.0			869.5	500.0		2,400.0	3,123.4	6,500.0					22,483.9
SLA 83	Ch 106	Sec 11 (See Ch 141 Sec 242 SLA 82)											[1,350.0]					[1,350.0]
SLA 83	Ch 107	Sec 17 and 18		[16,800.0]		[2,700.0]												[19,500.0]
SLA 83	Ch 106	Sec 265		[1,000.0]														[1,000.0]
SLA 84	Ch 171	Sec 306			3,500.0						1,000.0		5,000.0					9,500.0
SLA 84	Ch 171	Sec 313															210,000.0	210,000.0
SLA 84	Ch 156	Sec 3 and 4		[Annual Receipts]		[Annual Receipts]												[Annual Receipts]
SLA 85	Ch 98	Sec 20			3,710.0						845.0		812.0					5,367.0
SLA 85	Ch 105	Sec 118	[8,824.9]						[500.0]	[19,931.1]		[7,312.5]					[14,000.0]	[50,568.5]

October 31, 1985

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF ACCOUNTING AND COLLECTIONS
CASH AVAILABLE SUMMARY BY FUND
(in thousands of dollars)

	Veterans	Small Business	Commercial Fish	Tourism	Bulk Fuel	Child Care	Hist Dist	Mining	Alternate Energy	Resid Energy	Fish Enhance	Power Dev	Water Resource	Total
CASH WITH TREASURY POOL	9,924.4	7,487.3	12,245.3	1,117.8	753.4	911.1	937.0	33,361.4	4,706.3	9,051.8	7,341.5	17,071.5	-0-	104,908.8
Current Period Adjustments	595.4	497.2	2,660.3	33.9	170.1	8.0	.5	15.5	113.5	67.4	-0-	-0-	-0-	4,161.8
Unredeemed Warrants	(172.0)	(27.1)	(844.0)	(.6)	(293.2)	-0-	(.4)	(22.2)	(132.1)	(5.4)	(289.0)	-0-	-0-	(1,786.0)
OTHER CURRENT LIABILITIES														
Unapplied Suspense	(220.8)	(83.8)	(707.6)	(2.6)	(9.4)	-0-	-0-	(35.2)	(20.7)	(11.9)	-0-	-0-	-0-	(1,092.0)
Undistributed Suspense	-0-	(14.1)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(5,084.4)	-0-	(5,098.5)
Unposted Suspense	(.5)	(5.0)	(41.9)	-0-		-0-	-0-	-0-	(.3)	(.5)	-0-	-0-	-0-	(48.2)
Escrow	(40.8)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(40.8)
RESTRICTED FUNDS														
Foreclosure Reserve	(200.0)	(200.0)	(250.0)	(150.0)	(25.0)	(75.0)	(25.0)	(500.0)	(150.0)	(150.0)	(200.0)	-0-	-0-	(1,925.0)
Operating Budget Appropriation	(498.0)[1]	-0-	(440.6)[1]	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(938.6)
Other Reappropriations	(8,824.9)[2]	(5,447.4)[1]	-0-	(568.5)[1]	-0-	0-	(500.0)[2]	(19,931.0)[2]	-0-	(7,312.5)[3]	-0-	(2,000.0)[3]	-0-	(44,584.3)
CASH AVAILABLE SUB-TOTAL	562.8	2,207.1	12,621.5	430.0	595.9	844.1	412.1	12,888.5	4,516.7	1,638.9	6,852.5	9,987.1	-0-	53,557.2
LESS COMMITMENTS[4]	-0-	~~(118.7)~~	(2,359.1)	-0-	(47.1)	(314.7)	-0-	-0-	(131.5)	(3.2)	(175.0)	-0-	-0-	(3,149.3)
TOTAL CASH AVAILABLE	**562.8**	~~2,088.4~~	**10,262.4**	**430.0**	**548.8**	**529.4**	**412.1**	**12,888.5**	**4,385.2**	**1,635.7**	**6,677.5**	**9,987.1**	**-0-**	**50,407.9**

[1]Sec. 26, Ch 98, SLA 85, Pg. 6 - Operating Budget & Sec. 16, Ch 98, SLA 85, Pg 3 & Sec 27, Ch 98 SLA 85 (HB 243) Pg. 122 - Salary Increase
[2]Sec. 118, Ch 105, SLA 85 -
[3]Sec. 3 and 4, Ch 156, SLA 84
[4]Funds committed but not yet requested

STATISTICS ON DCED LOAN PROGRAMS
(Thousands of Dollars)

October 31, 1985

	Veterans	Small Business	Commercial Fish	Tourism	Bulk Fuel	Child Care	Hist Dist	Mining	Alternate Energy	Resid. Energy	Fish Enhance	Power Dev.	Water Resource	Total
COMMITMENTS														
Total No. Loans Committed FY 72-86	7,718	1,338	2,852 [5]	59	188	51	9	70	2,846	2,218	111	4	5	17,469
Total Dollar Amount Committed FY 72-86	371,795.2	202,529.3	166,088.2 [5]	29,874.7	6,942.1	1,697.7	667.7	28,326.4	18,483.8	8,296.7	47,694.3	192,847.0	2,500.0	1,077,743.1
Total No. Loans Committed FY 86	-0-	-0-	34 [5]	-0-	14	5	-0-	1	80	29	9	-0-	-0-	172
Total Dollar Amount Committed FY 86	-0-	-0-	2,179.3 [5]	-0-	456.6	214.8	-0-	22.3	694.7	92.4	1,652.8	-0-	-0-	5,312.9
APPROPRIATIONS														
FY 83	0	-0-	9,400.0	-0-	1,000.0	400.0	500.0	15,000.0	4,000.0	4,500.0	22,000.0 [1]	N/A	-0-	56,800.0
FY 84	0	-0-	9,091.0	-0-	-0-	869.5	500.0	-0-	2,400.0	3,123.4	6,500.0	N/A	-0-	22,483.9
FY 85	-0-	-0-	3,500.0	-0-	-0-	-0-	-0-	-0-	1,000.0	-0-	5,000.0	210,000.0	-0-	219,500.0
FY 86	-0-	0-	3,710.0	-0-	-0-	-0-	-0-	-0-	845.0	-0-	812.0	-0-	-0-	5,367.0
LOANS OUTSTANDING FY 87			6,449			700								
Owned by Fund														
Number of Loans Outstanding	128	263	1,333	5	47	25	3	54	1,882	1,455	91	4	1	5,291
Principal Amount Outstanding	5,662.7	27,381.8	59,943.7	2,932.8	1,199.0	843.4	336.2	19,535.8	12,033.6	4,245.3	40,425.6	189,321.1	897.8	364,759.1
Average Loan Amount Outstanding	44.2	104.1	45.0	586.7	25.5	33.7	112.1	361.8	6.4	2.9	444.2	47,330.4	897.8	68.9
Serviced for AIDA[2]														
Number of Loans Outstanding	1,729	94	405	8	N/A	2	3	N/A	N/A	N/A	13	N/A	N/A	2,254
Principal Amount Outstanding	77,545.9	7,626.9	15,438.7	1,037.4		11.0	113.0				6,368.7			108,141.6
Average Loan Amount Outstanding	44.8	81.1	38.1	129.7		5.5	37.7				489.9			48.0
Summary														
Total No. of Loans Outstanding	1,857	357	1,738	13	47	27	6	54	1,882	1,455	104	4	1	7,545
Total Principal Amount Outstanding	83,208.6	35,008.7	75,382.4	3,970.2	1,199.0	854.4	449.2	19,535.8	12,033.6	4,245.3	46,794.3	189,321.4	897.8	472,900.7
DELINQUENCY RATES AND DEFAULT STATISTICS														
Statistics Based on Balances Outstanding														
% Delinquent[3]	4.0%	6.4%	7.3%	2.9%	21.3%	7.2%	-0-	8.9%	4.2%	5.3%	-0-	-0-	-0-	2.9%
% in Default[4]	1.7%	9.8%	3.1%	2.1%	-0-	-0-	-0-	36.4%	0.4%	0.5%	-0-	-0-	-0-	3.1%
Statistics Based on Number of Loans														
% Delinquent[3]	3.2%	9.0%	5.2%	7.8%	25.5%	7.4%	-0-	5.6%	5.2%	4.8%	-0-	-0-	-0-	4.9%
% in Default[4]	1.6%	6.1%	2.0%	7.6%	-0-	0	-0-	29.6%	0.5%	0.3%	-0-	-0-	-0-	1.6%

[1] See Sec 5, Ch 114, SLA 1982; Sec 242, Ch 141, SLA 1982 and Sec 11, Ch 106, SLA 1983
[2] Ch 67, SLA 1985
[3] Delinquent is defined as 60 days or more past due, not in litigation.
[4] Default is defined as in litigation.
[5] Includes Prequalifications

Prepared by: Division of Accounting and Collections

11/13/85

WORKING PAPERS **DRAFT** SUBJECT TO CHANGE

LOAN PROGRAM ESTIMATED CASH FLOW ANALYSIS
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
(in thousands of dollars)

AKSAS Fund	Fund Name	Adj Cash Balance 7-1-85	− FY 86 Loan Demand	= Subtotal	+ FY 86 Loan Repayment	= FY 86 YE Balance	**FY 87 Requested Approp./ [Transfer]**	= Adjusted Cash Balance 7-1-86	− FY 87 Transfer to Oper. Budgets	= Subtotal	− FY 87 Loan Demand	= Subtotal	+ Repayment FY 87	= FY 87 YE Balance
21605	Veterans	51.9	Inactive	51.9	1,275.7	1,327.6	[829.6]	498.0	[498.0]	—0—	Inactive	—0—	1,302.4	1,302.4
21607	Small Business	—0—	Inactive	——	6,085.5	6,085.5	——	to GF	——	—0—	Inactive	——	6,200.4	6,200.4 to GF
21608	Commercial Fish	9,973.5	[17,400.0]	[7,426.5]	9,468.5	2,042.0	6,400.0	8,442.0	[422.3]	8,019.7	[17,400.0]	[9,380.3]	9,461.5	81.2
21609	Tourism	—0—	Inactive	——	536.4	536.4	——	to GF	——	—0—	Inactive	——	511.2	511.2 to GF
21612	Child Care	637.5	[479.6]	157.9	125.8	283.7	100.0	383.7	——	383.7	[519.6]	[135.9]	136.9	1.0
21614	Historical District	401.2	[150.0]	251.2	28.1	279.3	[130.0]	149.3	——	149.3	[150.0]	[0.7]	30.6	29.9
21625	Mining	11,292.7	[4,000.0]	7,292.7	2,917.1	10,209.8	[7,000.0]	3,209.8	——	3,209.8	[3,999.6]	[789.8]	2,996.6	2,206.8
21619	Alternate Energy	4,851.2	[2,200.0]	2,651.2	1,928.0	4,579.2	[4,000.0]	579.2	——	579.2	[2,200.0]	[1,620.8]	2,082.4	461.6
21623	Resid. Energy Con.	1,199.0	[577.5]	621.5	1,292.3	1,913.8	[1,500.0]	413.8	——	413.8	[577.5]	[163.7]	1,392.2	1,228.5
21622	Bulk Fuel		[1,886.5]		1,900.0	revolves through more than once every year					[1,886.5]		1,859.0	
21615	Fish Enhancement	8,863.1	[3,764.8]	5,098.3	—0—	5,098.3	——	5,098.3	——	5,098.3	[3,275.2]	1,823.1	54.2	1,877.3
11100	Water Resources	—0—	Inactive	—0—	75.0	75.0	——	to GF	——	—0—	Inactive	—0—	75.0	75.0 to GF
21626	Power Develop.	4,620.3 *	Unknown		7,735.0				——		Unknown		10,594.0	

* Investment Income of $10,969.1 is due the PDRLF from the GF; actual cash on hand as of 7-1-85 is $4,620.3.

Prepared by Division of Accounting and Collections, 465-2555. 9-13-85

DRAFT

23.
13.
36.

WORKING PAPERS DRAFT SUBJECT TO CHANGE

ACTIVE LOAN PROGRAM LOAN DEMAND ANALYSIS
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
FY 86 and FY 87
(in thousands of dollars)

AKSAS Fund#	Fund Name	FY 86 Loan Demand ×	Est. Ave. Loan Size =	Est. Cash Required to 6-30-86	FY 87 Loan Demand ×	Est. Ave. Loan Size =	Est. Cash Required FY 87
21608	**Commercial Fishing**	300	58.0	17,400.0	300	58.0	17,400.0
21612	**Child Care**	11	43.6	479.6	12	43.3	519.6
21614	**Historical Districts**	2	75.0	150.0	2	75.0	150.0
21622	**Bulk Fuel**	49	38.5	1,886.5	49	38.5	1,886.5
21625	**Mining**	8	500.0	4,000.0	9	444.4	3,999.6
21619	**Alternate Energy**	275	8.0	2,200.0	275	8.0	2,200.0
21623	**Residential Energy Conserv.**	175	3.3	577.5	175	3.3	577.5
21615	**Fish Enhancement**	13	289.6	3,764.8	16	204.7	3,275.2
21626	**Power Development**	Unknown			Unknown		

Estimated loan demand and average loan size obtained from Division of Investments FY 87 Loan Budget as of 9-12-85.

Prepared by Division of Accounting and Collections, 465-2555. 9-13-85 DRAFT

LOAN PROGRAM REVENUE ANALYSIS FOR FY 86 AND FY 87
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
(in thousands of dollars)

AKSAS Fund #	Fund Name	FY 86 Estimated Cash Flow	FY 87 Estimated Cash Flow	FY 88 Estimated Cash Flow
21605	**Veterans**	1,275.7	1,302.4	1,334.1
21607	**Small Business**	6,085.5	6,200.4	6,326.4
21608	**Commercial Fish**	9,468.5	9,461.5	9,390.6
21609	**Tourism**	536.4	511.2	508.9
21612	**Child Care**	125.8	136.9	136.9
21614	**Historical Districts**	28.1	30.6	30.7
21625	**Mining**	2,917.1	2,996.6	2,651.3
21619	**Alternate Energy**	1,928.0	2,082.4	2,186.7
21623	**Residential Energy Conser.**	1,292.3	1,392.2	1,463.9
21622	**Bulk Fuel**	1,900.0	1,859.0	1,818.0
21615	**Fish Enhancement**	—0—	54.2	4,414.8
11100	**Water Resources**	75.0	75.0	75.0
21626	**Power Development**	7,735.0	10,594.0	12,844.0

Source: FY 87 revenue budget pages. Revenue estimates arrived at from forecast report net delinquency factor plus principal recovery adjusted for estimated early payoffs based on FY 85 actuals.

Prepared by Division of Accounting and Collections, 465-2555. 9-13-85

SCOMM

#50:7

child care facilities



Loan Application

State of Alaska

Department of Commerce and Economic Development

Division of Investments

FIELD OFFICES

All applications must be submitted to the Department of Commerce and Economic Development, Division of Investments, at one of the following offices:

Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone Number: 465-2510

Division of Investments
3601 "C" Street, Suite 740
Anchorage, Alaska 99503
Telephone Number: 562-3779

Division of Investments
675 7th Avenue, Station A
Fairbanks, Alaska 99701
Telephone Number: 452-8182

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone Number: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

LOAN POLICIES AND PROCEDURES

CHILD CARE FACILITIES REVOLVING LOAN FUND
AS 44.33.240-.275

LOAN PURPOSES

Loans may be made for the construction, renovation, and equiping of child care facilities in the State. Loan funds may not be used to reimburse an applicant for expenses which were paid for more than six months before receipt of the application by the Division.

ELIGIBILITY

A facility qualifies as a "child care facility" if the principal purpose of the facility is to provide care for children not related by blood, marriage, or legal adoption, including, but not limited to, day care centers, family day care homes, and schools for preschool age children.

LENDING LIMITS

The maximum loan amount is $50,000.

INTEREST RATE

Interest will be charged at the rate of seven (7%) percent.

LOAN TERMS

The maximum loan term is 20 years. Terms of all loans will be fixed by the loan committee in consideration of the purpose of the loan, the needs of the borrower, the collateral offered and the ability to repay the loan. If a child care facility ceases operation, any loan to the facility from the fund is due on the date the facility ceases operation.

COLLATERAL

All loans must be secured by adequate collateral to protect the investment of the State in the event of default. The collateral may include, but is not limited to, a lien on buildings, equipment and machinery, marketable securities and approved assignments.

The specific amount to be loaned against any collateal offered shall be determined by the loan committee.

INTERIM FINANCING

Interim construction financing is not available under this program. No loan funds may be disbursed until construction or renovation is 100% complete. Applicants should obtain written loan approval prior to obtaining interim financing. To be considered interim financing, Promissory Notes must have a term of six months or less and the debt must have been incurred and the note executed within six months prior to receipt of the application by the Division.

REFINANCING

Refinancing is not allowed under this program. An interim note may be refinanced if it has a term of six months or less and the debt was incurred and the note executed within six months prior to receipt of the application by the Division.

LOAN APPROVAL

Authority for approval of all loans rests with the loan committee appointed by the Commissioner of the Department of Commerce and Economic Development. The loan committee will independently evaluate all relevant information before taking action on loan applications. The committee may also consider, but is not bound by, the recommendations of the loan examiner assigned to process the application. No loan will be granted without approval of a majority of the loan committee.

LOAN COSTS

The borrower shall pay all direct costs incurred by the State in processing the application for a loan, including, but not limited to, the cost of credit reports, title insurance, inspection expenses, or other direct costs. The State is not liable for any costs incurred by the borrower during the application process.

ASSUMPTIONS

Assumptions will not be allowed unless it is in the State's best interest to do so and the applicant meets all statutory eligibility requirements. Assumptions, if granted, must serve the policies and purposes of the loan program.

SUBORDINATIONS

In general, subordination requests will only be considered when they involve improvement to the collateral held by the State. All requests for subordination must be approved by the loan committee. In order to apply for a subordination, you will need to submit a written request to the division describing the following:

1. the amount you wish the State to subordinate to;
2. the reason for the request; and
3. documentation to support the value of the added improvements.

REGULATIONS

The Department of Commerce and Economic Development has adopted administrative regulations governing loan policies and procedures, and public disclosure of information in an individual loan file. Copies of these regulations may be obtained by contacting the Division of Investments.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CHILD CARE FACILITY LOAN APPLICATION CHECK-OFF LIST

The following information **is required** in order to process your application. Please use this list to make sure all information is submitted (incomplete applications will not be accepted). Please retain a copy of this application for your records.

_____ 1. **Application for Child Care Facility Loan:** Be sure the form has been completed and signed. (pages 4 and 5)

_____ 2. **Letter of Intent:** You must include copies of bids or quotes to document the total cost of the proposed project. (page 6)

_____ 3. **Photographs or Drawings:** Which clearly illustrate the project to be funded. (page 7)

_____ 4. **Collateral:** You will need to include documentation to verify the value of the collateral being offered to secure the loan. You must include the following:

_____ a. A copy of your tax assessment notice or appraisal;

_____ b. A copy of your existing title insurance policy or a copy of the Warranty Deed for your residence.

_____ 5. **Individual Financial Statement.** (pages 8 and 9)

_____ 6. **Business Financial Statement.** (pages 10 and 11)

_____ 7. **Actual Statement of Profit and Loss.** (page 12)

_____ 8. **Projected Statement of Profit and Loss.** (page 13)

_____ 9. **Personal Resume:** Include three references. (page 14)

_____ 10. **Personal Resume:** Include three references for the manager of the facility if not the applicant or coapplicant. (page 14)

_____ 11. **Business Resume.** (page 15)

_____ 12. **Credit Authorization:** Each form must be completed and signed. (page 16)

_____ 13. **Authorization to Verify Financial Information.** (page 17)

_____ 14. **Federal Tax Returns:** You must include complete copies of your last three years Federal Income Tax Returns. You must also submit tax returns for individuals owning 10% or more of the corporation, as well as the corporation's returns. Do not send original documents as they will not be returned.

_____ 15. **Licensing Requirements:** If you are resident of Anchorage, Anderson, Bethel or any other community that licenses or regulates child care facilities, you may wish to contact the appropriate local agency for information concerning the operation of your facility.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

APPLICATION FOR CHILD CARE FACILITY LOAN

Applicant: Name (Last, First, M.I.)			Current Date
			Social Security Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)			Applicant's Telephone Number ( )
			Date of Birth
			Place of Birth (city and state)
Applicant's Employer	Occupation/Position	How Long? Yrs. Mos.	Employer's Telephone Number ( )
☐ Married (including separated) ☐ Unmarried (including single, divorced, widowed)	Number of Dependents (excluding Applicant)		Gross Monthly Salary (before deductions)

Applicant: Business Name	☐ Individual ☐ Business ☐ Partnership ☐ Corporation	Taxpayer Identification Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)		Business Telephone Number ( )

Spouse/Co-Applicant: Name (Last, First, M.I.)			Social Security Number
			Date of Birth
Mailing Address (Street/P.O. Box, City, State, Zip Code)			Place of Birth (City and State)
			Gross Monthly Salary (before deductions)
Spouse/Co-Applicant's Employer	Occupation/Position	How Long? Yrs. Mos.	Employer's Telephone Number ( )

Nearest Relative not living with you/Contact Person: Name (Last, First, M.I.)	Telephone Number ( )
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Put your nearest relative not living with you or a contact person who knows how to reach you when your current mailing address or telephone number may have changed.

I hereby apply for a loan of $ _____ to be repaid in _____ years with ☐ Monthly Payments ☐ Quarterly Payments/☐ Other

If other, please specify:

I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Child Care Facility Loan Program.

_____ Date _____ Signature

_____ Date _____ Signature

Corporate Applicants Must Complete the Following Section

MANAGEMENT OF CORPORATION

(1) Names of all officers, directors and their annual compensation, including salaries, bonuses, fees, withdrawals, etc.
(2) Stockholders not otherwise listed—(five largest).
(3) For each stockholder owing 10% or more of the stock include a current financial statement and three (3) credit authorizations.

Name and Address	Annual Compensation	Office Held	Percent Ownership

On behalf of the corporation, I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Child Care Facility Loan Program.

The State is authorized to obtain any and all credit reports and verification needed to evaluate this application, and the cost of obtaining these reports will be paid by the applicant.

_____
Name of Corporate Applicant

_____ _____
Date Authorized Signature

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CHILD CARE FACILITY
LETTER OF INTENT
(Attach additional sheets as necessary)

Applicant's Name _____

I. Use of Loan Proceeds: (Check appropriate box and fill in loan amount)

☐ New Facility Construction $ _____

☐ Equipment Purchase $ _____

☐ Renovation $ _____

☐ Other (explain) $ _____

Total $ _____

Describe in detail how you plan to use the borrowed funds. Include invoices, bids or price quotes to document the total cost of your project. Please include copies of any plans, drawings or specifications which detail the work to be done. Also, projects must meet all State and local codes. You must include copies of all approved plans and permits which are required.

II. Collateral offered to secure the loan:

Describe in detail and include documentation to verify the value of the collateral being offered. You must include the following:

_____ a. a copy of your tax assessment notice or appraisal;

_____ b. a copy of your existing title insurance policy or a copy of the Warranty Deed for your residence; and

_____ c. photographs of collateral (form on page 7).

III. Number of jobs created if loan is approved _____

Number of child care slots created if loan is approved _____

IV. Applicant's Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CHILD CARE FACILITY
PHOTOGRAPHS (Project to be Funded)

Applicant's Name _____

Street Address of Project _____

NORTH FACE	SOUTH FACE
EAST FACE	WEST FACE

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CHILD CARE FACILITY LOAN
FINANCIAL STATEMENT (Individual)

Name	Social Security Number	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19_____

ASSETS		LIABILITIES	Monthly Payments	Balance Owing
Cash in Bank	$	Real Estate (Schedule 3)	$	$
Cash on hand		Notes Payable (Schedule 4)		
Notes/Accounts receivable (Schedule 1)		Accounts payable		
U.S. bonds or notes		Other Liabilities		
Mortgages and contracts (Schedule 1)				
Securities (Schedule 2)				
Value of Real Estate Owned (Schedule 3)				
Automobile		Credit Cards		
Personal Property				
Other assets (itemize)				
		TOTAL MONTHLY PAYMENTS	$	
		TOTAL LIABILITIES		$
TOTAL ASSETS	$	NET WORTH		$

CONTINGENT LIABILITIES

☐ Yes ☐ No Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom? Amount $ _____

☐ Yes ☐ No Are there any unsatisfied judgments against you? Amount $ _____

☐ Yes ☐ No Have you been declared bankrupt in the last 14 years? Year _____

Other Obligations: Child Support, Alimony, etc.

MONTHLY BUDGET

Total Salary (Applicant and Co-Applicant) After Deductions		$
Other Income		$
Total Installment Payments (See Liability Section Above)	$	
Utilities	$	
Food Allowance	$	
Auto Expense	$	
Insurance	$	
Medical Expenses	$	
Other (describe)	$	
TOTAL MONTHLY EXPENSES		$
SURPLUS MONTHLY INCOME		$

SCHEDULE NO. 1: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 2: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 3: REAL ESTATE OWNED

Description and Location (Street, City, State)	Date Acquired	Cost	Current Assessed Value	Mortgages					
				Name and Address of Bank	Current Market Value	Original Balance	Present Balance	Payment Amount	
								Monthly	Annual

Is any real estate being purchased on a contract of sale? _____ If so, which one? _____
From whom? _____

SCHEDULE NO. 4: NOTES PAYABLE (Do not include mortgages listed in Schedule 3)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

Have you ever received a loan from the State? ☐ Yes ☐ No

If yes, please complete the following:

Loan Number	Loan Type	Date Received	Paid in Full (Yes or No)

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Date _____

Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CHILD CARE FACILITY LOAN
FINANCIAL STATEMENT (Business)

Name	Taxpayer Identification No.	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19_____.

ASSETS		LIABILITIES	Monthly Payments	Balance Owing
Cash in Bank	$	Real Estate (Schedule 3)	$	$
Cash on hand		Notes Payable (Schedule 4)		
Notes/Accounts receivable (Schedule 1)		Accounts payable		
Less: Reserve for bad debts		Employer taxes payable		
U.S. bonds or notes		Other taxes payable		
Mortgages and contracts (Schedule 1)		Other liabilities (itemize)		
Securities (Schedule 2)				
Value of Real Estate Owned (Schedule 3)				
Machinery, furniture and fixtures		TOTAL LIABILITIES	$	$
Less: Depreciation		Capital Stock		
Prepaid expenses		Paid-in Surplus		
Other assets (itemize)		Retained Earnings		
TOTAL ASSETS	$	NET WORTH		$

CONTINGENT LIABILITIES

☐ Yes ☐ No Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom? Amount $ _____

☐ Yes ☐ No Are there any unsatisfied judgments against you? Amount $ _____

☐ Yes ☐ No Have you been declared bankrupt in the last 14 years? Year _____

Other Obligations:

SCHEDULE NO. 1: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 2: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 3: REAL ESTATE OWNED

Description and Location (Street, City, State)	Date Acquired	Cost	Current Assessed Value	Mortgages					
				Name and Address of Bank	Current Market Value	Original Balance	Present Balance	Payment Amount	
								Monthly	Annual

Is any real estate being purchased on a contract of sale? _____ If so, which one?_____
From whom?_____

SCHEDULE NO. 4: NOTES PAYABLE (Do not include mortgages listed in Schedule 3)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

Have you ever received a loan from the State? ☐ Yes ☐ No

If yes, please complete the following:

Loan Number	Loan Type	Date Received	Paid in Full (Yes or No)

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Title _____ Date _____

Signature _____ Title _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CHILD CARE FACILITY
ACTUAL STATEMENT OF PROFIT AND LOSS

Applicant's Name _____ Social Security Number _____

For the period beginning _____ and ending _____.
(Must be for current year if presently in business)

Income from Day Care	$ _____	
Government Assistance	$ _____	
TOTAL GROSS INCOME		$ _____
EXPENSES:		
Proprietor's Salary	$ _____	
Wages	_____	
Employee Expenses	_____	
Repairs	_____	
Fuel	_____	
Electricity	_____	
Telephone	_____	
Automobile	_____	
Rent	_____	
Groceries	_____	
Supplies	_____	
Dues and Subscriptions	_____	
Office Expense	_____	
Travel Expense	_____	
Entertainment	_____	
Professional Services	_____	
Taxes and Licenses	_____	
Insurance	_____	
Advertising and Promotion	_____	
Other	_____	
_____	_____	
_____	_____	
Depreciation	_____	
Interest	_____	
TOTAL EXPENSES		$ _____
NET INCOME		$ _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CHILD CARE FACILITY
PROJECTED STATEMENT OF PROFIT AND LOSS
(First Year After Receiving Loan)

Applicant's Name _____ Social Security Number _____

For the period beginning _____ and ending _____.

Income from Day Care	$ _____	
Government Assistance	$ _____	
TOTAL GROSS INCOME		$ _____
EXPENSES:		
Proprietor's Salary	$ _____	
Wages	_____	
Employee Expenses	_____	
Repairs	_____	
Fuel	_____	
Electricity	_____	
Telephone	_____	
Automobile	_____	
Rent	_____	
Groceries	_____	
Supplies	_____	
Dues and Subscriptions	_____	
Office Expense	_____	
Travel Expense	_____	
Entertainment	_____	
Professional Services	_____	
Taxes and Licenses	_____	
Insurance	_____	
Advertising and Promotion	_____	
Other	_____	
_____	_____	
_____	_____	
Depreciation		_____
Interest		_____
TOTAL EXPENSES		$ _____
NET INCOME		$ _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CHILD CARE FACILITY

PERSONAL RESUME OF APPLICANT OR PRESIDENT OF THE CORPORATION AND OF THE MANAGER OF THE FACILITY

(Attach additional sheets as necessary)

Name _____

1. Include a brief outline of your personal business experience.

   (Use this space or attach a copy of your resume)

2. References

   List 3 persons in this vicinity who know you well and to whom we may refer (excluding relatives or previous employers).

Name	Telephone	Mailing Address	Occupation

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CHILD CARE FACILITY

PERSONAL RESUME OF APPLICANT OR PRESIDENT OF THE CORPORATION AND OF THE MANAGER OF THE FACILITY
(Attach additional sheets as necessary)

Name _____

1. Include a brief outline of your personal business experience.

   (Use this space or attach a copy of your resume)

2. References

   List 3 persons in this vicinity who know you well and to whom we may refer (excluding relatives or previous employers).

Name	Telephone	Mailing Address	Occupation

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CHILD CARE FACILITY

BUSINESS RESUME AND QUESTIONNAIRE
(Attach additional sheets as necessary)

Name _____

1. Date business was established and years of operation.

2. Type of child care and services provided or to be provided.

3. Number of employees.

4. List any other facilities of the same type in your area.

5. Please state why you feel this facility is needed.

6. Evidence or knowledge of: (a) problems encountered in caring for children, including educational, recreational, health and disciplinary needs and appropriate responses in emergencies; and (b) the health and safety considerations in operating a day care facility and the State and local requirements in each of their areas.

(Use this space or attach a copy of your business resume)

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)

authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)

authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

AUTHORIZATION TO VERIFY FINANCIAL INFORMATION

I, _____, of _____,
(Print Full Name) (City and State)
authorize the following named financial institution to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my account balances and loan balances with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions and the current balance, if any is outstanding.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

Name of Financial Institution _____

Checking Account Number _____ Savings Account Number _____

Loan Number _____ Loan Number _____

Address _____

City _____ State _____ Zip _____

Applicant's Signature _____ Date _____
This form should be returned with the application package. The division will forward all authorizations to the creditors.

BANK VERIFICATION OF FINANCIAL INFORMATION
(For Bank Use Only)

Checking Account Balance	Savings Account Balance	Other Account Balance
Date Account was opened	Date Account was opened	Date Account was opened

Loans	Date	Original Balance	Payments	Current Balance	Rating
Secured					
Unsecured					

The information provided above is essentially correct as of this date and accurately reflects the individual's financial dealings with this institution.

Remarks _____

_____ _____ _____
Signature of Bank Official Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

alternative energy



Loan Application

State of Alaska

Department of Commerce and Economic Development

Division of Investments

FIELD OFFICES

All applications must be submitted to the Department of Commerce and Economic Development, Division of Investments, at one of the following offices:

Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone Number: 465-2510

Division of Investments
3601 "C" Street, Suite 740
Anchorage, Alaska 99503
Telephone Number: 562-3779

Division of Investments
675 7th Avenue, Station A
Fairbanks, Alaska 99701
Telephone Number: 452-8182

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone Number: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

LOAN POLICIES AND PROCEDURES

ALTERNATIVE TECHNOLOGY AND ENERGY REVOLVING LOAN FUND
AS 45.88.010-.500

ALTERNATIVE ENERGY

LOAN PURPOSES

Loans may be made for the purchase, construction and installation of alternative energy systems, including, but not limited to, the following: woodstoves with catalytic converters, catalytic converters for woodstoves, solar systems, wind systems, hydro systems, and centralized multifuel heating systems. Loan funds may not be used to reimburse an applicant for expenses which were paid for more than six months before receipt of the application by the Division.

LENDING LIMITS

The maximum loan amount is $30,000.

INTEREST RATES

Interest will be charged at the rate of 5% for the first $15,000 of the loan and 15% for the amount of the loan that exceeds $15,000. This will be computed as a composite rate.

LOAN TERMS

The maximum loan term is 20 years. Terms of all loans will be fixed by the loan committee in consideration of the purpose of the loan, the needs of the borrower, the collateral offered and the ability to repay the loan.

COLLATERAL

All loans must be secured by adequate collateral to protect the investment of the State in the event of default. In virtually all cases, this will require a Deed of Trust against the property receiving the improvements. A fire insurance endorsement and title insurance policy will be required for virtually all loans over $15,000. The specific amount to be loaned against any collateral offered shall be determined by the loan committee.

REFINANCING

Refinancing is not allowed under this program. An interim note may be refinanced if it has a term of six months or less and the debt was incurred and note executed within six months prior to receipt of the application by the Division.

CONTROLLED DISBURSEMENT

Loan proceeds will be disbursed to the applicant as documented and supported by labor and material estimates submitted with the loan application. This documentation must clearly describe the items being purchased or the project to be financed. In addition, within 90 days after the loan has closed, the division will require copies of all paid invoices and receipts to substantially support the estimates that were submitted with the loan application. Do not send original documents as they will not be returned.

For loans under $10,000, the loan proceeds will be disbursed at closing.

Loans over $10,000 will be disbursed in phases after the date of closing in amounts that best protect the State's investment in the project.

LOAN APPROVAL

Authority for approval of all loans rests with the loan committee appointed by the Commissioner of the Department of Commerce and Economic Development. The loan committee will independently evaluate all relevant information before taking action on loan applications. The committee may also consider, but is not bound by, the recommendations of the loan examiner assigned to process the application. No loan will be granted without approval of a majority of the loan committee.

LOAN COSTS

The borrower shall pay all direct costs incurred by the State in processing the application for a loan, including, but not limited to, the cost of credit reports, title insurance, inspection expenses, or other direct costs. The State is not liable for any costs incurred by the borrower during the application process.

INSPECTIONS

The project must be completed and ready for inspection within 90 days from the loan closing date.

ASSUMPTIONS

Assumptions will not be allowed unless it is in the State's best interest to do so and the applicant meets all statutory eligibility requirements. Assumptions, if granted, must serve the policies and purposes of the loan program.

SUBORDINATIONS

In general, subordination requests will only be considered when they involve improvement to the collateral held by the State. All requests for subordination must be approved by the loan committee. In order to apply for a subordination, you will need to submit a written request to the division describing the following:

1. the amount you wish the State to subordinate to;
2. the reason for the request; and
3. documentation to support the value of the added improvements.

STRUCTURAL MODIFICATIONS

All modifications to a structure or improvement financed under this program must be submitted to the Division of Investments for written approval prior to the modification.

REGULATIONS

The Department of Commerce and Economic Development has adopted administrative regulations governing loan policies and procedures, and public disclosure of information in an individual loan file. Copies of these regulations may be obtained by contacting the Division of Investments.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

ALTERNATIVE ENERGY LOAN APPLICATION CHECK-OFF LIST

The following information **is required** in order to process your application. Please use this list to make sure all information is submitted (incomplete applications will not be accepted). Please retain a copy of this application for your records.

_____ 1. **Application for Alternative Energy Loan:** Be sure the form has been completed and signed. (pages 4 and 5)

_____ 2. **Letter of Intent.** (page 6)

_____ 3. **Individual Financial Statement:** Be sure the form has been completed and signed. (pages 7 and 8)

_____ 4. **Business Financial Statement. (pages 9 and 10)**

_____ 5. **Credit Authorization:** Each form must be completed and signed. One of these forms must be for the financial institution which has a lien (if any) against the proposed collateral. (page 11)

_____ 6. **Authorization to Verify Financial Information.** (page 12)

_____ 7. **Employment Verification:** The top of this form should be completed by the applicant, then returned with the application. If you are self-employed, you must submit a signed copy of your most recent complete federal tax return. (page 13)

_____ 8. **Federal Tax Return:** You must submit a copy of the front page of your most recent federal tax return.

_____ 9. **Collateral:** You will need to include documentation to verify the value of the collateral being offered to secure the loan. You must include the following:

_____ a. a copy of your tax assessment notice or appraisal;

_____ b. a copy of your existing title insurance policy or a copy of the Warranty Deed for your residence.

_____ 10. **Photographs:** You must submit recent photographs of the proposed collateral. (page 14)

_____ 11. **Solar Loan Guidelines:** If you are applying for a solar heating project, you must comply with these guidelines. (page 15 and 16)

_____ 12. **Solar Specifications:** If you are applying for a solar heating project, the solar specifications form must be completed and returned. (page 17)

_____ 13. **Centralized Multi-Fuel Heating System Guidelines:** If you are applying for a centralized multi-fuel heating system, you must comply with these guidelines. (page 18)

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

APPLICATION FOR ALTERNATIVE ENERGY LOAN

Applicant: Name (Last, First, M.I.)			Current Date Social Security Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)			Applicant's Telephone Number ( ) Date of Birth Place of Birth (city and state)
Applicant's Employer	Occupation/Position	How Long? Yrs. Mos.	Employer's Telephone Number ( )
☐ Married (including separated) ☐ Unmarried (including single, divorced, widowed)	Number of Dependents (excluding Applicant)		Gross Monthly Salary (before deductions)

Applicant: Business Name	☐ Individual ☐ Business ☐ Partnership ☐ Corporation	Taxpayer Identification Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)		Business Telephone Number ( )

Spouse/Co-Applicant: Name (Last, First, M.I.)			Social Security Number Date of Birth
Mailing Address (Street/P.O. Box, City, State, Zip Code)			Place of Birth (City and State) Gross Monthly Salary (before deductions)
Spouse/Co-Applicant's Employer	Occupation/Position	How Long? Yrs. Mos.	Employer's Telephone Number ( )

Nearest Relative not living with you/Contact Person: Name (Last, First, M.I.)	Telephone Number ( )
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Put your nearest relative not living with you or a contact person who knows how to reach you when your current mailing address or telephone number may have changed.

I hereby apply for a loan of $ _____ to be repaid in _____ years with ☐ Monthly Payments ☐ Quarterly Payments/☐ Other

If other, please specify:

I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Alternative Energy Loan Program.

_____ Date _____ Signature

_____ Date _____ Signature

Corporate Applicants Must Complete the Following Section

MANAGEMENT OF CORPORATION

(1) Names of all officers, directors and their annual compensation, including salaries, bonuses, fees, withdrawals, etc.
(2) Stockholders not otherwise listed—(five largest).
(3) For each stockholder owing 10% or more of the stock include a current financial statement and three (3) credit authorizations.

Name and Address	Annual Compensation	Office Held	Percent Ownership

On behalf of the corporation, I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Alternative Energy Loan Program.

The State is authorized to obtain any and all credit reports and verification needed to evaluate this application, and the cost of obtaining these reports will be paid by the applicant.

_____
Name of Corporate Applicant

_____ _____
Date Authorized Signature

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

ALTERNATIVE ENERGY
LETTER OF INTENT
(Attach additio. al sheets as necessary)

Applicant's Name _____

I. Use of Loan Proceeds: (Check appropriate box and fill in loan amount)

☐	Photovoltaic cells	$ _____
☐	Wind Systems	$ _____
☐	Hydroelectric Systems	$ _____
☐	Wood Stoves	$ _____
☐	Catalytic Converter	$ _____
☐	Multifuel Systems	$ _____
☐	Solar Heating Unit	$ _____
☐	Solar Sunspace	$ _____
☐	Active Solar Systems	$ _____
☐	Other (explain)	$ _____
	Total	$ _____

Describe in detail how you plan to use the borrowed funds. Include invoices, bids or price quotes to document the total cost of your project. Please include copies of any plans, drawings or specifications which detail the work to be done. Also, projects must meet all State and local codes. You must include copies of all approved plans and permits which are required.

II. Collateral offered to secure the loan:

Describe in detail and include documentation to verify the value of the collateral being offered. You must include the following:

_____ a. a copy of your tax assessment notice or appraisal;

_____ b. a copy of your existing title insurance policy or a copy of the Warranty Deed for your residence; and

_____ c. photographs of collateral (form on page 14).

III. Applicant's Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

ALTERNATIVE ENERGY
FINANCIAL STATEMENT (Individual)

Name	Social Security Number	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19_____.

ASSETS		LIABILITIES	Monthly Payments	Balance Owing
Cash in Bank	$	Real Estate (Schedule 3)	$	$
Cash on hand		Notes Payable (Schedule 4)		
Notes/Accounts receivable (Schedule 1)		Accounts payable		
U.S. bonds or notes		Other Liabilities		
Mortgages and contracts (Schedule 1)				
Securities (Schedule 2)				
Value of Real Estate Owned (Schedule 3)				
Automobile		Credit Cards		
Personal Property				
Other assets (itemize)				
		TOTAL MONTHLY PAYMENTS	$	
		TOTAL LIABILITIES		$
TOTAL ASSETS	$	NET WORTH		$

CONTINGENT LIABILITIES

☐ Yes ☐ No Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom? Amount $ _____

☐ Yes ☐ No Are there any unsatisfied judgments against you? Amount $ _____

☐ Yes ☐ No Have you been declared bankrupt in the last 14 years? Year _____

Other Obligations: Child Support, Alimony, etc.

MONTHLY BUDGET

Total Salary (Applicant and Co-Applicant) After Deductions		$
Other Income		$
Total Installment Payments (See Liability Section Above)	$	
Utilities	$	
Food Allowance	$	
Auto Expense	$	
Insurance	$	
Medical Expenses	$	
Other (describe)	$	
TOTAL MONTHLY EXPENSES		$
SURPLUS MONTHLY INCOME		$

SCHEDULE NO. 1: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 2: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 3: REAL ESTATE OWNED

Description and Location (Street, City, State)	Date Acquired	Cost	Current Assessed Value	Mortgages					
				Name and Address of Bank	Current Market Value	Original Balance	Present Balance	Payment Amount	
								Monthly	Annual

Is any real estate being purchased on a contract of sale? _____ If so, which one?_____
From whom?_____

SCHEDULE NO. 4: NOTES PAYABLE (Do not include mortgages listed in Schedule 3)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

Have you ever received a loan from the State? ☐ Yes ☐ No

If yes, please complete the following:

Loan Number	Loan Type	Date Received	Paid in Full (Yes or No)

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Date _____

Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

ALTERNATIVE ENERGY LOAN
FINANCIAL STATEMENT (Business)

Business Name	Taxpayer Identification No.	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19_____.

ASSETS		LIABILITIES	Monthly Payments	Balance Owing
Cash in Bank	$	Real Estate (Schedule 3)	$	$
Cash on hand		Notes Payable (Schedule 4)		
Notes/Accounts receivable (Schedule 1)		Accounts payable		
Less: Reserve for bad debts		Employer taxes payable		
U.S. bonds or notes		Other taxes payable		
Mortgages and contracts (Schedule 1)		Other liabilities (itemize)		
Securities (Schedule 2)				
Value of Real Estate Owned (Schedule 3)				
Machinery, furniture and fixtures		TOTAL LIABILITIES	$	$
Less: Depreciation		Capital Stock		
Prepaid expenses		Paid-in Surplus		
Other assets (itemize)		Retained Earnings		
TOTAL ASSETS	$	NET WORTH		$

CONTINGENT LIABILITIES

☐ Yes ☐ No Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom? Amount $ _____

☐ Yes ☐ No Are there any unsatisfied judgments against you? Amount $ _____

☐ Yes ☐ No Have you been declared bankrupt in the last 14 years? Year _____

Other Obligations:

SCHEDULE NO. 1: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 2: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 3: REAL ESTATE OWNED

Description and Location (Street, City, State)	Date Acquired	Cost	Current Assessed Value	Mortgages					
				Name and Address of Bank	Current Market Value	Original Balance	Present Balance	Payment Amount	
								Monthly	Annual

Is any real estate being purchased on a contract of sale? _____ If so, which one?_____
From whom?_____

SCHEDULE NO. 4: NOTES PAYABLE (Do not include mortgages listed in Schedule 3)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

Have you ever received a loan from the State? ☐ Yes ☐ No

If yes, please complete the following:

Loan Number	Loan Type	Date Received	Paid in Full (Yes or No)

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Title _____ Date _____

Signature _____ Title _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingha, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____
(Print full name) (City and State)

authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingha, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingha, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

AUTHORIZATION TO VERIFY FINANCIAL INFORMATION

I, _____, of _____,
(Print Full Name) (City and State)

authorize the following named financial institution to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my account balances and loan balances with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions and the current balance if any is outstanding.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

Name of Financial Institution _____

Checking Account Number _____ Savings Account Number _____

Loan Number _____ Loan Number _____

Address _____

City _____ State _____ Zip _____

Applicant's Signature _____ Date _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

BANK VERIFICATION OF FINANCIAL INFORMATION

(For Bank Use Only)

Checking Account Balance	Savings Account Balance	Other Account Balance
Date Account was opened	Date Account was opened	Date Account was opened

Loans	Date	Original Balance	Payments	Current Balance	Rating
Secured					
Unsecured					

The information provided above is essentially correct as of this date and accurately reflects the individual's financial dealings with this institution.

Remarks _____

_____ _____ _____
Signature of Bank Official Title Date

Please return to:

Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

EMPLOYMENT VERIFICATION

Applicant _____

Employer _____

Address _____

_____

Applicant's Signature _____ Date _____

This form should be returned with the application package. The division will forward all verifications to your employer.

EMPLOYER'S VERIFICATION
(For Employer's Use Only)

The above-named applicant has applied for a loan from the State. To assist us in evaluating the application, we would appreciate the information you can give us regarding our applicant's employment.

Present Position _____

Employed From/To _____

Probability of Continued Employment _____

Present Base Salary _____

Approximate additional earnings, if any, from overtime, bonuses, etc. _____

_____

Remarks

_____ _____ _____
Signature of Employer | Title | Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

ALTERNATIVE ENERGY
PHOTOGRAPHS OF COLLATERAL

Applicant's Name _____

Street Address of Collateral _____

NORTH FACE	SOUTH FACE
EAST FACE	WEST FACE

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

ALTERNATIVE ENERGY
SOLAR LOAN GUIDELINES

ALL SOLAR HEATING UNITS AND SUNSPACES

In addition to the specific requirements listed in the following sections, all solar heating units and sunspaces should meet the following guidelines:

1. The design must have the PRIMARY INTENT of being an alternative energy source and this design must emphasize energy performance over aesthetics (i.e., maintaining a year-round growing environment for plants or including hot tubs, swimming pools, and similar items would disqualify projects under this program).

2. Site pictures, drawings, as-built surveys and documentation of solar access showing a prime solar fraction of at least 70% or more must be provided. Solar access can be measured by using a Lewis Solar Site Selector, a Solar Pathfinder or by other appropriate instruments approved by the department and must be accompanied by corresponding pictures. Roof overhangs and pony wall-like obstructions must be considered in the efficiency of your design.

3. Framing should be of wood or equivalent with a thermal break. All frame walls must be insulated to at least R19, frame floors (over an unheated airspace) insulated to at least R30 and the roof insulated to at least R30.

4. Masonry foundations must be insulated with 2" extruded polystyrene (R10) or equivalent below grade to 42 inches (or the area standard) and with 4" styrofoam or equivalent above grade. A vapor barrier must be provided.

5. Glazing should have a R-value greater than 1.5 with transmittance greater than .75.

6. The design must provide for proper circulation of the heated air to the existing living areas and for the return of cool air. If natural convection is to be used, vents must be placed at appropriate intervals for a balanced heat flow. Occupant-operated windows and doors can be of a means of providing air circulation and will be allowed on loans $15,000 and under. All loans over $15,000 will require automatic circulation. The circulation should provide at least 2 cubic feet per minute per square foot of glazing and be equipped with automatic controls. An exhaust fan or exhaust vents must be provided to protect against overheating by venting to a storage mass or to the out of doors. On all loans over $15,000, this exhaust system must be automatically controlled.

ADDITIONAL REQUIREMENTS FOR SOLAR HEATING UNITS

A solar heating unit is attached to the residence and is able to be sealed off from the existing living space. It is designed and constructed to provide collection and use of the sun's radiation. The solar heating unit must act as an air heater for the existing structure, must be isolated from the living area, and contain no auxiliary heating system. The entire project should comply with the following guidelines in order to be eligible, whether or not the entire project is to be funded by this program. The items to be funded must be related to the construction and purchase of the solar heating unit and must be an integral part of the solar heating unit as an alternative heating system.

1. The solar heating unit must be isolated from the living area and access may be through an exterior-type door. All glazing on the interior wall(s) should have movable shades or shutters to insulate the glazing to at least R4. The interior wall(s) glazing cannot exceed 25% of the total interior wall(s) area. All doors on exterior walls must be thermal insulated doors.

2. Heat loss and heat gain calculations may be required to document the solar efficiency of your proposed structure.

3. All glazing must be within 30 degrees east or west of true south and between a tilt of 60 to 90 degrees. No glazing in the end walls or skylights/roofs will be funded or allowed in the design. 70% of the interior south facing wall must be glazed.

4. Absorbers and thermal mass should be provided. Thermal mass is normally of concrete, water or phasechange materials. If the pony wall exceeds 12 inches, the storage mass on the floor will not be funded. Funding for storage mass on the floor cannot exceed $10.00 per square foot.

5. All glazing in the solar heating unit can be provided with movable insulation to insulate the windows to at least R5. The homeowner should be aware that if they choose to install the above there may be condensation problems with interior window insulation which may result in damage to the window structure.

6. The length of the end walls cannot exceed 12 feet.

7. The homeowner shall not modify a structure or improvement financed under the provisions of this program in any manner which is not in compliance with these guidelines during the life of the loan. All modifications to a structure financed under this program must be submitted to this division for prior written approval.

8. Applicants seeking financing for a solar heating project in conjunction with the construction of a new building must provide written confirmation that the long-term lender is not also financing the solar heating aspect of the total construction project. No loan funds will be disbursed until the building is complete and the long-term financing has been finalized.

ADDITIONAL REQUIREMENTS FOR SUNSPACES

A solar sunspace is designed and constructed to collect and use the sun's radiation and is an integral part of the living area. Sunspaces should also meet the following standards to be eligible:

1. Monthly heat loss and gain calculations must be performed to document the solar efficiency of your project. The calculations can be performed by your architect, engineer or a qualified homeowner.

2. All glazing must be within 30 degrees east or west of true south and between a tilt of 60 to 90 degrees. No glazing in the end walls or skylights/roofs will be funded, and the nonsouth glazing must be within a 75% to a 25% ratio.

3. The glazing in the sunspace must be provided with movable insulation to insulate the windows to at least R5. The homeowner should be aware that there may be condensation problems with interior window insulation which may result in damage to the window structure.

4. The loan program is concerned with and will only fund the items that are related to the alternative heating system. Items to be funded include but are not limited to the following: south-facing glazing, movable window insulation, ventilation and circulation system to transport the heated air, and building components that are not conventional or considered normal construction that will make the solar system more efficient (i.e., insulation for the walls that is over R19 or insulation for the roof and floor that is over R30).

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

ALTERNATIVE ENERGY
SOLAR SPECIFICATIONS

THIS FORM MUST BE COMPLETED AND RETURNED WITH THE LOAN APPLICATION PACKAGE.

Construction is estimated to start _____ and be completed by _____.

Financing is requested for: Solar Heating Unit or Sunspace (circle one)

1. Orientation from true south _____

2. Prime Solar Fraction _____

3. Glazing (sq. ft.):
   south _____
   east _____
   west _____
   roof _____

4. Building components (sq. ft.):

		(R-value)
west wall	_____	_____
east wall	_____	_____
floor	_____	_____
ceiling	_____	_____
doors	_____	_____
foundation	_____	_____

5. Length _____ Depth _____ South wall height _____

6. Window insulation _____ R-value _____

7. Circulation/Ventilation System _____

   _____

8. Storage mass _____ Pony wall height _____

9. Is the structure isolated _____

10. Auxiliary heat provided _____

11. Access provided by _____

12. Designed by _____

13. To be built by _____

14. Cost breakdown:

glazing	$ _____
framing/foundation	_____
shades/shutters	_____
storage mass	_____
finish work	_____
labor	_____
other	
_____	_____
_____	_____
_____	_____
TOTAL	$ _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

ALTERNATIVE ENERGY
CENTRALIZED MULTI-FUEL HEATING SYSTEM GUIDELINES

1. A multi-fuel heating system includes all components which are linked together to form a system; such as wiring, plumbing and ducting. Fuel oil tanks and oil lines, although necessary, do not qualify for loan funding. AS 45.88.500(b) is read to modify AS 45.88.500(a)(2)(E) such that other fossil fuels can be used in conjunction with wood or coal; but as backup only and are not fundable.

2. Coal storage sheds, wood sheds, and/or any other components related to a multi-fuel system which are not mechanically connected to the multi-fuel furnace are not eligible for funding.

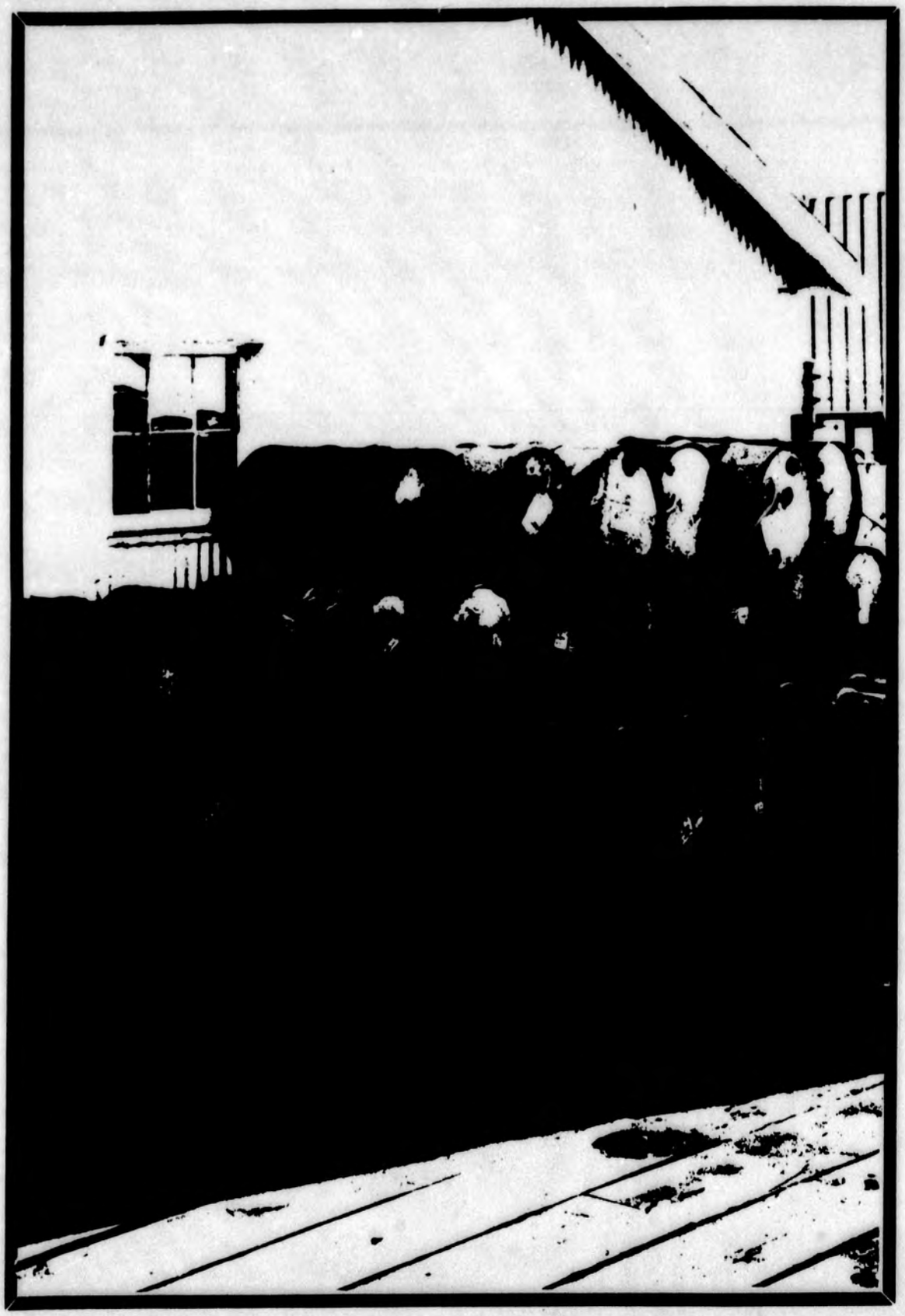
3. A multi-fuel heating system does not include free standing stoves or fireplace inserts. The only stoves which can be funded as defined under AS 45.88.500(a)(2)(D) are wood stoves with catalytic converters. No zero clearance fireplaces or fireplace inserts are eligible for funding.

4. If the labor estimate exceeds 40% of the total cost of a multi-fuel system, the applicant must supply at least one additional estimate to document the cost of the proposed labor.

5. All boilers financed under this program must meet Alaska State Department of Labor safety standards (A.S.M.E. approved or equivalent).

6. Applicants seeking financing for a multi-fuel heating system in conjunction with the construction of a new building must provide written confirmation that the long-term lender is not also financing the heating system. No loan funds will be disbursed until the building is complete and long-term financing for the building has been finalized.

bulk fuel



Loan Application

State of Alaska

Department of Commerce and Economic Development

Division of Investments

FIELD OFFICES

All applications must be submitted to the Department of Commerce and Economic Development, Division of Investments, at one of the following offices:

Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone Number: 465-2510

Division of Investments
3601 "C" Street, Suite 740
Anchorage, Alaska 99503
Telephone Number: 562-3779

Division of Investments
675 7th Avenue, Station A
Fairbanks. Alaska 99701
Telephone Number: 452-8182

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone Number: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

LOAN POLICIES AND PROCEDURES

BULK FUEL REVOLVING LOAN FUND
AS 45.87.010-.050

LOAN PURPOSES

Loans may be made to assist communities in purchasing bulk fuel oil.

ELIGIBILITY

Loans may be made to an organized municipality or unincorporated village with a population under 2,000, or an individual with a written endorsement from the governing body of the community.

LENDING LIMITS

The maximum loan amount is $50,000.

INTEREST RATE

In most cases, a community is not required to repay any interest on its first bulk fuel loan. An interest rate of 5% may be charged on a community's second bulk fuel loan, and an interest rate based upon the municipal bond rate may be charged on a community's third bulk fuel loan and any additional bulk fuel loans.

LOAN TERMS

The loan must be repaid within one year.

COLLATERAL

At present, there is no collateral required to secure bulk fuel loans.

LOAN APPROVAL

Authority for approval of all loans rests with the loan committee appointed by the Commissioner of the Department of Commerce and Economic Development. The loan committee will independently evaluate all relevant information before taking action on loan applications. The committee may also consider, but is not bound by, the recommendations of the loan examiner assigned to process the applications. No loan will be granted without approval of a majority of the loan committee.

REGULATIONS

The Department of Commerce and Economic Development has adopted administrative regulations governing loan policies and procedures, and public disclosure of information in an individual loan file. Copies of these regulations may be obtained by contacting the Division of Investments.

GRANTS FOR BULK FUEL STORAGE

Grants to communities for bulk fuel storage are available on a one-time only basis for amounts up to $100,000. For information on this grant program, please contact the:

Department of Community and Regional Affairs
Division of Municipal and Regional Assistance
949 E. 36th Avenue, Room 400
Anchorage, Alaska 99501
Telephone: 264-2217

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

BULK FUEL LOAN APPLICATION
CHECK-OFF LIST

The following information **is required** in order to process your application. Please use this list to make sure all information is submitted (incomplete applications will not be accepted). Please retain a copy of this application for your records.

_____ 1. **Application for Bulk Fuel Loan:** Be sure the form has been completed and signed. (pages 4 and 5)

_____ 2. **Letter of Intent.** (page 6)

_____ 3. **Loan Agreement.** (pages 7-9)

_____ 4. **Promissory Note.** (pages 10 and 11)

_____ 5. **Waiver of Soverign Immunity Resolution:** Approved by the Village Council and notarized. (page 12)

_____ 6. **Borrowing Resolution:** Approved by the community and notarized. (page 13)

_____ 7. **Written Endorsement:** From the governing body of the community for an individual applying for a bulk fuel loan on behalf of the community.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

APPLICATION FOR BULK FUEL LOAN

Applicant	Current Date
	Community
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Population
	Number of Homes
I/We hereby apply for a loan of $_____ _____	
Describe village location and how isolated.	

Contact Person: Name (Last, First, M.I.)	Telephone Number ( )
Mailing Address (Street/P.O. Box, City, State, Zip Code)	The contact person is that individual who is authorized to be responsible for the loan on behalf of the community.

BULK FUEL INFORMATION

Have you had fuel shortages in the past? ☐Yes ☐No If yes, when?		
What was the reason for the fuel shortage?		
Where do you buy fuel? Does your village have bulk storage tanks? ☐Yes ☐No		Cost Per Gallon: Heating Oil _____ Gasoline _____ Other _____ _____
Total Capacity of Tanks: Owner _____ Heating Oil _____ Gal. Gasoline _____ Gal.	Owner _____ Heating Oil _____ Gal. Gasoline _____ Gal.	Owner _____ Heating Oil _____ Gal. Gasoline _____ Gal.
Current Supply in Tanks: Heating Oil _____ Gal. Gasoline _____ Gal.	Heating Oil _____ Gal. Gasoline _____ Gal.	Heating Oil _____ Gal. Gasoline _____ Gal.
Describe year-round fuel supply		
How often do you get fuel deliveries?		By: Barge _____ Air _____ Other _____ _____

Type of Fuel Needed	Amount Needed	Bulk Fuel Capacity	Cost

Supplier: Name (Last, First, M.I.)	Contact Name
	Supplier's Telephone Number ( )
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Delivery Date

Fuel Cost _____ (Cost per Gal _____)

Transportation Cost _____ (Cost per Gal _____)

Total Cost _____ (Cost per Gal _____)

Have you had any previous Bulk Fuel Loans from the State of Alaska? ☐Yes ☐No

If yes, complete the following section:

Date	Loan in Name of	Amount	Current Balance

I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Bulk Fuel Loan Program.

_____ Date _____ Signature

_____ Date _____ Signature

_____ Date _____ Signature

_____ Date _____ Signature

_____ Date _____ Signature

_____ Date _____ Signature

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

BULK FUEL
LETTER OF INTENT
(Attach additional sheets as necessary)

Applicant's Name _____

I. Use of Loan Proceeds: (Check appropriate box and fill in loan amount)

☐	Purchase Bulk Fuel	$ _____
☐	Transportation	$ _____
☐	Other (explain)	$ _____
	Total	$ _____

II. Describe in detail the need for fuel, the reason for these loan funds, and why you are experiencing a shortage of fuel and funds to purchase the fuel.

III. Describe how the village intends to finance 10 percent of the total fuel cost. (The State will only finance 90 percent of the total fuel cost up to $50,000.)

IV. Applicant's Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

BULK FUEL LOAN AGREEMENT
(AS 45.87)

THIS AGREEMENT is made this _____ day of _____, 19 _____, BY AND BETWEEN the State of Alaska, Division of Investments ("Lender") and _____ _____ ("Borrower").

1. The Lender, subject to the terms and conditions set forth in this agreement, agrees to loan an amount of money not to exceed $_____ to Borrower to enable it to purchase an emergency or annual fuel supply for use in the village of _____ and to pay for the necessary transportation costs.

2. Borrower agrees to use the proceeds of the loan only for purchasing the emergency or annual fuel supply and paying for the necessary transportation costs of the fuel to the village of _____. Borrower further agrees that it will obtain approval for the transportation costs from Lender before incurring them and before using the proceeds of the loan to pay for them.

3. Borrower further agrees that it will not use the proceeds of the loan to:
   (a) purchase aviation gas, unless the Borrower certified in writing that aviation gas will be used only for local ground transportation, such as snow machines and outboard motors;
   (b) subsidize a business; or
   (c) make a profit unless the profits are used to purchase additional community fuel supplies.

4. The Borrower further agrees that, before the Lender loans money to the Borrower under this Agreement:
   (a) The Borrower will provide information satisfactory in content and quality to the Lender on the following:
      (1) the reason for the fuel shortage or need for assistance; and
      (2) the types of fuel and the quantity of fuel required as determined from a survey of the community.
   (b) The Borrower will submit to the Lender information about the shortage of fuel, the bulk storage available for fuel, the resale cost of the fuel in the community, and other fuel related information requested by the Lender.
   (c) The Borrower will submit to the Lender a resolution of the governing body of the community, in the form attached, authorizing the Borrower to enter into and execute this Agreement, a promissory note evidencing the loan, and such other documents as the Lender may require. The resolution will authorize the Borrower to borrow from the Lender an amount not to exceed $ _____ and will further authorize completion of the note as described in paragraph 5, below.

5. The Borrower hereby authorizes the Lender to fill in the blanks in the attached Promissory Note with (1) the amount of the principal sum once that amount is finally determined, but not to exceed $ _____, (2) the date interest will be charged on the loan, and (3) the rate of interest that will be charged on the loan. The Lender will send to the Borrower, by certified mail with return receipt requested, a copy of the completed Promissory Note. The Borrower has five (5) days from receipt of the completed Promissory Note to notify the Lender, by certified mail with return receipt requested, if the completed Promissory Note is unacceptable to the Borrower. If the Lender is so notified, then the completed Promissory Note is voided and no loan proceeds will be disbursed.

6. The Borrower agrees to repay the loan over a period of no longer than one year pursuant to the terms of the promissory note, to provide the collateral for the loan that the Lender may require, and to execute documents and to take action as the Lender may require in connection with the loan and the securing of the loan with collateral.

7. The Borrower agrees that no person or persons shall, on the grounds of race, creed, color or national origin, be excluded from participation in, be denied the proceeds of, or be subject to discrimination in the use of this loan.

8. This Agreement shall be governed by the laws of Alaska.

9. The Parties hereto have excuted this Agreement as of the date above written.

LENDER:

STATE OF ALASKA
DIVISION OF INVESTMENTS

By _____

Its _____
Title

BORROWER:

_____

_____

By _____

Its _____
Title

CORPORATE ACKNOWLEDGEMENT

STATE OF ALASKA)
) ss.
_____ JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____, by

_____
(Name of officer or agent, title officer or agent)

of _____
(Name of corporation acknowledging)

an _____ corporation, on behalf of the corporation, with the
(State or place of incorporation)

authority of the Board of Directors, and as a free act.

SUBSCRIBED AND SWORN to before me this _____ day of _____, 19 _____ at _____, Alaska.

_____
Notary Public, State of Alaska

My commission expires _____

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF ALASKA)
) ss.
_____ JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____ by _____
(Name of person who acknowledged)

SUBCRIBED AND SWORN to before me this _____ day of _____, 19 _____ at _____, Alaska.

_____
Notary Public, State of Alaska

My commission expires _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

BULK FUEL PROMISSORY NOTE
(AS 45.87)

NOTE: Under the provisions of paragraph 5 of the Bulk Fuel Loan Agreement, executed between the undersgined and the State of Alaska, Division of Investments on _____, 19 _____, the Division of Investments is authorized to complete certain terms in this promissory note. Please refer to the Agreement.

For value received, the Undersigned _____ promises to pay to the order of the State of Alaska, Division of Investments, at Pouch D, Juneau, Alaska 99811, or at any other place the holder of this Note may direct in writing, the principal sum of (to be completed by the Division) $ _____ with interest from (to be completed by the Division) _____, 19 _____, at the rate of (to be completed by the Division) _____ per centum (_____%) per annum on the balance remaining from time to time unpaid. Interest will start on the date the funds are actually disbursed, and the Undersigned authorizes the Division to insert that date on this Note. The Undersigned hereby authorizes the Division to fill in the blank in the preceding sentence with the amount of the principal sum, not to exceed (to be completed by the Undersigned) $_____, when that amount is finally determined, if the Division mails certified, return receipt reqested, a copy of the completed Note to (to be completed by the Undersigned) _____ at (to be completed by the Undersigned) _____ upon its completion.

The principal and interest shall be due and payable as follows: A lump sum of (to be completed by the Division) $ _____ plus interest shall be paid on or before (to be completed by the Division) _____, 19 _____, and the balance shall be paid in equal monthly installments of (to be completed by the Division) $_____ commencing on the first day of each month thereafter until the balance is paid in full.

Under this Note, if a payment is not received by the Division when due (a "default") and if the payment is not made prior to the due date of the next payment, the entire unpaid sum shall at once become due and payable at the option of the holder of this Note. Failure to exercise this option shall not constitute a waiver of the right to exercise the same option in the event of any subsequent default. If any suit or action is instituted to collect this Note or any part of it, the Undersigned promises and agrees to pay, in addition to the costs and disbursements provided by statute, a reasonable sum as attorney fees in such suit or action.

The Undersigned hereby waives demand, protect, and notice of demand, protest of nonpayment, and expressly agrees that this Note or any payment hereunder may be extended from time to time, and consents to the acceptance of security or further security, including other types of security, all without in any way affecting the liability of the Undersigned. This Note shall be governed by the laws of the State of Alaska.

Dated at _____, Alaska this _____ day of _____, 19 _____.

_____
(Name of Municipality or Village)

By _____
(Name and Title)

CORPORATE ACKNOWLEDGEMENT

STATE OF ALASKA)
) ss.
_____ JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____, by _____

(Name of officer or agent, title officer or agent)

of _____
(Name of corporation acknowledging)

an _____ corporation, on behalf of the corporation, with the
(State or place of incorporation)

authority of the Board of Directors, and as a free act.

SUBSCRIBED AND SWORN to before me this _____ day of _____, 19 _____ at _____, Alaska.

_____
Notary Public, State of Alaska

My commission expires _____

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF ALASKA)
) ss.
_____ JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____ by _____
(Name of person who acknowledged)

SUBCRIBED AND SWORN to before me this ____ _____ day of _____, 19 _____ at _____, Alaska.

_____
Notary Public, State of Alaska

My commission expires _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

BULK FUEL LOAN
WAIVER OF SOVEREIGN IMMUNITY RESOLUTION

VILLAGE COUNCIL RESOLUTION NO. _____

DATE _____

WHEREAS, the (traditional or IRA council)_____ is an applicant for a loan in the amount of $ _____ from the State of Alaska, Department of Commerce and Economic Development, Division of Investments, under AS 45.87.010-.500 as amended;

WHEREAS, the Division of Investments requires as a condition of the loan that an Alaska Native Village waive sovereign immunity from suit for any claims related to the loan.

NOW, THEREFORE, be is resolved that (name of community) _____, an Alaska Native Village, by its council, hereby gives its irrevocable consent to allow (name of community)_____ to be sued in the name of (traditional or IRA council) _____ for any claims related to the loan, and hereby waives any immunity from suit for such purposes, and the (traditional or IRA council) _____ shall be liable for such claims. The (traditional or IRA council) _____ also consents to the execution of any judgment obtained pursuant to this waiver of immunity against any property, whether real or personal, including money, of $ _____ in an amount equal to the amount of the loan.

The foregoing resolution was duly adopted at a duly convened meeting of _____ _____this _____ day of _____, 19 _____.

_____

_____

STATE OF ALASKA)
) ss.
_____ JUDICIAL DISTRICT)

This instrument was acknowledged before me this _____ day of _____, 19 _____, by (name of officer or agent, title officer or agent) _____ of (name of village council acknowledging) _____ a (traditional or IRA council) _____, on behalf of the council, with its authority, and as a free act.

_____
Notary Public, State of Alaska

My commission expires _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

BULK FUEL LOAN
BORROWING RESOLUTION

RESOLUTION NO. _____ DATE _____

BE IT RESOLVED, that (type of governing body) _____

is authorized to borrow from the State of Alaska, Division of Investments, for the purpose of purchasing bulk fuel, a sum not to exceed $ _____ and the following named members of the governing body of the municipality or village are authorized to execute any and all documents which may be required by the division to reflect that indebtedness, the terms of its repayment, and any security therefore, including but not limited to a contract for the loan, a promissory note (including a promissory note whose principal sum the division is authorized to complete upon determination of the principal sum of the loan), and an energy information sheet.

The foregoing resolution was duly adopted at a duly convened meeting of (name of governing body)

_____

this _____ day of _____, 19 _____.

_____
(Name and Title)

_____

STATE OF ALASKA)
) ss.
_____ JUDICIAL DISTRICT)

This instrument was acknowledged before me this _____ day of _____, 19 _____, by (name of officer or agent, title officer or agent) _____ of (name of governing body) _____ a (type of governing body) _____, on its behalf, with its authority, and as a free act.

_____
Notary Public, State of Alaska

My commission expires _____

fisheries enhancement



Loan Application

State of Alaska

Department of Commerce and Economic Development

Division of Investments

FIELD OFFICES

All applications must be submitted to the Department of Commerce and Economic Development, Division of Investments, at one of the following offices:

Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone Number: 465-2510

Division of Investments
3601 "C" Street, Suite 740
Anchorage, Alaska 99503
Telephone Number: 562-3779

Division of Investments
675 7th Avenue, Station A
Fairbanks, Alaska 99701
Telephone Number: 452-8182

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone Number: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

FISHERIES ENHANCEMENT REVOLVING LOAN FUND
AS 16.10.500-.620

LOAN PURPOSES

Loans may be made for planning, construction, and operation of fish hatchery facilities, including preconstruction activities necessary to obtain a permit, construction activities to build the hatchery facility, and the costs to operate the facility for not more than the first ten years (to be loaned annually). Loan funds may not be used to reimburse an applicant for expenses which were paid for more than six months before receipt of the application by the Division.

ELIGIBILITY

Loans may be made to qualified regional associations or private, nonprofit corporations who have obtained a private, nonprofit hatchery permit from the Alaska Department of Fish and Game. Loans may also be made for planning and preconstruction purposes prior to receipt of a hatchery permit from the Alaska Department of Fish and Game.

LENDING LIMITS

The maximum loan amount is $10,000,000. If a request is for more than $1,000,000, the applicant must be a regional association or a private, nonprofit corporation approved by the regional association in the specific area of the proposed hatchery development.

LOAN TERMS

The maximum loan term is 30 years. Terms of all loans will be fixed by the loan committee in consideration of the purpose of the loan, the needs of the borrower, the collateral offered and the ability to repay the loan. No repayment of the principal is required for an initial period of six to ten years; no interest on the principal shall accrue during that period.

INTEREST RATE

Interest will be charged at the rate of nine and one-half (9½) percent.

COLLATERAL

All loans must be secured by collateral to protect the investment of the State in the event of default. The collateral may include, but is not limited to, a lien on lands, buildings, equipment, machinery, marketable securities, approved assignments including assignment of enhancement tax receipts, or sale of surplus fish from the hatchery. The specific amount to be loaned against any collateral shall be determined by the loan committee.

REFINANCING

Refinancing is not allowed under this program. An interim note may be refinanced if it has a term of one year or less and the debt was incurred and note executed within six months prior to receipt of the application by the Division.

CONTROLLED DISBURSEMENT

Disbursement of loan funds will be made in a manner prescribed by the Division of Investments.

LOAN APPROVAL

The Division of Investments will contact other State agencies, such as the Alaska Department of Fish and Game, to assist with technical evaluation of a loan application.

Authority for approval of all loans rests with the loan committee appointed by the Commissioner of the Department of Commerce and Economic Development. The loan committee will independently evaluate all relevant information before taking action on loan applications. The committee may also consider, but is not bound by, the recommendations of the loan examiner assigned to process the application. No loan will be granted without approval of a majority of the loan committee

LOAN COSTS

The borrower shall pay all direct costs incurred by the State in processing the application for a loan, including, but not limited to, the cost of credit reports, title insurance, inspection expenses, or other direct costs. The State is not liable for any costs incurred by the borrower during the application process.

ASSUMPTIONS

Assumptions will not be allowed unless it is in the State's best interest to do so and the applicant meets all statutory eligibility requirements. Assumptions, if granted, must serve the policies and purposes of the loan program.

REGULATIONS

The Department of Commerce and Economic Development has adopted administrative regulations governing loan policies and procedures, and public disclosure of information in an individual loan file. Copies of these regulations may be obtained by contacting the Division of Investments.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

FISHERIES ENHANCEMENT LOAN APPLICATION CHECK-OFF LIST

The following information **is required** in order to process your application. Please use this list to make sure all information is submitted (incomplete applications will not be accepted). Please retain a copy of this application for your records.

_____ 1. **Application for Fisheries Enhancement Loan:** Be sure the form has been completed and signed by an individual authorized by the corporate resolution in item #14, below. (pages 4 and 5)

_____ 2. **Letter of Intent.** (page 6)

_____ 3. **Copy of all Permits:** Include copies of all permits necessary for construction of the hatchery facility or a schedule indicating when required permits will be obtained.

_____ 4. **Copy of Contractor's Bid:** For planning, construction, and operational costs. The division may require competitive bids on all loans in excess of $100,000.

_____ 5. **Copy of Nonprofit Hatchery Permit:** Issued by the Alaska Department of Fish and Game. Include the Basic Management Plan and current Annual Management Plan.

_____ 6. **Copy of Nonprofit Status:** Issued by the Internal Revenue Service or by the Alaska Department of Revenue.

_____ 7. **Copy of Qualification:** For loans to private, nonprofit corporations in excess of $1,000,000, include a letter of approval from the qualified regional association.

_____ 8. **Financial Statement:** Include your most recent annual statement and the current month end statement. (pages 7 and 8)

_____ 9. **Projected Statement of Profit and Loss:** Include actual figures currently available and projected figures over the expected term of all anticipated future State loans you may require. (page 9)

_____ 10. **Personal Resume:** Include a resume for the hatchery manager and all key personnel. (page 10)

_____ 11. **Business Resume.** (page 11)

_____ 12. **Federal Tax Returns:** You must include complete copies of your last three years Federal Income Tax Returns. Do not send original documents as they will not be returned.

_____ 13. **Credit Authorizations:** Each form must be completed and signed. (page 12)

_____ 14. **Corporate Resolution:** Include a copy of the Corporate Resolution Form authorizing the corporation to obtain this loan and authorizing an individual to execute all loan documents, if the loan is approved. (pages 13 and 14)

_____ 15. **Consent to Release Information.** (page 15)

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

APPLICATION FOR FISHERIES ENHANCEMENT LOAN

Name of Nonprofit Corporation	Current Date
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Corporate Tax Identification Number
	Corporate Telephone Number ( )
Hatchery Location	Hatchery Permit Number
Hatchery Mailing Address (Street/P.O. Box, City, State, Zip Code)	Hatchery Telephone Number ( )

I hereby apply for a loan of $_____, with interest and payments waived for _____ years, to be repaid in _____ years with ☐ Annual Payments/☐ Other.

If other, please specify _____

Income (List all sources)	Yearly Amount

Bank/Branch	Checking Acct. No.	Current Balance	Savings Acct. No.	Current Balance
Savings and Loan/Branch	Mailing Address		Savings Acct. No.	Current Balance
Credit Union	Location		Account No.	Current Balance
Other	Location		Account No.	Current Balance

Are there or have there ever been any judgments, bankruptcy, garnishments or other legal proceedings against you? (If none, please state "None." If any, give particulars.)

MANAGEMENT OF CORPORATION

(1) Names of all officers, directors and their annual compensation, including salaries, bonuses, fees, withdrawals, etc.
(2) Stockholders not otherwise listed—(five largest).
(3) For each stockholder owing 10% or more of the stock include a current financial statement and three (3) credit authorizations.

Name and Address	Annual Compensation	Office Held	Percent Ownership

On behalf of the corporation, I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Fisheries Enhancement Loan Program.

The State is authorized to obtain any and all credit reports and verification needed to evaluate this application, and the cost of obtaining these reports will be paid by the applicant.

_____
Name of Corporate Applicant

_____ _____
Date Authorized Signature

CORPORATE ACKNOWLEDGEMENT

STATE OF ALASKA)
) ss.
_____ JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____, by

_____
(Name of officer or agent, title officer or agent)

of _____
(Name of corporation ackowledging)

an _____ corporation, on behalf of the corporation, with the authority of the Board of Directors, and as a free act.

SUBSCRIBED AND SWORN to before me this _____ day of _____, 19 _____ at _____, Alaska.

_____
Notary Public, State of Alaska
My commission expires: _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

FISHERIES ENHANCEMENT
LETTER OF INTENT
(Attach additional sheets as necessary)

Applicant's Name _____

I. Use of Loan Proceeds: (Check appropriate box and fill in loan amount)

☐	Preconstruction	$ _____
☐	New Construction	$ _____
☐	Planning	$ _____
☐	Lake Fertilization	$ _____
☐	Operating Costs	$ _____
☐	Upgrade Existing Facility	$ _____
☐	Habitat Improvement	$ _____
☐	Other (explain)	$ _____
	Total	$ _____

Describe in detail how you plan to use the borrowed funds. Identify your equity position in the project equal to 10% of the loan within ten years or less. Include copies of contractor's bids for planning and construction costs.

II. Collateral offered to secure the loan:

Describe in detail and include documentation to verify the value of the collateral being offered.

Collateral	Value
1. _____	$ _____
2. _____	$ _____
3. _____	$ _____
4. _____	$ _____

III. Number of Jobs Created if Loan is Approved _____

Egg Capacity (Millions):

Pinks _____ Reds _____ Chums _____ Cohos _____ Kings _____ Other _____

IV. Authorized Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

FISHERIES ENHANCEMENT LOANS
FINANCIAL STATEMENT (Business)

Name	Taxpayer Identification No.	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19____

ASSETS		LIABILITIES	Monthly Payments	Balance Owing
Cash in Bank	$	Real Estate (Schedule 3)	$	$
Cash on hand		Notes Payable (Schedule 4)		
Receivables Due from Sale of Surplus Fish and Eggs (Schedule 1)		Accounts payable		
		Employer taxes payable		
Securities (Schedule 2)		Other taxes payable		
Projected Value to the Hatchery of Current Fish and Egg Inventory at Current Market Prices (Please attach your analysis showing all assumptions)		Other liabilities (itemize)		
Value of Real Estate Owned (Schedule 3)				
Machinery, furniture and fixtures		TOTAL LIABILITIES	$	$
Less: Depreciation		Fund Balance (Deficit)		
Prepaid expenses				
Other assets (itemize)				
TOTAL ASSETS	$	TOTAL LIABILITIES AND FUND BALANCE		$

CONTINGENT LIABILITIES

☐ Yes ☐ No Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom? Amount $ _____

☐ Yes ☐ No Are there any unsatisfied judgments against you? Amount $ _____

☐ Yes ☐ No Have you been declared bankrupt in the last 14 years? Year _____

Other Obligations:

Authorized amount set aside for reserve Amount $ _____

SCHEDULE NO. 1: DUE FROM SALE OF SURPLUS FISH AND EGGS

Name of Debtor	Amount	When Due

SCHEDULE NO. 2: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 3: REAL ESTATE OWNED

Description and Location (Street, City, State)	Date Acquired	Cost	Current Assessed Value	Mortgages					
				Name and Address of Mortgagee	Current Market Value	Original Balance	Present Balance	Payment Amount	
								Monthly	Annual

Is any real estate being purchased on a contract of sale? _____ If so, which one? _____
From whom? _____

SCHEDULE NO. 4: NOTES PAYABLE

Name and Address of Mortgagee	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

Have you ever received a loan from the State? Yes No

If yes, please complete the following:

Loan Number	Loan Type	Date Received	Paid in Full (Yes or No)

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Title _____ Date _____

Signature _____ Title _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

FISHERIES ENHANCEMENT
PROJECTED PROFIT AND LOSS STATEMENT
(Please utilize this sample format or a similar format in preparing your Projected Profit and Loss Statement.)
(Do Not Fill out by Hand)

Applicant's Name _____

Projections Through Last Loan's Maturity Date

PROJECTIONS FOR PINK SALMON

Year	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	20___
No. Eggs Taken																		
No. Fry Released																		
Est. % Ocean Survival																		
Total Return																		
Hatchery Share (%)																		
Brood Stock																		
Surplus																		
Average Wt. (lbs.)																		
Price/Pound																		
Sales																		
C.P. Share (%)																		
C.P. Revenues																		

PROJECTIONS FOR EACH OF THE OTHER SALMON SPECIES

Year	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	20___
No. Eggs Taken																		
No. Fry Released																		
Est. % Ocean Survival																		
Returns																		
Age Class 3																		
Age Class 4																		
Age Class 5																		
Totals																		
Hatchery Share (%)																		
Brood Stock																		
Surplus																		
Average Wt. (lbs.)																		
Price/Pounds																		
Sales																		
C.P. Shares (%)																		
C.P. Revenues																		

PROJECTED ECONOMIC EVALUATIONS

INCOME	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	19___	20___
_____ Sales _____ (species)																		
_____ Sales _____ (species)																		
_____ Sales _____ (species)																		
Other Revenue _____																		
Other Revenue _____																		
Total Revenue																		
Expenses																		
Operating Costs																		
Capital Expenditures																		
Loan Repayment																		
Totals																		
Balance																		
State Loan																		

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

FISHERIES ENHANCEMENT

PERSONAL RESUME OF APPLICANT OR PRESIDENT OF THE CORPORATION AND OF THE MANAGER AND KEY PERSONNEL OF THE FACILITY
(Attach additional sheets as necessary)

Name _____

1. Include a brief outline of your personal business experience.

   (Use this space or attach a copy of your resume)

2. References

   List 3 persons in this vicinity who know you well and to whom we may refer (excluding relatives or previous employers).

Name	Telephone	Mailing Address	Occupation

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

FISHERIES ENHANCEMENT

PERSONAL RESUME OF APPLICANT OR PRESIDENT OF THE CORPORATION AND OF THE MANAGER AND KEY PERSONNEL OF THE FACILITY
(Attach additional sheets as necessary)

Name _____

1. Include a brief outline of your personal business experience.

   (Use this space or attach a copy of your resume)

2. References

   List 3 persons in this vicinity who know you well and to whom we may refer (excluding relatives or previous employers).

Name	Telephone	Mailing Address	Occupation

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

FISHERIES ENHANCEMENT

BUSINESS RESUME
(Attach additional sheets as necessary)

Name _____

1. Date corporation was established, date permit(s) were issued and summary of enhancement activity.

2. Permitted limits by salmon species.

3. Evidence of markets, potential customers, etc., substantiating feasibility of project.

4. List parent corporations, subsidiaries and/or affiliated companies and their financial statements. Explain trade and financial interrelationships of applicant and such parent corporations, subsidiaries and/or affiliates.

5. Present number of employees _____.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingha, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingha, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)

authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingha, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

FISHERIES ENHANCEMENT
CORPORATE RESOLUTION

_____, Alaska _____, 19 _____

I, _____, Secretary of the _____, a corporation organized and existing under and by virtue of the laws of the State of Alaska do hereby certify that at a meeting of the Board of Directors of said corporation, duly and regularly called and held on the _____ day of _____, 19 _____, at which a quorum was present and voting, the following resolutions were unanimously adopted:

BE IT RESOLVED, that any _____ of the following named officers or employees of this corporation:

NAME	POSITION
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

acting for and on behalf of this corporation and as its act and deed, be and they are hereby authorized and empowered:

(a) To borrow from the State of Alaska, Department of Commerce and Economic Develoment, Division of Investments, on such terms as may be agreed upon between the said officers or employees of said Division, such sum or sums or money as in their judgment should be borrowed, not exceeding, however, at any one time the aggregate amount of $ _____.

(b) To execute and deliver to said Division the promissory note or notes of this corporation, on forms which may be by said Division submitted, at such rates of interest and on such terms as may be agreed upon, evidencing the sums of moneys so borrowed or any indebtedness of this corporation which may be to said Division incurred; and also to execute and deliver to said Division any renewal or renewals of said notes, or any of them, or of any part thereof.

(c) To mortgage, pledge, hypothecate or otherwise encumber and deliver to said Division, as security for the payment of any loans so obtained or any promissory notes so executed or any other or further indebtedness of this corporation to said Division at any time owing, however, the same may be evidenced, any property belonging to this corporation or in which this corporation may have an interest, real, personal or mixed. Such property may be encumbered, hypothecated or pledged at the time such loans are obtained or such indebtedness is incurred, or at any other time or times, and may be either in addition to or in lieu of any property theretofore mortgaged, hypothecated, encumbered or pledged.

(d) To execute and deliver to said Division the form of pledge agreement which may be by said Division submitted and which shall evidence the terms and conditions under and pursuant to which such pledges, or any of them, are made; and also to execute and deliver to the Division any financing statements, security agreements, mortgages, deeds, trust indentures or other instruments in writing, or any kind or nature, which may be necessary or proper in connection therewith or pertaining thereto.

(e) To draw, endorse and discount with said Division drafts, trade acceptances, promissory notes or other evidences of indebtedness payable or belonging to this corporation or in which this corporation may have an interest, with or without recourse against this corporation, and without limitation as to the amount thereof, and to guarantee payment thereof, and either to receive cash for the same or to cause such proceeds to be credited to the account of this corporation in said Division or to cause such other disposition of the proceeds derived therefrom as they may deem advisable.

(f) To do and perform such other acts and things and to execute and deliver such other documents as may in their discretion be deemed reasonable, necessary or proper in order to carry into effect any of the provisions of these Resolutions.

BE IT FURTHER RESOLVED, that these Resolutions shall remain in full force and effect until written notice of the revocation thereof shall have been delivered to and received by said Division.

I further certify that the persons hereinabove named occupy the positions set opposite their respective names; that the foregoing Resolutions now stand of record on the books of said corporation and have not been modified or revoked in any manner whatsoever; that the foregoing, together with the exhibit hereto attched, if any, and the Resolutions, if any, heretofore certified to said Division, comprise all of the action of the said Board of Directors pertaining to said subject matter, which is, at the date hereof, in force and effect.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the seal of said corporation this _____ day of _____, 19 _____.

_____

(CORPORATE SEAL) Attested _____

CORPORATE ACKNOWLEDGEMENT

STATE) OF ALASKA
) ss.
)

THIS IS TO CERTIFY that on the _____ day of _____, 19 _____, before me, the undersigned, a Notary Public, duly commissioned and sworn as such, personally came _____ of _____ _____ a corporation organized and existing by virtue of the laws of _____, to be known to be the _____ of said corporation, and acknowledged that said instrument was signed in behalf of said corporation by authority of its Board of Directors, and the said _____ _____ acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this _____ day of _____, 19 _____.

_____
Notary Public in and for Alaska

My Commission expires _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

FISHERIES ENHANCEMENT
CONSENT TO RELEASE INFORMATION

I authorize the Alaska Department of Commerce and Economic Development, Division of Investments, to release any information contained in this application and attachments to the Alaska Department of Fish and Game, and I further authorize the exchange of information between these departments to facilitate processing of this loan application.

_____
Applicant's Name - Please Print

_____
Authorized Signature

_____
Date

historical district



Loan Application

State of Alaska

Department of Commerce and Economic Development

Division of Investments

FIELD OFFICES

All applications must be submitted to the Department of Commerce and Economic Development, Division of Investments, at one of the following offices:

Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone Number: 465-2510

Division of Investments
3601 "C" Street, Suite 740
Anchorage, Alaska 99503
Telephone Number: 562-3779

Division of Investments
675 7th Avenue, Station A
Fairbanks, Alaska 99701
Telephone Number: 452-8182

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone Number: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

LOAN POLICIES AND PROCEDURES

HISTORICAL DISTRICT REVOLVING LOAN FUND
AS 45.98.010-.070

LOAN PURPOSES

Loans may be made for the restoration, improvement, rehabilitation or maintenance of historical buildings. Loan funds may not be used to reimburse an applicant for expenses which were paid for more than six months before receipt of the application by the Division.

ELIGIBILITY

Loans may be made to a person, firm, business or municipality subject to applicable laws. The structures must be within the boundaries of a historical district and they must be identified as important in State or national history or be suitable for superficial modification so that they can conform to the period or motif of the surrounding structures that are the reason for the area's designation as a historical district. All projects must be approved by a local Historical District Commission and by a majority of the members of the Historic Sites Advisory Committee.

LENDING LIMITS

The maximum loan amount is $250,000 per structure. State participation in all loans in the aggregate for any one historical district may not exceed $1,500,000.

INTEREST RATE

Interest will be charged at the rate of seven and one-half (7½) percent.

LOAN TERMS

The maximum loan term is 30 years. Terms of all loans will be fixed by the loan committee in consideration of the purpose of the loan, the needs of the borrower, the collateral offered and the ability to repay the loan.

COLLATERAL

All loans must be secured by adequate collateral to protect the investment of the State in the event of default. The collateral may include, but is not limited to, a lien on lands, buildings, equipment, machinery, marketable securities and approved assignments. The State must be in a first lien position on the collateral offered to secure the loan. No loan may exceed 85% of the value of the collateral offered. Loans secured by real estate are normally 85% of the appraised value or cost, whichever is lower. Loans secured by equipment or machinery are normally 60% of the appraised value or cost, whichever is lower. The specific amount to be loaned against any collateral offered shall be determined by the loan committee.

INTERIM FINANCING

Interim construction financing is not available under this program. No loan funds may be disbursed until construction or renovation is 100% complete. Applicants should obtain written loan approval prior to obtaining interim financing. To be considered interim financing, promissory notes must have a term of six months or less and the debt must have been incurred and the note executed within six months prior to receipt of the application by the Division.

REFINANCING

Refinancing is not allowed under this program. An interim note may be refinanced if it has a term of six months or less and the debt was incurred and the note executed within six months prior to receipt of the application by the Division.

PROJECT APPROVAL

Prior to submitting an application to the Division of Investments, the applicant must receive plan approval from a local Historic District Commission and from the Historic Sites Advisory Committee. Written approval of the project must be included with the loan application.

LOAN APPROVAL

Authority for approval of all loans rests with the loan committee appointed by the Commissioner of the Department of Commerce and Economic Development. The loan committee will independently evaluate all relevant information before taking action on loan applications. The committee may also consider, but is not bound by, the recommendations of the loan examiner assigned to process the application. No loan will be granted without approval of a majority of the loan committee.

LOAN COSTS

The borrower shall pay all direct costs incurred by the State in processing the application for a loan, including, but not limited to, the cost of credit reports, title insurance, inspection expenses, or other direct costs. The State is not liable for any costs incurred by the borrower during the application process.

ASSUMPTIONS

Assumptions will not be allowed unless it is in the State's best interest to do so and the applicant meets all statutory eligibility requirements. Assumptions, if granted, must serve the policies and purposes of the loan program.

REGULATIONS

The Department of Commerce and Economic Development has adopted administrative regulations governing loan policies and procedures, and public disclosure of information in an individual loan file. Copies of these regulations may be obtained by contacting the Division of Investments.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

HISTORICAL DISTRICT LOAN APPLICATION CHECK-OFF LIST

The following information **is required** in order to process your application. Please use this list to make sure all information is submitted (incomplete applications will not be accepted). Please retain a copy of this application for your records.

_____ 1. **Application for Historical District Loan:** Be sure the form has been completed and signed. (pages 4 and 5)

_____ 2. **Letter of Intent:** Include copies of bids or quotes to document the total cost of the proposed project. (page 6)

_____ 3. **Collateral:** Include documentation to verify the value of the collateral being offered to secure the loan. In most cases, this will require a copy of your tax assessment or an appraisal.

_____ 4. **Individual Financial Statement.** (pages 7 and 8)

_____ 5. **Business Financial Statement.** (pages 9 and 10)

_____ 6. **Actual Statement of Profit and Loss.** (page 11)

_____ 7. **Projected Statement of Profit and Loss.** (page 12)

_____ 8. **Personal Resume:** Include three references. (page 13)

_____ 9. **Business Resume.** (page 14)

_____ 10. **Credit Authorization:** Each form must be completed and signed. (page 15)

_____ 11. **Authorization to Verify Financial Information.** (page 16)

_____ 12. **Federal Tax Returns:** You must include complete copies of your last three years' Federal Income Tax Returns. You must submit tax returns for each individual owning 10% or more of the corporation, as well as the corporation's returns. Do not send original documents as they will not be returned.

_____ 13. **Written Verification of Approval:** From the Historical District Commission and the Historic Sites Advisory Committee. This approval must state that the structure to be modified is within a historical district as defined under AS 29.48.110 and has been identified as important in State or national history.

_____ 14. **Photographs or Drawings:** Which clearly illustrate the project to be funded. (page 17)

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

APPLICATION FOR HISTORICAL DISTRICT LOAN

Applicant: Business Name	Individual Business Partnership Corporation	Current Date Taxpayer Identification Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)		Business Telephone Number ( )

Applicant: Name (Last, First, M.I.)	Social Security Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Applicant's Telephone Number ( ) Date of Birth Place of Birth (city and state)
I hereby apply for a loan of $_____ to be repaid in _____ years with ☐ Monthly Payments/ ☐ Quarterly Payments/ ☐ Other If other, please specify _____	☐ Married (including separated) ☐ Unmarried (including single, divorced, widowed) Number of Dependents (excluding Applicant) Gross Monthly Salary (before deductions)
Applicant's Employer Occupation/Position How Long? Yrs. Mos.	Employer's Telephone Number ( )

Spouse/Co-Applicant: Name (Last, First, M.I.)	Social Security Number Date of Birth
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Place of Birth (City and State) Gross Monthly Salary (before deductions)
Spouse/Co-Applicant's Employer Occupation/Position How Long? Yrs. Mos.	Employer's Telephone Number ( )

Nearest Relative not living with you/Contact Person: Name (Last, First, M.I.)	Telephone Number ( )
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Put your nearest relative not living with you or a contact person who knows how to reach you when your current mailing address or telephone number may have changed.

I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Historical District Loan Program.

_____ Date _____ Signature

_____ Date _____ Signature

Corporate Applicants Must Complete the Following Section

MANAGEMENT OF CORPORATION

(1) Names of all officers, directors and their annual compensation, including salaries, bonuses, fees, withdrawals, etc.
(2) Stockholders not otherwise listed—(five largest).
(3) For each stockholder owing 10% or more of the stock include a current financial statement and three (3) credit authorizations.

Name and Address	Annual Compensation	Office Held	Percent Ownership

On behalf of the corporation, I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Historical District Loan Program.

The State is authorized to obtain any and all credit reports and verification needed to evaluate this application, and the cost of obtaining these reports will be paid by the applicant.

Name of Corporate Applicant

Date

Authorized Signature

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

HISTORICAL DISTRICT
LETTER OF INTENT
(Attach additional sheets as necessary)

Applicant's Name _____

I. Use of Loan Proceeds: (Check appropriate box and fill in loan amount)

☐	Restoration	$ _____
☐	Maintenance	$ _____
☐	Other (explain)	$ _____
	Total	$ _____

II. Describe in detail how you plan to use the borrowed funds. Include invoices, receipts or price quotes to document the total cost of your project. Please include photographs or drawings which clearly illustrate the project to be funded.

III. Collateral offered to secure the loan:

Describe in detail and include documentation to verify the value of the collateral being offered.

IV. Applicant's Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

HISTORICAL DISTRICT LOAN
FINANCIAL STATEMENT (Individual)

Name	Social Security Number	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19_____.

ASSETS		LIABILITIES	Monthly Payments	Balance Owing
Cash in Bank	$	Real Estate (Schedule 3)	$	$
Cash on hand		Notes Payable (Schedule 4)		
Notes/Accounts receivable (Schedule 1)		Accounts payable		
U.S. bonds or notes		Other Liabilities		
Mortgages and contracts (Schedule 1)				
Securities (Schedule 2)				
Value of Real Estate Owned (Schedule 3)				
Automobile		Credit Cards		
Personal Property				
Other assets (itemize)				
		TOTAL MONTHLY PAYMENTS	$	
		TOTAL LIABILITIES		$
TOTAL ASSETS	$	NET WORTH		$

CONTINGENT LIABILITIES

☐ Yes ☐ No — Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom? Amount $ _____

☐ Yes ☐ No — Are there any unsatisfied judgments against you? Amount $ _____

☐ Yes ☐ No — Have you been declared bankrupt in the last 14 years? Year _____

Other Obligations: Child Support, Alimony, etc.

SCHEDULE NO. 1: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 2: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 3: REAL ESTATE OWNED

Description and Location (Street, City, State)	Date Acquired	Cost	Current Assessed Value	Mortgages					
				Name and Address of Bank	Current Market Value	Original Balance	Present Balance	Payment Amount	
								Monthly	Annual

Is any real estate being purchased on a contract of sale? _____ If so, which one? _____
From whom? _____

SCHEDULE NO. 4: NOTES PAYABLE (Do not include mortgages listed in Schedule 3)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

Have you ever received a loan from the State? ☐ Yes ☐ No

If yes, please complete the following:

Loan Number	Loan Type	Date Received	Paid in Full (Yes or No)

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Date _____

Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

HISTORICAL DISTRICT LOAN
FINANCIAL STATEMENT (Business)

Name	Taxpayer Identification No.	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19_____.

ASSETS		LIABILITIES	Monthly Payments	Balance Owing
Cash in Bank	$	Real Estate (Schedule 3)	$	$
Cash on hand		Notes Payable (Schedule 4)		
Notes/Accounts receivable (Schedule 1)		Accounts payable		
Less: Reserve for bad debts		Employer taxes payable		
U.S. bonds or notes		Other taxes payable		
Mortgages and contracts (Schedule 1)		Other liabilities (itemize)		
Securities (Schedule 2)				
Value of Real Estate Owned (Schedule 3)				
Machinery, furniture and fixtures		TOTAL LIABILITIES	$	$
Less: Depreciation		Capital Stock		
Prepaid expenses		Paid-in Surplus		
Other assets (itemize)		Retained Earnings		
TOTAL ASSETS	$	NET WORTH		$

CONTINGENT LIABILITIES

☐ Yes ☐ No Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom? Amount $ _____

☐ Yes ☐ No Are there any unsatisfied judgments against you? Amount $ _____

☐ Yes ☐ No Have you been declared bankrupt in the last 14 years? Year _____

Other Obligations

SCHEDULE NO. 1: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 2: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 3: REAL ESTATE OWNED

Description and Location (Street, City, State)	Date Acquired	Cost	Current Assessed Value	Mortgages					
				Name and Address of Bank	Current Market Value	Original Balance	Present Balance	Payment Amount	
								Monthly	Annual

Is any real estate being purchased on a contract of sale? _____ If so, which one? _____
From whom? _____

SCHEDULE NO. 4: NOTES PAYABLE (Do not include mortgages listed in Schedule 3)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

Have you ever received a loan from the State? ☐ Yes ☐ No

If yes, please complete the following:

Loan Number	Loan Type	Date Received	Paid in Full (Yes or No)

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Title _____ Date _____

Signature _____ Title _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

HISTORICAL DISTRICT
ACTUAL STATEMENT OF PROFIT AND LOSS

Applicant's Name _____ Social Security Number _____

For the period beginning _____ and ending _____.
(Must be for current year if presently in business)

Gross Sales		$ _____
Cost of Goods Sold:		
Beginning Inventory (if applicable)	$_____	
Add: Purchases	_____	
Total	$ _____	
Less: Ending Inventory	(_____)	
Total Cost of Sales		_____
Gross Profit		$ _____
OPERATING EXPENSES:		
Proprietor's or Officer's Salary	$ _____	
Salaries to Employees	_____	
Employee Expenses	_____	
Payroll Taxes	_____	
Fuel	_____	
Electricity	_____	
Telephone	_____	
Automobile Expenses	_____	
Rent or Lease Payments	_____	
Office Supplies	_____	
Maintenance and Repairs	_____	
Dues and Subscriptions	_____	
Travel Expense	_____	
Entertainment	_____	
Professional Services	_____	
Taxes and Licenses	_____	
Insurance	_____	
Advertising and Promotion	_____	
Bad Debts	_____	
Other	_____	
_____	_____	
_____	_____	
TOTAL EXPENSES		$ (_____)
OPERATING INCOME		$ _____
Other Expenses:		
Depreciation	$ _____	
Interest	_____	
Total Other		(_____)
Net Income from Operations		$ _____
Other Income:		
_____		_____
_____		_____
Total Net Income		$ _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

HISTORICAL DISTRICT
PROJECTED STATEMENT OF PROFIT AND LOSS
(First Year After Receiving Loan)

Applicant's Name _____ Social Security Number _____

For the period beginning _____ and ending _____.

Gross Sales		$ _____
Cost of Goods Sold:		
Beginning Inventory (if applicable)	$_____	
Add: Purchases	_____	
Total	$ _____	
Less: Ending Inventory	(_____)	
Total Cost of Sales		_____
Gross Profit		$ _____
OPERATING EXPENSES:		
Proprietor's or Officer's Salary	$ _____	
Salaries to Employees	_____	
Employee Expenses	_____	
Payroll Taxes	_____	
Fuel	_____	
Electricity	_____	
Telephone	_____	
Automobile Expenses	_____	
Rent or Lease Payments	_____	
Office Supplies	_____	
Maintenance and Repairs	_____	
Dues and Subscriptions	_____	
Travel Expense	_____	
Entertainment	_____	
Professional Services	_____	
Taxes and Licenses	_____	
Insurance	_____	
Advertising and Promotion	_____	
Bad Debts	_____	
Other	_____	
_____	_____	
_____	_____	
TOTAL EXPENSES		$ (_____)
OPERATING INCOME		$ _____
Other Expenses:		
Depreciation	$ _____	
Interest	_____	
Total Other		(_____)
Net Income from Operations		$ _____
Other Income:		
_____		
_____		_____
Total Net Income		$ _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

HISTORICAL DISTRICT
PROJECTED STATEMENT OF PROFIT AND LOSS
(First Year After Receiving Loan)

Applicant's Name _____ Social Security Number _____

For the period beginning _____ and ending _____.

Gross Sales		$ _____
Cost of Goods Sold:		
Beginning Inventory (if applicable)	$ _____	
Add: Purchases	_____	
Total	$ _____	
Less: Ending Inventory	(_____)	
Total Cost of Sales		_____
Gross Profit		$ _____
OPERATING EXPENSES:		
Proprietor's or Officer's Salary	$ _____	
Salaries to Employees	_____	
Employee Expenses	_____	
Payroll Taxes	_____	
Fuel	_____	
Electricity	_____	
Telephone	_____	
Automobile Expenses	_____	
Rent or Lease Payments	_____	
Office Supplies	_____	
Maintenance and Repairs	_____	
Dues and Subscriptions	_____	
Travel Expense	_____	
Entertainment	_____	
Professional Services	_____	
Taxes and Licenses	_____	
Insurance	_____	
Advertising and Promotion	_____	
Bad Debts	_____	
Other	_____	
_____	_____	
_____	_____	
TOTAL EXPENSES		$ (_____)
OPERATING INCOME		$ _____
Other Expenses:		
Depreciation	$ _____	
Interest	_____	
Total Other		(_____)
Net Income from Operations		$ _____
Other Income:		
_____		_____
_____		_____
Total Net Income		$ _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

HISTORICAL DISTRICT
PROJECTED STATEMENT OF PROFIT AND LOSS
(First Year After Receiving Loan)

Applicant's Name _____ Social Security Number _____

For the period beginning _____ and ending _____.

Gross Sales		$ _____
Cost of Goods Sold:		
Beginning Inventory (if applicable)	$_____	
Add: Purchases	_____	
Total	$ _____	
Less: Ending Inventory	(_____)	
Total Cost of Sales		_____
Gross Profit		$ _____
OPERATING EXPENSES:		
Proprietor's or Officer's Salary	$ _____	
Salaries to Employees	_____	
Employee Expenses	_____	
Payroll Taxes	_____	
Fuel	_____	
Electricity	_____	
Telephone	_____	
Automobile Expenses	_____	
Rent or Lease Payments	_____	
Office Supplies	_____	
Maintenance and Repairs	_____	
Dues and Subscriptions	_____	
Travel Expense	_____	
Entertainment	_____	
Professional Services	_____	
Taxes and Licenses	_____	
Insurance	_____	
Advertising and Promotion	_____	
Bad Debts	_____	
Other	_____	
_____	_____	
_____	_____	
TOTAL EXPENSES		$ (_____)
OPERATING INCOME		$ _____
Other Expenses:		
Depreciation	$ _____	
Interest	_____	
Total Other		(_____)
Net Income from Operations		$ _____
Other Income:		
_____		_____
_____		
Total Net Income		$ _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

HISTORICAL DISTRICT

PERSONAL RESUME OF APPLICANT OR PRESIDENT OF THE CORPORATION
(Attach additional sheets as necessary)

Name _____

1. Include a brief outline of your personal business experience.

(Use this space or attach a copy of your resume)

2. References

List 3 persons in this vicinity who know you well and to whom we may refer (excluding relatives or previous employers).

Name	Telephone	Mailing Address	Occupation

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

HISTORICAL DISTRICT

BUSINESS RESUME
(Attach additional sheets as necessary)

Name _____

1. Date business was established and years of operation.

2. Principal products or service(s).

3. Evidence of markets, potential customers, etc., substantiating feasibility of project.

4. List subsidiaries and/or affiliated companies and their financial statements. Explain trade and financial interrelationships of applicant and such subsidiaries and/or affiliates.

5. Present number of employees _____.

(Use this space or attach a copy of your business resume)

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

AUTHORIZATION TO VERIFY FINANCIAL INFORMATION

I, _____, of _____,
(Print Full Name) (City and State)
authorize the following named financial institution to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my account balances and loan balances with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions and the current balance, if any is outstanding.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

Name of Financial Institution _____

Checking Account Number _____ Savings Account Number _____

Loan Number _____ Loan Number _____

Address _____

City _____ State _____ Zip _____

Applicant's Signature _____ Date _____
This form should be returned with the application package. The division will forward all authorizations to the creditors.

BANK VERIFICATION OF FINANCIAL INFORMATION
(For Bank Use Only)

Checking Account Balance	Savings Account Balance	Other Account Balance
Date Account was opened	Date Account was opened	Date Account was opened

Loans	Date	Original Balance	Payments	Current Balance	Rating
Secured					
Unsecured					

The information provided above is essentially correct as of this date and accurately reflects the individual's financial dealings with this institution.

Remarks _____

_____ _____ _____
Signature of Bank Official Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

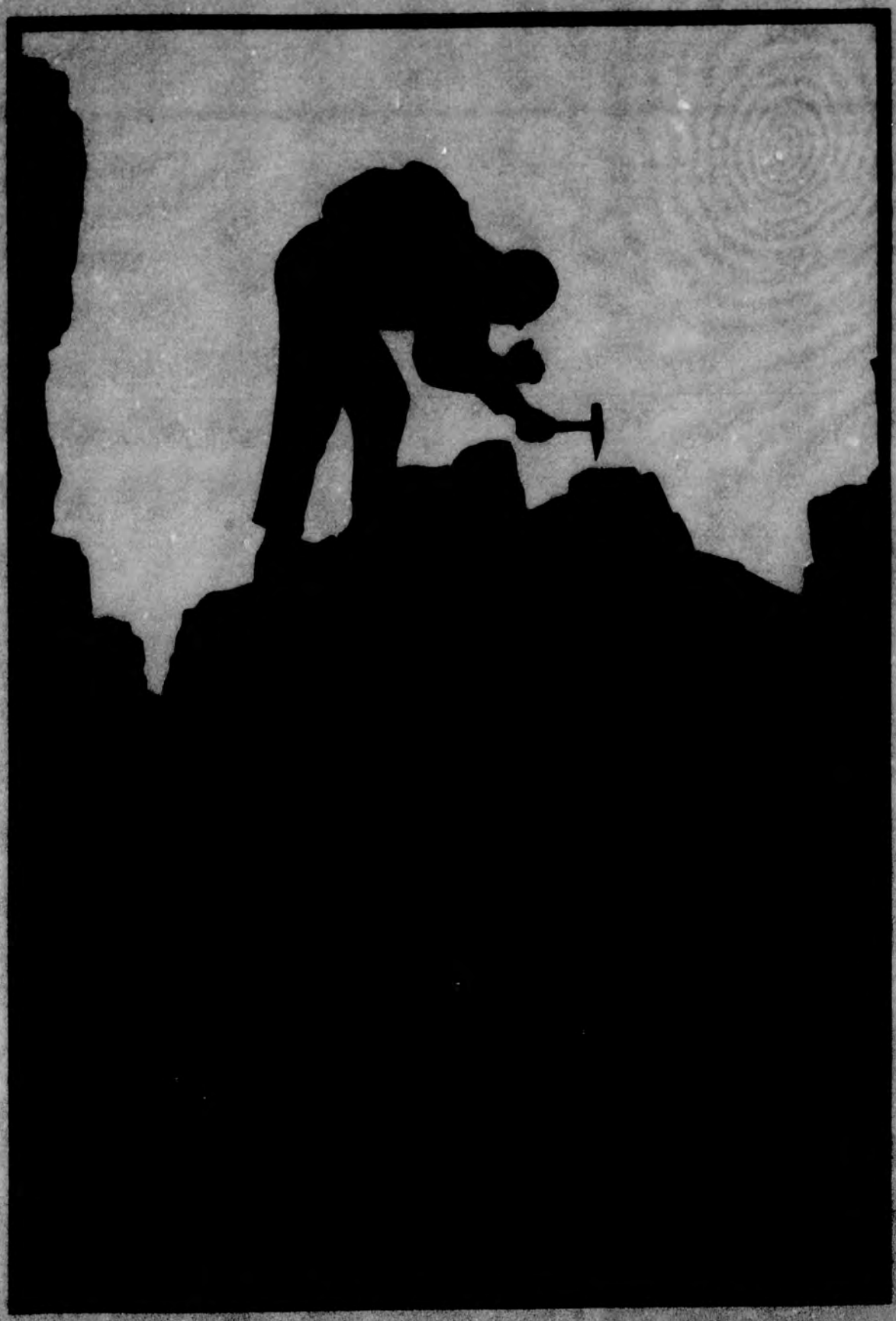
HISTORICAL DISTRICT
PHOTOGRAPHS (Project to be Funded)

Applicant's Name _____

Street Address of Project _____

NORTH FACE	SOUTH FACE
EAST FACE	WEST FACE

mining



Loan Application

State of Alaska

Department of Commerce and Economic Development

Division of Investments

FIELD OFFICES

All applications must be submitted to the Department of Commerce and Economic Development, Division of Investments, at one of the following offices:

Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone Number: 465-2510

Division of Investments
3601 "C" Street, Suite 740
Anchorage, Alaska 99503
Telephone Number: 562-3779

Division of Investments
675 7th Avenue, Station A
Fairbanks, Alaska 99701
Telephone Number: 452-8182

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone Number: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

LOAN POLICIES AND PROCEDURES

MINING REVOLVING LOAN FUND
AS 27.09.010-.060

LOAN PURPOSES

Loans may be made to underwrite advanced mineral exploration, development, or mining in the State. These purposes are defined as:

1. "advanced mineral exploration" means the investigation of a known mineral deposit to determine its size, shape and value, and to determine whether it is feasible for mining, by use of geophysical surveys, boreholes, pits or underground workings;

2. "development" means the preparation of a proven mineral deposit for mining;

3. "mining" means the extraction of ore and preparation of a mineral product for market.

ELIGIBILITY

Loans may be made to:

1. an individual who has had at least five years' mining or prospecting experience in Alaska and is a resident of the State;

2. a partnership if at least half of the partners each have five years' mining or prospecting experience in the State and at least half are residents of the State; and

3. a corporation if at least 51% of its shares are held by persons having at least five year's mining or prospecting experience in the State and at least 51% of its shares are held by persons who are residents of the State.

LENDING LIMITS

The maximum loan amount is $5,000,000 less any loan amounts previously borrowed from the Mining Revolving Loan Fund.

INTEREST RATE

Interest will be charged at the rate of ten (10%) percent.

LOAN TERMS

The maximum loan term is 15 years. Terms of all loans will be fixed by the loan committee in consideration of the purpose of the loan, the needs of the borrower, the collateral offered and the ability to repay the loan.

REPAYMENT TERMS

Loans made for purposes other than placer mining require principal repayment to commence not later than one year after the mineral production begins or five years from the date the loan is made, whichever is sooner.

Loans made for placer mining activites may not require principal repayment to commence before the end of the second placer mining season after the loan is made.

The accrual of interest on all loans made under this chapter begins when the loan is made, and the accrued interest shall be repaid on a annual basis, or more frequently if the department and the borrower so agree.

RESIDENCY

A "resident" means a corporation, partnership, or limited partnership organized under the laws of Alaska and headquartered in Alaska or a person who, except for brief intervals, periods of military service, or attendance at an educational or training institution, has resided in Alaska for thirty days. "Residence" is determined by where the individual:

1. is registered to vote;
2. maintains a permanent place of abode;
3. files tax returns;
4. registers or licenses personal property, including but not limited to cars, boats, trucks and trailers;
5. is licensed to drive; and
6. maintains bank accounts, savings accounts, lines of credit, and other financial relationships.

OPERATING PLAN

A person requesting a loan under this chapter shall prepare and submit an operating plan which describes the amount of the loan requested, the nature and location of claims for which the loan is requested, the equipment and other resources available to implement the operating plan, and the economic feasibility of the plan.

COLLATERAL

All loans must be secured by adequate collateral to protect the investment of the State in the event of default. The collateral may include, but is not limited to, a lien on lands, buildings, equipment, machinery, marketable securities, and approved assignments. No loan may exceed 75% of the current value of the collateral offered. Loans secured by real estate are normally 75% of the appraised value. Loans secured by equipment, machinery, etc., are normally 60% of the appraised value or cost, whichever is lower. The specific amount to be loaned against any collateral offered shall be determined by the loan committee.

CONTROLLED DISBURSEMENT

Disbursement of loan funds will be made in a manner prescribed by the Division of Investments.

REFINANCING

The department may refinance a loan under this chapter by making a loan to pay outstanding mining debts. When an original loan is to be refinanced, the refinance may not exceed 49% of the amount of the original loan.

LOAN APPROVAL

Authority for approval of all loans rests with the loan committee appointed by the Commissioner of the Department of Commerce and Economic Development. The loan committee will independently evaluate all relevant information before taking action on loan applications. The committee may also consider, but is not bound by, the recommendations of the loan examiner assigned to process the application. No loan will be granted without approval of a majority of the loan committee.

LOAN COSTS

The borrower shall pay all direct costs incurred by the State in processing the application for a loan, including, but not limited to, the costs of credit reports, title insurance, inspection expenses, or other direct costs. The State is not liable for any costs incurred by the borrower during the application process.

ASSUMPTIONS

Assumptions will not be allowed unless it is in the State's best interest do do so and the applicant meets all statutory eligibility requirements. Assumptions, if granted, must serve the policies and purposes of the loan program.

REGULATIONS

The Department of Commerce and Economic Development has adopted administrative regulations governing loan policies and procedures, and public disclosure of information in an individual loan file. Copies of these regulations may be obtained by contacting the Division of Investments.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

MINING LOAN APPLICATION
CHECK-OFF LIST

The following information **is required** in order to process your application. Please use this list to make sure all information is submitted (incomplete applications will not be accepted). Please retain a copy of this application for your records.

_____ 1. **Application for Mining Loan:** Be sure the form has been completed and signed. (pages 5 and 6)

_____ 2. **Letter of Intent.** (page 7)

_____ 3. **Operating Plan.** (pages 8 and 9)

_____ 4. **Collateral:** Include documentation to verify the value of the collateral being offered to secure the loan. (page 10)

_____ 5. **Appraisals:** Include copies of appraisals for collateral offered and/or price quotes for equipment to be purchased.

_____ 6. **Individual Financial Statements:** For each individual owning 10% or more of the corporation. (pages 11 and 12)

_____ 7. **Business Financial Statement:** A CPA prepared financial statement will be required on all requests over $1,000,000. (pages 13 and 14)

_____ 8. **Actual Statement of Profit and Loss.** (page 15)

_____ 9. **Projected Statement of Profit and Loss.** (page 16)

_____ 10. **Personal Resume:** Include 3 references. (page 17)

_____ 11. **Mining Resume.** (page 18)

_____ 12. **Credit Authorization:** Each form must be completed and signed. (page 19)

_____ 13. **Authorization to Verify Financial Information.** (page 20)

_____ 14. **Federal Tax Returns:** You must include complete copies of your last three years' Federal Income Tax Returns. You must submit the tax returns for each individual owning 10% or more of the corporation, as well as the corporation's returns. Do not send original documents as they will not be returned.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

APPLICATION FOR MINING LOAN

Applicant: Business Name	☐ Individual ☐ Business ☐ Partnership ☐ Corporation	Current Date Taxpayer Identification Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)		Business Telephone Number ( )

Applicant: Name (Last, First, M.I.)	Social Security Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Applicant's Telephone Number ( ) Date of Birth Place of Birth (city and state)
I hereby apply for a loan of $_____ to be repaid in _____ years with ☐ Monthly Payments/☐ Quarterly Payments/☐ Other If other, please specify _____	☐ Married (including separated) ☐ Unmarried (including single, divorced, widowed) Number of Dependents (excluding Applicant) Gross Monthly Salary (before deductions)
Applicant's Employer Occupation/Position How Long? Yrs. Mos.	Employer's Telephone Number ( )
I have been a resident of Alaska since:	

Spouse/Co-Applicant: Name (Last, First, M.I.)	Social Security Number Date of Birth
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Place of Birth (City and State) Gross Monthly Salary (before deductions)
Spouse/Co-Applicant's Employer Occupation/Position How Long? Yrs. Mos.	Employer's Telephone Number ( )
I have been a resident of Alaska since:	

Nearest Relative not living with you/Contact Person: Name (Last, First, M.I.)	Telephone Number ( )
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Put your nearest relative not living with you or a contact person who knows how to reach you when your current mailing address or telephone number may have changed.

I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Mining Loan Program.

_____ Date _____ Signature

_____ Date _____ Signature

Corporate Applicants Must Complete the Following Section

MANAGEMENT OF CORPORATION

(1) Names of all officers, directors and their annual compensation, including salaries, bonuses, fees, withdrawals, etc.
(2) Stockholders not otherwise listed—(five largest).
(3) For each stockholder owing 10% or more of the stock include a current financial statement and three (3) credit authorizations.

Name and Address	Annual Compensation	Office Held	Percent Ownership

On behalf of the corporation, I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Mining Loan Program.

The State is authorized to obtain any and all credit reports and verification needed to evaluate this application, and the cost of obtaining these reports will be paid by the applicant.

_____
Name of Corporate Applicant

_____ _____
Date Authorized Signature

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

MINING LOAN
LETTER OF INTENT
(Attach additional sheets as necessary)

Applicant's Name _____

I. Use of Loan Proceeds: (Check appropriate box and fill in loan amount)

☐	Exploration	$ _____
☐	Construction (attach bid or contract)	$ _____
☐	Working Capital (explain in detail)	$ _____
☐	Refinance Existing Debt (attach copies of all notes to be paid off)	$ _____
☐	Equipment Purchase (attach purchase agreement, bid or contract and pictures)	$ _____
☐	Other (explain)	$ _____
	Total	$ _____

II. Describe in detail how you plan to use the borrowed funds and include any information you consider significant in determining the merits of this request.

III. Applicant's Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

MINING LOAN OPERATING PLAN

Applicant's Name _____

I. Claim Information:

1. Number of Claims:

a. _____ State claims

b. _____ Federal claims

c. _____ Total claims

2. Location of Claims:

a. _____ Mining District

b. _____ Creek(s)

c. Number of miles _____ from _____ City

3. Type of Mineral:

☐ Gold

☐ Copper

☐ Tin

☐ Other _____

4. Type of Mine:

☐ Placer

_____ feet (average depth of overburden)

_____ feet (average depth of "pay dirt")

☐ Lode

II. Equipment Availability: List mining equipment presently owned.

Year	*Make*	*Model*	*Serial Number*	*Estimates or Appraised Value*

III. Economic Feasibility: Describe in detail on a separate sheet of paper your mining plan for the period of the loan. Be sure to include:

1. Claims to be worked in expected sequence.
2. Average production days per season.
3. Average production volume expected per day.
4. Average expected mineral recovery per yard or ton.
5. Total expected mineral production per season.
6. Total expected expenses per season.

IV. Claim Plot Map: Submit a claim plot map of sufficient size showing previously mined areas, area to be mined, and location of test sites with indicated values at each site.

08-916 (Rev. 7/84)

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

COLLATERAL TO SECURE MINING LOAN

All loans must be secured by collateral acceptable to the Division of Investments. Describe the collateral you are offering below:

REAL PROPERTY

Legal Description	Location	Improvements	Original Cost/Price	Date Purchased	Current Market Value	Mortgages		Mortgage Held By	Monthly Payments
						Original Balance	Present Balance		
			$		$	$	$		$
Totals			$		$	$	$		$

EQUIPMENT AND MACHINERY

Item	Make	Model	Serial No.	Location	Original Cost/Price	Date Purchased	Condition New/Used	Current Market Value	Liens		Lien Held By
									Original Balance	Present Balance	
					$			$	$	$	
Totals					$			$	$	$	

(10)

The following information must accompany this application for the different types of collateral offered:

1. **Existing Real Property - an appraisal, less than 90 days old and a purchase agreement, if applicable (Maximum loan; 75% of appraised value or cost, whichever is lower)** $ _____ x 75% = $ _____ (1)

2. **New Construction - a construction bid and an as-built appraisal. (Maximum loan; 75% of appraised value or cost, whichever is lower)** $ _____ x 75% = $ _____ (2)

3. **New Equipment or Machinery - a bid, quote or invoice from the supplier.** $ _____ x 60% = $ _____ (3)

4. **Used Equipment or Machinery - an itemized list with current value verified by a reputable supplier. (Maximum loan: 60% of cost or appraised value, whichever is lower)** $ _____ x 60% = $ _____ (4)

The maximum loan you can secure with the collateral offered is the sum of figures 1-4. $ _____

NOTE: A COPY OF ALL BIDS, APPRAISALS, PHOTOS AND PURCHASE AGREEMENTS MUST ACCOMPANY THIS APPLICATION.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

MINING LOAN
FINANCIAL STATEMENT (Individual)

Name	Social Security Number	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19_____.

ASSETS		LIABILITIES	Monthly Payments	Balance Owing
Cash in Bank	$	Real Estate (Schedule 3)	$	$
Cash on hand		Notes Payable (Schedule 4)		
Notes/Accounts receivable (Schedule 1)		Accounts payable		
U.S. bonds or notes		Other Liabilities		
Mortgages and contracts (Schedule 1)				
Securities (Schedule 2)				
Value of Real Estate Owned (Schedule 3)				
Automobile		Credit Cards		
Personal Property				
Other assets (itemize)				
		TOTAL MONTHLY PAYMENTS	$	
		TOTAL LIABILITIES		$
TOTAL ASSETS	$	NET WORTH		$

CONTINGENT LIABILITIES

☐ Yes ☐ No Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom? Amount $ _____

☐ Yes ☐ No Are there any unsatisfied judgments against you? Amount $ _____

☐ Yes ☐ No Have you been declared bankrupt in the last 14 years? Year _____

Other Obligations: Child Support, Alimony, etc.

SCHEDULE NO. 1: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 2: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 3: REAL ESTATE OWNED

Description and Location (Street, City, State)	Date Acquired	Cost	Current Assessed Value	Mortgages					
				Name and Address of Bank	Current Market Value	Original Balance	Present Balance	Payment Amount	
								Monthly	Annual

Is any real estate being purchased on a contract of sale? _____ If so, which one?_____
From whom?_____

SCHEDULE NO. 4: NOTES PAYABLE (Do not include mortgages listed in Schedule 3)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

Have you ever received a loan from the State? ☐ Yes ☐ No

If yes, please complete the following:

Loan Number	Loan Type	Date Received	Paid in Full (Yes or No)

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Date _____

Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

MINING LOAN
FINANCIAL STATEMENT (Business)

Name	Taxpayer Identification No.	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19_____.

ASSETS		LIABILITIES	Monthly Payments	Balance Owing
Cash in Bank	$	Real Estate (Schedule 3)	$	$
Cash on hand		Notes Payable (Schedule 4)		
Notes/Accounts receivable (Schedule 1)		Accounts payable		
Less: Reserve for bad debts		Employer taxes payable		
U.S. bonds or notes		Other taxes payable		
Mortgages and contracts (Schedule 1)		Other liabilities (itemize)		
Securities (Schedule 2)				
Value of Real Estate Owned (Schedule 3)				
Machinery, furniture and fixtures		TOTAL LIABILITIES	$	$
Less: Depreciation		Capital Stock		
Prepaid expenses		Paid-in Surplus		
Other assets (itemize)		Retained Earnings		
TOTAL ASSETS	$	NET WORTH		$

CONTINGENT LIABILITIES

☐ Yes ☐ No Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom? Amount $ _____

☐ Yes ☐ No Are there any unsatisfied judgments against you? Amount $ _____

☐ Yes ☐ No Have you been declared bankrupt in the last 14 years? Year _____

Other Obligations

SCHEDULE NO. 1: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 2: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 3: REAL ESTATE OWNED

Description and Location (Street, City, State)	Date Acquired	Cost	Current Assessed Value	Mortgages					
				Name and Address of Bank	Current Market Value	Original Balance	Present Balance	Payment Amount	
								Monthly	Annual

Is any real estate being purchased on a contract of sale? _____ If so, which one?_____
From whom?_____

SCHEDULE NO. 4: NOTES PAYABLE (Do not include mortgages listed in Schedule 3)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

Have you ever received a loan from the State? ☐ Yes ☐ No

If yes, please complete the following:

Loan Number	Loan Type	Date Received	Paid in Full (Yes or No)

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Title _____ Date _____

Signature _____ Title _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

MINING LOAN
ACTUAL STATEMENT OF PROFIT AND LOSS

Applicant's Name _____ Social Security Number _____

For the period beginning _____ and ending _____.
(Must be for current year if presently in business)

Gross Sales		$ _____
Cost of Goods Sold:		
Beginning Inventory (if applicable)	$_____	
Add: Purchases	_____	
Total	$ _____	
Less: Ending Inventory	(_____)	
Total Cost of Sales		_____
Gross Profit		$ _____
OPERATING EXPENSES:		
Proprietor's or Officer's Salary	$ _____	
Salaries to Employees	_____	
Employee Expenses	_____	
Payroll Taxes	_____	
Fuel	_____	
Electricity	_____	
Telephone	_____	
Automobile Expenses	_____	
Rent or Lease Payments	_____	
Office Supplies	_____	
Maintenance and Repairs	_____	
Dues and Subscriptions	_____	
Travel Expense	_____	
Entertainment	_____	
Professional Services	_____	
Taxes and Licenses	_____	
Insurance	_____	
Advertising and Promotion	_____	
Bad Debts	_____	
Other	_____	
_____	_____	
_____	_____	
TOTAL EXPENSES		$ (_____)
OPERATING INCOME		$ _____
Other Expenses:		
Depreciation	$ _____	
Interest	_____	
Total Other		(_____)
Net Income from Operations		$ _____
Other Income:		
_____		_____
_____		
Total Net Income		$ _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

MINING LOAN
PROJECTED STATEMENT OF PROFIT AND LOSS
(First Year After Receiving Loan)

Applicant's Name _____ Social Security Number _____

For the period beginning _____ and ending _____

Gross Sales		$ _____
Cost of Goods Sold:		
Beginning Inventory (if applicable)	$ _____	
Add: Purchases	_____	
Total	$ _____	
Less: Ending Inventory	(_____)	
Total Cost of Sales		_____
Gross Profit		$ _____
OPERATING EXPENSES:		
Proprietor's or Officer's Salary	$ _____	
Salaries to Employees	_____	
Employee Expenses	_____	
Payroll Taxes	_____	
Fuel	_____	
Electricity	_____	
Telephone	_____	
Automobile Expenses	_____	
Rent or Lease Payments	_____	
Office Supplies	_____	
Maintenance and Repairs	_____	
Dues and Subscriptions	_____	
Travel Expense	_____	
Entertainment	_____	
Professional Services	_____	
Taxes and Licenses	_____	
Insurance	_____	
Advertising and Promotion	_____	
Bad Debts	_____	
Other	_____	
_____	_____	
_____	_____	
TOTAL EXPENSES		$ (_____)
OPERATING INCOME		$ _____
Other Expenses:		
Depreciation	$ _____	
Interest	_____	
Total Other		(_____)
Net Income from Operations		$ _____
Other Income:		
_____		
_____		_____
Total Net Income		$ _____

EXPLAIN HOW YOU MADE THE ABOVE PROJECTIONS

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

MINING LOAN

PERSONAL RESUME OF APPLICANT(S) OR MAJOR STOCKHOLDERS OF THE CORPORATION AND OF THE MANAGER OF THE BUSINESS

(Attach additional sheets as necessary)

Name _____

1. Include a brief outline of your personal mining experience.

(Use this space or attach a copy of your resume)

2. References

List 3 persons in this vicinity who know you well and to whom we may refer (excluding relatives or previous employers).

Name	Telephone	Mailing Address	Occupation

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

MINING LOAN

PERSONAL RESUME OF APPLICANT(S) OR MAJOR STOCKHOLDERS OF THE CORPORATION AND OF THE MANAGER OF THE BUSINESS
(Attach additional sheets as necessary)

Name _____

1. Include a brief outline of your personal mining experience.

(Use this space or attach a copy of your resume)

2. References

List 3 persons in this vicinity who know you well and to whom we may refer (excluding relatives or previous employers).

Name	Telephone	Mailing Address	Occupation

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

MINING LOAN

BUSINESS RESUME
(Attach additional sheets as necessary)

Applicant's Name _____

1. Date business established and years of operation.

2. Principal products or service(s).

3. Evidence of markets, potential customers, etc., substantiating feasibility of project.

4. List subsidiaries and/or affiliated companies and their financial statements. Explain trade and financial interrelationships of applicant and such subsidiaries and/or affiliates.

5. Present number of employees _____.

(Use this space or attach a copy of your business resume)

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)

authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

AUTHORIZATION TO VERIFY FINANCIAL INFORMATION

I, _____, of _____,
(Print Full Name) (City and State)
authorize the following named financial institution to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my account balances and loan balances with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions and the current balance, if any is outstanding.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

Name of Financial Institution _____

Checking Account Number _____ Savings Account Number _____

Loan Number _____ Loan Number _____

Address _____

City _____ State _____ Zip _____

Applicant's Signature _____ Date _____
This form should be returned with the application package. The division will forward all authorizations to the creditors.

BANK VERIFICATION OF FINANCIAL INFORMATION
(For Bank Use Only)

Checking Account Balance	Savings Account Balance	Other Account Balance
Date Account was opened	Date Account was opened	Date Account was opened

Loans	Date	Original Balance	Payments	Current Balance	Rating
Secured					
Unsecured					

The information provided above is essentially correct as of this date and accurately reflects the individual's financial dealings with this institution.

Remarks _____

_____ _____ _____
Signature of Bank Official Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

residential energy conservation



Loan Application

State of Alaska

Department of Commerce and Economic Development

Division of Investments

FIELD OFFICES

All applications must be submitted to the Department of Commerce and Economic Development, Division of Investments, at one of the following offices:

Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone Number: 465-2510

Division of Investments
3601 "C" Street, Suite 740
Anchorage, Alaska 99503
Telephone Number: 562-3779

Division of Investments
675 7th Avenue, Station A
Fairbanks, Alaska 99701
Telephone Number: 452-8182

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone Number: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVSION OF INVESTMENTS

LOAN POLICIES AND PROCEDURES

RESIDENTIAL ENERGY CONSERVATION FUND
AS 45.89.010-.500

LOAN PURPOSES

Loans may be made for the purchase, construction and installation of an energy conservation improvement in an existing residential building. The residential building must be complete. Loan funds may not be used to reimburse an applicant for expenses which were paid for more than six months before receipt of the application by the Division.

LENDING LIMITS

Loans made may not exceed the lesser of:

1. $5,000; or

2. an amount, as determined by the actual cost of labor and materials for each category, which is documented by invoices, bids or contracts; or

3. an amount, as determined by an acceptable energy improvement payback calculation, which is equal to the total estimated energy savings attributable to the energy conservation improvement over a ten-year period following the purchase, construction or installation of the energy conservation improvement.

LOAN PROCEEDS

Loans may only be made for energy conservation improvements listed in the following sections (A, B and C) or for exceptions approved by the division.

SECTION A

The following conservation measures have historically shown a significant amount of energy savings and thus in most cases an energy improvement payback calculation will not be required. The division reserves the right to require these calculations on any measures which it feels may not meet the statutory requirements.

1. **Caulking:** material used to reduce the passage of air and moisture by filling small air gaps, usually occuring in exterior walls, including sealants, putty, glazing compounds and canned spray foam.

2. **Weatherstripping:** material used to reduce the passage of air and moisture by placing small strips of material in or around moveable joints of windows and doors.

3. **Automatic Setback Devices:** mechanisms which are designed to reduce energy consumption by regulating a heating system through the use of:

   a. a clock or other automatic mechanism for switching from one temperature control level to another;

   b. a control device which reduces energy consumption by comparing indoor and outdoor temperatures and controlling or adjusting the heating system operating temperature; or

   c. a demand control unit consisting of a preprogrammed timer which reduces energy consumption by regulating the operational cycle of the heating system.

4. **Duct/Pipe Insulation:** insulation installed on hot water or heating pipes or heating ducts in an unconditioned area.

5. **Water Heater Insulation:** an insulating jacket which reduces heat loss from a hot water tank.

6. **Vent Damper:** a device that may be installed in the flue of the central heating system which will electrically, mechanically or manually close the flue when the central heating system is not in operation.

7. **Furnace Replacement Burner:** upgrading of a furnace burner designed to achieve a reduction of the amount of fuel consumed as a result of increased combustion efficiency. The unit must be of the same fuel type as the existing burner.

SECTION B

The following conservation measures also have historically shown a significant amount of energy savings and thus in most cases an energy improvement payback calculation will be not required. However, these measures must meet the following minimum requirements in order to qualify without these calculations. The division reserves the right to require these calculations on any measures which it feels may not meet the statutory requirements.

8. **Insulation:** material designed primarily to resist heat loss. This may include fiberglass batts, blown fiberglass, cellulose, sytrofoam or spray foam. To be eligible, the R-value of the present insulation must be increased by at least R-7. Financing of damaged insulation due to maintenance neglect will not be considered.

9. **Storm/Thermal Window:**

   a. A storm window is glazing material placed outside an ordinary window, creating an air space, for the purpose of providing greater resistance to heat loss than the ordinary window alone.

   b. A thermal window is a window unit with improved thermal performance by using two or more sheets of glazing material affixed to a window or door frame creating one or more air spaces.

      The overall R-value of the existing **functional** window unit must be increased by at least the equivalent of one sheet of glazing material.

10. **Storm/Thermal Door:**

    a. A storm door is a second door, installed on either side of the primary door, creating an insulating air space.

    b. A thermal door is a primary exterior door with an R-value of at least R-7; financing is available for the replacement of an exterior door provided it increases the existing R-value by a factor of at least R-4.

11. **Interior Insulating Shades:** shades attached to the interior window assembly which provide an insulating level of at least R-3.

12. **Insulating Shutters:** shutters attached to the exterior window assembly which provide an insulating level of at least R-3.

SECTION C

The following conservation measures require an energy improvement payback calculation which is acceptable to the division. The amount being requested cannot exceed the savings, attributable to the energy conservation improvement, which could be achieved over a ten-year period. These calculations may be perfomed by the applicant or other qualified individuals such as a mechanical engineer, architect, etc., and must include all the following information:

A. a description of the current physical characteristics of the building including the size, type and rate of energy consumption. The energy calculations must include a determination of the current yearly energy costs of the building;

B. a detailed description and evaluation of the proposed energy improvements for which financing is being requested; and

C. heat loss calculations which compare the existing building with the building after the proposed improvements have been made. These calculations must clearly reflect the amount of savings which would be realized over a 10 year period after the improvements have been made. If you are applying for more than one improvement the calculations must show a separate 10 year savings for each conservation measure.

13. **Air and water heat recuperator (heat exchanger):** a waste-heat recovery device which transfers heat from exhaust air or waste water to incoming fresh air or unheated water.

14. **Replacement furnace/boiler:** furnace or boiler which replaces an existing **functional** furnace or boiler of the same fuel type and which reduces the amount of fuel consumed due to increased combustion efficiency. Requests for financing of projects of this type require a flue-gas analysis which must accompany the application.

15. **Skirting:** the materials enclosing the area between the ground/foundation and the base of the structure (mobile home/house).

16. **Structural changes:** insulation projects which involve **replacement** sheetrock, framing, siding, flooring, roofing materials, etc., can be considered for financing provided the loan application clearly demonstrates that this is the only practical means of installing the insulation.

LOAN CONDITIONS

INTEREST RATE

The interest rate shall equal the percentage of the average weekly yield of municipal bonds for the 12 months preceding the loan as determined from the municipal bond yield rates reported in the 30-year revenue index of the Weekly Bond Buyer.

LOAN TERMS

The maximum loan term is 10 years. Terms of all loans will be fixed by the loan committee in consideration of the purpose of the loan, the needs of the borrower, the collateral offered and the ability to repay the loan.

COLLATERAL

All loans must be secured by adequate collateral to protect the investment of the State in the event of default. In most cases this will require a Deed of Trust against the property receiving the improvements. The specific amount to be loaned against any collateral offered shall be determined by the loan committee.

REFINANCING

Refinancing is not allowed under this program. An interim note may be refinanced if it has a term of six months or less and the debt was incurred and note executed within six months prior to receipt of the application by the Division.

CONTROLLED DISBURSEMENT

Loan proceeds will be disbursed to the applicant as documented and supported by labor and material estimates submitted with the loan application. This documentation must clearly describe the items being purchased. In addition, within 90 days after the loan has closed, the division will require copies of all paid invoices and receipts to substantially support the estimates that were submitted with the loan application. Do not send original documents as they will not be returned.

INSPECTIONS

The project must be completed and be ready for inspection within 90 days from the loan closing date.

LOAN APPROVAL

Authority for approval of all loans rests with the loan committee appointed by the Commissioner of the Department of Commerce and Economic Development. The loan committee will independently evaluate all relevant information before taking action on loan applications. The committee may also consider, but is not bound by, the recommendations of the loan examiner assigned to process the application. No loan will be granted without approval of a majority of the loan committee.

LOAN COSTS

The borrower shall pay all direct costs incurred by the State in processing the application for a loan, including, but not limited to, the cost of credit reports, a title search, inspection expenses or other direct costs. The State is not liable for any costs incurred by the borrower during the application process.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

ASSUMPTIONS

Assumptions will not be allowed under this program.

SUBORDINATIONS

In general, subordination requests will only be considered when they involve home improvement loans. All requests for subordination must be approved by the loan committee. In order to apply for a subordination you will need to submit a written request to the division describing the following:

1. the amount you wish the State to subordinate to;
2. the reason for the request; and
3. documentation to support the value of the added improvements.

REGULATIONS

The Department of Commerce and Economic Development has adopted administrative regulations governing loan policies and procedures, and public disclosure of information in an individual loan file. Copies of these regulations may be obtained by contacting the Division of Investments.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

RESIDENTIAL ENERGY CONSERVATION LOAN APPLICATION CHECK-OFF LIST

The following information **is required** in order to process your application. Please use this list to make sure all information is submitted (incomplete applications will not be accepted). Please retain a copy of this application for your records.

_____ 1. **Application for Residential Energy Conservation Loan:** Be sure the form has been completed and signed. (pages 7 and 8)

_____ 2. **Use of Loan Proceeds:** Be sure to break down by category the energy conservation items and be sure the cost is documented. (page 9)

_____ 3. **Collateral:** You will need to include documentation to verify the value of the collateral being offered to secure the loan. (page 11) You must include the following:

_____ a. a copy of your tax assessment notice or appraisal;

_____ b. a copy of your existing title insurance policy or a copy of the Warranty Deed for your residence.

_____ 4. **Financial Statement.** (pages 12 and 13)

_____ 5. **Credit Authorization:** Each form must be completed and signed. One of these forms must be for the financial institution which has a lien (if any) against your residence. (page 14)

_____ 6. **Authorization to Verify Financial Information.** (page 15)

_____ 7. **Employment Verification:** The top of this form should be completed by the applicant, then returned with the application. If you are self-employed, you must submit a signed copy of your most recent complete federal tax return. (page 16)

_____ 8. **Federal Tax Return:** You must submit a copy of the front page of your most recent federal tax return.

_____ 9. **Energy Improvement Payback Calculations:** If you are applying for a loan under Section C, you must include a complete copy of your energy improvement payback calculations.

_____ 10. **Photographs:** You must submit recent photographs of each side of the residence being improved. (page 17)

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

APPLICATION FOR RESIDENTIAL ENERGY CONSERVATION LOAN

Applicant: Name (Last, First, M.I.)			Current Date Social Security Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)			Applicant's Telephone Number ( ) Date of Birth Place of Birth (city and state)
Applicant's Employer	Occupation/Position	How Long? Yrs. Mos.	Employer's Telephone Number ( )
Married (including separated) Unmarried (including single, divorced, widowed)	Number of Dependents (excluding Applicant)		Gross Monthly Salary (before deductions)

Applicant: Business Name	☐ Individual ☐ Business ☐ Partnership ☐ Corporation	Taxpayer Identification Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)		Business Telephone Number ( )

Spouse/Co-Applicant: Name (Last, First M.I.)			Social Security Number Date of Birth
Mailing Address (Street/P.O. Box, City, State, Zip Code)			Place of Birth (City and State) Gross Monthly Salary (before deductions)
Spouse/Co-Applicant's Employer	Occupation/Position	How Long? Yrs. Mos.	Employer's Telephone Number ( )

Nearest Relative not living with you/Contact Person: Name (Last, First, M.I.)	Telephone Number ( )
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Put your nearest relative not living with you or a contact person who knows how to reach you when your current mailing address or telephone number may have changed.

I hereby apply for a loan of $ _____ to be repaid in _____ years with ☐ Monthly Payments ☐ Quarterly Payments/☐ Other

If other, please specify:

I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Residential Energy Conservation Loan Program.

Date _____ Signature _____

Date _____ Signature _____

Corporate Applicants Must Complete the Following Section

MANAGEMENT OF CORPORATION

(1) Names of all officers, directors and their annual compensation, including salaries, bonuses, fees, withdrawals, etc.
(2) Stockholders not otherwise listed—(five largest).
(3) For each stockholder owing 10% or more of the stock include a current financial statement and three (3) credit authorizations.

Name and Address	Annual Compensation	Office Held	Percent Ownership

On behalf of the corporation, I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Residential Energy Conservation Loan Program.

The State is authorized to obtain any and all credit reports and verification needed to evaluate this application, and the cost of obta ıg these reports will be paid by the applicant.

Name of Corporate Applicant

Date

Authorized Signature

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

RESIDENTIAL ENERGY CONSERVATION
USE OF LOAN PROCEEDS

Applicant's Name _____ Social Security Number _____

Please complete the information below for those improvements you will make with loan funds requested. Cost of labor and material must be documented by invoices and/or contracts and *must* be broken down by category.

SECTION A	Labor	Materials	Amount Eligible to fund (for Division Use Only)
1. Caulking	$	$	$
2. Weatherstripping			
3. Automatic Setback Devices			
4. Duct/Pipe Insulation			
5. Water Heater Insulation			
6. Vent Damper			
7. Furnace Replacement Burner			
SECTION B			
8a. Ceiling/Attic Insulation: Is the existing R value being increased by at least R-7? ☐ Yes ☐ No			
8b. Wall Insulation: Is the existing R-value being increased by at least R-7? ☐ Yes ☐ No			
8c. Basement/Foundation Insulation: Is the existing R-value being increased by at least R-7? ☐ Yes ☐ No			
8d. Floor Insulation: Is the existing R-value being increased by at least R-7? ☐ Yes ☐ No			
9. Storm/Thermal Window: Is the existing R-value being increased by the equivalent of one sheet of glazing material? ☐ Yes ☐ No			
10. Storm/Thermal Door: If thermal door, is the R-value of the door at least R-7? ☐ Yes ☐ No Was the R-value increased by at least R-4 over the previous door? ☐ Yes ☐ No			
11. Interior Insulating Shades: Do shades provide R-value of at least R-3? ☐ Yes ☐ No			
12. Insulating Shutters: Do shutters provide R-value of at least R-3? ☐ Yes ☐ No			
SECTION C			
13. Air and Water Heat Recuperator (heat exchanger): Energy improvement payback calculation savings over 10 years $ _____			
14. Replacement Furnace/Boiler: Has flue-gas analysis been performed? ☐ Yes ☐ No Energy improvement payback calculation savings over 10 years $ _____			
15. Skirting: Energy improvement payback calculation savings over 10 years $ _____			
16. Structural Changes (insulation projects): Energy improvement payback calculations savings over 10 years $ _____			
17. Other:			
TOTALS	$	$	$

LOAN COMMITTEE MEMORANDUM

FOR DIVISION USE ONLY - Please do not write on this side.

Collateral Offered	Appraised Value	Cost	%	Loan Value	Less Liens	Final Loan Value

DESCRIPTION _____

_____

_____

_____

Credit Bureau _____ _____

Credit References: 1. _____ _____

2. _____ _____

3. _____ _____

SUMMARY _____

_____

_____

_____

_____

_____

_____

Amount $ _____

Terms _____

Payments $ _____ per _____

LOAN EXAMINER'S RECOMMENDATION: ☐ Approval ☐ Disapproval

Subject to _____

_____

_____

_____

Loan Examiner's Signature _____ Date _____ _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

RESIDENTIAL ENERGY CONSERVATION
COLLATERAL OFFERED TO SECURE THE LOAN

Descibe in detail and include documentation to verify the value of the collateral being offered. You must include the following:

_____ a. a copy of your tax assesment notice or appraisal;

_____ b. a copy of your existing title insurance policy or a copy of the Warranty Deed for your residence; and

_____ c. photographs of collateral (residence being improved).

COLLATERAL

Description	Market Value

1. When was the residence being improved built? _____
2. How is the residence heated? _____
3. What is the current annual heating bill? _____
4. What is the anticipated annual savings after you receive the loan and perform the energy conservation measures? _____
5. Did you receive an energy grant for this residence? ☐ Yes ☐ No
   If yes, what was it used for? _____

I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Residential Energy Conservation Loan Program.

_____ _____
Date Signature

_____ _____
Date Signature

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

RESIDENTIAL ENERGY CONSERVATION LOAN
FINANCIAL STATEMENT (Individual)

Name	Social Security Number	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19_____.

ASSETS		LIABILITIES	Monthly Payments	Balance Owing
Cash in Bank	$	Real Estate (Schedule 3)	$	$
Cash on hand		Notes Payable (Schedule 4)		
Notes/Accounts receivable (Schedule 1)		Accounts payable		
U.S. bonds or notes		Other Liabilities		
Mortgages and contracts (Schedule 1)				
Securities (Schedule 2)				
Value of Real Estate Owned (Schedule 3)				
Automobile		Credit Cards		
Personal Property				
Other assets (itemize)				
		TOTAL MONTHLY PAYMENTS	$	
		TOTAL LIABILITIES		$
TOTAL ASSETS	$	NET WORTH		$

CONTINGENT LIABILITIES

☐ Yes ☐ No	Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom?	Amount $ _____
☐ Yes ☐ No	Are there any unsatisfied judgments against you?	Amount $ _____
☐ Yes ☐ No	Have you been declared bankrupt in the last 14 years?	Year _____
Other Obligations: Child Support, Alimony, etc.		

MONTHLY BUDGET

Total Salary (Applicant and Co-Applicant) After Deductions		$
Other Income		$
Total Installment Payments (See Liability Section Above)	$	
Utilities	$	
Food Allowance	$	
Auto Expense	$	
Insurance	$	
Medical Expenses	$	
Other (describe)	$	
TOTAL MONTHLY EXPENSES		$
SURPLUS MONTHLY INCOME		$

SCHEDULE NO. 1: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 2: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 3: REAL ESTATE OWNED

Description and Location (Street, City, State)	Date Acquired	Cost	Current Assessed Value	Mortgages					
				Name and Address of Bank	Current Market Value	Original Balance	Present Balance	Payment Amount	
								Monthly	Annual

Is any real estate being purchased on a contract of sale? _____ If so, which one?_____
From whom?_____

SCHEDULE NO. 4: NOTES PAYABLE (Do not include mortgages listed in Schedule 3)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

Have you ever received a loan from the State? Yes No

If yes, please complete the following:

Loan Number	Loan Type	Date Received	Paid in Full (Yes or No)

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Date _____

Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

AUTHORIZATION TO VERIFY FINANCIAL INFORMATION

I, _____, of _____,
(Print Full Name) (City and State)
authorize the following named financial institution to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my account balances and loan balances with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions and the current balance, if any is outstanding.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

Name of Financial Institution _____

Checking Account Number _____ Savings Account Number _____

Loan Number _____ Loan Number _____

Address _____

City _____ State _____ Zip _____

Applicant's Signature _____ Date _____
This form should be returned with the application package. The division will forward all authorizations to the creditors.

BANK VERIFICATION OF FINANCIAL INFORMATION
(For Bank Use Only)

Checking Account Balance	Savings Account Balance	Other Account Balance
Date Account was opened	Date Account was opened	Date Account was opened

Loans	Date	Original Balance	Payments	Current Balance	Rating
Secured					
Unsecured					

The information provided above is essentially correct as of this date and accurately reflects the individual's financial dealings with this institution.

Remarks _____

_____ _____ _____
Signature of Bank Official Title Date

Please return to:

Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

Division of Investments
P.O. Box 370
Dillingha, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

EMPLOYMENT VERIFICATION

Applicant _____

Employer _____

Address _____

_____

Applicant's Signature _____ Date _____

This form should be returned with the application package. The division will foward all verifications to your employer.

EMPLOYER'S VERIFICATION
(For Employer's Use Only)

The above-named applicant has applied for a loan from the State. To assist us in evaluating the application, we would appreciate the information you can give us regarding our applicant's employment.

Present Position _____

Employed From/To _____

Probability of Continued Employment _____

Present Base Salary _____

Approximate additional earnings, if any, from overtime, bonuses, etc. _____

_____

Remarks

_____ _____ _____
Signature of Employer | Title | Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

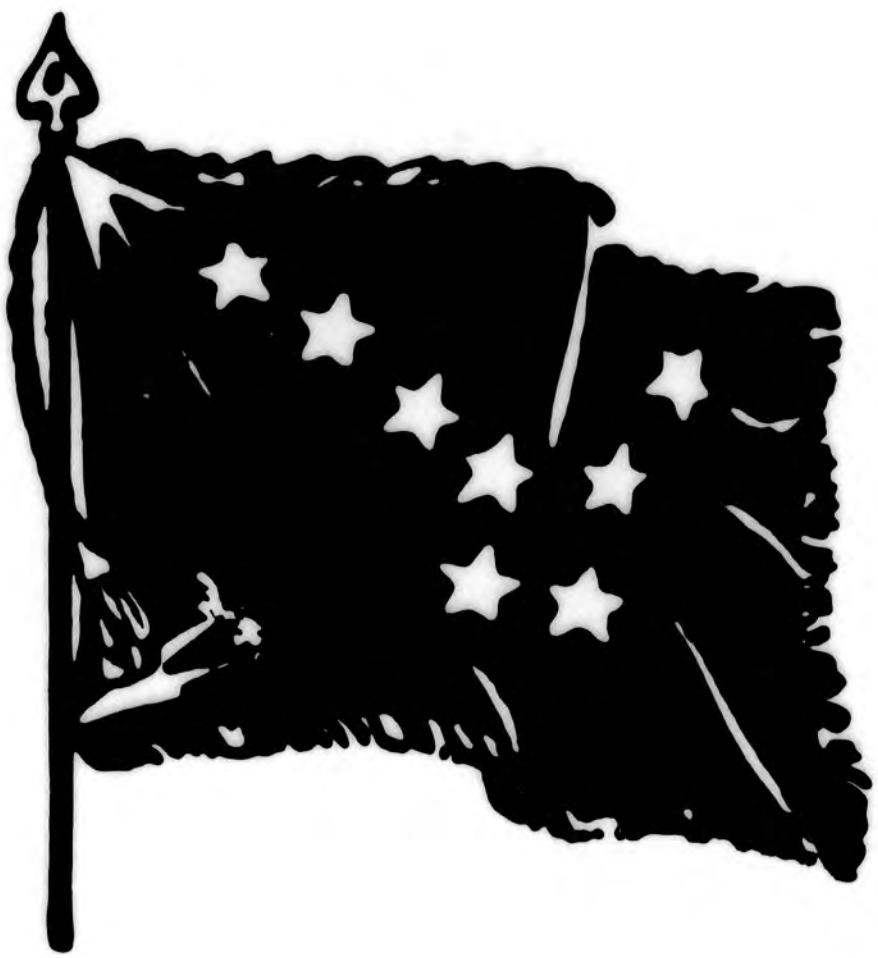
RESIDENTIAL ENERGY CONSERVATION
PHOTOGRAPHS OF RESIDENCE
(Residence Being Improved)

Applicant's Name _____

Street Address of Residence _____

NORTH FACE	SOUTH FACE
EAST FACE	WEST FACE

veterans assumptions



Loan Application

State of Alaska

Department of Commerce and Economic Development

Division of Investments

FIELD OFFICES

All applications must be submitted to the Department of Commerce and Economic Development, Division of Investments, at one of the following offices:

Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone Number: 465-2510

Division of Investments
3601 "C" Street, Suite 740
Anchorage, Alaska 99503
Telephone Number: 562-3779

Division of Investments
675 7th Avenue, Station A
Fairbanks, Alaska 99701
Telephone Number: 452-8182

Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone Number: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

LOAN POLICIES AND PROCEDURES
VETERANS' ASSUMPTIONS
AS 26.15.010-.170

LOAN PURPOSES

In accordance with AS 26.15.040(e) as amended by the 1982 Legislature, existing single family, multiple dwelling, and small business loans approved under AS 26.15 may be assumed by qualified applicants at the existing interest rate.

All assumptions are without release of the original borrower; assumption of a loan does not release the original borrower from liability under the original note.

ELIGIBILITY

Qualified applicants who are 18 years old or older may assume existing veterans' loans. Veterans' personal loans are not assumable.

LOAN TERMS

Existing veterans' loans are assumable at the original rate of interest and under the original loan terms.

FEES

1. An application fee (nonrefundable) in the form of a check or money order for $50 made payable to the Division of Investments must accompany the application.
2. If your application is approved, an assumption fee of ½ of 1% of the assumable balance will be due at closing.

PURCHASE

An Original Signed Earnest Money Agreement, showing terms of purchase, legal description, location of property, and full names of sellers and buyers must be included with this application.

LOAN CLOSING

All approved assumptions must be closed by a title insurance company.

LOAN APPROVAL

Authority for approval of all assumptions rests with the loan committee appointed by the Commissioner of the Department of Commerce and Economic Development. The loan committee will independently evaluate all relevant information before taking action on assumption applications. The committee may also consider, but is not bound by, the recommendations of the loan examiner assigned to process the application. No assumption will be granted without approval of a majority of the loan committee.

LOAN COSTS

The borrower shall pay all direct costs incurred by the State in processing the application for an assumption, including, but not limited to, the cost of credit reports, title insurance, inspection expenses, or other direct costs. The State is not liable for any costs incurred by the borrower during the application process.

REGULATIONS

The Department of Commerce and Economic Development has adopted administrative regulations governing loan policies and procedures, and public disclosure of information in an individual loan file. Copies of these regulations may be obtained by contacting the Division of Investments.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

VETERANS' ASSUMPTION APPLICATION
CHECK-OFF LIST

The following information **is required** in order to process your application. Please use this list to make sure all information is submitted (incomplete applications will not be accepted). Please retain a copy of this application for your records.

_____ 1. **Application for Veterans' Assumption:** Be sure that the form has been completed and signed. (pages 3 and 4)

_____ 2. **Application Fee:** You must include a check or money order for $50.00. If applying as a partnership, each partner must include $50.00.

_____ 3. **Individual Financial Statement.** (pages 5 and 6)

_____ 4. **Business Financial Statement.** (pages 7 and 8)

_____ 5. **Credit Authorization:** Each form must be completed and signed. (page 9)

_____ 6. **Authorization to Verify Financial Information.** (page 10)

_____ 7. **Employment Verification.** (page 11)

_____ 8. **Original Earnest Money Agreement:** The agreement must explain all terms and conditions of the transaction and be signed by all parties.

_____ 9. **Federal Tax Returns:** You must include complete copies of your last three years' Federal Income Tax Returns. You must also submit tax returns for individuals owning 10% or more of the corporation, as well as the corporation's returns. Do not send original documents as they will not be returned.

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

APPLICATION FOR VETERANS' ASSUMPTION LOAN

Applicant: Name (Last, First, M.I.)		Current Date Social Security Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)		Applicant's Telephone Number ( ) Date of Birth Place of Birth (city and state)
Applicant's Employer	Occupation/Position How Long? Yrs. Mos.	Employer's Telephone Number ( )
☐ Married (including separated) ☐ Unmarried (including single, divorced, widowed)	Number of Dependents (excluding Applicant)	Gross Monthly Salary (before deductions)

Applicant: Business Name	☐ Individual ☐ Business ☐ Partnership ☐ Corporation	Taxpayer Identification Number
Mailing Address (Street/P.O. Box, City, State, Zip Code)		Business Telephone Number ( )

Spouse/Co-Applicant: Name (Last, First, M.I.)		Social Security Number Date of Birth
Mailing Address (Street/P.O. Box, City, State, Zip Code)		Place of Birth (City and State) Gross Monthly Salary (before deductions)
Spouse/Co-Applicant's Employer	Occupation/Position How Long? Yrs. Mos.	Employer's Telephone Number ( )

Nearest Relative not living with you/Contact Person: Name (Last, First, M.I.)	Telephone Number ( )
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Put your nearest relative not living with you or a contact person who knows how to reach you when your current mailing address or telephone number may have changed.
Title Company	Telephone Number ( )
Mailing Address (Street/P.O. Box, City, State, Zip Code)	Please list the title company you wish to close the loan if this application is approved.
I wish to assume a loan presently in the name of	
Loan Number	Estimated Loan Balance

I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Veterans' Assumption Program.

Date _____ Signature _____

Date _____ Signature _____

Corporate Applicants Must Complete the Following Section

MANAGEMENT OF CORPORATION

(1) Names of all officers, directors and their annual compensation, including salaries, bonuses, fees, withdrawals, etc.
(2) Stockholders not otherwise listed—(five largest).
(3) For each stockholder owing 10% or more of the stock include a current financial statement and three (3) credit authorizations.

Name and Address	Annual Compensation	Office Held	Percent Ownership

On behalf of the corporation, I certify under penalty of perjury that all of the information contained in this application and any attachments to it is true, accurate and complete. I am aware that the maximum penalty for perjury, a Class B felony under AS 11.56.200(c), is a fine of up to $50,000 (AS 12.55.035(b)(2)) and imprisonment for up to 10 years (AS 12.55.125(d)).

I agree that if any information contained in this application and attachments is false, inaccurate or incomplete, the division will deny the application. I also agree that if I receive a loan based on this application and attachments and any information contained in this application and attachments is later determined to be false, inaccurate or incomplete, then the loan will be cancelled and I will be immediately liable to repay the total I owe. I further agree that if any application submitted to the division is denied or if a loan that has been made is cancelled due to false, inaccurate, or incomplete information, I will no longer be eligible for any future benefits under the Veterans' Assumption Program.

The State is authorized to obtain any and all credit reports and verification needed to evaluate this application, and the cost of obtaining these reports will be paid by the applicant.

_____
Name of Corporate Applicant

_____ _____
Date Authorized Signature

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

VETERANS' ASSUMPTION
FINANCIAL STATEMENT (Individual)

Name	Social Security Number	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19_____

ASSETS		LIABILITIES	Monthly Payments	Balance Owing
Cash in Bank	$	Real Estate (Schedule 3)	$	$
Cash on hand		Notes Payable (Schedule 4)		
Notes/Accounts receivable (Schedule 1)		Accounts payable		
U.S. bonds or notes		Other Liabilities		
Mortgages and contracts (Schedule 1)				
Securities (Schedule 2)				
Value of Real Estate Owned (Schedule 3)				
Automobile		Credit Cards		
Personal Property				
Other assets (itemize)				
		TOTAL MONTHLY PAYMENTS	$	
		TOTAL LIABILITIES		$
TOTAL ASSETS	$	NET WORTH		$

CONTINGENT LIABILITIES

☐ Yes ☐ No Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom? Amount $ _____

☐ Yes ☐ No Are there any unsatisfied judgments against you? Amount $ _____

☐ Yes ☐ No Have you been declared bankrupt in the last 14 years? Year _____

Other Obligations: Child Support, Alimony, etc.

MONTHLY BUDGET

Total Salary (Applicant and Co-Applicant) After Deductions		$
Other Income		$
Total Installment Payments (See Liability Section Above)	$	
Utilities	$	
Food Allowance	$	
Auto Expense	$	
Insurance	$	
Medical Expenses	$	
Other (describe)	$	
TOTAL MONTHLY EXPENSES		$
SURPLUS MONTHLY INCOME		$

SCHEDULE NO. 1: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 2: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 3: REAL ESTATE OWNED

Description and Location (Street, City, State)	Date Acquired	Cost	Current Assessed Value	Mortgages					
				Name and Address of Bank	Current Market Value	Original Balance	Present Balance	Payment Amount	
								Monthly	Annual

Is any real estate being purchased on a contract of sale? _____ If so, which one? _____
From whom? _____

SCHEDULE NO. 4: NOTES PAYABLE (Do not include mortgages listed in Schedule 3)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

Have you ever received a loan from the State? ☐ Yes ☐ No

If yes, please complete the following:

Loan Number	Loan Type	Date Received	Paid in Full (Yes or No)

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Date _____

Signature _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

VETERANS' ASSUMPTION
FINANCIAL STATEMENT (Business)

Name	Taxpayer Identification No.	Date	
Mailing Address	City	State	Zip

The undersigned makes the following statement of financial condition as of _____ day of _____, 19_____.

ASSETS		LIABILITIES	Monthly Payments	Balance Owing
Cash in Bank	$	Real Estate (Schedule 3)	$	$
Cash on hand		Notes Payable (Schedule 4)		
Notes/Accounts receivable (Schedule 1)		Accounts payable		
Less: Reserve for bad debts		Employer taxes payable		
U.S. bonds or notes		Other taxes payable		
Mortgages and contracts (Schedule 1)		Other liabilities (itemize)		
Securities (Schedule 2)				
Value of Real Estate Owned (Schedule 3)				
Machinery, furniture and fixtures		TOTAL LIABILITIES	$	$
Less: Depreciation		Capital Stock		
Prepaid expenses		Paid-in Surplus		
Other assets (itemize)		Retained Earnings		
TOTAL ASSETS	$	NET WORTH		$

CONTINGENT LIABILITIES

☐ Yes ☐ No Are you a co-maker, endorser, or guarantor on any loan or contract? If "yes" to whom? Amount $ _____

☐ Yes ☐ No Are there any unsatisfied judgments against you? Amount $ _____

☐ Yes ☐ No Have you been declared bankrupt in the last 14 years? Year _____

Other Obligations

SCHEDULE NO. 1: NOTES RECEIVABLE/ACCOUNTS RECEIVABLE, MORTGAGES AND CONTRACTS OWNED

Description	Name of Debtor	Original Balance	Present Balance	Monthly Payment	Amount Past Due

SCHEDULE NO. 2: SECURITIES

Number of Shares	Description	To Whom Pledged	Market Value	Cost	Income Received Last Year

SCHEDULE NO. 3: REAL ESTATE OWNED

Description and Location (Street, City, State)	Date Acquired	Cost	Current Assessed Value	Mortgages					
				Name and Address of Bank	Current Market Value	Original Balance	Present Balance	Payment Amount	
								Monthly	Annual

Is any real estate being purchased on a contract of sale? _____ If so, which one?_____
From whom?_____

SCHEDULE NO. 4: NOTES PAYABLE (Do not include mortgages listed in Schedule 3)

Name and Address of Bank	Collateral	Date Incurred	Original Amount	Present Amount	When Due	Payment Amount	
						Monthly	Annual

Have you ever received a loan from the State? ☐ Yes ☐ No

If yes, please complete the following:

Loan Number	Loan Type	Date Received	Paid in Full (Yes or No)

In submitting the foregoing statement the undersigned applicant guarantees its accuracy with the intent that it be relied upon by the division in extending credit to the applicant and warrants that information has not knowingly been withheld that might affect the applicant's credit risk; and that the applicant agrees to notify the division immediately in writing of any material change in the applicant's financial condition.

Signature _____ Title _____ Date _____

Signature _____ Title _____ Date _____

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)
authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____ _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)

authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

CREDIT AUTHORIZATION

I, _____, of _____,
(Print full name) (City and State)

authorize the following named creditor to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my credit transactions with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions, the current balance, if any is outstanding, and the repayment record.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

NAME OF CREDITOR _____

ACCOUNT NUMBER _____

ADDRESS _____

CITY _____ STATE _____

ZIP CODE _____

APPLICANT'S SIGNATURE _____ DATE _____

This form should be returned with the application package. The division will forward all authorizations to the creditors.

Creditor Verification
(For creditor use only)

The above named applicant has applied for benefits from the State. To assist us in evaluating this application, we would appreciate any information you can give us regarding our applicant's credit rating. Information received will be considered confidential.

Date Account Opened	Maximum Credit Extended	Present Balance	Payments	Rating

Remarks _____

_____ _____ _____
Signature of Creditor Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

AUTHORIZATION TO VERIFY FINANCIAL INFORMATION

I, _____, of _____,
(Print Full Name) (City and State)
authorize the following named financial institution to divulge to the Department of Commerce and Economic Development, State of Alaska, any and all information concerning the nature of my account balances and loan balances with them, including, but not limited to, the amount of credit extended, the terms and conditions of the transactions and the current balance, if any is outstanding.

I understand that the information is of a confidential nature and will be used for the sole purpose of evaluating an application which I have submitted to the State.

Name of Financial Institution _____

Checking Account Number _____ Savings Account Number _____

Loan Number _____ Loan Number _____

Address _____

City _____ State _____ Zip _____

Applicant's Signature _____ Date _____
This form should be returned with the application package. The division will forward all authorizations to the creditors.

BANK VERIFICATION OF FINANCIAL INFORMATION
(For Bank Use Only)

Checking Account Balance	Savings Account Balance	Other Account Balance
Date Account was opened	Date Account was opened	Date Account was opened

Loans	Date	Original Balance	Payments	Current Balance	Rating
Secured					
Unsecured					

The information provided above is essentially correct as of this date and accurately reflects the individual's financial dealings with this institution.

Remarks _____

_____ _____ _____
Signature of Bank Official Title Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

EMPLOYMENT VERIFICATION

Applicant _____

Employer _____

Address _____

_____

Applicant's Signature _____ Date _____

This form should be returned with the application package. The division will forward all verifications to your employer.

EMPLOYER'S VERIFICATION
(For Employer's Use Only)

The above-named applicant has applied for a loan from the State. To assist us in evaluating the application, we would appreciate the information you can give us regarding our applicant's employment.

Present Position _____

Employed From/To _____

Probability of Continued Employment _____

Present Base Salary _____

Approximate additional earnings, if any, from overtime, bonuses, etc. _____

_____

Remarks

_____ _____ _____
Signature of Employer | Title | Date

Please return to:

☐ Division of Investments
Pouch D
Juneau, Alaska 99811
Telephone: 465-2510

☐ Division of Investments
3601 "C" St., Suite 740
Anchorage, Alaska 99503
Telephone: 562-3779

☐ Division of Investments
675 7th Ave., Station A
Fairbanks, Alaska 99701
Telephone: 452-8182

☐ Division of Investments
P.O. Box 370
Dillingham, Alaska 99576
Telephone: 842-1087

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

POUCH D
JUNEAU, ALASKA 99811
PHONE: (907) 465-2510

February 27, 1985

Honorable John Sund, Chairman
House Special Committee
on Loans
House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Representative Sund:

Enclosed are copies of proposed regulations for the following programs:

Commercial Fishing Loans;
Alternative Energy Loans;
Residential Energy Conservation Loans;
Child Care Facility Loans; and
Historical District Loans.

Public notice has been given on these proposed regulations and any comments should be submitted, in writing, to the Division of Investments no later than March 29, 1985.

If you have any questions concerning the proposed regulations, please contact the division.

Sincerely,

Paul B. Arnoldt
Director

PBA/kkk/D7
Enclosure
22685b

CHAPTER 80
COMMERCIAL FISHING LOANS

Section
010. Application Process
015. Examination
020. Loan Committee
030. Residency Requirements
035. Eligibility
040. Financial and Credit Record
045. Ability to Repay
050. Collateral
055. Lending Practices
065. Disbursement of Loan Funds
070. Supervision of Loans
075. Costs
080. Assumptions
085. Reconsideration
090. Confidentiality of Loan Information
900. Definition of Terms

DRAFT

3 AAC 80.010. APPLICATION PROCESS. (a) To apply for a loan for the purchase of a limited entry permit, gear, or vessel, an applicant must file with the department

(1) a completed application for a commercial fishing loan on a form provided by the department;

(2) a completed residency questionnaire on a form provided by the department;

(3) a letter of intent stating the amount requested, the intended use of the proposed loan funds, and a proposed plan for repayment;

(4) copies of the purchase agreement or vendors' cost estimates and down-payment receipt;

(5) a commercial fishing resume identifying all permits and licenses held by the applicant, summarizing the applicant's experience as a commercial fisherman in Alaska, and identifying the actual number of days fished for each year;

(6) a business and credit history including complete copies of income tax returns for the preceding three years or for other years as may be requested by the department to document eligibility;

(7) a financial statement consisting of a current balance sheet, a profit and loss statement and a statement of projected income and expenses for the following year's operating plan;

(8) a schedule of acceptable collateral, including collateral now owned and other collateral to be acquired with the loan proceeds, stating date of acquisition, cost, location, market value and existing liens;

(9) if a vessel is used for collateral, a current marine survey acceptable to the department including pictures of the vessel; and

(10) any other information as the department may require.

(b) If a vessel is offered as collateral for a loan, the department or its designee shall be permitted to inspect the vessel or vessel construction project prior to making the loan. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.015. EXAMINATION. (a) Upon receipt of the materials described in 3 AAC 80.010, a loan request will be processed and evaluated by a loan examiner. The loan examiner will evaluate the applicant's eligibility, financial and credit history, operating plan and ability to repay, and proposed collateral.

(b) On the basis of the evaluation, the loan examiner will recommend proposed action on the loan request to the appropriate loan committee. However, the recommendation of a loan examiner is not binding on a loan committee. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.020. LOAN COMMITTEE. (a) A loan committee consists of one or more persons appointed by the commissioner from the department to act on a loan request.

(b) A loan committee may approve, deny, or modify and approve a loan request, or table a loan request subject to obtaining additional information.

(c) A loan committee may impose reasonable conditions on the approval of a loan, including the following requirements:

(1) additional collateral be pledged to secure the loan;

(2) additional guarantors be provided; and

(3) subordination of prior lien holder's rights to the interests of the State.

(d) A loan committee will evaluate an applicant's eligibility for a loan, financial and credit record, and capacity for repayment and operating plans, and the adequacy of collateral offered to secure the loan. A loan committee may also consider the recommendations of the loan examiner assigned to process the loan application, and any other relevant information.

DRAFT

(e) A loan committee may fix the term of a loan and the repayment schedule to meet the needs of the borrower and the collateral available to secure repayment of the loan.

(f) If a loan request is denied or significantly modified by a loan committee, the loan committee will provide the applicant with a statement of the reasons for the action and the information relied on.

(g) A material misstatement or omission of fact made by an applicant constitutes grounds for denial of a loan request. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.030. RESIDENCY REQUIREMENTS. (a) In determining if an applicant fulfills the two year residency requirements under AS 16.10.310, the loan committee may consider the following factors:

(1) where the applicant is registered to vote;

(2) where the applicant maintains a permanent place of abode;

(3) where the applicant files tax returns, and the address that is listed on the returns;

(4) where the applicant registers or licenses personal property, including but not limited to cars, boats, trucks and t. ilers;

(5) where the applicant is licensed to drive; and

(6) where the applicant maintains bank accounts, savings accounts, lines of credit and other financial relationships.

(b) Periods of absence from the state will not negate establishment of residency unless, during the absence, the individual establishes or claims residency in another state or performs other acts inconsistent with residency in Alaska.

(c) If two or more individuals apply jointly or as a partnership or corporation, all parties to the application must establish residency. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.035. ELIGIBILITY. (a) In determining whether an applicant has "actively participated in the fishery" under AS 16.10.310(a)(1)(A) or 16.10.310(a)(1)(C), the department may consider any or all of the following factors for each of the years claimed by the applicant:

(1) the gross income earned by the applicant

DRAFT

while engaged in commercial fishing in limited entry fisheries; and

(2) the time an applicant commercially fished during openings of limited entry fisheries.

(b) For purposes of eligibility, an applicant must establish one of the following circumstances for each year claimed:

(1) that 30 percent or more of the applicant's total gross income has been derived from commercial fishing in limited entry fisheries;

(2) that 10 percent or more of the applicant's total gross income has been derived from commercial fishing in limited entry fisheries and the applicant engaged in commercial fishing in these fisheries for twenty-five or more days; or

(3) that 10 percent or more of the applicant's total gross income has been derived from commercial fishing in limited entry fisheries and the applicant engaged in commercial fishing in a particular limited entry fishery for 80 percent or more of the total number of days that the particular fishery was open for commercial fishing. For purposes of this paragraph, "particular limited entry fishery" refers to gear type and fishing area.

(c) The department may rely on the following documents to verify that an applicant has actively participated in the fishery:

(1) tax returns;

(2) verified affidavits from the applicant and others certifying the applicant's experience;

(3) fishing and gear licenses;

(4) commercial fish tickets;

(5) wage receipts; and

(6) cannery statements.

(d) An applicant for a loan under AS 16.10.310(a)(1)(B)(i) must establish that either:

(1) commercial fishing represents the largest single employer in the area that the applicant resides; or

(2) the applicant does not have training sufficient to qualify for other employment opportunities in the area.

(e) An applicant for a loan under AS 16.10 .310(a)(1)(B)(ii) must establish that he fulfills all requirements of this clause. In this clause, "economically

DRAFT

dependent on commercial fishing for a livlihood" means that a majority of the applicant's gross income during the previous two years was derived from commercial fishing.

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.040. FINANCIAL AND CREDIT RECORD. (a) The department will, in its discretion, consider the following factors in assessing an applicant's financial and credit record:

(1) existing and prior debts;

(2) credit reports obtained from creditors and private credit reporting services;

(3) prior loan history with the department;

(4) timeliness in making payments on loans and other debts;

(5) prior bankruptcies;

(6) existence of tax liens, unpaid judgments, and prior foreclosures; and

(7) the applicant's financial and credit reputation in the community.

(b) Information establishing unacceptable credit will be more heavily weighed by the department if it has occurred in recent years. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.045. ABILITY TO REPAY. (a) The department may consider the following factors in evaluating an applicant's ability to repay a proposed loan:

(1) income history, including present income;

(2) prospects for future income;

(3) assets and their liquidity;

(4) liabilities;

(5) reasonableness of projected profit and loss statement; and

(6) other business experience.

(b) The department may compare revenue projections contained in an applicant's profit and loss statement with information it may acquire through its own efforts or from the Department of Fish and Game, the Commercial Fisheries Entry Commission or the Alaska Commercial Fishing and Agri-

DRAFT

culture Bank on the success of other fishermen in similar circumstances to determine the reasonableness of the applicant's projections. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.050. COLLATERAL. (a) A loan must be secured by collateral acceptable to the department to ensure repayment of the loan in the event of default.

(b) Acceptable collateral may include a mortgage or other security instrument in real property, buildings, machinery and equipment, fixtures, limited entry permits or commercial fishing vessels with gear and appurtenances.

(c) To be considered acceptable collateral, personal property must be capable of being specifically identified. A vessel that can be documented must be documented to be acceptable collateral.

(d) Loans for the purchase of limited entry permits will be made only if the permit is placed in the name of the applicant and the permit is offered as security for the loan. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.320
AS 16.10.339

3 AAC 80.055. LENDING PRACTICES. (a) If loan funds are limited, applications for loans to purchase entry permits will receive priority over applications for the purchase of vessels and gear.

(b) Applications for loans to purchase entry permits, gear and vessels under AS 16.10.310 (a)(1)(B) and for gear and vessels under AS 16.10.310(a)(1)(C) will be approved only if alternative sources of financing are not available to the applicant. An applicant for a loan under AS 16.10 .310(a)(1)(B) will not be considered ineligible for a loan because the applicant can provide a guarantor for the loan.

(c) A loan will not be approved if it would allow an applicant to:

(1) speculate in the acquisition and sale of limited entry permits, vessels, or gear;

(2) lease out a commercial fishing vessel or limited entry permit; or

(3) purchase a commercial fishing vessel, gear or limited entry permit that will not be put to use in the fishing season immediately following the date of the application.

(d) A loan will not be approved for refinancing long term debt. Interim or construction financing is not con-

DRAFT

sidered long term debt if the term is 12 months or less and the promissory note or the original agreement was executed less than 12 months before receipt of the application by the department.

(e) In determining the maximum loan amount that may be approved for the purchase of a limited entry permit, the department will rely on the value established by the Alaska Commercial Fisheries Entry Commission or other appropriate sources as determined by the department.

(f) A loan for the purchase of a limited entry permit will not be approved if an applicant holds another permit currently financed by the state and active participation in the two limited entry fisheries would be mutually exclusive.

(g) A loan for the purchase of a limited entry permit under AS 16.10.310(a)(1)(A) will not be approved if the applicant has pending an application for a loan under AS 16.10.310(a)(1)(B).

(h) A loan for the purchase of a vessel for use in a limited entry fishery will not be approved unless the applicant holds a limited entry permit for that fishery.
(Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.320
AS 16.10.325
AS 16.10.339

3 AAC 80.065. DISBURSEMENT OF LOAN FUNDS. Loan funds will be disbursed when

(1) a security interest in the collateral on behalf of the State has been perfected, except that in the case of a mortgage on a documented vessel this requirement shall be satisfied by the establishment of the mortgage as a preferred mortgage pursuant to the provisions of the Ship Mortgage Act of 1920, (46 USC §§911-984);

(2) the borrower has complied with the marine insurance requirements contained in an instrument signed by the borrower;

(3) all requirements of the loan committee have been met; and

(4) the borrower has complied with all other provisions of the loan documents and this chapter.
(Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.320

3 AAC 80.070. SUPERVISION OF LOANS. As a condition of a loan and while there is an outstanding loan balance, the department may require a borrower to furnish annual financial statements consisting of a balance sheet, profit-and-loss

DRAFT

statement, sources and application of all funds received and a schedule of change of owner's equity. The department may also require an audit or audits to determine whether the borrower has complied with the provisions of the loan and conduct periodic inspection of collateral securing repayment of the loan. If a vessel is used as collateral, a current marine survey must be supplied to the department at the borrower's expense upon request by the department. (Eff. / / , Reg.)

Authority: AS 16.10.310

3 AAC 80.075. COSTS. All expenses incurred by the department in closing a loan, including the processing of the loan application, shall be paid by the applicant. These expenses include the cost of credit reports, title reports and insurance, recording fees, appraisals, surveys, out-of-state travel and other direct costs. (Eff. / / , Reg.)

Authority: AS 16.10.310

3 AAC 80.080. ASSUMPTIONS. (a) Requests for permission to assume obligations and benefits of loans granted under AS 16.10.300-16.10.370 will be processed in the same manner as a loan request.

(b) A loan committee may permit an assumption if the individual seeking to assume the loan would be eligible for a new loan of the type that is sought to be assumed, the applicant is a good financial risk, and the security of the state's investment is preserved.

(c) Eligibility standards currently in effect, rather than standards in effect at the time the original loan was made, will govern assumptions. (Eff. / / , Reg.)

Authority: AS 16.10.310

3 AAC 80.085. RECONSIDERATION. (a) If a loan request is denied or significantly modified by a loan committee, an applicant may file a written request for reconsideration with the department. The request must be filed within 30 days of receipt of the initial decision of the loan committee.

(b) The loan committee will reconsider a request only upon a showing by the applicant that

(1) there has been a substantial change in the circumstances; or

(2) additional relevant information can be provided to the loan committee that was not initially available. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

DRAFT

3 AAC 80.090. CONFIDENTIALITY OF LOAN INFORMATION.
(a) The following information is not confidential and is available for public inspection upon request:

(1) a document which is already a public record including deeds of trust, financing statements, limited entry permits, warranty deeds, bills of sale, marine mortgages, liens, vehicle titles and vessel documentation;

(2) general information regarding loans, including the amount of a particular loan, loan terms, personal guarantees, and disbursement and repayment schedules;

(3) documents regarding foreclosure and default proceedings.

(b) The following information is confidential and is not subject to public disclosure:

(1) personal and financial information, including income tax returns, financial statements, business income statements, pro forma profit and loss statements, credit information obtained directly from banks and other creditors, reports obtained from consumer reporting agencies, cannery statements, and commercial fishing pink slips (fish tickets);

(2) loan committee memoranda and minutes containing information relating to credit worthiness of an applicant; and

(3) payment history on a loan, unless the loan is in default.

(c) Information not described in (a) and (b) of this section may be subject to public disclosure. Requests for disclosure must be made and will be determined in accordance with 6 AAC 095. On receipt of a request for disclosure, the department will notify the loan applicant and other persons with a privacy interest in the request, to permit them to present reasons why the requested information should not be disclosed. (Eff. / / , Reg.)

Authority: AS 09.25.110
AS 09.25.120
AS 16.10.310
Art. 1, Sec. 22
Alaska Const.

3 AAC 80.900. DEFINITION OF TERMS. Unless the context requires otherwise in this chapter

(1) "applicant" means the individual, partnership, corporation or association applying for a loan;

(2) "commercial fishing" means the actual catching of fish, shellfish, crabs or other fishery resources with the intent of disposing of those resources for profit by sale in commercial channels. For purposes of

DRAFT

this definition, "actual catching" means having gear in the water with the intent to catch fish;

(3) "commissioner" means the Commissioner of the Department of Commerce and Economic Development;

(4) "debtor" means an individual commercial fisherman who initially contracts for a loan, assumes a loan, or guarantees or co-signs a loan under AS 16.10.330 - AS 16.10.337.

(5) "default" means a violation of any terms of the loan document, or the failure to make the necessary payment within fifteen (15) days of when it is due, or the failure to maintain the insurance required by the Department of Commerce and Economic Development.

(6) "department" means the Department of Commerce and Economic Development;

(7) "documented vessel" means a vessel permanently or temporarily registered, or enrolled or licensed under the laws of the United States;

(8) "extension package" means such forms as the department may require in order to make a decision on an extension request. (Eff. / / , Reg.)

(9) "limited entry fishery" or "limited entry fisheries" means those fisheries requiring that a participant hold a permanent entry permit;

(10) "residency" means, in the case of an individual, physical presence in Alaska with the intent to remain indefinitely and make a home in the state. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.335
AS 16.10.339

Editor's Note: Former 3 AAC 80.0103 AAC 80.100 were repealed by the Department of Commerce and Economic Development on / /84, Register , and the substance of the regulation was reorganized and renumbered. The numbering and the organization of the material in 3 AAC 80.010 - 3 AAC 80.100 bears no resemblance to the numbering and organization of that material before / /84. Therefore, the history notes for 3 AAC 80.010 - 3 AAC 80.900 do not reflect the history of those sections before / /84.

DRAFT

CHAPTER __
ALTERNATIVE ENERGY LOANS

Section
010. Application Process
015. Examination
020. Loan Committee
035. Eligibility
036. Solar Loan Guidelines
037. Solar Heating Unit Standards
038. Sunspace Standards
039. Centralized Multifuel Heating System Guidelines
040. Financial and Credit Record
045. Ability to Repay
050. Collateral
055. Lending Practices
065. Disbursement of Loan Funds
070. Supervision of Loans
075. Costs
080. Assumptions
085. Reconsideration
090. Confidentiality of Loan Information
300. Definition of Terms

DRAFT

3 AAC __.010. APPLICATION PROCESS. To apply for a loan for the purchase, construction and installation of an alternative energy system an applicant must file with the department

(1) a completed application for an alternative energy loan on a form provided by the department;

(2) a letter of intent stating the amount requested, the intended used of the proposed loan funds, and a proposed plan for repayment;

(3) a credit authorization form for each of the applicant's creditors;

(4) an employment verification form;

(5) a financial statement including a copy of the applicant's federal income tax return for the most recent year;

(6) a schedule of acceptable collateral, stating date of acquisition, cost, location, market value and existing liens. Market value must be verified by providing a copy of a tax assessment or notice. Ownership of collateral should be verified by a copy of the existing title insurance, deed for the residence, or property profile;

(7) photographs of the proposed collateral; and

(8) any other information the department may require. (Eff. / / , Register)

Authority: AS 45.88.020

3 AAC __.015. EXAMINATION. (a) Upon receipt of the materials described in 3 AAC __.010, a loan request will be processed and evaluated by a loan examiner. After reviewing the materials submitted and obtained through the normal investigative process the loan examiner will evaluate the eligiblity of the proposed system for a loan. The loan examiner shall also evaluate the applicant's eligibility for a loan based upon financial and credit history, ability to repay, and proposed collateral.

(b) On the basis of the evaluation, the loan examiner will recommend proposed action on the loan request to the appropriate loan committee. However, the recommendation of a loan examiner is not binding on a loan committee. (Eff. / / , Register)

Authority: AS 45.88.020

3 AAC __.020. LOAN COMMITTEE. (a) A loan committee consists of one or more persons appointed by the commissioner from the department to act on a loan request.

(b) A loan committee may approve, deny, or modify and approve a loan request, or table a loan request subject to obtaining additional information.

(c) A loan committee may impose reasonable conditions on the approval of a loan, including the following requirements:

(1) additional collateral be pledged to secure the loan;

(2) additional guarantors be provided;

(3) subordination of prior lien holder's rights to the interests of the State.

(d) A loan committee will evaluate the eligibility of the proposed system and the applicant's financial and credit record, capacity for repayment, and the adequacy of collateral offered to secure the loan. A loan committee may also consider the recommendations of the loan examiner assigned to process the loan application, and any other relevant information.

(e) A loan committee may fix the term of a loan and the repayment schedule to meet the needs of the borrower and the collateral available to secure repayment of the loan.

(f) If a loan request is denied or significantly modified by a loan committee, the loan committee will provide the applicant with a statement of the reasons for the action and the information relied on.

(g) A material misstatement or omission of fact made by an applicant constitutes grounds for denial of a loan request. (Eff. / / , Register)

DRAFT

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.035. ELIGIBILITY. To be eligible for a loan, an applicant must seek to purchase, construct, or install an alternative energy system or centralized multifuel system, as those terms are defined in AS 45.88.500. A loan request for solar heating units and sunspaces must also meet the guidelines contained in 3 AAC __.036, 3 AAC __.037 and 3 AAC __.038. A loan request for centralized multifuel heating systems must meet the guidelines contained in 3 AAC __.039.

Authority: AS 45.88.020

3 AAC __.036. SOLAR LOAN GUIDELINES. (a) All solar heating units and sunspaces must meet the following minimum standards. Solar heating units must also meet the minimum standards in 3 AAC __.037. Sunspaces must also meet the minimum standards in 3 AAC__.038.

(b) The design or item funded must be primarily intended as an alternative energy source and must emphasize energy performance over aesthetics.

(c) Site pictures, drawings, as-built surveys and documentation of solar access showing a prime solar fraction of at least 70 percent or more must be provided. Solar access can be measured by using a Lewis Solar Site Selector, a Solar Pathfinder or by other appropriate instruments approved by the department and must be accompanied by corresponding pictures. Roof overhangs and pony wall-like obstructions must be considered in the efficiency of the design.

(d) Framing must be wood or the equivalent with a thermal break. All frame walls must be insulated to at least R19. Frame floors over an unheated airspace must be insulated to at least R30. The roof must be insulated to at least R30.

(e) Masonry foundations must be insulated with 2 inch extruded polystyrene (R10) or equivalent below grade to 42 inches or the area standard, and with 4 inch styrofoam or equivalent above grade. A vapor barrier must be used.

(f) Glazing must have an R-value greater than 1.5 with a transmittance greater than .75.

(g) The design must provide for proper circulation of the heated air to the existing living areas and for the return of cool air. If natural convection is used, vents must be placed at appropriate intervals for a balanced heat flow. Occupant-operated windows and doors are an acceptable means of providing air circulation on loans of $15,000 and under. On all loans over $15,000, automatic circulation is required. The circulation must provide at least 2 cubic feet of air per minute per square foot of glazing and be equipped with automatic controls.

DRAFT

(h) An exhaust fan or exhaust vents must be provided to protect against overheating by venting to a storage mass or to the outside. On all loans over $15,000, this exhaust system must be automatically controlled. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030
AS 45.88.500

3 AAC __.037. SOLAR HEATING UNIT STANDARDS. (a) A solar heating unit is attached to the residence and is able to be sealed off from the existing living space. It is designed and constructed to provide for collection and use of the sun's radiation. The solar heating unit must act as an air heater for the existing structure, must be isolated from the living area, and must contain no auxiliary heating system.

(b) A solar heating unit must meet the following standards to be eligible for a loan:

(1) The solar heating unit must be isolated from the living area and access may be through an exterior door. All doors on exterior walls must be thermal insulated doors;

(2) All glazed interior walls must have movable shades or shutters to insulate the glazing to at least R4. Glazing on interior walls cannot exceed 25 percent of the total interior wall area.

(3) All glazing must be within 30 degrees east or west of true south and between a tilt of 60 to 90 degrees. Glazing in the end walls or skylights in roofs will not be funded or allowed in the design. Seventy percent of the south facing wall must be glazed;

(4) Absorbers and thermal mass must be included in the unit. Thermal mass normally consists of concrete, water or phase-change materials. If the pony wall exceeds 12 inches, the storage mass on the floor will not be funded. Funding for storage mass on the floor may not exceed $10.00 per square foot;

(5) The length of the end walls cannot exceed 12 feet;

(c) Heat loss and heat gain calculations may be required to document the solar efficiency of the proposed structure;

(d) In order to be eligible for funding, the entire project must comply with these guidelines whether or not the entire project is to be funded by this program. The items to be funded must be related to the construction and purchase of the solar heating unit and must be an integral part of the solar heating unit as an alternative heating system. (Eff. / / , Register)

DRAFT

Authority: AS 45.88.020
AS 45.88.030
AS 45.88.500

3 AAC __.038. SUNSPACE STANDARDS. (a) A solar sunspace is designed and constructed to collect and use the sun's radiation and is an integral part of the living area.

(b) A sunspace must meet the following standards to be eligible:

(1) Monthly heat loss and gain calculations must be performed to document the solar efficiency of the project. The calculations can be performed by an architect, engineer or other qualified individual;

(2) All glazing must be within 30 degrees east or west of true south and between a tilt of 60 to 90 degrees. Glazing in the end walls or skylights in roofs will not be funded, and the nonsouth glazing must be within a 75 percent to a 25 percent ratio;

(3) All glazing in the sunspace must be provided with movable insulation to insulate the windows to at least R5. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030
AS 45.88.500

3 AAC __.039. CENTRALIZED MULTIFUEL HEATING SYSTEM GUIDELINES. (a) A multifuel heating system includes all components which are linked together to form a system; such as wiring, plumbing and ducting. Coal storage sheds, wood sheds, or any other components related to a multifuel system which are not mechanically connected to the multifuel furnace are not eligible for funding.

(b) If the labor estimate exceeds 40 percent of the total cost of a multifuel system, at least one additional estimate must be supplied to document the cost of the proposed labor.

(c) All boilers financed under this chapter must meet Alaska State Department of Labor safety standards (A.S.M.E. approved or equivalent). (Eff. / / , Reg.)

Authority: AS 45.88.020
AS 45.88.030
AS 45.88.500

3 AAC __.040. FINANCIAL AND CREDIT RECORD. (a) The department will, in its discretion, consider the following factors in assessing an applicant's financial and credit record

(1) existing and prior debts;

(2) credit reports obtained from creditors and private credit reporting services;

DRAFT

(3) prior loan history with the department;

(4) timeliness in making payments on loans and other debts;

(5) prior bankruptcies;

(6) existence of tax liens, unpaid judgments, and prior foreclosures; and

(7) financial and credit reputation in the community.

(b) Information establishing unacceptable credit will be more heavily weighed by the department if it has occurred in recent years. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.045. ABILITY TO REPAY. The department may consider the following factors in evaluating an applicant's ability to repay a proposed loan:

(1) income history, including present income;

(2) prospects for future income;

(3) assets and their liquidity; and

(4) liabilities. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.050. COLLATERAL. (a) A loan must be secured by collateral acceptable to the department to ensure repayment of the loan in the event of default.

(b) Acceptable collateral may include a mortgage or other security instrument in real property, buildings, machinery and equipment or fixtures. To be considered acceptable collateral, personal property must be capable of being specifically identified. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.055. LENDING PRACTICES. (a) A loan for a sunspace may only include funding for items related to alternative heating systems. Items which may be funded include south-facing glazing, movable window insulation, ventilation and circulation system to transport the heated air, and building components that will make the solar system more efficient but are not conventional or considered normal construction.

(b) A borrower may not modify a structure or improvement financed under the provisions of this program in any

DRAFT

manner which is not in compliance with the applicable guidelines contained in 3 AAC __.036 - 3 AAC __.039 during the life of the loan. All modifications to a structure financed under the program must be submitted to the department for prior written approval.

(c) An applicant seeking financing for a solar heating project in conjunction with the construction of a new building must provide written confirmation that the long-term lender is not also financing the solar heating aspect of the total construction project. Loan funds will not be disbursed until the building is complete and the long-term financing has been finalized.

(d) Applicants seeking financing for a multifuel heating system in conjuction with the construction of a new building must provide written confirmation that the long-term lender is not also financing the heating system. No long funds will be disbursed until the building is complete and long-term financing for the building has been finalized.

(e) Loan funds may not be used to reimburse an applicant for costs incurred more than 6 months prior to loan approval. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.065. DISBURSEMENT OF LOAN FUNDS. Loan funds will be disbursed when

(1) a security interest in the collateral on behalf of the State has been perfected;

(2) the borrower has complied with the insurance requirements contained in an instrument signed by the borrower;

(3) all requirements of the loan committee have been met; and

(4) the borrower has complied with all other provisions of the loan documents and this chapter. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.070. SUPERVISION OF LOANS. As a condition of a loan and while there is an outstanding loan balance, the department may require a borrower to furnish annual financial statements consisting of a balance sheet, profit-and-loss statement, sources and application of all funds received and a schedule of change of owner's equity. The department may also require an audit or audits to determine whether the borrower has complied with the provisions of the loan, and conduct periodic inspection of collateral securing repayment of the loan. (Eff. / / , Register)

DRAFT

Authority: AS 45.88.020

3 AAC __.075. COSTS. All expenses incurred by the department in closing a loan, including the processing of the loan application, shall be paid by the applicant. These expenses include the cost of credit reports, title reports and insurance, recording fees, appraisals, surveys, and other direct costs. (Eff. / / , Register)

Authority: AS 45.88.020

3 AAC __.080. ASSUMPTIONS. Assumption of loans will not be permitted. In the event the property containing the improvement is sold, the loan will be promptly paid in full. "Wraparound" financing which includes a loan under this chapter is prohibited and will constitute a default on the loan. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.085. RECONSIDERATION. (a) If a loan request is denied or significantly modified by a loan committee, an applicant may file a written request for reconsideration with the department. The request must be filed within 30 days of receipt of the initial decision of the loan committee to be considered timely.

(b) The loan committee will reconsider a request only upon a showing by the applicant that

(1) there has been a substantial change in the circumstances leading to the loan committee's initial denial or modification; or

(2) additional relevant information can be provided to the loan committee that was not initially available. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.090. CONFIDENTIALITY OF LOAN INFORMATION. (a) The following information is not confidential and is available for public inspection upon request:

(1) a document which is already a public record including deeds of trust, financing statements, limited entry permits, warranty deeds, bills of sale, marine mortgages, liens, vehicle titles and vessel documentation;

(2) general information regarding loans, including the amount of a particular loan loan terms, personal guarantees, and disbursement a repayment schedules;

(3) documents regarding foreclosure and default proceedings.

DRAFT

(b) The following information is confidential and is not subject to public disclosure:

(1) personal and financial information, including income tax returns, financial statements, business income statements, pro forma profit and loss statements, credit information obtained directly from banks and other creditors, and reports obtained from consumer reporting agencies;

(2) loan committee memoranda and minutes containing information relating to credit worthiness of an applicant; and

(3) payment history of a loan, unless the loan is in default.

(c) Information not described in (a) and (b) of this section may be subject to public disclosure. Requests for disclosure must be made in accordance with 6 AAC 095. On receipt of a request for disclosure, the department will promptly notify the loan applicant and other persons with a privacy interest in the request, to permit them to present reasons why the requested information should not be disclosed. (Eff. / / , Register)

Authority: AS 09.[illegible].110
AS 09.25.120
AS 45.88.020
Art. 1, Sec. 22
Alaska Const.

3 AAC __.300. DEFINITION OF TERMS. Unless the context requires otherwise, in this chapter

(1) "borrower" means an individual, partnership, corporation or association whose loan has been approved by a loan committee;

(2) "commissioner" means the Commissioner of the Department of Commerce and Economic Development;

(3) "department" means the Department of Commerce and Economic Development; (Eff. / / , Register

Authority: AS 45.88.020

DRAFT

CHAPTER
RESIDENTIAL ENERGY CONSERVATION LOANS

Section
010. Application Process
015. Examination
020. Loan Committee
030. Loan Amounts
035. Eligibility
040. Financial and Credit Record
045. Ability to Repay
050. Collateral
055. Lending Practices
065. Disbursement of Loan Funds
070. Supervision of Loans
075. Costs
080. Assumptions
085. Reconsideration
090. Confidentiality of Loan Information
300. Definition of Terms

DRAFT

3 AAC __.010. APPLICATION PROCESS. To apply for a loan for the purchase, construction and installation of an energy conservation improvement, an applicant must file with the department

(1) a completed application for an energy conservation loan on a form provided by the department;

(2) letter of intent stating the amount requested, the intended use of the proposed loan funds, and a proposed plan for repayment;

(3) a credit authorization form for each of the applicant's creditors;

(4) an employment verification form;

(5) a financial statement including a copy of the applicant's federal income tax return for the most recent year;

(6) a schedule of acceptable collateral, stating date of acquisition, cost, location, market value and existing liens. Market value must be verified by providing a copy of a tax assessment or notice. Ownership of collateral should be verified by a copy of the existing title insurance, deed for the residence, or property profile;

(7) An energy improvement payback calculation, if required under 3 AAC___.035;

(8) photographs of each side of the residence being improved; and

(9) any other information the department may require. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.015. EXAMINATION. (a) Upon receipt of the materials described in 3 AAC __.010, a loan request will be processed and evaluated by a loan examiner. After reviewing the materials submitted and obtained through the normal investigative process the loan examiner will evaluate the eligibility of the energy conservation improvement for a loan. The loan examiner shall also evaluate the applicant's eligibility for a loan based upon the applicant's financial and credit history, ability to repay, and proposed collateral.

(b) On the basis of the evaluation, the loan examiner will recommend proposed action on the loan request to the appropriate loan committee. However, the recommendation of a loan examiner is not binding on a loan committee. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.020. LOAN COMMITTEE. (a) A loan committee consists of one or more persons appointed by the commissioner from the department to act on a loan request.

(b) A loan committee may approve, deny or modify and approve a loan request, or table a loan request subject to obtaining additional information.

(c) A loan committee may impose reasonable conditions on the approval of a loan, including the following requirements:

(1) additional collateral be pledged to secure the loan;

(2) additional guarantors be provided; and

(3) subordination of prior lien holder rights to the interests of the State.

(d) A loan committee will evaluate the eligibility of the energy conservation improvement and the applicant's financial and credit record, capacity for repayment, and the adequacy of collateral offered to secure the loan. A loan committee may also consider the recommendations of the loan examiner assigned to process the loan application, and any other relevant information.

(e) A loan committee may fix the term of a loan and the repayment schedule to meet the needs of the borrower and the collateral available to secure repayment of the loan.

(f) If a loan request is denied or significantly modified by a loan committee, the loan committee will provide the applicant with a statement of the reasons for the action and the information relied on.

(g) A material misstatement or omission of fact made by an applicant constitutes grounds for denial of a loan request. (Eff. / / , Reg.)

DRAFT

Authority: AS 45.89.030

3 AAC __.030. LOAN AMOUNTS. A loan may not exceed the lesser of

(1) $5,000; or

(2) an amount, as determined by the actual cost of labor and materials for each category, which is documented by invoices, bids or contracts; or

(3) an amount, as determined by an acceptable energy improvement payback calculation which is equal to the total estimated energy savings attributable to the energy conservation improvement over a ten-year period following the purchase, construction or installation of the energy conservation improvement. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.035. ELIGIBILITY. (a) An energy conservation improvement described in (b), (c) or (d) of this section is eligible for a loan under this chapter. An energy audit will not be required.

(b) The following conservation measures have historically shown significant energy savings and the department will generally not require an energy improvement payback calculation. However, if the department believes a conservation measure may not meet statutory requirements, it may require an energy improvement payback calculation.

(1) caulking: material used to reduce the passage of air and moisture by filling small air gaps, usually occuring in exterior walls, including sealants, putty, glazing compounds and canned spray foam;

(2) weatherstripping: material used to reduce the passage of air and moisture by placing small strips of material in or around moveable joints of windows and doors;

(3) automatic setback devices: mechanisms which are designed to reduce energy consumption by regulating a heating system through the use of:

(A) a clock or other automatic mechanism for switching from one temperature control level to another;

(B) a control device which reduces energy consumption by comparing indoor and outdoor temperatures and controlling or adjusting the heating system operating temperature; or

(C) a demand control unit consisting of a pre-programmed timer which reduces energy consumption by regulating the operational cycle of the heating system;

(4) duct/pipe insulation: insulation installed

DRAFT

on hot water or heating pipes or heating ducts in an unconditioned area;

(5) water heater insulation: an insulating jacket which reduces heat loss from a hot water tank;

(6) vent damper: a device that may be installed in the flue of the central heating system which will electrically, mechanically or manually close the flue when the central heating system is not in operation;

(7) furnace replacement burner: upgrading of a furnace burner designed to achieve a reduction of the amount of fuel consumed as a result of increased combustion efficiency. The unit must be of the same fuel type as the existing burner;

(c) The following conservation measures also have historically shown significant energy savings and the department will generally not require an energy improvement payback calculation provided that these conservation measures must meet the following minimum requirements. However, the division may require an energy improvement payback calculation on any measure which it believes may not meet statutory requirements:

(1) insulation: material designed primarily to resist heat loss. This may include fiberglass batts, blown fiberglass, cellulose, styrofoam or spray foam. To be eligible, the R-value of the present insulation must be increased by at least R-7. A loan may not be made for the replacement of damaged insulation due to maintenance neglect;

(2) storm or thermal windows:

(A) a storm window is glazing material placed outside an ordinary window, creating an air space, for the purpose of providing greater resistance to heat loss than the ordinary window alone;

(B) a thermal window is a window unit with improved thermal performance by the use of two or more sheets of glazing material affixed to a window or door frame creating one or more air spaces;

(C) the overall R-value of the existing functional window unit must be increased by at least the equivalent of one sheet of glazing material by the installation of storm or thermal windows;

(3) storm or thermal doors:

(A) a storm door is a second door, installed on either side of the primary door, creating an insulating air space;

(B) a thermal door is a primary exterior door with an R-value of at least R-7;

DRAFT

(C) the existing R-value must be increased by a factor of at least R-4 with the installation of a storm or thermal door;

(4) interior insulating shades: shades attached to the interior window assembly which provide an insulating level of at least R-3;

(5) insulating shutters: shutters attached to the exterior window assembly which provide an insulating level of at least R-3;

(d) The following conservation measures must have an energy improvement payback calculation acceptable to the department. The amount of the loan cannot exceed the savings, attributable to the energy conservation improvement, which could be achieved over a ten-year period:

(1) air and water heat recuperator (heat exchanger): a waste-heat recovery device which transfers heat from exhaust air or waste water to incoming fresh air or unheated water;

(2) replacement furnace or boiler: furnace or boiler which replaces an existing functional furnace or boiler of the same fuel type and which reduces the amount of fuel consumed due to increased combustion efficiency. Application for financing of a project of this type must include a flue-gas analysis;

(3) skirting: the materials enclosing the area between the ground or foundation and the base of the structure;

(4) structural changes: insulation projects which involve replacement of sheetrock, framing, siding, flooring, roofing materials, and other similar structural changes may be financed only if the loan application clearly demonstrates that this is the only practical means of installing the insulation.

(e) An energy improvement payback calculation may be performed by the applicant or other qualified individual such as a mechancial engineer or architect. The calculation must include:

(1) a description of the current physical characteristics of the building including the size, type and rate of energy consumption, along with a determination of the current yearly energy costs of the building;

(2) a detailed description and evaluation of the proposed energy improvements for which financing is being requested; and

(3) heat loss calculations which compare the existing building with the building after the proposed improvements have been made. These calculations must clearly reflect the amount of savings which would be realized over a

DRAFT

10-year period after the improvements have been made. If applying for more than one improvement the calculations must show a separate 10-year savings for each conservation measure. (Eff. / / , Reg.)

Authority: AS 45.89.030
AS 45.89.500

3 AAC __.040. FINANCIAL AND CREDIT RECORD. (a) The department will, in its discretion, consider the following factors in assessing an applicant's financial and credit record:

(1) existing and prior debts;

(2) credit reports obtained from creditors and private credit reporting services;

(3) prior loan history with the department;

(4) timeliness in making payments on loans and other debts;

(5) prior bankruptcies;

(6) existence of tax liens, unpaid judgments, and prior foreclosures; and

(7) financial and credit reputation in the community.

(b) Information establishing unacceptable credit will be more heavily weighed by the department if it has occurred in recent years. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.045. ABILITY TO REPAY. The department may consider the following factors in assessing an applicant's capacity for repayment of a proposed loan:

(1) income history, including present income;

(2) prospects for future income;

(3) assets and their liquidity; and

(4) liabilities. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.050. COLLATERAL. (a) A loan must be secured by collateral acceptable to the department to ensure repayment of the loan in the event of default.

(b) Acceptable collateral may include a mortgage or other security instruments in real property, buildings, machinery, equipment or fixtures. To be considered acceptable collateral, personal property must be capable of being specifically identified. (Eff. / / , Reg.)

DRAFT

Authority: AS 45.89.030

3 AAC __.055. LENDING PRACTICES. (a) A loan will not be approved for refinancing long term debt. Interim or construction financing is not considered long term debt if the term is 12 months or less and the promissory note or the original agreement was executed within 12 months before receipt of the application.

(b) Loan funds may not be used to reimburse an applicant for costs incurred more than six months prior to loan approval. (Eff. / / , Register)

Authority: AS 45.89.030

3 AAC __.065. DISBURSEMENT OF LOAN FUNDS. Loan funds will be disbursed when

(1) a security interest in the collateral on behalf of the State has been perfected;

(2) the borrower has complied with the insurance requirements contained in an instrument signed by the borrower;

(3) all requirements of the loan committee have been met; and

(4) the borrower has complied with all other provisions of the loan documents and this chapter. (Eff. / / , Register)

Authority: AS 45.89.030

3 AAC .070. SUPERVISION OF LOANS. As a condition of a loan and while there is an outstanding loan balance, the department may require a borrower to furnish annual financial statements consisting of a balance sheet, profit-and-loss statement, sources and application of all funds received and a schedule of change of owner's equity. The department may also require an audit to determine whether the borrower has complied with the provisions of the loan, and conduct periodic inspection of collateral securing repayment of the loan. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.075. COSTS. All expenses incurred by the department in closing a loan, including the processing of the loan application, shall be paid by the applicant. These expenses include the cost of credit reports, title reports and insurance, recording fees, appraisals, surveys, and other direct costs. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.080. ASSUMPTIONS. Assumption of loans will not be permitted. In the event a residence is sold a loan will be promptly paid in full. "Wraparound" financing which

DRAFT

includes a loan under this chapter is prohibited and will constitute a default on the loan. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.085. RECONSIDERATION. (a) If a loan request is denied or significantly modified by a loan committee, an applicant may file a written request for reconsideration with the department. The request must be filed within 30 days of receipt of the initial decision of the loan committee to be considered timely.

(b) The loan committee will reconsider a request only upon a showing by the applicant that

(1) there has been a substantial change in the circumstances leading to the loan committee's initial denial or modification; or

(2) additional relevant information can be provided to the loan committee that was not initially available.

Authority: AS 45.89.030

3 AAC__.090. CONFIDENTIALITY OF LOAN INFORMATION. (a) The following information is not confidential and is available for public inspection upon request:

(1) a document which is already a public record including deeds of trust, financing statements, limited entry permits, deeds, bills of sale, marine mortgages, liens, vehicle titles and vessel documentation;

(2) general information regarding loans, including the amount of a particular loan, loan terms, personal guarantees, and disbursement and repayment schedules;

(3) foreclosure and default proceedings.

(b) The following information is confidential and is not subject to public disclosure:

(1) personal and financial information, including income tax returns, financial statements, business income statements, pro forma profit and loss statements, credit information obtained directly from banks and other creditors and reports obtained from consumer reporting agencies;

(2) loan committee memoranda and minutes containing information relating to credit worthiness of an applicant; and

(3) payment history of a loan, unless the loan is in default.

(c) Information not described in (a) and (b) of this section may be subject to public disclosure. Requests for disclosure must be made in in accordance with 6 AAC 095. On

DRAFT

receipt of a request for disclosure, the department will notify the loan applicant and other persons with a privacy interest in the request, to permit them to present reasons why the requested information should not be disclosed. (Eff. / / , Reg.)

Authority: AS 09.25.110
AS 09.25.120
AS 45.89.030
Art. 1, Sec. 22
Alaska Const.

3 AAC __.300. DEFINITION OF TERMS. Unless the context requires otherwise, in this chapter

(1) "borrower" means an individual, partnership, corporation or association applying for the loan;

(2) "commissioner" means the Commissioner of the Department of Commerce and Economic Development;

(3) "department" means the Department of Commerce and Economic Development. (Eff. / / , Reg.)

Authority: AS 45.89.030

DRAFT

CHAPTER ____
CHILD CARE FACILITY LOANS

Section
010. Application Process
015. Examination
020. Loan Committee
035. Eligibility
040. Financial and Credit Record
045. Ability to Repay
050. Collateral
055. Lending Practices
065. Disbursement of Loan Funds
070. Supervision of Loans
075. Costs
080. Assumptions
085. Reconsideration
090. Confidentiality of Loan Information
300. Definition of Terms

DRAFT

3 AAC __.010. APPLICATION PROCESS. To apply for a loan for the construction, renovation or equipping of a child care facility, an applicant shall file with the department

(1) a completed application for a child care facility loan on a form provided by the department;

(2) a letter of intent stating the amount requested, the intended use of the proposed loan funds and a proposed plan for repayment;

(3) a letter indicating the applicant's knowledge of child care programs and business conditions as listed in 3 AAC .035;

(4) a personal resume including three personal references;

(5) a business and credit history including complete copies of income tax returns for the preceding three years;

(6) a financial statement consisting of a balance sheet, a profit and loss statement and a statement of projected income and expenses for the following year's operating plan;

(7) a schedule of acceptable collateral, including collateral now owned and other collateral to be acquired with the loan proceeds, stating date of acquisition, cost, location, market value, and existing liens;

(8) if an applicant is applying for a loan to operate a day care facility licensed by the state or a local government, a copy of the application for the license or, if the facility has already been licensed, a copy of the license;

(9) any other information that the department may require. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.015. EXAMINATION. (a) Upon receipt of the materials described in 3 AAC __.010, a loan request will be processed and evaluated by a loan examiner. The loan examiner will evaluate the applicant's eligibility, finance and credit history, operating plan, ability to repay, and proposed collateral.

(b) On the basis of the evaluation, the loan examiner will recommend proposed action on the loan request to the appropriate loan committee. However, the recommendation of a loan examiner is not binding on a loan committee. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.020. LOAN COMMITTEE. (a) A loan committee consists of one or more persons appointed by the commissioner from the department to act on a loan request.

(b) A loan committee may approve, deny, or modify and approve a loan request, or table a loan request subject to obtaining additional information.

(c) A loan committee may impose reasonable conditions on the approval of a loan, including the following requirements

(1) additional collateral be pledged to secure the loan;

(2) additional guarantors be provided; and

(3) subordination of prior lien holder rights to the interests of the state.

(d) A loan committee will evaluate an applicant's eligibility for a loan, financial and credit record, capacity for repayment and operating plans, and the adequacy of collateral offered to secure the loan. A loan committee may also consider the recommendations of the loan examiner assigned to process the loan application and any other relevant information.

(e) A loan committee may fix the term of a loan and the repayment schedule to meet the needs of the borrower and the collateral available to secure repayment of the loan.

(f) If a loan request is denied or significantly modified by a loan committee, the loan committee will provide the applicant with a statement of the reasons for the action and the information relied on.

(g) A material misstatement or omission of fact made by an applicant constitutes grounds for denial of a loan request. (Eff. / / , Register)

DRAFT

Authority: AS 44.33.245

3 AAC __.035. ELIGIBILITY. To be eligible for a child care facility loan an applicant shall demonstrate

(1) knowledge of

(A) small business management;

(B) problems encountered in caring for children, including educational, recreational, health and disciplinary needs and appropriate responses in emergencies; and

(C) fire safety, health, and safety considerations in operating a day care facility and the state and local requirements in each of these areas; and

(2) some evidence of demand for the facility. (Eff. / / , Register)

Authority: AS 44.33.245
AS 44.33.260

3 AAC __.040. FINANCIAL AND CREDIT RECORD. (a) The department will, in its discretion, consider the following factors in assessing an applicant's financial and credit record:

(1) the applicant's existing and prior debts;

(2) credit reports obtained from creditors and private credit reporting services;

(3) prior loan history with the department;

(4) timeliness in making payments on loans and other debts;

(5) prior bankruptcies;

(6) existence of tax liens, unpaid judgments, prior foreclosures, and financial and credit reputation in the community.

(b) Information establishing unacceptable credit will be more heavily weighed by the department if it has occurred in recent years. (Eff. / / , Register)

Authority: AS 44.33.245
AS 44.33.260

3 AAC __.045. ABILITY TO REPAY. The department will, in its discretion, consider the following factors in evaluating an applicant's ability to repay a proposed loan

(1) income history, including present income;

DRAFT

(2) prospects for future income;

(3) assets and their liquidity;

(4) liabilities;

(5) reasonableness of projected profit and loss statement;

(6) other business experience. (Eff. / / , Register)

Authority: AS 44.33.245
AS 44.33.260

3 AAC __.050. COLLATERAL. (a) A loan must be secured by collateral acceptable to the department to ensure repayment of the loan in the event of default.

(b) Acceptable collateral includes a mortgage or other security instrument in real property, buildings, machinery, equipment and fixtures. To be considered acceptable collateral, personal property must be capable of being specifically identified. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.055. LENDING PRACTICES. (a) A loan will not be approved for the purchase of

(1) undeveloped property for the construction of a child care facility;

(2) existing child care facilities; or

(3) vehicles.

(b) A loan will not be approved for refinancing long term debt. Interim or construction financing is not considered long term debt if the term is 12 months or less and the promissory note or the original agreement was executed less than 12 months before receipt of the application by the department.

(c) Loan funds may not be used to reimburse an applicant for costs incurred prior to loan approval.

(d) Loans will not be approved to finance facilities which do not comply with state or local licensing requirements. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.065. DISBURSEMENT OF LOAN FUNDS. Loan funds will be disbursed when

(1) a security interest in the collateral on behalf of the state has been perfected;

DRAFT

(2) the borrower has complied with the insurance requirements contained in an instrument signed by the borrower;

(3) all requirements of the loan committee have been met; and

(4) the borrower has complied with all other provisions of the loan documents and this chapter. (Eff. / / Register)

Authority: AS 44.33.245

3 AAC __.070. SUPERVISION OF LOANS. As a condition of a loan and while there is an outstanding loan balance, the department may require a borrower to furnish annual financial statements consisting of a balance sheet, profit-and-loss statement, sources and application of all funds received and a schedule of change of owner's equity. The department may also require an audit or audits to determine whether the borrower has complied with the provisions of the loan and may conduct periodic inspection of collateral securing repayment of the loan. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.075. COSTS. All expenses incurred by the department in closing a loan, including the processing of the loan application, shall be paid by the applicant. These expenses include the cost of credit reports, title reports and insurance, recording fees, appraisals, surveys, travel and other direct costs. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.080. ASSUMPTIONS. (a) Requests for permission to assume obligations and benefits of loans granted under this chapter shall be processed in the same manner as a loan request.

(b) A loan committee may permit an assumption if the individual seeking to assume the loan would be eligible for a new loan of the type that is sought to be assumed, the applicant is a good financial risk, and the security of the state's investment is preserved.

(c) Eligibility standards currently in effect, rather than standards in effect at the time the original loan was made will govern assumptions. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.085. RECONSIDERATION. (a) If a loan request is denied or significantly modified by a loan committee, an applicant may file a written request for reconsideration with the department. The request must be filed within 30 days of receipt of the initial decision of the loan committee.

DRAFT

(b) A loan committee will reconsider a request only upon a showing by an applicant that

(1) there has been a substantial change in the circumstances leading to the loan committee's initial denial or modification; or

(2) additional relevant information can be provided to the loan committee that was not initially available. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC 80.090. CONFIDENTIALITY OF LOAN INFORMATION. (a) The following information is not confidential and is available for inspection by the public upon request:

(1) a document which is already a public record, including deeds of trust, financing statements, warranty deeds, bills of sale, mortgages, liens, and vehicle titles;

(2) general information regarding loans, including the amount of particular loans, terms of the loan, personal guarantees, and disbursement and repayment schedules;

(3) insurance matters, including title insurance policies and correspondence with insurance companies or borrowers regarding losses, accident reports, and nonpayment of premiums;

(4) documents regarding foreclosure and default proceedings.

(b) The following information is confidential and is not subject to public disclosure:

(1) personal and financial information, including income tax returns, financial statements, business income statements, pro forma profit and loss statements, credit information obtained directly from banks and other creditors and reports obtained from consumer reporting agencies;

(2) loan committee memoranda and minutes containing information relating to credit worthiness of the applicant;

(3) the payment history of an applicant, under circumstances not constituting foreclosure or default.

(c) Information not described in (a) or (b) of this section may be subject to public disclosure. Requests for disclosure must be made and will be determined in accordance with 6 AAC 95. On receipt of a request for disclosure, the department will notify the loan applicant and other persons with a privacy interest in the request, to permit them to present reasons why the requested information should not be disclosed. The department will approve requests for disclosure of information if the public interest that would be

DRAFT

served from disclosure outweighs the privacy interests of the applicant. (Eff. / / , Register)

Authority: AS 09.25.110
AS 09.25.120
AS 44.33.245
Art. 1, Sec. 22
Alaska Const.

3 AAC __.300. DEFINITION OF TERMS. Unless the context requires otherwise, in this chapter

(1) "applicant" means the individual, partnership, corporation or association applying for the loan;

(2) "commissioner" means the Commissioner of the Department of Commerce and Economic Development;

(3) "department" means the Department of Commerce and Economic Development;

Authority: AS 44.33.245

DRAFT

CHAPTER __
HISTORICAL DISTRICT LOANS

Section
010. Application Process
015. Examination
020. Loan Committee
035. Eligibility
040. Financial and Credit Record
045. Ability to Repay
050. Collateral
055. Lending Practices
065. Disbursement of Loan Funds
070. Supervision of Loans
075. Costs
080. Assumptions
085. Reconsideration
090. Confidentiality of Loan Information
300. Definition of Terms

DRAFT

3 AAC __.010. APPLICATION PROCESS. To apply for a loan for the restoration, improvement, rehabilitation or maintenance of an approved structure in a historical district an applicant must file with the department:

(1) a completed application for a historical district loan on a form provided by the department;

(2) evidence of a plan approval by a local historical district commission and recommendation by a majority of the members of the Historic Sites Advisory Committee;

(3) a letter of intent stating the amount requested, the intended use of the proposed loan funds, and a proposed plan for repayment;

(4) a personal resume including three personal references;

(5) a credit history including complete copies of income tax returns for the preceding year;

(6) a financial statement consisting of a current balance sheet, a monthly budget and a statement of projected income and expenses for the next year;

(7) a schedule of acceptable collateral, including collateral now owned and other collateral to be acquired with the loan proceeds, stating date of acquisition, cost, location, market value and existing liens;

(8) photographs of each side of the structure to be improved; and

(9) any other information the department may require. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.015. EXAMINATION. (a) Upon receipt of the materials described in 3 AAC __.010, a loan request will be processed and evaluated by a loan examiner. The loan examiner will evaluate the applicant's eligibility, financial and credit history, ability to repay, and proposed collateral.

(b) On the basis of the evaluation, the loan examiner will recommend proposed action on the loan request to the appropriate loan committee; however the recommendation of the loan examiner is not binding on the loan committee. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030
AS 45.98.040

3 AAC __.020. LOAN COMMITTEE. (a) A loan committee consists of one or more persons appointed by the commissioner from the department to act on a loan request.

(b) A loan committee may approve, deny, or modify and approve a loan request, or table a loan request subject to obtaining additional information.

(c) A loan committee may impose reasonable conditions on the approval of a loan, including

(1) additional collateral to secure the loan;

(2) additional guarantors;

(3) subordination of prior lien holder's rights to the interests of the state.

(d) A loan committee will evaluate the applicant's eligibility, financial and credit record, capacity for repayment and the adequacy of the collateral offered to secure the loan. A loan comittee may also consider the recommendations of the loan examiner assigned to process the loan application and any other relevant information.

(e) A loan committee may fix the term of a loan and the repayment schedule to meet the needs of the borrower and the collateral available to secure repayment of the loan.

(f) If a loan request is denied or significantly modified by a loan committee, the loan committee will provide the applicant with a statement of the reasons for the action and the information relied on.

(g) A material misstatement or omission of fact made by an applicant constitutes grounds for denial of a loan request. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030
AS 45.98.040

DRAFT

3 AAC __.035. ELIGIBILITY. To be eligible for a loan, a plan must be approved by a local historical district commission and be recommended by a majority of the members of the Historic Sites Advisory Committee. A loan may be made to a person, firm, business or municipality. A structure must be within the boundaries of a historical district and it must be identified as important in state or national history or be suitable for superficial modification so that it can conform to the period or motif of the surrounding structures that are the reason for the area's designation as a historical district. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030
AS 45.98.040

3 AAC __.040. FINANCIAL AND CREDIT RECORD. (a) The department may consider the following factors in assessing an applicant's financial and credit record:

(1) existing and prior debts;

(2) credit reports obtained from creditors and private credit reporting services;

(3) prior loan history with the department;

(4) timeliness in making payments on loans and other debts;

(5) prior bankruptcies;

(6) existence of tax liens;

(7) unpaid judgments and prior foreclosures; and

(8) financial and credit reputation in the community.

(b) Information establishing unacceptable credit will be more heavily weighed by the department if it has occurred in recent years. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.045. ABILITY TO REPAY. The department may consider the following factors in assessing an applicant's ability to repay;

(1) income history, including present income;

(2) prospects for future income;

(3) assets and their liquidity;

(4) liabilities;

(5) reasonableness of projected profit and loss statement;

DRAFT

(6) other business experience. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.050. COLLATERAL. (a) A loan must be secured by collateral acceptable to the department to ensure repayment of the loan in the event of default.

(b) Acceptable collateral may include a mortgage or other security instrument in real property, buildings, machinery and equipment or fixtures. To be considered acceptable collateral, personal property must be capable of being specifically identified. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030
AS 45.98.040

3 AAC __.055. LENDING PRACTICES. (a) The term of a loan secured by equipment will, in the department's discretion, be limited to eight years.

(b) An applicant may not receive loan funds for costs incurred prior to loan approval. (Eff. / / , Register)

Authority: AS 45.89.020
AS 45.89.030

3 AAC __.065. DISBURSEMENT OF LOAN FUNDS. Loan funds will be disbursed when

(1) a security interest in the collateral on behalf of the state has been perfected;

(2) the borrower has complied with the insurance requirements contained in an instrument signed by the borrower;

(3) all requirements of the loan committee have been met; and

(4) the borrower has complied with all other provisions of the loan documents and this chapter. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.070. SUPERVISION OF LOANS. As a condition of a loan and while there is an outstanding loan balance, the department may require a borrower to furnish annual financial statements consisting of a balance sheet, profit-and-loss statement, sources and application of all funds received and a schedule of change of owner's equity. The department may also require an audit or audits to determine whether the borrower has complied with the provisions of the loan and conduct periodic inspection of any collateral securing repayment of the loan. (Eff. / / , Register)

DRAFT

Authority: AS 45.98.020
AS 45.98.030
AS 45.98.040

3 AAC __.075. COSTS. All expenses incurred by the department in closing a loan, including the processing of the loan application, shall be paid by the applicant. These expenses include the cost of credit reports, title reports and insurance, recording fees, appraisals, surveys, and other direct costs. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.080. ASSUMPTIONS. (a) Assumption of a loan issued under this chapter is not permitted.

(b) Secondary financing of a loan issued under this chapter is not permitted.

(c) If the property on which the structure for which a loan was obtained under this chapter is sold, the borrower must immediately repay the loan in full. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.085. RECONSIDERATION. If a loan request has been denied or significantly modified by a loan committee, an applicant may file a written request for reconsideration with the department. The request must be filed within 30 days of receipt of the initial decision of the loan committee. A loan committee will reconsider a request only upon a showing by an applicant that

(1) there has been a substantial change in the circumstances leading to the loan committee's initial denial or modification; or

(2) additional relevant information can be provided to the loan committee that was not initially available. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.090. CONFIDENTIALITY OF LOAN INFORMATION. (a) The following information is not confidential and is available for inspection by the public upon request:

(1) a document which is already a public record including deeds of trust, financing statements, warranty deeds, bills of sale, liens, and vehicle titles;

(2) general information regarding loans, including the amount of a particular loan, loan terms, personal guarantees, and disbursement and repayment schedules;

DRAFT

(3) documents regarding foreclosure and default proceedings.

(b) The following information is confidential and is not subject to public disclosure:

(1) personal and financial information, including income tax returns, financial statements, business income statements, pro forma profit and loss statements, credit information obtained directly from banks and other creditors, and reports obtained from consumer reporting agencies;

(2) loan committee memoranda and minutes containing information relating to credit worthiness of an applicant;

(3) payment history on a loan, unless the loan is in default.

(c) Information not described in (a) and (b) of this section may be subject to public disclosure. Requests for disclosure must be made and will be determined in accordance with 6 AAC 95. Upon receipt of a request for disclosure, the department will notify the loan applicant and other persons with a privacy interest in the request to permit them to present reasons why the requested information should not be disclosed. (Eff. / / , Register)

Authority: AS 09.25.110
AS 09.25.120
AS 45.98.030
Art. 1, Sec. 22
Alaska Const.

3 AAC __.300. DEFINITION OF TERMS. Unless the context requires otherwise, in this chapter

(1) "borrower" means an individual, firm, business or municipality whose loan has been approved by a loan committee;

(2) "commissioner" means the Commissioner of the Department of Commerce and Economic Development;

(3) "department" means the Department of Commerce and Economic Development;

Authority: AS 45.98.020
AS 45.98.030

DRAFT

CHAPTER 80
COMMERCIAL FISHING LOANS

Section
010. Application Process
015. Examination
020. Loan Committee
030. Residency Requirements
035. Eligibility
040. Financial and Credit Record
045. Ability to Repay
050. Collateral
055. Lending Practices
065. Disbursement of Loan Funds
070. Supervision of Loans
075. Costs
080. Assumptions
085. Reconsideration
090. Confidentiality of Loan Information
900. Definition of Terms

DRAFT

3 AAC 80.010. APPLICATION PROCESS. (a) To apply for a loan for the purchase of a limited entry permit, gear, or vessel, an applicant must file with the department

(1) a completed application for a commercial fishing loan on a form provided by the department;

(2) a completed residency questionnaire on a form provided by the department;

(3) a letter of intent stating the amount requested, the intended use of the proposed loan funds, and a proposed plan for repayment;

(4) copies of the purchase agreement or vendors' cost estimates and down-payment receipt;

(5) a commercial fishing resume identifying all permits and licenses held by the applicant, summarizing the applicant's experience as a commercial fisherman in Alaska, and identifying the actual number of days fished for each year;

(6) a business and credit history including complete copies of income tax returns for the preceding three years or for other years as may be requested by the department to document eligibility;

(7) a financial statement consisting of a current balance sheet, a profit and loss statement and a statement of projected income and expenses for the following year's operating plan;

(8) a schedule of acceptable collateral, including collateral now owned and other collateral to be acquired with the loan proceeds, stating date of acquisition, cost, location, market value and existing liens;

(9) if a vessel is used for collateral, a current marine survey acceptable to the department including pictures of the vessel; and

(10) any other information as the department may require.

(b) If a vessel is offered as collateral for a loan, the department or its designee shall be permitted to inspect the vessel or vessel construction project prior to making the loan. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.015. EXAMINATION. (a) Upon receipt of the materials described in 3 AAC 80.010, a loan request will be processed and evaluated by a loan examiner. The loan examiner will evaluate the applicant's eligibility, financial and credit history, operating plan and ability to repay, and proposed collateral.

(b) On the basis of the evaluation, the loan examiner will recommend proposed action on the loan request to the appropriate loan committee. However, the recommendation of a loan examiner is not binding on a loan committee. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.20.339

3 AAC 80.020. LOAN COMMITTEE. (a) A loan committee consists of one or more persons appointed by the commissioner from the department to act on a loan request.

(b) A loan committee may approve, deny, or modify and approve a loan request, or table a loan request subject to obtaining additional information.

(c) A loan committee may impose reasonable conditions on the approval of a loan, including the following requirements:

(1) additional collateral be pledged to secure the loan;

(2) additional guarantors be provided; and

(3) subordination of prior lien holder's rights to the interests of the State.

(d) A loan committee will evaluate an applicant's eligibility for a loan, financial and credit record, and capacity for repayment and operating plans, and the adequacy of collateral offered to secure the loan. A loan committee may also consider the recommendations of the loan examiner assigned to process the loan application, and any other relevant information.

DRAFT

(e) A loan committee may fix the term of a loan and the repayment schedule to meet the needs of the borrower and the collateral available to secure repayment of the loan.

(f) If a loan request is denied or significantly modified by a loan committee, the loan committee will provide the applicant with a statement of the reasons for the action and the information relied on.

(g) A material misstatement or omission of fact made by an applicant constitutes grounds for denial of a loan request. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.030. RESIDENCY REQUIREMENTS. (a) In determining if an applicant fulfills the two year residency requirements under AS 16.10.310, the loan committee may consider the following factors:

(1) where the applicant is registered to vote;

(2) where the applicant maintains a permanent place of abode;

(3) where the applicant files tax returns, and the address that is listed on the returns;

(4) where the applicant registers or licenses personal property, including but not limited to cars, boats, trucks and trailers;

(5) where the applicant is licensed to drive; and

(6) where the applicant maintains bank accounts, savings accounts, lines of credit and other financial relationships.

(b) Periods of absence from the state will not negate establishment of residency unless, during the absence, the individual establishes or claims residency in another state or performs other acts inconsistent with residency in Alaska.

(c) If two or more individuals apply jointly or as a partnership or corporation, all parties to the application must establish residency. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.035. ELIGIBILITY. (a) In determining whether an applicant has "actively participated in the fishery" under AS 16.10.310(a)(1)(A) or 16.10.310(a)(1)(C), the department may consider any or all of the following factors for each of the years claimed by the applicant:

(1) the gross income earned by the applicant

DRAFT

while engaged in commercial fishing in limited entry fisheries; and

(2) the time an applicant commercially fished during openings of limited entry fisheries.

(b) For purposes of eligibility, an applicant must establish one of the following circumstances for each year claimed:

(1) that 30 percent or more of the applicant's total gross income has been derived from commercial fishing in limited entry fisheries;

(2) that 10 percent or more of the applicant's total gross income has been derived from commercial fishing in limited entry fisheries and the applicant engaged in commercial fishing in these fisheries for twenty-five or more days; or

(3) that 10 percent or more of the applicant's total gross income has been derived from commercial fishing in limited entry fisheries and the applicant engaged in commercial fishing in a particular limited entry fishery for 80 percent or more of the total number of days that the particular fishery was open for commercial fishing. For purposes of this paragraph, "particular limited entry fishery" refers to gear type and fishing area.

(c) The department may rely on the following documents to verify that an applicant has actively participated in the fishery:

(1) tax returns;

(2) verified affidavits from the applicant and others certifying the applicant's experience;

(3) fishing and gear licenses;

(4) commercial fish tickets;

(5) wage receipts; and

(6) cannery statements.

(d) An applicant for a loan under AS 16.10.310(a)(1)(B)(i) must establish that either:

(1) commercial fishing represents the largest single employer in the area that the applicant resides; or

(2) the applicant does not have training sufficient to qualify for other employment opportunities in the area.

(e) An applicant for a loan under AS 16.10 .310(a)(1)(B)(ii) must establish that he fulfills all requirements of this clause. In this clause, "economically

DRAFT

dependent on commercial fishing for a livlihood" means that a majority of the applicant's gross income during the previous two years was derived from commercial fishing.

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.040. FINANCIAL AND CREDIT RECORD. (a) The department will, in its discretion, consider the following factors in assessing an applicant's financial and credit record:

(1) existing and prior debts;

(2) credit reports obtained from creditors and private credit reporting services;

(3) prior loan history with the department;

(4) timeliness in making payments on loans and other debts;

(5) prior bankruptcies;

(6) existence of tax liens, unpaid judgments, and prior foreclosures; and

(7) the applicant's financial and credit reputation in the community.

(b) Information establishing unacceptable credit will be more heavily weighed by the department if it has occurred in recent years. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.045. ABILITY TO REPAY. (a) The department may consider the following factors in evaluating an applicant's ability to repay a proposed loan:

(1) income history, including present income;

(2) prospects for future income;

(3) assets and their liquidity;

(4) liabilities;

(5) reasonableness of projected profit and loss statement; and

(6) other business experience.

(b) The department may compare revenue projections contained in an applicant's profit and loss statement with information it may acquire through its own efforts or from the Department of Fish and Game, the Commercial Fisheries Entry Commission or the Alaska Commercial Fishing and Agri-

DRAFT

culture Bank on the success of other fishermen in similar circumstances to determine the reasonableness of the applicant's projections. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

3 AAC 80.050. COLLATERAL. (a) A loan must be secured by collateral acceptable to the department to ensure repayment of the loan in the event of default.

(b) Acceptable collateral may include a mortgage or other security instrument in real property, buildings, machinery and equipment, fixtures, limited entry permits or commercial fishing vessels with gear and appurtenances.

(c) To be considered acceptable collateral, personal property must be capable of being specifically identified. A vessel that can be documented must be documented to be acceptable collateral.

(d) Loans for the purchase of limited entry permits will be made only if the permit is placed in the name of the applicant and the permit is offered as security for the loan. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.320
AS 16.10.339

3 AAC 80.055. LENDING PRACTICES. (a) If loan funds are limited, applications for loans to purchase entry permits will receive priority over applications for the purchase of vessels and gear.

(b) Applications for loans to purchase entry permits, gear and vessels under AS 16.10.310 (a)(1)(B) and for gear and vessels under AS 16.10.310(a)(1)(C) will be approved only if alternative sources of financing are not available to the applicant. An applicant for a loan under AS 16.10 .310(a)(1)(B) will not be considered ineligible for a loan because the applicant can provide a guarantor for the loan.

(c) A loan will not be approved if it would allow an applicant to:

(1) speculate in the acquisition and sale of limited entry permits, vessels, or gear;

(2) lease out a commercial fishing vessel or limited entry permit; or

(3) purchase a commercial fishing vessel, gear or limited entry permit that will not be put to use in the fishing season immediately following the date of the application.

(d) A loan will not be approved for refinancing long term debt. Interim or construction financing is not con-

DRAFT

sidered long term debt if the term is 12 months or less and the promissory note or the original agreement was executed less than 12 months before receipt of the application by the department.

(e) In determining the maximum loan amount that may be approved for the purchase of a limited entry permit, the department will rely on the value established by the Alaska Commercial Fisheries Entry Commission or other appropriate sources as determined by the department.

(f) A loan for the purchase of a limited entry permit will not be approved if an applicant holds another permit currently financed by the state and active participation in the two limited entry fisheries would be mutually exclusive.

(g) A loan for the purchase of a limited entry permit under AS 16.10.310(a)(1)(A) will not be approved if the applicant has pending an application for a loan under AS 16.10.310(a)(1)(B).

(h) A loan for the purchase of a vessel for use in a limited entry fishery will not be approved unless the applicant holds a limited entry permit for that fishery.
(Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.320
AS 16.10.325
AS 16.10.339

3 AAC 80.065. DISBURSEMENT OF LOAN FUNDS. Loan funds will be disbursed when

(1) a security interest in the collateral on behalf of the State has been perfected, except that in the case of a mortgage on a documented vessel this requirement shall be satisfied by the establishment of the mortgage as a preferred mortgage pursuant to the provisions of the Ship Mortgage Act of 1920, (46 USC §§911-984);

(2) the borrower has complied with the marine insurance requirements contained in an instrument signed by the borrower;

(3) all requirements of the loan committee have been met; and

(4) the borrower has complied with all other provisions of the loan documents and this chapter.
(Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.320

3 AAC 80.070. SUPERVISION OF LOANS. As a condition of a loan and while there is an outstanding loan balance, the department may require a borrower to furnish annual financial statements consisting of a balance sheet, profit-and-loss

DRAFT

statement, sources and application of all funds received and a schedule of change of owner's equity. The department may also require an audit or audits to determine whether the borrower has complied with the provisions of the loan and conduct periodic inspection of collateral securing repayment of the loan. If a vessel is used as collateral, a current marine survey must be supplied to the department at the borrower's expense upon request by the department. (Eff. / / , Reg.)

Authority: AS 16.10.310

3 AAC 80.075. COSTS. All expenses incurred by the department in closing a loan, including the processing of the loan application, shall be paid by the applicant. These expenses include the cost of credit reports, title reports and insurance, recording fees, appraisals, surveys, out-of-state travel and other direct costs. (Eff. / / , Reg.)

Authority: AS 16.10.310

3 AAC 80.080. ASSUMPTIONS. (a) Requests for permission to assume obligations and benefits of loans granted under AS 16.10.300-16.10.370 will be processed in the same manner as a loan request.

(b) A loan committee may permit an assumption if the individual seeking to assume the loan would be eligible for a new loan of the type that is sought to be assumed, the applicant is a good financial risk, and the security of the state's investment is preserved.

(c) Eligibility standards currently in effect, rather than standards in effect at the time the original loan was made, will govern assumptions. (Eff. / / , Reg.)

Authority: AS 16.10.310

3 AAC 80.085. RECONSIDERATION. (a) If a loan request is denied or significantly modified by a loan committee, an applicant may file a written request for reconsideration with the department. The request must be filed within 30 days of receipt of the initial decision of the loan committee.

(b) The loan committee will reconsider a request only upon a showing by the applicant that

(1) there has been a substantial change in the circumstances; or

(2) additional relevant information can be provided to the loan committee that was not initially available. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.339

DRAFT

3 AAC 80.090. CONFIDENTIALITY OF LOAN INFORMATION.
(a) The following information is not confidential and is available for public inspection upon request:

(1) a document which is already a public record including deeds of trust, financing statements, limited entry permits, warranty deeds, bills of sale, marine mortgages, liens, vehicle titles and vessel documentation;

(2) general information regarding loans, including the amount of a particular loan, loan terms, personal guarantees, and disbursement and repayment schedules;

(3) documents regarding foreclosure and default proceedings.

(b) The following information is confidential and is not subject to public disclosure:

(1) personal and financial information, including income tax returns, financial statements, business income statements, pro forma profit and loss statements, credit information obtained directly from banks and other creditors, reports obtained from consumer reporting agencies, cannery statements, and commercial fishing pink slips (fish tickets);

(2) loan committee memoranda and minutes containing information relating to credit worthiness of an applicant; and

(3) payment history on a loan, unless the loan is in default.

(c) Information not described in (a) and (b) of this section may be subject to public disclosure. Requests for disclosure must be made and will be determined in accordance with 6 AAC 095. On receipt of a request for disclosure, the department will notify the loan applicant and other persons with a privacy interest in the request, to permit them to present reasons why the requested information should not be disclosed. (Eff. / / , Reg.)

Authority: AS 09.25.110
AS 09.25.120
AS 16.10.310
Art. 1, Sec. 22
Alaska Const.

3 AAC 80.900. DEFINITION OF TERMS. Unless the context requires otherwise in this chapter

(1) "applicant" means the individual, partnership, corporation or association applying for a loan;

(2) "commercial fishing" means the actual catching of fish, shellfish, crabs or other fishery resources with the intent of disposing of those resources for profit by sale in commercial channels. For purposes of

DRAFT

this definition, "actual catching" means having gear in the water with the intent to catch fish;

(3) "commissioner" means the Commissioner of the Department of Commerce and Economic Development;

(4) "debtor" means an individual commercial fisherman who initially contracts for a loan, assumes a loan, or guarantees or co-signs a loan under AS 16.10.330 - AS 16.10.337.

(5) "default" means a violation of any terms of the loan document, or the failure to make the necessary payment within fifteen (15) days of when it is due, or the failure to maintain the insurance required by the Department of Commerce and Economic Development.

(6) "department" means the Department of Commerce and Economic Development;

(7) "documented vessel" means a vessel permanently or temporarily registered, or enrolled or licensed under the laws of the United States;

(8) "extension package" means such forms as the department may require in order to make a decision on an extension request. (Eff. / / , Reg.)

(9) "limited entry fishery" or "limited entry fisheries" means those fisheries requiring that a participant hold a permanent entry permit;

(10) "residency" means, in the case of an individual, physical presence in Alaska with the intent to remain indefinitely and make a home in the state. (Eff. / / , Reg.)

Authority: AS 16.10.310
AS 16.10.335
AS 16.10.339

Editor's Note: Former 3 AAC 80.0103 AAC 80.100 were repealed by the Department of Commerce and Economic Development on / /84, Register , and the substance of the regulation was reorganized and renumbered. The numbering and the organization of the material in 3 AAC 80.010 - 3 AAC 80.100 bears no resemblance to the numbering and organization of that material before / /84. Therefore, the history notes for 3 AAC 80.010 - 3 AAC 80.900 do not reflect the history of those sections before / /84.

DRAFT

CHAPTER __
ALTERNATIVE ENERGY LOANS

Section
010. Application Process
015. Examination
020. Loan Committee
035. Eligibility
036. Solar Loan Guidelines
037. Solar Heating Unit Standards
038. Sunspace Standards
039. Centralized Multifuel Heating System Guidelines
040. Financial and Credit Record
045. Ability to Repay
050. Collateral
055. Lending Practices
065. Disbursement of Loan Funds
070. Supervision of Loans
075. Costs
080. Assumptions
085. Reconsideration
090. Confidentiality of Loan Information
300. Definition of Terms

DRAFT

3 AAC __.010. APPLICATION PROCESS. To apply for a loan for the purchase, construction and installation of an alternative energy system an applicant must file with the department

(1) a completed application for an alternative energy loan on a form provided by the department;

(2) a letter of intent stating the amount requested, the intended used of the proposed loan funds, and a proposed plan for repayment;

(3) a credit authorization form for each of the applicant's creditors;

(4) an employment verification form;

(5) a financial statement including a copy of the applicant's federal income tax return for the most recent year;

(6) a schedule of acceptable collateral, stating date of acquisition, cost, location, market value and existing liens. Market value must be verified by providing a copy of a tax assessment or notice. Ownership of collateral should be verified by a copy of the existing title insurance, deed for the residence, or property profile;

(7) photographs of the proposed collateral; and

(8) any other information the department may require. (Eff. / / , Register)

Authority: AS 45.88.020

3 AAC __.015. EXAMINATION. (a) Upon receipt of the materials described in 3 AAC __.010, a loan request will be processed and evaluated by a loan examiner. After reviewing the materials submitted and obtained through the normal investigative process the loan examiner will evaluate the eligiblity of the proposed system for a loan. The loan examiner shall also evaluate the applicant's eligibility for a loan based upon financial and credit history, ability to repay, and proposed collateral.

(b) On the basis of the evaluation, the loan examiner will recommend proposed action on the loan request to the appropriate loan committee. However, the recommendation of a loan examiner is not binding on a loan committee. (Eff. / / , Register)

Authority: AS 45.88.020

3 AAC __.020. LOAN COMMITTEE. (a) A loan committee consists of one or more persons appointed by the commissioner from the department to act on a loan request.

(b) A loan committee may approve, deny, or modify and approve a loan request, or table a loan request subject to obtaining additional information.

(c) A loan committee may impose reasonable conditions on the approval of a loan, including the following requirements:

(1) additional collateral be pledged to secure the loan;

(2) additional guarantors be provided;

(3) subordination of prior lien holder's rights to the interests of the State.

(d) A loan committee will evaluate the eligibility of the proposed system and the applicant's financial and credit record, capacity for repayment, and the adequacy of collateral offered to secure the loan. A loan committee may also consider the recommendations of the loan examiner assigned to process the loan application, and any other relevant information.

(e) A loan committee may fix the term of a loan and the repayment schedule to meet the needs of the borrower and the collateral available to secure repayment of the loan.

(f) If a loan request is denied or significantly modified by a loan committee, the loan committee will provide the applicant with a statement of the reasons for the action and the information relied on.

(g) A material misstatement or omission of fact made by an applicant constitutes grounds for denial of a loan request. (Eff. / / , Register)

DRAFT

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.035. ELIGIBILITY. To be eligible for a loan, an applicant must seek to purchase, construct, or install an alternative energy system or centralized multifuel system, as those terms are defined in AS 45.88.500. A loan request for solar heating units and sunspaces must also meet the guidelines contained in 3 AAC __.036, 3 AAC __.037 and 3 AAC __.038. A loan request for centralized multifuel heating systems must meet the guidelines contained in 3 AAC __.039.

Authority: AS 45.88.020

3 AAC __.036. SOLAR LOAN GUIDELINES. (a) All solar heating units and sunspaces must meet the following minimum standards. Solar heating units must also meet the minimum standards in 3 AAC __.037. Sunspaces must also meet the minimum standards in 3 AAC__.038.

(b) The design or item funded must be primarily intended as an alternative energy source and must emphasize energy performance over aesthetics.

(c) Site pictures, drawings, as-built surveys and documentation of solar access showing a prime solar fraction of at least 70 percent or more must be provided. Solar access can be measured by using a Lewis Solar Site Selector, a Solar Pathfinder or by other appropriate instruments approved by the department and must be accompanied by corresponding pictures. Roof overhangs and pony wall-like obstructions must be considered in the efficiency of the design.

(d) Framing must be wood or the equivalent with a thermal break. All frame walls must be insulated to at least R19. Frame floors over an unheated airspace must be insulated to at least R30. The roof must be insulated to at least R30.

(e) Masonry foundations must be insulated with 2 inch extruded polystyrene (R10) or equivalent below grade to 42 inches or the area standard, and with 4 inch styrofoam or equivalent above grade. A vapor barrier must be used.

(f) Glazing must have an R-value greater than 1.5 with a transmittance greater than .75.

(g) The design must provide for proper circulation of the heated air to the existing living areas and for the return of cool air. If natural convection is used, vents must be placed at appropriate intervals for a balanced heat flow. Occupant-operated windows and doors are an acceptable means of providing air circulation on loans of $15,000 and under. On all loans over $15,000, automatic circulation is required. The circulation must provide at least 2 cubic feet of air per minute per square foot of glazing and be equipped with automatic controls.

DRAFT

(h) An exhaust fan or exhaust vents must be provided to protect against overheating by venting to a storage mass or to the outside. On all loans over $15,000, this exhaust system must be automatically controlled.. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030
AS 45.88.500

3 AAC __.037. SOLAR HEATING UNIT STANDARDS. (a) A solar heating unit is attached to the residence and is able to be sealed off from the existing living space. It is designed and constructed to provide for collection and use of the sun's radiation. The solar heating unit must act as an air heater for the existing structure, must be isolated from the living area, and must contain no auxiliary heating system.

(b) A solar heating unit must meet the following standards to be eligible for a loan:

(1) The solar heating unit must be isolated from the living area and access may be through an exterior door. All doors on exterior walls must be thermal insulated doors;

(2) All glazed interior walls must have movable shades or shutters to insulate the glazing to at least R4. Glazing on interior walls cannot exceed 25 percent of the total interior wall area.

(3) All glazing must be within 30 degrees east or west of true south and between a tilt of 60 to 90 degrees. Glazing in the end walls or skylights in roofs will not be funded or allowed in the design. Seventy percent of the south facing wall must be glazed;

(4) Absorbers and thermal mass must be included in the unit. Thermal mass normally consists of concrete, water or phase-change materials. If the pony wall exceeds 12 inches, the storage mass on the floor will not be funded. Funding for storage mass on the floor may not exceed $10.00 per square foot;

(5) The length of the end walls cannot exceed 12 feet;

(c) Heat loss and heat gain calculations may be required to document the solar efficiency of the proposed structure;

(d) In order to be eligible for funding, the entire project must comply with these guidelines whether or not the entire project is to be funded by this program. The items to be funded must be related to the construction and purchase of the solar heating unit and must be an integral part of the solar heating unit as an alternative heating system. (Eff. / / , Register)

DRAFT

Authority: AS 45.88.020
AS 45.88.030
AS 45.88.500

3 AAC __.038. SUNSPACE STANDARDS. (a) A solar sunspace is designed and constructed to collect and use the sun's radiation and is an integral part of the living area.

(b) A sunspace must meet the following standards to be eligible:

(1) Monthly heat loss and gain calculations must be performed to document the solar efficiency of the project. The calculations can be performed by an architect, engineer or other qualified individual;

(2) All glazing must be within 30 degrees east or west of true south and between a tilt of 60 to 90 degrees. Glazing in the end walls or skylights in roofs will not be funded, and the nonsouth glazing must be within a 75 percent to a 25 percent ratio;

(3) All glazing in the sunspace must be provided with movable insulation to insulate the windows to at least R5. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030
AS 45.88.500

3 AAC __.039. CENTRALIZED MULTIFUEL HEATING SYSTEM GUIDELINES. (a) A multifuel heating system includes all components which are linked together to form a system; such as wiring, plumbing and ducting. Coal storage sheds, wood sheds, or any other components related to a multifuel system which are not mechanically connected to the multifuel furnace are not eligible for funding.

(b) If the labor estimate exceeds 40 percent of the total cost of a multifuel system, at least one additional estimate must be supplied to document the cost of the proposed labor.

(c) All boilers financed under this chapter must meet Alaska State Department of Labor safety standards (A.S.M.E. approved or equivalent). (Eff. / / , Reg.)

Authority: AS 45.88.020
AS 45.88.030
AS 45.88.500

3 AAC __.040. FINANCIAL AND CREDIT RECORD. (a) The department will, in its discretion, consider the following factors in assessing an applicant's financial and credit record

(1) existing and prior debts;

(2) credit reports obtained from creditors and private credit reporting services;

DRAFT

(3) prior loan history with the department;

(4) timeliness in making payments on loans and other debts;

(5) prior bankruptcies;

(6) existence of tax liens, unpaid judgments, and prior foreclosures; and

(7) financial and credit reputation in the community.

(b) Information establishing unacceptable credit will be more heavily weighed by the department if it has occurred in recent years. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.045. ABILITY TO REPAY. The department may consider the following factors in evaluating an applicant's ability to repay a proposed loan:

(1) income history, including present income;

(2) prospects for future income;

(3) assets and their liquidity; and

(4) liabilities. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.050. COLLATERAL. (a) A loan must be secured by collateral acceptable to the department to ensure repayment of the loan in the event of default.

(b) Acceptable collateral may include a mortgage or other security instrument in real property, buildings, machinery and equipment or fixtures. To be considered acceptable collateral, personal property must be capable of being specifically identified. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.055. LENDING PRACTICES. (a) A loan for a sunspace may only include funding for items related to alternative heating systems. Items which may be funded include south-facing glazing, movable window insulation, ventilation and circulation system to transport the heated air, and building components that will make the solar system more efficient but are not conventional or considered normal construction.

(b) A borrower may not modify a structure or improvement financed under the provisions of this program in any

DRAFT

manner which is not in compliance with the applicable guidelines contained in 3 AAC __.036 - 3 AAC __.039 during the life of the loan. All modifications to a structure financed under the program must be submitted to the department for prior written approval.

(c) An applicant seeking financing for a solar heating project in conjunction with the construction of a new building must provide written confirmation that the long-term lender is not also financing the solar heating aspect of the total construction project. Loan funds will not be disbursed until the building is complete and the long-term financing has been finalized.

(d) Applicants seeking financing for a multifuel heating system in conjuction with the construction of a new building must provide written confirmation that the long-term lender is not also financing the heating system. No long funds will be disbursed until the building is complete and long-term financing for the building has been finalized.

(e) Loan funds may not be used to reimburse an applicant for costs incurred more than 6 months prior to loan approval. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.065. DISBURSEMENT OF LOAN FUNDS. Loan funds will be disbursed when

(1) a security interest in the collateral on behalf of the State has been perfected;

(2) the borrower has complied with the insurance requirements contained in an instrument signed by the borrower;

(3) all requirements of the loan committee have been met; and

(4) the borrower has complied with all other provisions of the loan documents and this chapter. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.070. SUPERVISION OF LOANS. As a condition of a loan and while there is an outstanding loan balance, the department may require a borrower to furnish annual financial statements consisting of a balance sheet, profit-and-loss statement, sources and application of all funds received and a schedule of change of owner's equity. The department may also require an audit or audits to determine whether the borrower has complied with the provisions of the loan, and conduct periodic inspection of collateral securing repayment of the loan. (Eff. / / , Register)

DRAFT

Authority: AS 45.88.020

3 AAC __.075. COSTS. All expenses incurred by the department in closing a loan, including the processing of the loan application, shall be paid by the applicant. These expenses include the cost of credit reports, title reports and insurance, recording fees, appraisals, surveys, and other direct costs. (Eff. / / , Register)

Authority: AS 45.88.020

3 AAC __.080. ASSUMPTIONS. Assumption of loans will not be permitted. In the event the property containing the improvement is sold, the loan will be promptly paid in full. "Wraparound" financing which includes a loan under this chapter is prohibited and will constitute a default on the loan. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.085. RECONSIDERATION. (a) If a loan request is denied or significantly modified by a loan committee, an applicant may file a written request for reconsideration with the department. The request must be filed within 30 days of receipt of the initial decision of the loan committee to be considered timely.

(b) The loan committee will reconsider a request only upon a showing by the applicant that

(1) there has been a substantial change in the circumstances leading to the loan committee's initial denial or modification; or

(2) additional relevant information can be provided to the loan committee that was not initially available. (Eff. / / , Register)

Authority: AS 45.88.020
AS 45.88.030

3 AAC __.090. CONFIDENTIALITY OF LOAN INFORMATION. (a) The following information is not confidential and is available for public inspection upon request:

(1) a document which is already a public record including deeds of trust, financing statements, limited entry permits, warranty deeds, bills of sale, marine mortgages, liens, vehicle titles and vessel documentation;

(2) general information regarding loans, including the amount of a particular loan, loan terms, personal guarantees, and disbursement and repayment schedules;

(3) documents regarding foreclosure and default proceedings.

DRAFT

(b) The following information is confidential and is not subject to public disclosure:

(1) personal and financial information, including income tax returns, financial statements, business income statements, pro forma profit and loss statements, credit information obtained directly from banks and other creditors, and reports obtained from consumer reporting agencies;

(2) loan committee memoranda and minutes containing information relating to credit worthiness of an applicant; and

(3) payment history of a loan, unless the loan is in default.

(c) Information not described in (a) and (b) of this section may be subject to public disclosure. Requests for disclosure must be made in accordance with 6 AAC 095. On receipt of a request for disclosure, the department will promptly notify the loan applicant and other persons with a privacy interest in the request, to permit them to present reasons why the requested information should not be disclosed. (Eff. / / , Register)

Authority: AS 09.25.110
AS 09.25.120
AS 45.88.020
Art. 1, Sec. 22
Alaska Const.

3 AAC __.300. DEFINITION OF TERMS. Unless the context requires otherwise, in this chapter

(1) "borrower" means an individual, partnership, corporation or association whose loan has been approved by a loan committee;

(2) "commissioner" means the Commissioner of the Department of Commerce and Economic Development;

(3) "department" means the Department of Commerce and Economic Development; (Eff. / / , Register

Authority: AS 45.88.020

DRAFT

CHAPTER __
RESIDENTIAL ENERGY CONSERVATION LOANS

Section
010. Application Process
015. Examination
020. Loan Committee
030. Loan Amounts
035. Eligibility
040. Financial and Credit Record
045. Ability to Repay
050. Collateral
055. Lending Practices
065. Disbursement of Loan Funds
070. Supervision of Loans
075. Costs
080. Assumptions
085. Reconsideration
090. Confidentiality of Loan Information
300. Definition of Terms

DRAFT

3 AAC __.010. APPLICATION PROCESS. To apply for a loan for the purchase, construction and installation of an energy conservation improvement, an applicant must file with the department

(1) a completed application for an energy conservation loan on a form provided by the department;

(2) letter of intent stating the amount requested, the intended use of the proposed loan funds, and a proposed plan for repayment;

(3) a credit authorization form for each of the applicant's creditors;

(4) an employment verification form;

(5) a financial statement including a copy of the applicant's federal income tax return for the most recent year;

(6) a schedule of acceptable collateral, stating date of acquisition, cost, location, market value and existing liens. Market value must be verified by providing a copy of a tax assessment or notice. Ownership of collateral should be verified by a copy of the existing title insurance, deed for the residence, or property profile;

(7) An energy improvement payback calculation, if required under 3 AAC___.035;

(8) photographs of each side of the residence being improved; and

(9) any other information the department may require. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.015. EXAMINATION. (a) Upon receipt of the materials described in 3 AAC __.010, a loan request will be processed and evaluated by a loan examiner. After reviewing the materials submitted and obtained through the normal investigative process the loan examiner will evaluate the eligibility of the energy conservation improvement for a loan. The loan examiner shall also evaluate the applicant's eligibility for a loan based upon the applicant's financial and credit history, ability to repay, and proposed collateral.

(b) On the basis of the evaluation, the loan examiner will recommend proposed action on the loan request to the appropriate loan committee. However, the recommendation of a loan examiner is not binding on a loan committee. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.020. LOAN COMMITTEE. (a) A loan committee consists of one or more persons appointed by the commissioner from the department to act on a loan request.

(b) A loan committee may approve, deny or modify and approve a loan request, or table a loan request subject to obtaining additional information.

(c) A loan committee may impose reasonable conditions on the approval of a loan, including the following requirements:

(1) additional collateral be pledged to secure the loan;

(2) additional guarantors be provided; and

(3) subordination of prior lien holder rights to the interests of the State.

(d) A loan committee will evaluate the eligibility of the energy conservation improvement and the applicant's financial and credit record, capacity for repayment, and the adequacy of collateral offered to secure the loan. A loan committee may also consider the recommendations of the loan examiner assigned to process the loan application, and any other relevant information.

(e) A loan committee may fix the term of a loan and the repayment schedule to meet the needs of the borrower and the collateral available to secure repayment of the loan.

(f) If a loan request is denied or significantly modified by a loan committee, the loan committee will provide the applicant with a statement of the reasons for the action and the information relied on.

(g) A material misstatement or omission of fact made by an applicant constitutes grounds for denial of a loan request. (Eff. / / , Reg.)

DRAFT

Authority: AS 45.89.030

3 AAC __.030. LOAN AMOUNTS. A loan may not exceed the lesser of

(1) $5,000; or

(2) an amount, as determined by the actual cost of labor and materials for each category, which is documented by invoices, bids or contracts; or

(3) an amount, as determined by an acceptable energy improvement payback calculation which is equal to the total estimated energy savings attributable to the energy conservation improvement over a ten-year period following the purchase, construction or installation of the energy conservation improvement. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.035. ELIGIBILITY. (a) An energy conservation improvement described in (b), (c) or (d) of this section is eligible for a loan under this chapter. An energy audit will not be required.

(b) The following conservation measures have historically shown significant energy savings and the department will generally not require an energy improvement payback calculation. However, if the department believes a conservation measure may not meet statutory requirements, it may require an energy improvement payback calculation.

(1) caulking: material used to reduce the passage of air and moisture by filling small air gaps, usually occuring in exterior walls, including sealants, putty, glazing compounds and canned spray foam;

(2) weatherstripping: material used to reduce the passage of air and moisture by placing small strips of material in or around moveable joints of windows and doors;

(3) automatic setback devices: mechanisms which are designed to reduce energy consumption by regulating a heating system through the use of:

(A) a clock or other automatic mechanism for switching from one temperature control level to another;

(B) a control device which reduces energy consumption by comparing indoor and outdoor temperatures and controlling or adjusting the heating system operating temperature; or

(C) a demand control unit consisting of a pre-programmed timer which reduces energy consumption by regulating the operational cycle of the heating system;

(4) duct/pipe insulation: insulation installed

DRAFT

on hot water or heating pipes or heating ducts in an unconditioned area;

(5) water heater insulation: an insulating jacket which reduces heat loss from a hot water tank;

(6) vent damper: a device that may be installed in the flue of the central heating system which will electrically, mechanically or manually close the flue when the central heating system is not in operation;

(7) furnace replacement burner: upgrading of a furnace burner designed to achieve a reduction of the amount of fuel consumed as a result of increased combustion efficiency. The unit must be of the same fuel type as the existing burner;

(c) The following conservation measures also have historically shown significant energy savings and the department will generally not require an energy improvement payback calculation provided that these conservation measures must meet the following minimum requirements. However, the division may require an energy improvement payback calculation on any measure which it believes may not meet statutory requirements:

(1) insulation: material designed primarily to resist heat loss. This may include fiberglass batts, blown fiberglass, cellulose, styrofoam or spray foam. To be eligible, the R-value of the present insulation must be increased by at least R-7. A loan may not be made for the replacement of damaged insulation due to maintenance neglect;

(2) storm or thermal windows:

(A) a storm window is glazing material placed outside an ordinary window, creating an air space, for the purpose of providing greater resistance to heat loss than the ordinary window alone;

(B) a thermal window is a window unit with improved thermal performance by the use of two or more sheets of glazing material affixed to a window or door frame creating one or more air spaces;

(C) the overall R-value of the existing functional window unit must be increased by at least the equivalent of one sheet of glazing material by the installation of storm or thermal windows;

(3) storm or thermal doors:

(A) a storm door is a second door, installed on either side of the primary door, creating an insulating air space;

(B) a thermal door is a primary exterior door with an R-value of at least R-7;

DRAFT

(C) the existing R-value must be increased by a factor of at least R-4 with the installation of a storm or thermal door;

(4) interior insulating shades: shades attached to the interior window assembly which provide an insulating level of at least R-3;

(5) insulating shutters: shutters attached to the exterior window assembly which provide an insulating level of at least R-3;

(d) The following conservation measures must have an energy improvement payback calculation acceptable to the department. The amount of the loan cannot exceed the savings, attributable to the energy conservation improvement, which could be achieved over a ten-year period:

(1) air and water heat recuperator (heat exchanger): a waste-heat recovery device which transfers heat from exhaust air or waste water to incoming fresh air or unheated water;

(2) replacement furnace or boiler: furnace or boiler which replaces an existing functional furnace or boiler of the same fuel type and which reduces the amount of fuel consumed due to increased combustion efficiency. Application for financing of a project of this type must include a flue-gas analysis;

(3) skirting: the materials enclosing the area between the ground or foundation and the base of the structure;

(4) structural changes: insulation projects which involve replacement of sheetrock, framing, siding, flooring, roofing materials, and other similar structural changes may be financed only if the loan application clearly demonstrates that this is the only practical means of installing the insulation.

(e) An energy improvement payback calculation may be performed by the applicant or other qualified individual such as a mechancial engineer or architect. The calculation must include:

(1) a description of the current physical characteristics of the building including the size, type and rate of energy consumption, along with a determination of the current yearly energy costs of the building;

(2) a detailed description and evaluation of the proposed energy improvements for which financing is being requested; and

(3) heat loss calculations which compare the existing building with the building after the proposed improvements have been made. These calculations must clearly reflect the amount of savings which would be realized over a

DRAFT

10-year period after the improvements have been made. If applying for more than one improvement the calculations must show a separate 10-year savings for each conservation measure. (Eff. / / , Reg.)

Authority: AS 45.89.030
AS 45.89.500

3 AAC __.040. FINANCIAL AND CREDIT RECORD. (a) The department will, in its discretion, consider the following factors in assessing an applicant's financial and credit record:

(1) existing and prior debts;

(2) credit reports obtained from creditors and private credit reporting services;

(3) prior loan history with the department;

(4) timeliness in making payments on loans and other debts;

(5) prior bankruptcies;

(6) existence of tax liens, unpaid judgments, and prior foreclosures; and

(7) financial and credit reputation in the community.

(b) Information establishing unacceptable credit will be more heavily weighed by the department if it has occurred in recent years. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.045. ABILITY TO REPAY. The department may consider the following factors in assessing an applicant's capacity for repayment of a proposed loan:

(1) income history, including present income;

(2) prospects for future income;

(3) assets and their liquidity; and

(4) liabilities. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.050. COLLATERAL. (a) A loan must be secured by collateral acceptable to the department to ensure repayment of the loan in the event of default.

(b) Acceptable collateral may include a mortgage or other security instruments in real property, buildings, machinery, equipment or fixtures. To be considered acceptable collateral, personal property must be capable of being specifically identified. (Eff. / / , Reg.)

DRAFT

Authority: AS 45.89.030

3 AAC __.055. LENDING PRACTICES. (a) A loan will not be approved for refinancing long term debt. Interim or construction financing is not considered long term debt if the term is 12 months or less and the promissory note or the original agreement was executed within 12 months before receipt of the application.

(b) Loan funds may not be used to reimburse an applicant for costs incurred more than six months prior to loan approval. (Eff. / / , Register)

Authority: AS 45.89.030

3 AAC __.065. DISBURSEMENT OF LOAN FUNDS. Loan funds will be disbursed when

(1) a security interest in the collateral on behalf of the State has been perfected;

(2) the borrower has complied with the insurance requirements contained in an instrument signed by the borrower;

(3) all requirements of the loan committee have been met; and

(4) the borrower has complied with all other provisions of the loan documents and this chapter. (Eff. / / , Register)

Authority: AS 45.89.030

3 AAC __.070. SUPERVISION OF LOANS. As a condition of a loan and while there is an outstanding loan balance, the department may require a borrower to furnish annual financial statements consisting of a balance sheet, profit-and-loss statement, sources and application of all funds received and a schedule of change of owner's equity. The department may also require an audit to determine whether the borrower has complied with the provisions of the loan, and conduct periodic inspection of collateral securing repayment of the loan. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.075. COSTS. All expenses incurred by the department in closing a loan, including the processing of the loan application, shall be paid by the applicant. These expenses include the cost of credit reports, title reports and insurance, recording fees, appraisals, surveys, and other direct costs. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.080. ASSUMPTIONS. Assumption of loans will not be permitted. In the event a residence is sold a loan will be promptly paid in full. "Wraparound" financing which

DRAFT

includes a loan under this chapter is prohibited and will constitute a default on the loan. (Eff. / / , Reg.)

Authority: AS 45.89.030

3 AAC __.085. RECONSIDERATION. (a) If a loan request is denied or significantly modified by a loan committee, an applicant may file a written request for reconsideration with the department. The request must be filed within 30 days of receipt of the initial decision of the loan committee to be considered timely.

(b) The loan committee will reconsider a request only upon a showing by the applicant that

(1) there has been a substantial change in the circumstances leading to the loan committee's initial denial or modification; or

(2) additional relevant information can be provided to the loan committee that was not initially available.

Authority: AS 45.89.030

3 AAC__.090. CONFIDENTIALITY OF LOAN INFORMATION. (a) The following information is not confidential and is available for public inspection upon request:

(1) a document which is already a public record including deeds of trust, financing statements, limited entry permits, deeds, bills of sale, marine mortgages, liens, vehicle titles and vessel documentation;

(2) general information regarding loans, including the amount of a particular loan, loan terms, personal guarantees, and disbursement and repayment schedules;

(3) foreclosure and default proceedings.

(b) The following information is confidential and is not subject to public disclosure:

(1) personal and financial information, including income tax returns, financial statements, business income statements, pro forma profit and loss statements, credit information obtained directly from banks and other creditors and reports obtained from consumer reporting agencies;

(2) loan committee memoranda and minutes containing information relating to credit worthiness of an applicant; and

(3) payment history of a loan, unless the loan is in default.

(c) Information not described in (a) and (b) of this section may be subject to public disclosure. Requests for disclosure must be made in in accordance with 6 AAC 095. On

DRAFT

receipt of a request for disclosure, the department will notify the loan applicant and other persons with a privacy interest in the request, to permit them to present reasons why the requested information should not be disclosed. (Eff. / / , Reg.)

Authority: AS 09.25.110
AS 09.25.120
AS 45.89.030
Art. 1, Sec. 22
Alaska Const.

3 AAC __.300. DEFINITION OF TERMS. Unless the context requires otherwise, in this chapter

(1) "borrower" means an individual, partnership, corporation or association applying for the loan;

(2) "commissioner" means the Commissioner of the Department of Commerce and Economic Development;

(3) "department" means the Department of Commerce and Economic Development. (Eff. / / , Reg.)

Authority: AS 45.89.030

DRAFT

CHAPTER ____
CHILD CARE FACILITY LOANS

Section
010. Application Process
015. Examination
020. Loan Committee
035. Eligibility
040. Financial and Credit Record
045. Ability to Repay
050. Collateral
055. Lending Practices
065. Disbursement of Loan Funds
070. Supervision of Loans
075. Costs
080. Assumptions
085. Reconsideration
090. Confidentiality of Loan Information
300. Definition of Terms

DRAFT

3 AAC __.010. APPLICATION PROCESS. To apply for a loan for the construction, renovation or equipping of a child care facility, an applicant shall file with the department

(1) a completed application for a child care facility loan on a form provided by the department;

(2) a letter of intent stating the amount requested, the intended use of the proposed loan funds and a proposed plan for repayment;

(3) a letter indicating the applicant's knowledge of child care programs and business conditions as listed in 3 AAC .035;

(4) a personal resume including three personal references;

(5) a business and credit history including complete copies of income tax returns for the preceding three years;

(6) a financial statement consisting of a balance sheet, a profit and loss statement and a statement of projected income and expenses for the following year's operating plan;

(7) a schedule of acceptable collateral, including collateral now owned and other collateral to be acquired with the loan proceeds, stating date of acquisition, cost, location, market value, and existing liens;

(8) if an applicant is applying for a loan to operate a day care facility licensed by the state or a local government, a copy of the application for the license or, if the facility has already been licensed, a copy of the license;

(9) any other information that the department may require. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.015. EXAMINATION. (a) Upon receipt of the materials described in 3 AAC __.010, a loan request will be processed and evaluated by a loan examiner. The loan examiner will evaluate the applicant's eligibility, finance and credit history, operating plan, ability to repay, and proposed collateral.

(b) On the basis of the evaluation, the loan examiner will recommend proposed action on the loan request to the appropriate loan committee. However, the recommendation of a loan examiner is not binding on a loan committee. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.020. LOAN COMMITTEE. (a) A loan committee consists of one or more persons appointed by the commissioner from the department to act on a loan request.

(b) A loan committee may approve, deny, or modify and approve a loan request, or table a loan request subject to obtaining additional information.

(c) A loan committee may impose reasonable conditions on the approval of a loan, including the following requirements

(1) additional collateral be pledged to secure the loan;

(2) additional guarantors be provided; and

(3) subordination of prior lien holder rights to the interests of the state.

(d) A loan committee will evaluate an applicant's eligibility for a loan, financial and credit record, capacity for repayment and operating plans, and the adequacy of collateral offered to secure the loan. A loan committee may also consider the recommendations of the loan examiner assigned to process the loan application and any other relevant information.

(e) A loan committee may fix the term of a loan and the repayment schedule to meet the needs of the borrower and the collateral available to secure repayment of the loan.

(f) If a loan request is denied or significantly modified by a loan committee, the loan committee will provide the applicant with a statement of the reasons for the action and the information relied on.

(g) A material misstatement or omission of fact made by an applicant constitutes grounds for denial of a loan request. (Eff. / / , Register)

DRAFT

Authority: AS 44.33.245

3 AAC __.035. ELIGIBILITY. To be eligible for a child care facility loan an applicant shall demonstrate

(1) knowledge of

(A) small business management;

(B) problems encountered in caring for children, including educational, recreational, health and disciplinary needs and appropriate responses in emergencies; and

(C) fire safety, health, and safety considerations in operating a day care facility and the state and local requirements in each of these areas; and

(2) some evidence of demand for the facility. (Eff. / / , Register)

Authority: AS 44.33.245
AS 44.33.260

3 AAC __.040. FINANCIAL AND CREDIT RECORD. (a) The department will, in its discretion, consider the following factors in assessing an applicant's financial and credit record:

(1) the applicant's existing and prior debts;

(2) credit reports obtained from creditors and private credit reporting services;

(3) prior loan history with the department;

(4) timeliness in making payments on loans and other debts;

(5) prior bankruptcies;

(6) existence of tax liens, unpaid judgments, prior foreclosures, and financial and credit reputation in the community.

(b) Information establishing unacceptable credit will be more heavily weighed by the department if it has occurred in recent years. (Eff. / / , Register)

Authority: AS 44.33.245
AS 44.33.260

3 AAC __.045. ABILITY TO REPAY. The department will, in its discretion, consider the following factors in evaluating an applicant's ability to repay a proposed loan

(1) income history, including present income;

DRAFT

(2) prospects for future income;

(3) assets and their liquidity;

(4) liabilities;

(5) reasonableness of projected profit and loss statement;

(6) other business experience. (Eff. / / , Register)

Authority: AS 44.33.245
AS 44.33.260

3 AAC __.050. COLLATERAL. (a) A loan must be secured by collateral acceptable to the department to ensure repayment of the loan in the event of default.

(b) Acceptable collateral includes a mortgage or other security instrument in real property, buildings, machinery, equipment and fixtures. To be considered acceptable collateral, personal property must be capable of being specifically identified. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.055. LENDING PRACTICES. (a) A loan will not be approved for the purchase of

(1) undeveloped property for the construction of a child care facility;

(2) existing child care facilities; or

(3) vehicles.

(b) A loan will not be approved for refinancing long term debt. Interim or construction financing is not considered long term debt if the term is 12 months or less and the promissory note or the original agreement was executed less than 12 months before receipt of the application by the department.

(c) Loan funds may not be used to reimburse an applicant for costs incurred prior to loan approval.

(d) Loans will not be approved to finance facilities which do not comply with state or local licensing requirements. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.065. DISBURSEMENT OF LOAN FUNDS. Loan funds will be disbursed when

(1) a security interest in the collateral on behalf of the state has been perfected;

DRAFT

(2) the borrower has complied with the insurance requirements contained in an instrument signed by the borrower;

(3) all requirements of the loan committee have been met; and

(4) the borrower has complied with all other provisions of the loan documents and this chapter. (Eff. / / Register)

Authority: AS 44.33.245

3 AAC __.070. SUPERVISION OF LOANS. As a condition of a loan and while there is an outstanding loan balance, the department may require a borrower to furnish annual financial statements consisting of a balance sheet, profit-and-loss statement, sources and application of all funds received and a schedule of change of owner's equity. The department may also require an audit or audits to determine whether the borrower has complied with the provisions of the loan and may conduct periodic inspection of collateral securing repayment of the loan. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.075. COSTS. All expenses incurred by the department in closing a loan, including the processing of the loan application, shall be paid by the applicant. These expenses include the cost of credit reports, title reports and insurance, recording fees, appraisals, surveys, travel and other direct costs. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.080. ASSUMPTIONS. (a) Requests for permission to assume obligations and benefits of loans granted under this chapter shall be processed in the same manner as a loan request.

(b) A loan committee may permit an assumption if the individual seeking to assume the loan would be eligible for a new loan of the type that is sought to be assumed, the applicant is a good financial risk, and the security of the state's investment is preserved.

(c) Eligibility standards currently in effect, rather than standards in effect at the time the original loan was made will govern assumptions. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC __.085. RECONSIDERATION. (a) If a loan request is denied or significantly modified by a loan committee, an applicant may file a written request for reconsideration with the department. The request must be filed within 30 days of receipt of the initial decision of the loan committee.

DRAFT

(b) A loan committee will reconsider a request only upon a showing by an applicant that

(1) there has been a substantial change in the circumstances leading to the loan committee's initial denial or modification; or

(2) additional relevant information can be provided to the loan committee that was not initially available. (Eff. / / , Register)

Authority: AS 44.33.245

3 AAC 80.090. CONFIDENTIALITY OF LOAN INFORMATION. (a) The following information is not confidential and is available for inspection by the public upon request:

(1) a document which is already a public record, including deeds of trust, financing statements, warranty deeds, bills of sale, mortgages, liens, and vehicle titles;

(2) general information regarding loans, including the amount of particular loans, terms of the loan, personal guarantees, and disbursement and repayment schedules;

(3) insurance matters, including title insurance policies and correspondence with insurance companies or borrowers regarding losses, accident reports, and nonpayment of premiums;

(4) documents regarding foreclosure and default proceedings.

(b) The following information is confidential and is not subject to public disclosure:

(1) personal and financial information, including income tax returns, financial statements, business income statements, pro forma profit and loss statements, credit information obtained directly from banks and other creditors and reports obtained from consumer reporting agencies;

(2) loan committee memoranda and minutes containing information relating to credit worthiness of the applicant;

(3) the payment history of an applicant, under circumstances not constituting foreclosure or default.

(c) Information not described in (a) or (b) of this section may be subject to public disclosure. Requests for disclosure must be made and will be determined in accordance with 6 AAC 95. On receipt of a request for disclosure, the department will notify the loan applicant and other persons with a privacy interest in the request, to permit them to present reasons why the requested information should not be disclosed. The department will approve requests for disclosure of information if the public interest that would be

DRAFT

served from disclosure outweighs the privacy interests of the applicant. (Eff. / / , Register)

Authority: AS 09.25.110
AS 09.25.120
AS 44.33.245
Art. 1, Sec. 22
Alaska Const.

3 AAC __.300. DEFINITION OF TERMS. Unless the context requires otherwise, in this chapter

(1) "applicant" means the individual, partnership, corporation or association applying for the loan;

(2) "commissioner" means the Commissioner of the Department of Commerce and Economic Development;

(3) "department" means the Department of Commerce and Economic Development;

Authority: AS 44.33.245

DRAFT

CHAPTER __
HISTORICAL DISTRICT LOANS

Section
010. Application Process
015. Examination
020. Loan Committee
035. Eligibility
040. Financial and Credit Record
045. Ability to Repay
050. Collateral
055. Lending Practices
065. Disbursement of Loan Funds
070. Supervision of Loans
075. Costs
080. Assumptions
085. Reconsideration
090. Confidentiality of Loan Information
300. Definition of Terms

DRAFT

3 AAC __.010. APPLICATION PROCESS. To apply for a loan for the restoration, improvement, rehabilitation or maintenance of an approved structure in a historical district an applicant must file with the department:

(1) a completed application for a historical district loan on a form provided by the department;

(2) evidence of a plan approval by a local historical district commission and recommendation by a majority of the members of the Historic Sites Advisory Committee;

(3) a letter of intent stating the amount requested, the intended use of the proposed loan funds, and a proposed plan for repayment;

(4) a personal resume including three personal references;

(5) a credit history including complete copies of income tax returns for the preceding year;

(6) a financial statement consisting of a current balance sheet, a monthly budget and a statement of projected income and expenses for the next year;

(7) a schedule of acceptable collateral, including collateral now owned and other collateral to be acquired with the loan proceeds, stating date of acquisition, cost, location, market value and existing liens;

(8) photographs of each side of the structure to be improved; and

(9) any other information the department may require. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.015. EXAMINATION. (a) Upon receipt of the materials described in 3 AAC __.010, a loan request will be processed and evaluated by a loan examiner. The loan examiner will evaluate the applicant's eligibility, financial and credit history, ability to repay, and proposed collateral.

(b) On the basis of the evaluation, the loan examiner will recommend proposed action on the loan request to the appropriate loan committee; however the recommendation of the loan examiner is not binding on the loan committee. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030
AS 45.98.040

3 AAC __.020. LOAN COMMITTEE. (a) A loan committee consists of one or more persons appointed by the commissioner from the department to act on a loan request.

(b) A loan committee may approve, deny, or modify and approve a loan request, or table a loan request subject to obtaining additional information.

(c) A loan committee may impose reasonable conditions on the approval of a loan, including

(1) additional collateral to secure the loan;

(2) additional guarantors;

(3) subordination of prior lien holder's rights to the interests of the state.

(d) A loan committee will evaluate the applicant's eligibility, financial and credit record, capacity for repayment and the adequacy of the collateral offered to secure the loan. A loan comittee may also consider the recommendations of the loan examiner assigned to process the loan application and any other relevant information.

(e) A loan committee may fix the term of a loan and the repayment schedule to meet the needs of the borrower and the collateral available to secure repayment of the loan.

(f) If a loan request is denied or significantly modified by a loan committee, the loan committee will provide the applicant with a statement of the reasons for the action and the information relied on.

(g) A material misstatement or omission of fact made by an applicant constitutes grounds for denial of a loan request. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030
AS 45.98.040

DRAFT

3 AAC __.035. ELIGIBILITY. To be eligible for a loan, a plan must be approved by a local historical district commission and be recommended by a majority of the members of the Historic Sites Advisory Committee. A loan may be made to a person, firm, business or municipality. A structure must be within the boundaries of a historical district and it must be identified as important in state or national history or be suitable for superficial modification so that it can conform to the period or motif of the surrounding structures that are the reason for the area's designation as a historical district. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030
AS 45.98.040

3 AAC __.040. FINANCIAL AND CREDIT RECORD. (a) The department may consider the following factors in assessing an applicant's financial and credit record:

(1) existing and prior debts;

(2) credit reports obtained from creditors and private credit reporting services;

(3) prior loan history with the department;

(4) timeliness in making payments on loans and other debts;

(5) prior bankruptcies;

(6) existence of tax liens;

(7) unpaid judgments and prior foreclosures; and

(8) financial and credit reputation in the community.

(b) Information establishing unacceptable credit will be more heavily weighed by the department if it has occurred in recent years. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.045. ABILITY TO REPAY. The department may consider the following factors in assessing an applicant's ability to repay;

(1) income history, including present income;

(2) prospects for future income;

(3) assets and their liquidity;

(4) liabilities;

(5) reasonableness of projected profit and loss statement;

DRAFT

(6) other business experience. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.050. COLLATERAL. (a) A loan must be secured by collateral acceptable to the department to ensure repayment of the loan in the event of default.

(b) Acceptable collateral may include a mortgage or other security instrument in real property, buildings, machinery and equipment or fixtures. To be considered acceptable collateral, personal property must be capable of being specifically identified. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030
AS 45.98.040

3 AAC __.055. LENDING PRACTICES. (a) The term of a loan secured by equipment will, in the department's discretion, be limited to eight years.

(b) An applicant may not receive loan funds for costs incurred prior to loan approval. (Eff. / / , Register)

Authority: AS 45.89.020
AS 45.89.030

3 AAC __.065. DISBURSEMENT OF LOAN FUNDS. Loan funds will be disbursed when

(1) a security interest in the collateral on behalf of the state has been perfected;

(2) the borrower has complied with the insurance requirements contained in an instrument signed by the borrower;

(3) all requirements of the loan committee have been met; and

(4) the borrower has complied with all other provisions of the loan documents and this chapter. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.070. SUPERVISION OF LOANS. As a condition of a loan and while there is an outstanding loan balance, the department may require a borrower to furnish annual financial statements consisting of a balance sheet, profit-and-loss statement, sources and application of all funds received and a schedule of change of owner's equity. The department may also require an audit or audits to determine whether the borrower has complied with the provisions of the loan and conduct periodic inspection of any collateral securing repayment of the loan. (Eff. / / , Register)

DRAFT

Authority: AS 45.98.020
AS 45.98.030
AS 45.98.040

3 AAC __.075. COSTS. All expenses incurred by the department in closing a loan, including the processing of the loan application, shall be paid by the applicant. These expenses include the cost of credit reports, title reports and insurance, recording fees, appraisals, surveys, and other direct costs. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.080. ASSUMPTIONS. (a) Assumption of a loan issued under this chapter is not permitted.

(b) Secondary financing of a loan issued under this chapter is not permitted.

(c) If the property on which the structure for which a loan was obtained under this chapter is sold, the borrower must immediately repay the loan in full. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.085. RECONSIDERATION. If a loan request has been denied or significantly modified by a loan committee, an applicant may file a written request for reconsideration with the department. The request must be filed within 30 days of receipt of the initial decision of the loan committee. A loan committee will reconsider a request only upon a showing by an applicant that

(1) there has been a substantial change in the circumstances leading to the loan committee's initial denial or modification; or

(2) additional relevant information can be provided to the loan committee that was not initially available. (Eff. / / , Register)

Authority: AS 45.98.020
AS 45.98.030

3 AAC __.090. CONFIDENTIALITY OF LOAN INFORMATION.
(a) The following information is not confidential and is available for inspection by the public upon request:

(1) a document which is already a public record including deeds of trust, financing statements, warranty deeds, bills of sale, liens, and vehicle titles;

(2) general information regarding loans, including the amount of a particular loan, loan terms, personal guarantees, and disbursement and repayment schedules;

DRAFT

(3) documents regarding foreclosure and default proceedings.

(b) The following information is confidential and is not subject to public disclosure:

(1) personal and financial information, including income tax returns, financial statements, business income statements, pro forma profit and loss statements, credit information obtained directly from banks and other creditors, and reports obtained from consumer reporting agencies;

(2) loan committee memoranda and minutes containing information relating to credit worthiness of an applicant;

(3) payment history on a loan, unless the loan is in default.

(c) Information not described in (a) and (b) of this section may be subject to public disclosure. Requests for disclosure must be made and will be determined in accordance with 6 AAC 95. Upon receipt of a request for disclosure, the department will notify the loan applicant and other persons with a privacy interest in the request to permit them to present reasons why the requested information should not be disclosed. (Eff. / / , Register)

Authority: AS 09.25.110
AS 09.25.120
AS 45.98.030
Art. 1, Sec. 22
Alaska Const.

3 AAC __.300. DEFINITION OF TERMS. Unless the context requires otherwise, in this chapter

(1) "borrower" means an individual, firm, business or municipality whose loan has been approved by a loan committee;

(2) "commissioner" means the Commissioner of the Department of Commerce and Economic Development;

(3) "department" means the Department of Commerce and Economic Development;

Authority: AS 45.98.020
AS 45.98.030

DRAFT

State Loan Programs:

Quarterly Activity Report

Fourth Quarter FY 1984

Jay Livey
House Research Agency
Alaska State Legislature
Pouch Y, Juneau 99811
907/465-3991

October 1984

TABLE OF CONTENTS

Page

Introduction 1

List of Programs by Category 3

List of Active and Inactive Loan Programs. 4

AGGREGATED DATA

Delinquency and Default, All Programs. 5

Figure 1: Total Loans, All Programs 6

Figure 2: Loans Approved, by Primary Source of Funding. 7

Figure 3: Loan Data by Loan Type. 8

Figure 4: Loans Approved During the Quarter, by Major Loan Type 9

Figure 5: Loans Outstanding to Date, by Major Loan Type 10

Figure 6: Housing Loans Approved During the Quarter, by Program 11

Figure 7: Housing Loans - Owner-Occupied and Multi-Family - Approved During the Quarter . . 12

Figure 8: Housing Loans - Veterans' and Non-veterans' - Approved During the Quarter 13

LOAN PROGRAMS

Agricultural Revolving Loan Fund 14

Alaska Grain Reserve Loan Fund 15

Alaska Housing Finance Corporation (AHFC). 16

Alaska Industrial Development Authority (AIDA) 18

Alaska Medical Facility Authority. 20

Table of Contents (cont.)

Page

Alaska Municipal Bond Bank Authority 21
Alaska Power Authority 22
Alaska Resources Corporation (ARC) 23
Alternative Technology and Energy Revolving Loan Fund. 25
Bulk Fuel Revolving Loan Fund. 26
Child Care Facility Revolving Loan Fund. 27
Commercial Fishing Revolving Loan Fund 28
Fisheries Enhancement Revolving Loan Fund. 29
Historical District Revolving Loan Fund. 30
Housing Assistance Loan Fund (HALF). 31
Medical Malpractice Liability Revolving Loan Fund. 33
Mining Loan Fund 34
Residential Energy Conservation Fund 35
Scholarship Revolving Loan Fund. 36
Small Business Revolving Loan Fund 37
Tourism Revolving Loan Fund. 38
Veterans' Revolving Loan Fund. 39
Water Resources Revolving Loan Fund. 40

INTRODUCTION

This activity report is designed to assist legislators with their oversight responsibilities by providing a compilation of data obtained from each of the active State-sponsored loan programs. For our purposes, active loan programs are those which presently make or service loans. (See the list of active and inactive programs on page 4.) The House Research Agency has produced reports covering quarterly lending activity since January 1981.

This report groups State loans into six categories--Economic Development, Education, Energy, Housing, Medical and Child Care, and Municipal Assistance. A list of the programs in each of the six categories is found on page 3.

The figures representing loans approved during a quarter do not necessarily represent direct State expenditures. Bond-financed loan programs provide the bulk of the funds referred to in this report; these programs rely to some degree on State appropriations, in some cases only for administrative funds, but obtain most of their loan funds by selling bonds on the national market. Only in the case of direct loans, such as those administered by the Department of Commerce and Economic Development, does the figure for loans approved represent direct investment of the State's cash. Of course, part of the cost of these programs is returned through payments of principal and interest. We have noted on page 4, with the list of active and inactive programs, whether each lending program is financed entirely through State appropriation or is partially bond-financed.

This activity report is meant to give an idea of the number and dollar amount of loans approved each quarter for use in such areas as economic development and housing, and to present the volume of loans and loan amounts approved each quarter by all State loan programs. The figures given for "loans approved" are just that: loans to which the loan agency has committed itself, not necessarily cash transactions. Figures representing numbers and dollar amounts of total loans outstanding to date are the loans that are still owed to the loan agency, and the amount of principal still unpaid. In other words, total loans outstanding to date are <u>not</u> all loans ever made or approved by the agency.

In addition to information about delinquency, we have included the number and dollar amount of each agency's outstanding loans that are in default. For the sake of uniformity, we define loans in default as delinquent loans that the lending agencies have turned over to their counsel for legal action. Page 5 is a summary sheet showing the rates of delinquency and default for all the loan programs.

Several State programs that are authorized to make either loans and/or grants have chosen to make grants. These are the Outdoor, Recreational, Open Space and Historical Properties Development Fund and the Disaster Relief Fund. The Senior Citizens Housing Development Fund was included in this group until 1982, when the legislature made it strictly a grant program. Because they have never been active in lending, we do not include these programs in our reports. Another program that we omit is the Memorial Scholarhip Revolving Loan Fund, administered by the Commission on Postsecondary Education. This loan program is funded by private donations rather than by the State and is virtually inactive.

Some of the State's loan programs were altered or eliminated by the legislature in 1982; where pertinent, the changes are reflected in this edition. The Fishermen's Mortgage and Note Fund has been combined with the Commercial Fishing Revolving Loan Fund; the former Alaska Renewable Resources Corporation (ARRC) is now the Alaska Resources Corporation (ARC). The rural housing programs were moved from the Alaska Housing Finance Corporation to the Housing Assistance Loan Fund in the Division of Housing Assistance, which also manages the Nonconforming Housing Loan Fund. The Residential Care Facility Revolving Loan Fund was eliminated. In addition, the legislature cleared the books of several loan programs that had never been active or funded and so were never included in these reports.

A new loan fund, the Alaska Grain Reserve Loan Fund, was established by the passage of the Alaska Grain Reserve Program in 1983 (Ch. 100 SLA 1983). This program, established in the Department of Natural Resources, Division of Agriculture, assists state grain producers by making loans secured by grain reserves. Administrative procedures to process loan applications were established during the first few months of FY 84.

Chapter 161 SLA 1984 provides for the orderly termination of the Alaska Resources Corporation (ARC). This act restructures the ARC Board of Directors, transfers the corporation to the Department of Revenue and provides for the disposition of ARC assets and liabilities. As a result of this reorganization, 4th quarter activity information was not available and is not included in this report.

As in previous reports, this report incorporates changes that were made in response to the suggestions of loan program administrators and legislative staff. Readers are encouraged to let us know if they have further modifications to suggest. Also, anyone needing more detailed information about a loan program should call this agency, because we do collect more data from the programs than we have room to print each quarter.

For current descriptions of the active and inactive State loan programs, we refer legislators to "State Loan Programs: A Review of Administration, Funding and Activity," published by the House Research Agency in December 1982. Also, the Division of Budget and Management in 1982 produced a helpful guide entitled "Overview of State Loan Programs and Investment Funds."

State Loan Programs Included in this Report, by Type

ECONOMIC DEVELOPMENT*

Agricultural Revolving Loan Fund
Alaska Industrial Development Authority
(except multi-family housing)
Alaska Resources Corporation
Alaska Grain Reserve Loan Fund
Commercial Fishing Revolving Loan Fund
Fisheries Enhancement Revolving Loan Fund
Mining Loan Fund
Small Business Revolving Loan Fund
Tourists' Revolution Loan Fund
Veterans' Revolving Loan Fund

EDUCATION

Scholarship Revolving Loan Fund

ENERGY

Alaska Power Authority:
Power Project Fund
Rural Electrification Revolving Loan Fund
Alternative Technology and Energy Revolving Loan Fund
Residential Energy Conservation Fund
Water Resources Revolving Loan Fund

HOUSING

Alaska Housing Finance Corporation
Housing Assistance Loan Fund
Alaska Industrial Development Authority
(multi-family housing only)

MEDICAL AND CHILD CARE

Alaska Medical Facility Authority
Child Care Facility Revolving Loan Fund
Medical Malpractice Liability Revolving Loan Fund

MUNICIPAL ASSISTANCE

Alaska Municipal Bond Bank Authority
Bulk Fuel Revolving Loan Fund
Historical District Revolving Loan Fund

Active and Inactive State Loan Programs

ACTIVE

Agricultural Revolving Loan Fund[1]
Alaska Grain Reserve Loan Fund[1]
Alaska Housing Finance Corporation (AHFC)[2]
Alaska Medical Facility Authority[2]
Alaska Municipal Bond Bank Authority[2]
Alaska Resources Corporation (ARC)[1]
Alaska Industrial Development Authority (AIDA)[2]
Alaska Power Authority[1]
Alternative Technology and Energy Revolving Loan Fund[1]
Bulk Fuel Revolving Loan Fund[1]
Child Care Facility Revolving Loan Fund[1]
Commercial Fishing Revolving Loan Fund[1]
Fisheries Enhancement Revolving Loan Fund[1]
Historical District Revolving Loan Fund[1]
Housing Assistance Loan Fund[1]
Medical Malpractice Liability Revolving Loan Fund[1]
Mining Loan Fund[1]
Relocation Planning Loans[1]
Residential Energy Conservation Fund[1]
Scholarship Revolving Loan Fund[1]

INACTIVE

Alaska Disaster Economic Impact Fund
Alaska Gas Pipeline Financing Authority
Alaska State Housing Authority (ASHA)
Disaster Relief Fund*
Capital City Revolving Loan Fund
Housing Development Revolving Loan Fund
Outdoor, Recreational, Open Space and Historical Properties Development Fund*
Public Law 92-203 Loan Program
Small Business Revolving Loan Fund**
Tourism Revolving Loan Fund**
Veterans' Revolving Loan Fund**
Water Resources Revolving Loan Fund**

[1]These programs are funded through State appropriations.
[2]These programs are funded, at least in part, through bond sales.

*These programs are funded to make either grants or loans, and make grants rather than loans.
**These programs are inactive but still service some loans.

Summary of Delinquency and Default
State Loan Programs, 4rd Quarter FY 84

Loan Program		Delinquent Loans[1] $(thousands)	Delinquent Loans[1] %	Loans in Default[2] $	Loans in Default[2] %
Indirect Lenders:	Alaska Housing Finance Corporation (all programs)	$113,615.1	3.0%	$3,078.2	---*
	Alaska Industrial Development Authority:				
	AIDA-purchased	7,163.2	3.2%	375.7	---
	Appropriated to AIDA	8,107.0	7.7%	2,581.8	2.4%
	Alaska Medical Facility Authority	0.0	0.0%	0.0	0.0%
	Alaska Municipal Bond Bank Authority	0.0	0.0%	0.0	0.0%
Direct Lenders:	Agriculture Revolving Loan Fund	6,953.5	15.6%	5,976.9	13.4%
	Alaska Power Authority:				
	Power Project Fund	0.0	0.0%	0.0	0.0%
	Rural Electrification Revolving Loan Fund	0.0	0.0%	0.0	0.0%
	Alaska Resources Corporation	NA	NA	NA	NA
	Alternative Technology & Energy Rev. Loan Fund (est.)	2,408.0	22.3%	24.0	.2%
	Bulk Fuel Revolving Loan Fund	148.0	.7%	0.0	0.0%
	Child Care Facility Rev. Loan Fund	103.0	15.4%	0.0	0.0
	Commercial Fishing Revolving Loan Fund	11,551.3	14.4%	607.0	.8%
	Fisheries Enhancement Revolving Loan Fund	0.0	0.0%	0.0	0.0%
	Housing Assistance Loan Fund[3]	1,977.2	2.0%	0.0	0.0%
	Medical Malpractice Liability Revolving Loan Fund	0.0	0.0%	0.0	0.0%
	Mining Loan Fund	10,621.0	55.9%	0.0	0.0%
	Residential Energy Conservation Fund	1,039.2	19.8%	13.4	.3%
	Scholarship Revolving Loan Fund	12,470.1	6.7%	10,581.7	5.7%
	Small Business Revolving Loan Fund	34,198.0	48.1%	1,763.0	2.5%
	Tourism Revolving Loan Fund	1,034.0	16.3%	0.0	0.0%
	Veterans' Revolving Loan Fund[4]	20,333.1	21.5%	540.0	.6%
	Water Resources Revolving Loan Fund	0.0	0.0%	0.0	0.0%

*--- less than .1%

[1]Delinquency includes all loans that are more than one day past due at the end of the quarter; the exceptions are the Agricultural Revolving Loan Fund, AIDA and the Scholarship Revolving Loan Fund.

[2]Loans in default are defined as delinquent loans that have been turned over to counsel for legal action, except loans made from the Scholarshop Revolving Loan Fund which are considered to be in default if more than 120 days delinquent.

[3]Includes only the Nonconforming Housing Loan program and mortgages for the Rural Owner-Occupied and Rural Non-Owner-Occupied programs that were purchased since the start of FY 83; mortgages made by the two rural programs before July 1, 1982 are serviced by AHFC and are included in AHFC's delinquency and default figures.

[4]Reflects transfer of all AHFC owned veteran loans effective 11/1/83.

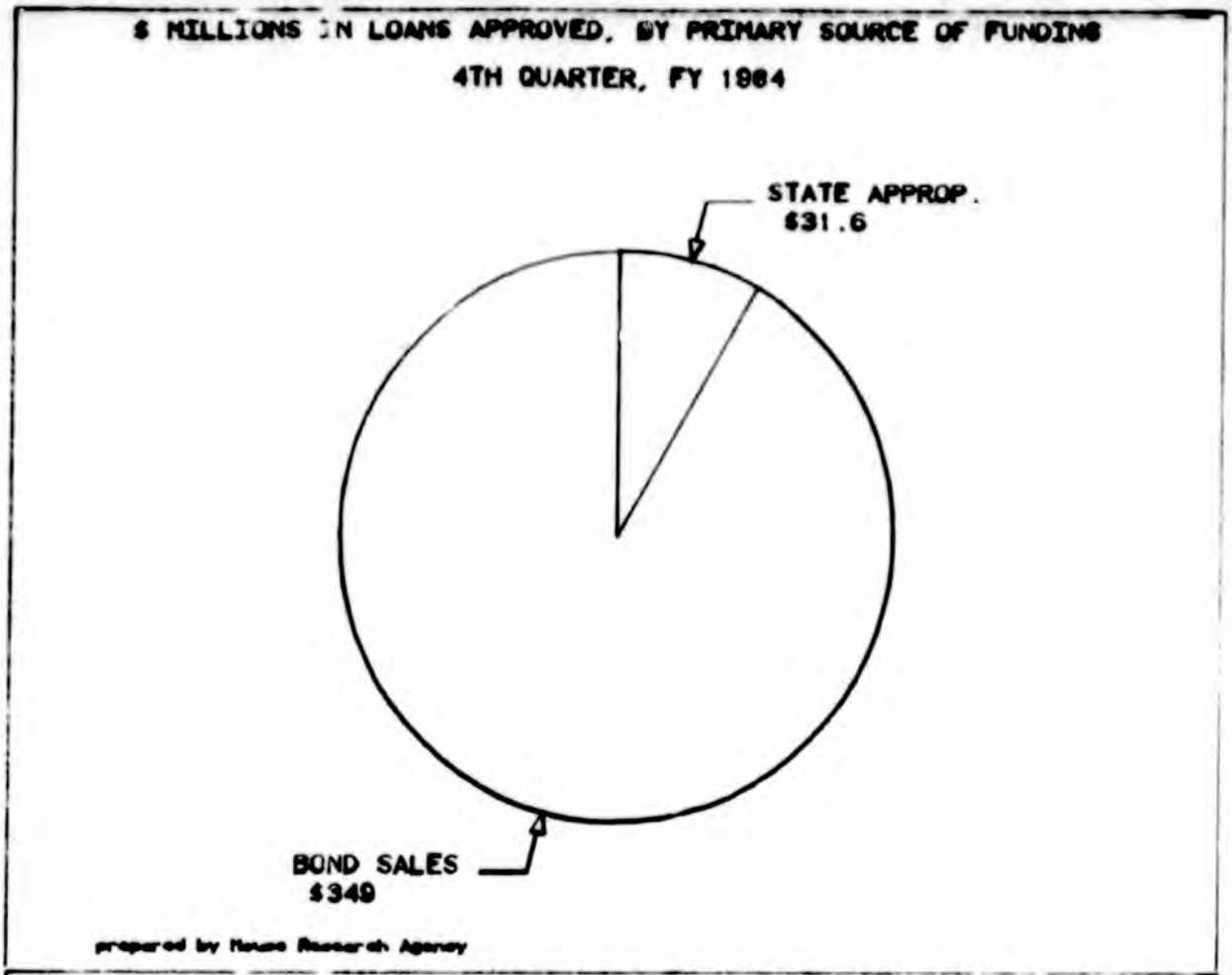
FIGURE 1

TOTALS - ALL STATE LOAN PROGRAMS

4th QUARTER FY 84

Loans Outstanding To Date		Total Loans Approved During FY 84		Loans Approved During the Quarter		Loans Denied During the Quarter	
#	$	#	$	#	$	#	$
121,680	$4,978,348,746	29,826	$1,645,526,075	4,229	$380,614,843	628	$54,039,758

FIGURE 2


$ MILLIONS IN LOANS APPROVED, BY PRIMARY SOURCE OF FUNDING
4TH QUARTER, FY 1984
STATE APPROP.
$31.6
BOND SALES
$349
prepared by House Research Agency

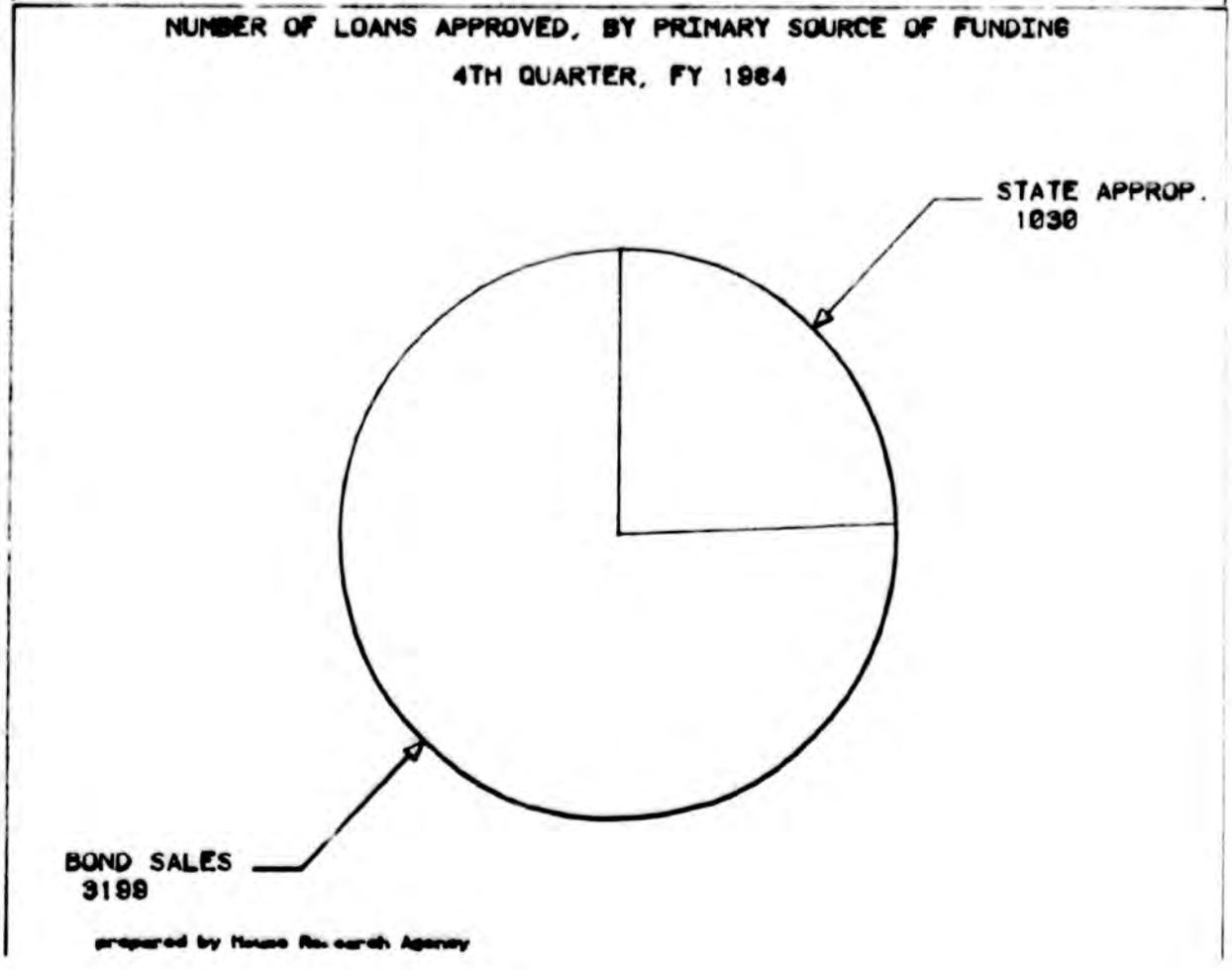

NUMBER OF LOANS APPROVED, BY PRIMARY SOURCE OF FUNDING
4TH QUARTER, FY 1984
STATE APPROP.
1030
BOND SALES
3198
prepared by House Research Agency

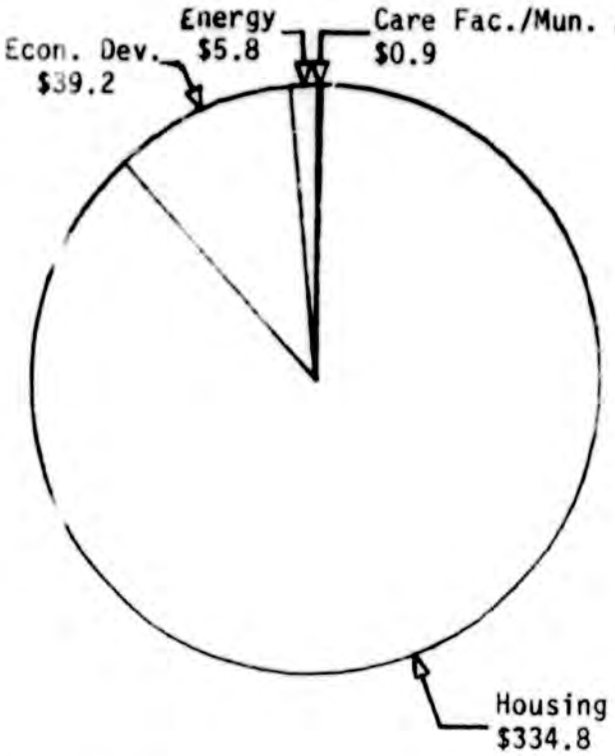
FIGURE 3
DATA BY LOAN TYPE
4th QUARTER FY 84 AND ALL LOANS OUTSTANDING

	Economic Development	Education	Energy	Housing	Medical and Child Care	Municipal Assistance	Totals
# Approved During the Quarter	209	576	155	3,271	0	18	4,229
% of Total # Approved During the Qtr.	5.0%	13.7%	3.7%	77.2%	0.00%	0.43%	100.0%
$ Amount Approved During the Qtr.	$ 39,171,374	97,666	$5,750,097	$334,783,788	$ 0	$ 811,918	$380,614,843
% of Total $ Approved during the Qtr.	10.3%	.02%	1.51%	87.9%	0.00%	---	100.0%
# Approved During FY 84 to Date	791	14,785	724	13,459	12	55	29,826
$ Amount Approved During FY 84 to Date	$236,997,947	$62,912,316	$14,594,188	$1,319,538,524	$2,453,600	$9,029,500	$1,645,526,075
# of Loans Outstanding to Date	6,661	63,172	3,453	48,282	27	85	121,680
$ Amount of Loans Outstanding to Date*	$677,313,147	$185,495,610	$50,040,915	$3,902,939,974	$16,438,000	$146,121,100	$4,978,348,746

NOTE: For a list of the programs that are included in each category, see page 3.
*The total dollar amount of housing loans outstanding to date does not include AIDA multi-family loans.

$ MILLIONS OF LOANS APPROVED, BY MAJOR LOAN TYPE

4TH QUARTER, FY 1984

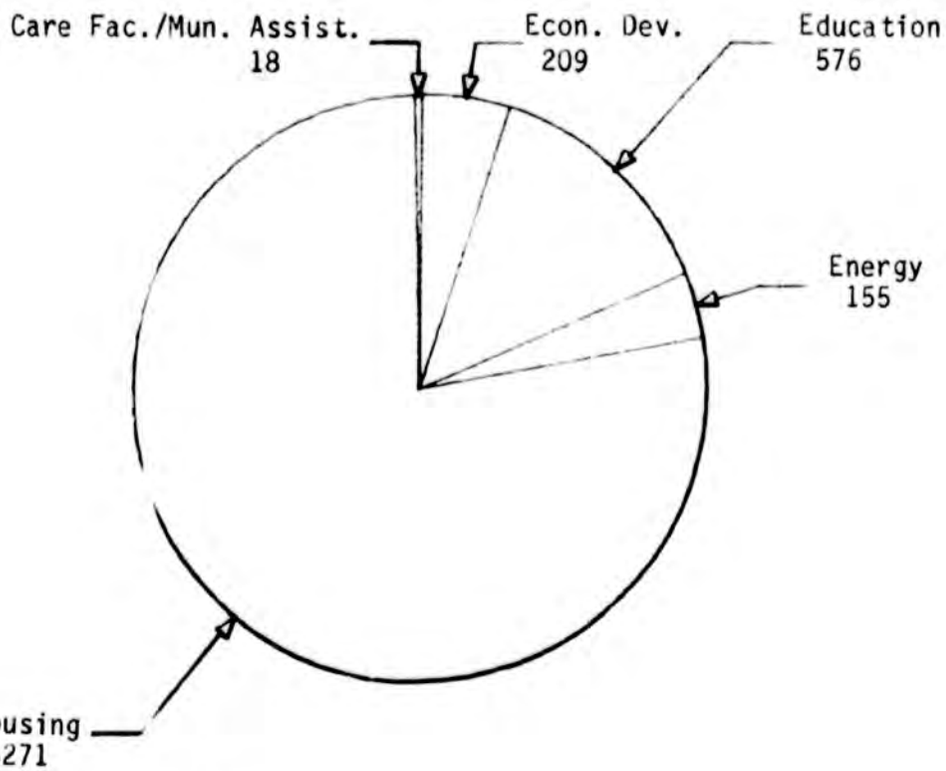


prepared by House Research Agency

FIGURE 4

NUMBER OF LOANS APPROVED, BY MAJOR LOAN TYPE

4TH QUARTER, FY 1984

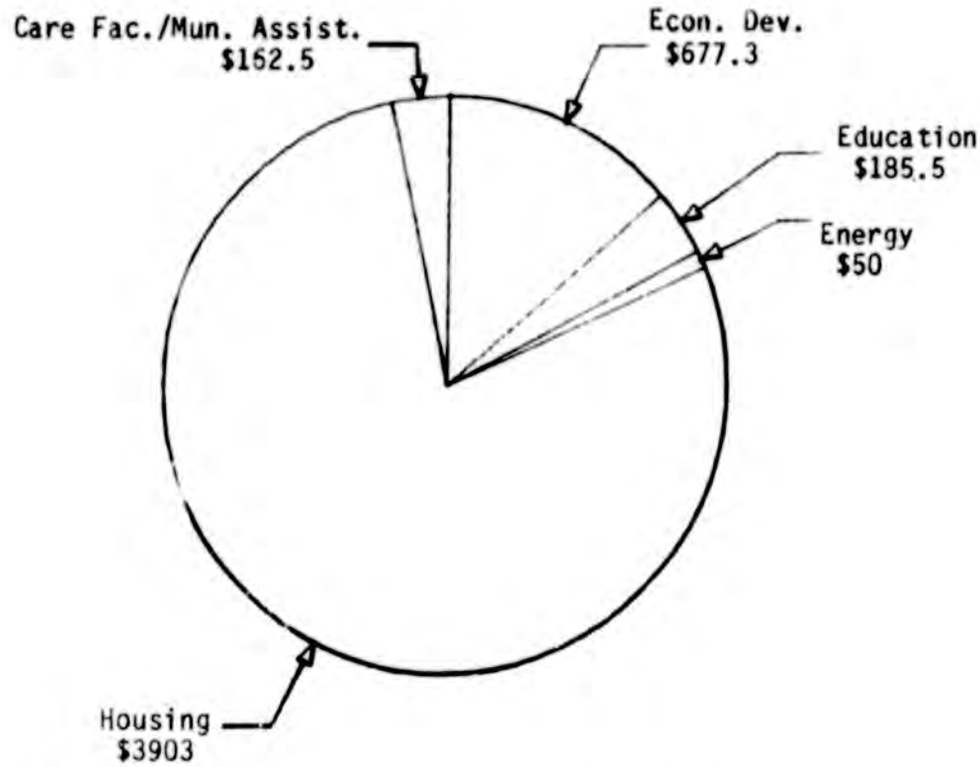


prepared by House Research Agency

FIGURE 5

$ MILLIONS IN LOANS OUTSTANDING TO DATE, BY MAJOR LOAN TYPE

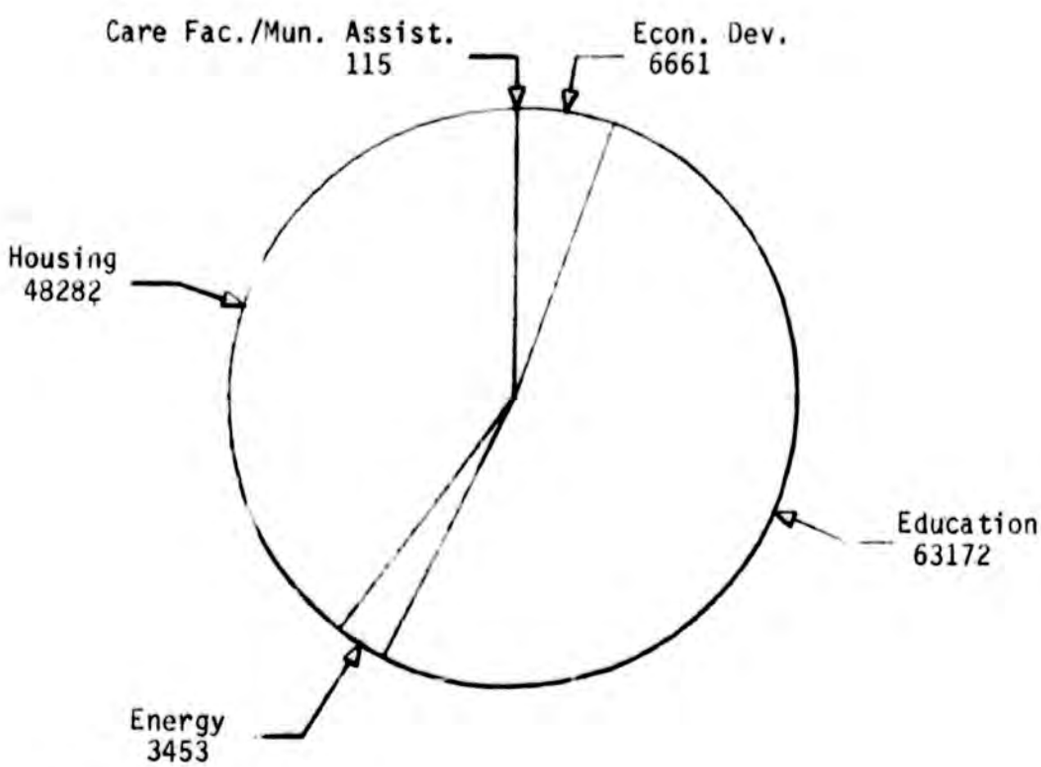
4TH QUARTER, FY 1984



prepared by House Research Agency

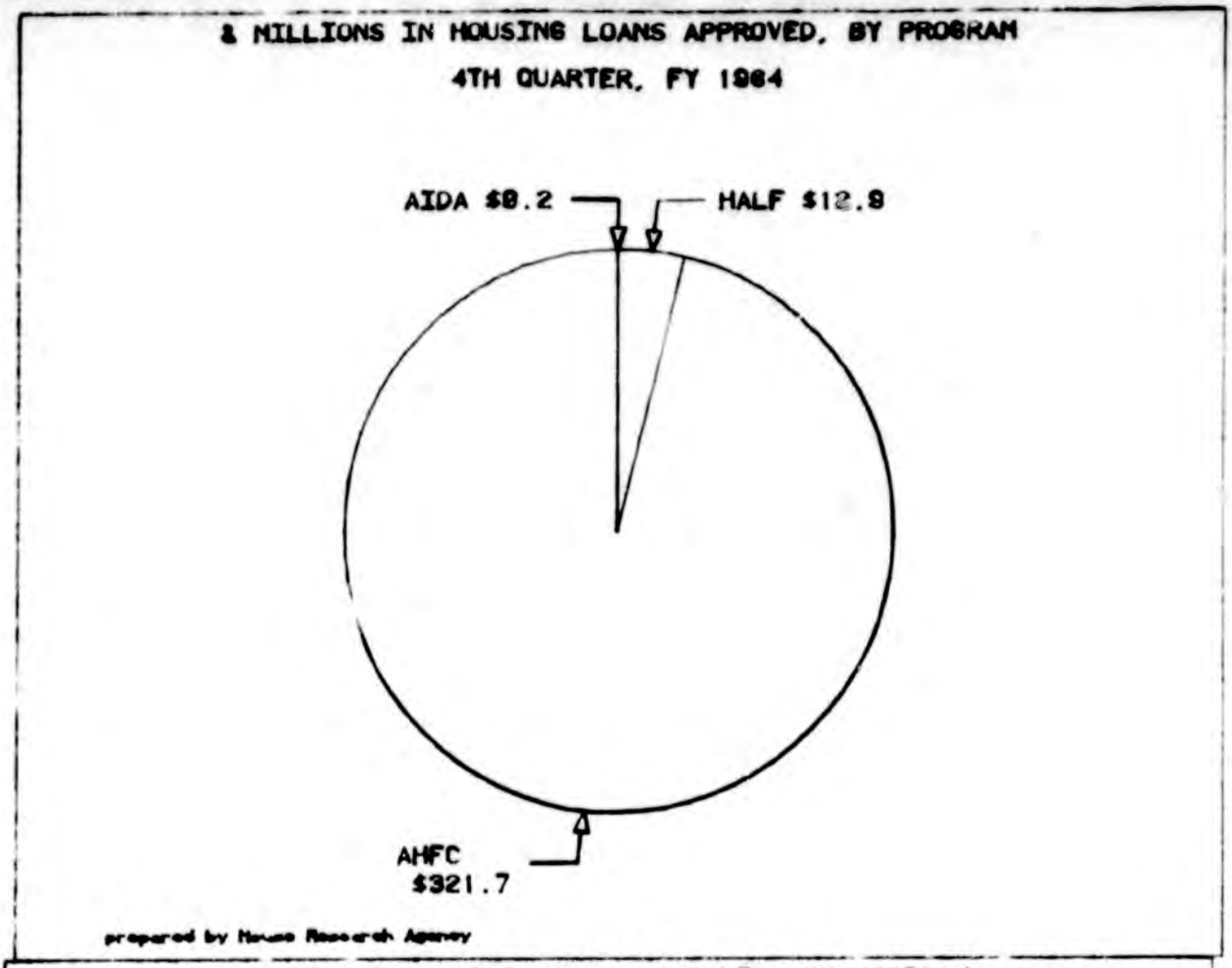
NUMBER OF LOANS OUTSTANDING TO DATE, BY MAJOR LOAN TYPE

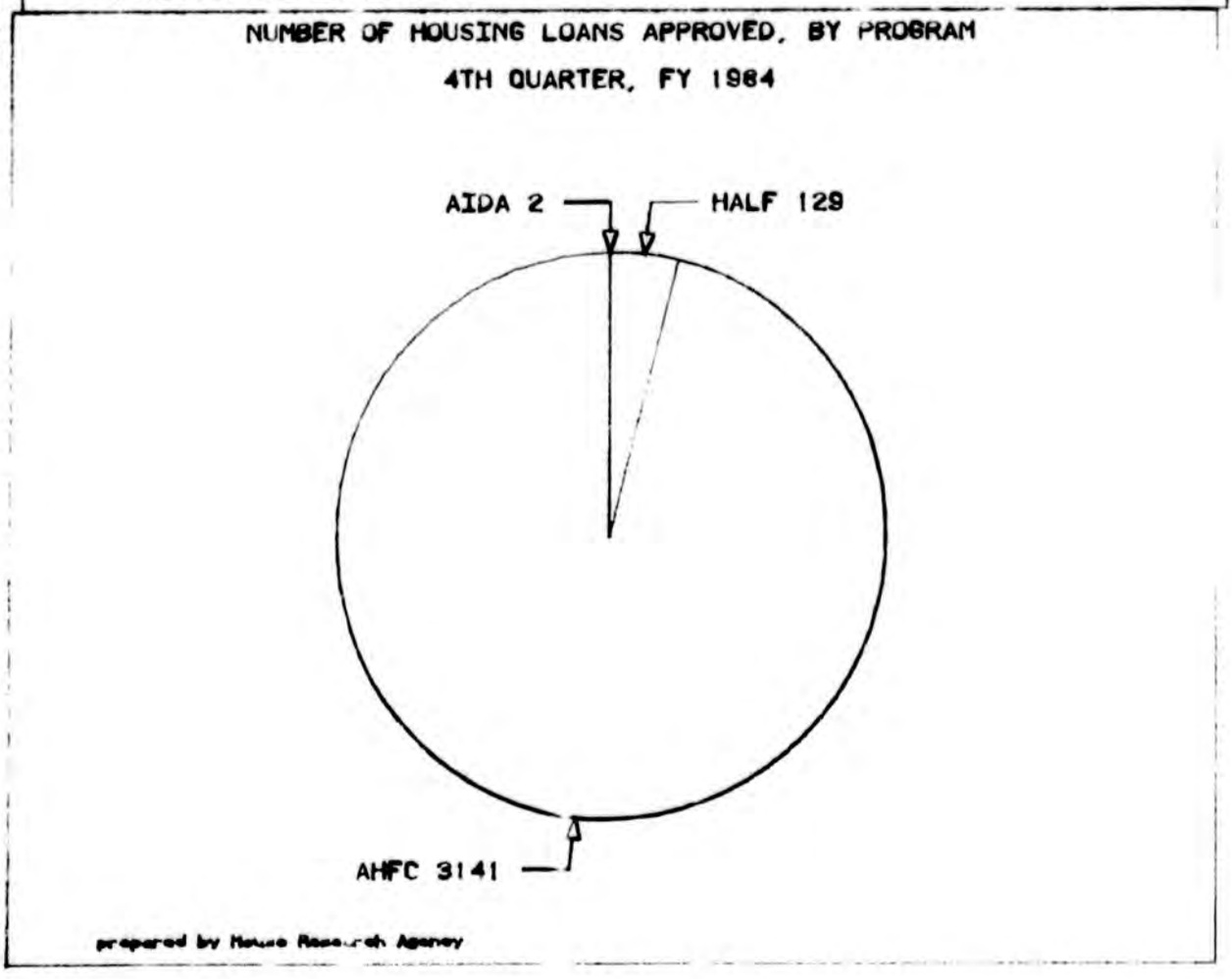
4TH QUARTER, FY 1984



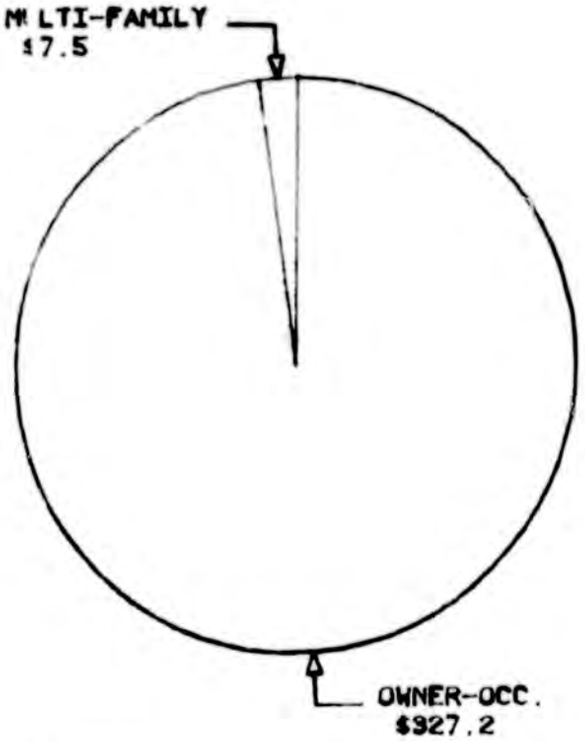
prepared by House Research Agency

FIGURE 6


$ MILLIONS IN HOUSING LOANS APPROVED, BY PROGRAM
4TH QUARTER, FY 1984
AIDA $0.2
HALF $12.8
AHFC
$321.7
prepared by House Research Agency


NUMBER OF HOUSING LOANS APPROVED, BY PROGRAM
4TH QUARTER, FY 1984
AIDA 2
HALF 129
AHFC 3141
prepared by House Research Agency

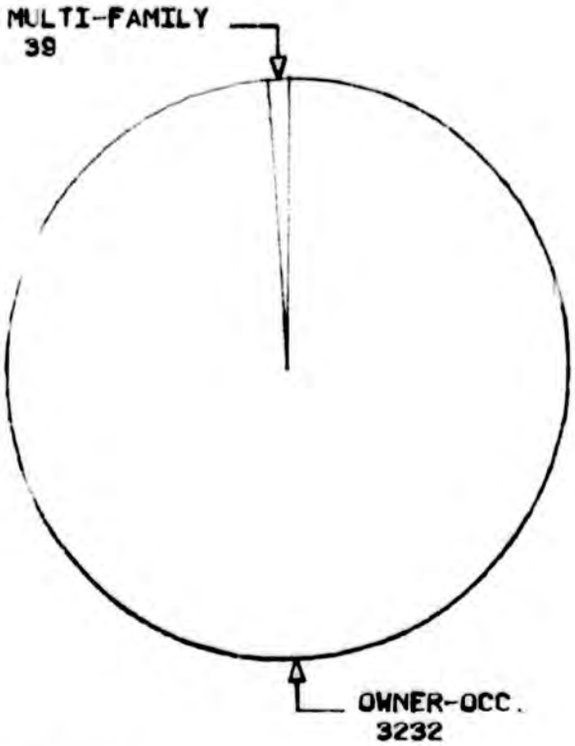
$ MILLIONS IN HOUSING LOANS APPROVED, OWNER-OCCUPIED & MULTI-FAMILY
4TH QUARTER, FY 1984



prepared by House Research Agency

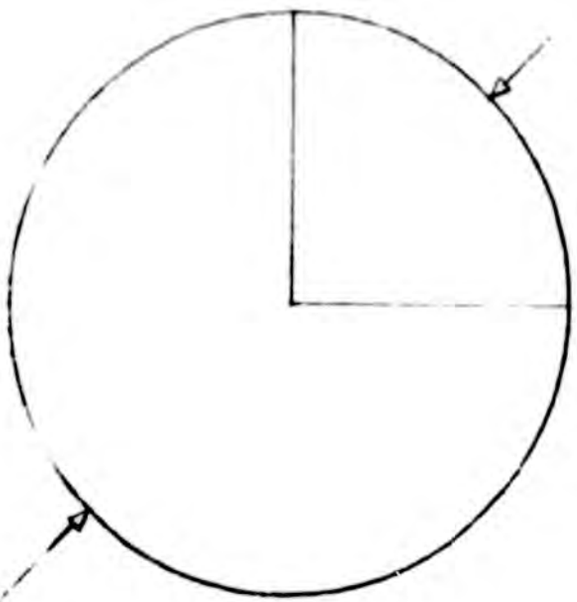
FIGURE 7

NUMBER OF HOUSING LOANS APPROVED, OWNER-OCCUPIED & MULTI-FAMILY
4TH QUARTER, FY 1984



prepared by House Research Agency

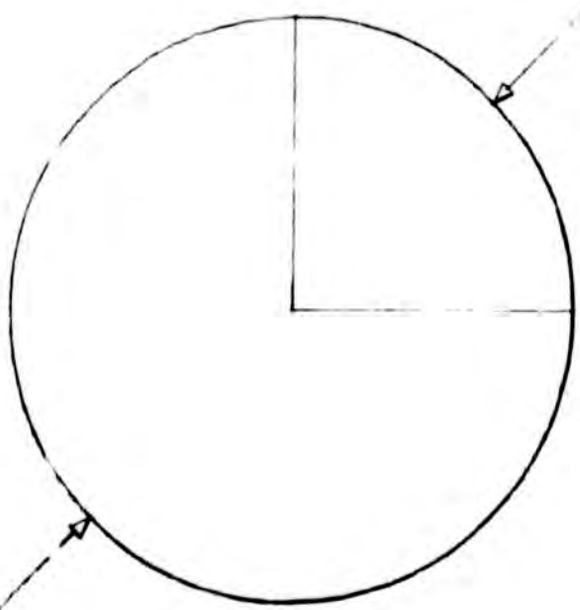
$ MILLIONS IN HOUSING LOANS APPROVED, VETERANS AND NON-VETERANS
4TH QUARTER, FY 1964



prepared by House Research Agency

FIGURE 8

NUMBER OF HOUSING LOANS, VETERANS AND NON-VETERANS
4TH QUARTER, FY 1964



prepared by House Research Agency

AGRICULTURAL REVOLVING LOAN FUND

Department of Natural Resources, Division of Agriculture
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		# Approved* During FY 84	$ Amount Approved During FY 84	# of Loans Outstanding To Date	$ Amount of Loans Outstanding To Date
#	$	#	$				
55	$3,142,195	29	$1,563,341	183	$8,400,230	760	$44,516,005

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91+ DAYS	
#	$	#	$	#	$	#	$
NA	NA	18	$276,912	10	519,055	152	$6,166,547

LOANS IN DEFAULT*

#	$
121	$5,976,863

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-100,000	$100,001-500,000	$500,001-2.5million
46	8	1

MEAN LOAN AMOUNT DURING THE QUARTER

$ 57,130

* The Agriculture Revolving Loan Fund reports closed rather than approved loans.
**Loans in default are defined as delinquent loans that have been turned over to counsel for legal action.

ALASKA GRAIN RESERVE LOAN FUND

Department of Natural Resources, Division of Agriculture
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		# Approved During FY 84	$ Amount Approved During FY 84	# of Loans Outstanding To Date	$ Amount of Loans Outstanding To Date
#	$	#	$				
3	$ 55,197	0	0	4	$ 178,170	4	$ 161,623

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91+ DAYS	
#	$	#	$	#	$	#	$
0	0	0	0	0	0	0	0

LOANS IN DEFAULT**

#	$
0	0

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-50,000	$50,000-100,000	$100,001 250,000	$250,001 500,000	$500,001-1 million	$ 1 million +
3					

MEAN LOAN AMOUNT DURING THE QUARTER

$ 18,399

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

ALASKA HOUSING FINANCE CORPORATION (AHFC)

Department of Revenue, Instrumentality
4th QUARTER FY 84

	Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
	#	$	#	$	#	$	#	$
First Mortgages: Mortgage Subsidy Tax Act Loan Program	1,311	$145,641,150	214	$21,767,850	6,963	$710,008,700	7,248	$ 594,213,271
First Mortgages: not under Mortgage Subsidy Tax Act Loan Program	1,497	$162,414,450	211	22,697,208	4,337	493,986,350	35,332	3,068,087,487
Home Ownership Assistance Program*	298	22,708,200	60	4,524,850	1,173	88,125,050	4,528	168,833,215
Triplex and 4-plex Loan Program*	28	5,519,550	4	913,150	157	31,148,800	NA	NA
Mobile Home Loan Purchase Program	291	11,678,188	78	3,220,762	1,469	56,104,974	3,745	116,481,261
Second Mortgage Loan Program - Taxable Bonds	42	1,959,500	8	346,550	127	5,728,100	562	20,857,320
Second Mortgage Loan Program - Tax-Exempt Bonds	0	0	0	0	0	0	86	1,111,715
TOTALS	3,141	$321,693,288	511	$48,032,370	12,896	1,265,828,124	46,973	$3,800,751,054

*These sub-programs are counted within the top two sub-programs for first mortgages. For this reason, the totals at the bottom of the page do not include these programs.

ALASKA HOUSING FINANCE CORPORATION (cont.)

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS	
#	$	#	$	#	$
991	$77,878,230	212	$16,489,275	289	$19,247,608

LOANS IN DEFAULT*

#	$
36	$3,078,232

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-$50,000	$50,001-$100,000	$100,001-$125,000	$125,001-$150,000	$150,001-$500,000
283	1,862	1,212	604	514

MEAN LOAN AMOUNT DURING THE QUARTER

$102,417

*Loans in default are defined as delinquent loans for which a notice of foreclosure has been filed.

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY (AIDA)

Department of Commerce and Economic Development, Instrumentality
4th QUARTER FY 84

	Approved During the Quarter		Denied During the Quarter		Approved During FY 84 To Date		Loans Outstanding To Date	
	#	$	#	$	#	$	#	$
Umbrella Bond Program	6	$ 8,660,000	3	$ 1,630,000	88	$ 66,055,000	365*	$161,797,684*
Revenue Bond Program	5	8,512,000	0	$ 0	61	$ 98,827,875	NA**	NA**
Federally Guaranteed Loans	47	$10,120,700	0	$ 0	183	$ 38,982,872	308	$ 60,206,116
Multi-Family Housing Loan Account	1	$ 230,000	0	0	6	$ 4,020,000	Included in umbrella loan totals	
TOTALS	59	$ 27,522,700	3	1,630,000	338	$207,885,747	673*	$222,003,800*

*Does not include 699 loans appropriated by the State to AIDA; their outstanding balance is $105,594,819.
**AIDA did not provide the number and dollar amount for outstanding revenue bond loans.

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY (cont.)

DELINQUENCY AT THE END OF THE QUARTER

	1 - 30 DAYS		31 - 60 DAYS		61 - 90 DAYS		91+ DAYS	
	#	$	#	$	#	$	#	$
AIDA-purchased loans	NA	NA	24	$4,890,595	6	$1,568,107	4	$704,485
Appropriated loans	NA	NA	12	$2,304,247	9	987,477	32	$4,815,233

LOANS IN DEFAULT***

	#	$
AIDA-purchased loans	3	$375,755
Appropriated loans	13	$2,581,806

MEAN LOAN AMOUNT DURING THE QUARTER

$466,486

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-100,000	$100,001-250,000	$250,001-500,000	$500,001-1 million	$1,000,001-5 million	$5,000,001 10,000,000	$10,000,001+
10	24	15	4	6	0	0

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

ALASKA MEDICAL FACILITY AUTHORITY

Department of Revenue, Instrumentality
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
#	$	#	$	#	$	#	$
0	$0	0	$0	1	$2,062,000	2	$12,767,000

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91-120 DAYS	
#	$	#	$	#	$	#	$
0	$0	0	$0	0	$0	0	$0

LOANS IN DEFAULT*

#	$
0	$0

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-1 million	$1,000,001-10 million	$10,000,001 +
0	0	0

MEAN LOAN AMOUNT DURING THE QUARTER

$0

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

ALASKA MUNICIPAL BOND BANK AUTHORITY

Department of Revenue, Instrumentality
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
#	$	#	$	#	$	#	$
0	0	0	0	3	$6,950,000	42	$145,462,000

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91-120 DAYS	
#	$	#	$	#	$	#	$
0	$0	0	$0	0	$0	0	$0

LOANS IN DEFAULT*

#	$
0	$0

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-500,000	$500,001-1 million	$1,000,001+
0	0	0

MEAN LOAN AMOUNT DURING THE QUARTER

0

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

ALASKA POWER AUTHORITY

Department of Commerce and Economic Development, Instrumentality
4th QUARTER FY 84

	Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
	#	$	#	$	#	$	#	$
Power Project Fund	3	$4,500,000	0	$0	5	$7,500,000	14	$29,229,127
Rural Electrification Revolving Loan Fund	0	$0	0	$0	5	$2,304,688	7	$ 3,844,688
TOTALS	3	$4,500,000	0	$0	10	$9,804,688	21	$33,073,815

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91-120 DAYS	
#	$	#	$	#	$	#	$
0	$0	0	$0	0	$0	0	$0

LOANS IN DEFAULT**

#	$
0	$0

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-250,000	$250,001-500,000	$500,001-1 million	$1,000,001-5 million	$5,000,001-10 million	10 million+
	1		2		

MEAN LOAN AMOUNT DURING THE QUARTER

$1,500,000

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

ALASKA RESOURCES CORPORATION (ARC) *

Department of Revenue, Instrumentality
4th QUARTER FY 84

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

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

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

DELINQUENCY AT THE END OF THE QUARTER

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

LOANS IN DEFAULT**

#	$
5	$3,575,819

NUMBER OF LOANS AWARDED DURING THE QUARTER, BY RANGE

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

MEAN LOAN AMOUNT DURING THE QUARTER

0

*ARC considers loans to be current until the 31st day of delinquency. In previous loan reports, delinquency may have been overstated as these loans were classified as delinquent.
**Loans in default are defined as delinquent loans that have been turned over to counsel for legal action.

ALTERNATIVE TECHNOLOGY AND ENERGY REVOLVING LOAN FUND

Department of Commerce and Economic Development, Division of Investment and Division of Accounting and Collections
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
#	$	#	$	#	$	#	$
102	1,061,061	6	$86,516	392	$3,509,500	1,868	$10,806,000

DELINQUENCY AT THE END OF THE QUARTER (estimated)

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$	#	$	#	$	#	$
177	1,076,100	55	$326,100	44	$245,600	165	$760,100

LOANS IN DEFAULT*

#	$
2	$23,000

NUMBER OF LOANS APPROVED DURING THE QUARTER BY RANGE

$0-5,000	$5,001-10,000	$10,001-50,000
25	15	62

MEAN LOAN AMOUNT DURING THE QUARTER

$10,402

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

BULK FUEL REVOLVING LOAN FUND

Department of Commerce and Economic Development, Division of Investment and Division of Accounting and Collections
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
#	$	#	$	#	$	#	$
18	$811,918	0	$0	51	$1,979,500	38	$403,900

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$	#	$	#	$	#	$
2	$17,300	2	$56,000	3	$54,000	3	$21,500

LOANS IN DEFAULT*

#	$
0	$0

NUMBER OF LOANS APPROVED DURING THE QUARTER BY RANGE

$0-25,000	$25,001-50,000	$50,001-100,000	$100,000 +
0	18	0	0

MEAN LOAN AMOUNT DURING THE QUARTER

$45,106

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

CHILD CARE FACILITY REVOLVING LOAN FUND

Department of Commerce and Economic Development, Division of Investment and Division of Accounting and Collections
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
#	$	#	$	#	$	#	$
0	0	2	45,717	11	$391,600	24	$671,000

DELINQUENCY AT THE END OF THE QUARTER (estimated)

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$	#	$	#	$	#	$
2	$51,000	1	$41,200	1	$10,800	0	0

LOANS IN DEFAULT*

#	$
0	$0

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-10,000	$10,001-30,000	$30,001-50,000	$50,000-75,000	$75,001+
0	0	0	0	0

MEAN LOAN AMOUNT DURING THE QUARTER

0

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

COMMERCIAL FISHING REVOLVING LOAN FUND

Department of Commerce and Economic Development, Division of Investment and Division of Accounting and Collections
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loas Outstanding To Date	
#	$	#	$	#	$	#	$
86	$4,813,187	35	$1,679,023	240	$13,914,800	1,733	$80,249,500

DELINQUENCY AT THE END OF THE QUARTER (estimated)

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$		$	#	$	#	$
15	$527,500	4	150,800	6	$526,000	184	10,347,000

LOANS IN DEFAULT*

#	$
11	$607,000

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-25,000	$25,001-50,000	$50,001-75,000	$75,001-100,000	$100.000+
21	21	18	17	9

MEAN LOAN AMOUNT DURING THE QUARTER

$55,967

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

FISHERIES ENHANCEMENT REVOLVING LOAN FUND

Department of Commerce and Economic Development, Division of Investment and Division of Accounting and Collections
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
#	$	#	$	#	$	#	$
6	$3,400,342	0	0	18	$6,775,800	84	$33,989,400

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$	#	$	#	$	#	$
0	$0	0	$0	0	$0	0	$0

LOANS IN DEFAULT*

#	$
0	$0

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-100,000	$100,001 250,000	$250,001- 500,000	$500,001- 750,000	$750,001- 1 million	1 million +
0	1	3	1	0	1

MEAN LOAN AMOUNT DURING THE QUARTER

$566,723

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

HISTORICAL DISTRICT REVOLVING LOAN FUND

Department of Commerce and Economic Development, Division of Investment and Division of Accountin(and Collections
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
#	$	#	$	#	$	#	$
0	$0	0	$0	1	$100,000	5	$255,200

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$	#	$	#	$	#	$
0	$0	0	$0	0	$0	0	$0

LOANS IN DEFAULT*

#	$
0	$0

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-25,000	$25,001-50,000	$50,001-100,000
0	0	0

MEAN LOAN AMOUNT DURING THE QUARTER

$0

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

HOUSING ASSISTANCE LOAN FUND (HALF)*

Department of Community and Regional Affairs, Division of Housing Assistance
4th QUARTER FY 84

	Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
	#	$	#	$	#	$	#	$
Nonconforming Housing	3	$ 170,050	1	$124,000	145	$9,525,400	738	$45,048,822
Rural Owner-Occupied Housing**	116	$10,900,550	6	$536,800	380	$34,107,850	529	$47,175,959
Rural Non-Owner-Occupied Housing**	10	$ 1,789,900	1	$220,000	32	$ 6,057,150	42	$ 9,964,139
Totals	129	$12,860,500	8	$ 880,800	557	$49,690,400	1,309	$102,188,920

*The Alaska Housing Finance Corporation holds the loans made by these programs prior to July 1, 1982.

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$	#	$	#	$	#	$
0	$0	15	1,403,673	3	$348,483	5	$214,017

LOANS IN DEFAULT

#	$
0	0

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-50,000	$50,001-100,000	$100,001-150,000	$150,001-500,000	$500,001+
17	61	35	16	0

MEAN LOAN AMOUNT DURING THE QUARTER

$ 99,693

MEDICAL MALPRACTICE LIABILITY REVOLVING LOAN FUND

Department of Commerce and Economic Development, Division of Insurance
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
#	$	#	$	#	$	#	$
0	$0	0	$0	0	$0	1	$3,000,000

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$	#	$	#	$	#	$
0	$0	0	$0	0	$0	0	$0

LOANS IN DEFAULT*

#	$
0	$0

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-1 million	$1,000,001-3 million
0	0

MEAN LOAN AMOUNT DURING THE QUARTER

$0

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

MINING LOAN FUND

Department of Commerce and Economic Development, Division of Investment and Division of Accounting and Collections
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
#	$	#	$	#	$	#	$
1	$ 468,453	0	0	14	$3,863,200	46	$19,008,300

DELINQUENCY AT THE END OF THE QUARTER (estimated)

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$	#	$	#	$	#	$
4	3,756,700	1	21,800	0	0	16	$6,842,500

LOANS IN DEFAULT*

#	$
0	0

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-100,000	$100,001-250,000	$250,001-500,000	$500,001-750,000	$750,001-1 million	$1 million +
0	0	1	0	0	0

MEAN LOAN AMOUNT DURING THE QUARTER

$468,453

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

RESIDENTIAL ENERGY CONSERVATION FUND

Department of Commerce and Economic Development, Division of Investment and Division of Accounting and Collections
4th QUARTER FY 84

Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
#	$	#	$	#	$	#	$
50	$ 189,036	3	$10,343	322	$1,280,000	1,563	$5,251,300

DELINQUENCY AT THE END OF THE QUARTER (estimated)

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$	#	$	#	$	#	$
139	$461,500	66	$232,100	29	$91,800	75	$253,800

LOANS IN DEFAULT*

#	$
3	$13,400

NUMBER OF LOANS APPROVED DURING THE QUARTER, BY RANGE

$0-2,500	$2,501-5,000
16	34

MEAN LOAN AMOUNT DURING THE QUARTER

$3,780

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

SCHOLARSHIP REVOLVING LOAN FUND

Department of Education, Commission on Postsecondary Education
4th QUARTER FY 84

Approved During the Quarter		Rescinded* During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
#	$	#	$	#	$	#	$
576	97,666	31	111,648	14,785	$62,912,316	63,172	$185,495,610

DELINQUENCY AT THE END OF THE QUARTER

1-29 DAYS**		30-59 DAYS		60-89 DAYS		90-120 DAYS	
#	$	#	$	#	$	#	$
NA	NA	2,204	$8,072,227	897	$2,710,161	561	$1,687,758

LOANS IN DEFAULT***

#	$
3,718	$10,581,652

	MEAN LOAN AMOUNT DURING THE QUARTER
Undergraduate	NA
Graduate	NA

*The commission does not formally deny loans; loan examiners discourage ineligible applicants from applying. However, during certain times of the year the commission receives notification that students have cancelled their loans because they have withdrawn from school or found alternate funding.
**The commission does not consider loans to be delinquent until the 30th day.
***Loans in default are defined as loans that are more than 120 days delinquent.

SMALL BUSINESS REVOLVING LOAN FUND*

Department of Commerce and Economic Development, Division of Accounting and Collections
4tn QUARTER FY 84

Loans Outstanding To Date	
#	$
543	$71,064,500

DELINQUENCY AT THE END OF THE QUARTER (estimated)

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$	#	$	#	$	#	$
88	11,671,800	54	7,724,000	37	$4,880,200	97	$9,922,300

LOANS IN DEFAULT**

#	$
9	$ 1,763,000

*The Small Business Loan Fund is inactive; the Division of Accounting and Collections continues to service the above loans.
**Loans in default are defined as delinquent loans that have been turned over to counsel for legal action.

TOURISM REVOLVING LOAN FUND*

Department of Commerce and Economic Development, Division of Accounting and Collections
4th QUARTER FY 84

Loans Outstanding To Date	
#	$
20	$6,341,500

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91 + DAYS	
#	$	#	$	#	$	#	$
1	47,400	1	37,500	0	0	4	$949,800

LOANS IN DEFAULT**

#	$
0	$0

*The Tourism Revolving Loan Fund is inactive; the Division of Accounting and Collections still services the above loans.
**Loans in default are defined as delinquent loans that have been turned over to counsel for legal action.

VETERANS' REVOLVING LOAN FUND*

Department of Commerce and Economic Development, Division of Accounting and Collections
4th QUARTER FY 84

Loans Outstanding To Date**	
#	$
2,099	$94,383,700

DELINQUENCY AT THE END OF THE QUARTER (estimated)

1-30 DAYS		31-60 DAYS		61-90 DAYS		91+ DAYS	
#	$	#	$	#	$	#	$
180	$8,402,400	73	$3,616,100	48	$2,136,200	144	$6,178,400

LOANS IN DEFAULT***

#	$
10	$540,000

*The Veterans' Revolving Loan Fund is inactive; the Division of Accounting and Collections still services the above loans.
**Servicing of all AHFC-owned veteran loans transferred as of 11/1/83.
***Loans in default are defined as delinquent loans that have been turned over to counsel for legal action.

WATER RESOURCES REVOLVING LOAN FUND*

Department of Commerce and Economic Development, Division of Accounting and Collections
4th QUARTER FY 84

Loans Outstanding To Date	
#	$
1	$909,800

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91+ DAYS	
#	$	#	$	#	$	#	$
0	$0	0	$0	0	$0	0	$0

LOANS IN DEFAULT**

#	$
0	$0

*The Water Resources Revolving Loan Fund is inactive; the Division of Accounting and Collections still services the one outstanding loan.
**Loans in default are defined as delinquent loans that have been turned over to counsel for legal action.

SCOMM
#50:8

1) Create file.
2) Set up a budget file to track

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907 465 3800

MEMORANDUM

TO : THE HONORABLE JOHN L. SUND
HOUSE LOANS

FROM : PAMELA A. STOOPS, MANAGER
ADMINISTRATIVE SERVICES

DATE : JULY 19, 1985

SUBJECT: FY 86 INTERIM COMMITTEE BUDGET

Speaker Grussendorf has authorized an interim committee budget for FY 86 to the House Loans committee in the amount of $50,960.00. A $25,000.00 allocation was also allotted to your committee for a professional services contract but will not be reflected in your FY 86 monthly budget reports.

71000	Personal Services	$42,860.00
72000	Travel	5,000.00
73000	Contractual	2,800.00
74000	Supplies	300.00
75000	Equipment	0.00
		$50,960.00

Our accounting office has assigned your committee the account code 31-92-2-618. All expenditures of the committee should be forwarded to this office in the form of an invoice or receipt, with an authorized signature, and the account code written clearly on the face of the invoice.

The account chairs are authorized to sign any committee expenses, along with any individuals designated by the chair. Our records indicate that you are the authorized signer of this account. If this is not correct, please submit in writing the names of individuals whom you wish to authorize.

Please remember all travel requests must be approved by the Speaker's Office. No equipment purchases are authorized without prior written approval from the Speaker's Office.

It is the responsibility of the committee to work within the allocated budget. Monthly reports will be issued showing the current status of

the account. Please review these closely. If you have any questions, please give me a call at 465-3850.

The unexpended funds for the House Loans committee as of January 11, 1986, will be unavailable during session for expenditures. Interim committees do not operate during session. Bills will not be paid for any expenditures dated after January 10, 1986. The balance of your FY 85 committee funds will be available after session adjourns in May of 1986 to pay for your staff and committee expenses through June 30, 1986. No additional funds will be available to your committee until July 1, 1986.

SCOMM

#50:9

Red Dog funds may be tied to airport bonds

Daily News reporter

JUNEAU — The House Loans Committee on Tuesday discussed options for attaching a measure to aid the proposed Red Dog mine to a bill authorizing the sale of bonds for improvements to Anchorage International Airport.

The proposed amendment to the bill would authorize the Alaska Industrial Development Authority to sell up to $175 million worth of bonds to finance construction of a road and port to serve the proposed zinc mine north of Kotzebue.

The original bill would authorize the sale of $86.5 million worth of bonds for improvements to the main Anchorage airport.

Linking the Red Dog bonds to the airport bonds would make it more difficult for Anchorage legislators to vote against the Red Dog proposal.

Rep. John Sund, D-Ketchikan and chairman of the loans committee, said the Sheffield administration, which has requested the aid for Red Dog, asked that the Red Dog bond authorization be attached to the airport bonds.

The administration has requested the Red Dog bond authorization be approved with no legally binding conditions attached to it, but the loans committee discussed making the bond authorization contingent on AIDA and the mine developers satisfying several requirements.

The loans committee took no action on the Red Dog proposal but Sund said the committee will continue the discussion on Thursday.

The proposed mine would be developed by Cominco Ltd., a Canada-based international mining company, in partnership with the Kotzebue-based NANA Regional Corp., which owns the mineral deposit.

Cominco has agreed verbally to repay the state $260 million over 30 years in the form of user fees for the road and port. That would make state financing of the mine transportation system a low-interest loan with an effective subsidy of tens of millions of dollars.

Under the loans committee staff proposal for bonding conditions, Cominco would have agree to pay road and port user fees that ensure a "reasonable return on the state's investment." Cominco would have to agree to an accelerated user-fee payment plan if zinc prices rise above a level AIDA determines would yield a "reasonable profit" to Cominco.

Terry Elder, deputy commissioner of the state Department of Commerce and Economic Development, told committee members the proposed conditions on bond authorization could leave the state vulnerable to lawsuits from opponents of the project who might disagree with the administration on wh constitutes a reasonable return to state and a reasonable profit for Co inco.

Alaska State Legislature

Red Dog

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
(907) 465-4920

TUESDAY, APRIL 16, 1985
3:30 p.m.
Capitol Room 124 (House Judiciary)

* HB 105 "An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

Loan Program Funding for FY 86.

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

* Indicates first public hearing.

Official Business

COMMITTEE: House Loans Committee

DATE: 4/16/85

SIGN-IN

Subject of meeting: HB105 w/ AIDA And Loan Funding

NAME	ADDRESS	PHONE	REPRESENTING	DO YOU WANT TO TESTIFY?
Terry Elder	Pouch D	465-2502	DCED	yes
Bert Wagnon	1577 C. St Suite 304	274-1651	AK Ind. Dev. Auth.	Yes
Phil Barnett	419 6th St., Suite 321, JNU	586-2751	Sierra Club Legal Defense Fund	yes
Ron Lind	Pouch Z	465-3911	DOT & PF	—
BRIAN ALLEN	P.O. Box 73075 Fairbanks AK 99707	Juneau: 586-2345	Alaska Environ. Lobby	yes
H.M. Gregerich	6562 Lakeway, Anchorage	243-0908	Commerce Alaska	if required
Don Argetsinger	4706 Harding Dr. Anchorage	248-3070	NANA	If Required

HOUSE SPECIAL COMMITTEE
ON STATE LOANS
April 16, 1985
3:30 p.m.

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

COMMITTEE CALENDAR

HB 105 "An Act relating to the international airports revenue bonds authorization; and providing for an effective date." (Also Red Dog amendment.)

WITNESS REGISTER

Bert Wangnon, Executive Director
Alaska Industrial Development Authority
1577 "C" Street, Suite 304
Anchorage, AK 99501
274-1651
Position Statement: Testified in favor of Red Dog amendment

Representative Steve Frank
Pouch V
Juneau, AK 99811
465-3709
Position Statement: Questions and comments

Terry Elder, Deputy Commissioner
Department of Commerce and Economic Development
Pouch D
Juneau, AK 99811
465-2502
Position Statement: Testified in favor of Red Dog amendment

Don Argetsinger
Nana Regional Corporation
4706 Harding Drive
Anchorage, AK
248-3030
Position Statement: Testified in favor of Red Dog amendment

Mary Nordale, Commissioner
Department of Revenue
Pouch S
Juneau, AK 99811
465-2300

Position Statement: Testified in favor of Red Dog amendment

PREVIOUS ACTION

HB 105: Read the first time 01/23/85 with Governor's Transmittal Letter and referred to TRSP Rpt 3DP 1NR, Loans Referral added on 04/10/85, State Loans, Finance and Rules; fiscal note with analysis in Supplement #7. Previous hearings regarding Red Dog Mine by Loans Committee 2/8/85 (joint with Resources), 3/26/85 and 3/27/85.

ACTION NARRATIVE

TAPE #21, SIDE ONE

Recording Number 001

The meeting was called to order at 3:33 p.m. by Chairman Sund. Members present included Representative Sund, Representative Uehling, Representative Fuller, and Representative Cotten. Representative Duncan arrived at 3:45 p.m. Representative Frank also attended. Chairman Sund said that the committee would be considering bond authorization for AIDA in the form of amendments to HB 105.

Number 056

Mr. Terry Elder, Deputy Commissioner for DCED, explained what the proposed amendments would do to HB 105. He said they would give AIDA the authority to issue bonds or notes for the financing of the DeLong Mountain Transportation Project in an amount not to exceed $175 million. He added that there also are other amendments proposed by the committee staff that outline conditions that have to be met before the bonds can be sold.

Number 089

Chairman Sund asked what is the statutory requirement that the Legislature approve AIDA's bonding authority.

Number 095

Mr. Bert Wagnon, Executive Director of AIDA, answered that, according to AS 44.88.090, every project exceeding $50 million must be approved by the Legislature.

Number 155

Chairman Sund started to go through the conditions outlined in the amendment, stating that bonds or notes may not be issued until certain conditions are met. He asked if bond council would be available to

address the applicability of the amendments.

Number 170 — Mr. Wagnon said that, although bond council had not yet reviewed these specific amendments, AIDA does not feel that any of the conditions destroy the tax exemption. He added that they wanted to avoid creating a direct link between Cominco's tariff payments and the debt service on the bonds, because that may jeopardize the tax exempt status of the bonds.

Number 210 — Chairman Sund asked Mr. Elder and Mr. Wagnon for their reactions to the proposed conditions.

Number 215 — Mr. Elder said that there are some wording problems, for example in item 1c, stating that payments by Cominco, Ltd., to the state will be accelerated. He said that "state" should be replaced with "AIDA". In item 4, he said that they wouldn't want to have to obtain a revenue ruling that all of the bonds would qualify as tax exempt. He suggested deleting everything from "obtains" through "status". He added that the conditions had given them heartburn but that, since they do not destroy the tax exempt status, AIDA would like to see the committee move ahead with them.

Number 265 — Chairman Sund said that, since there is no finance plan, the conditions act as a "comfort factor" for the committee.

Number 270 — Mr. Elder said that, when things like "reasonable profit" are included in the conditions, his concern would be the possibility of litigation in the future.

Number 278 — Representative Uehling asked Mr. Elder if he would make suggestions as to what should be changed.

Number 281 — Mr. Elder said that his suggestion would be to include the conditions in a letter of intent, instead of putting them into law. He said that the committee could still accomplish its objectives without the threat of litigation.

Number 295 — Chairman Sund asked if AIDA's intention to buy the road corridor from Nana at fair market value was part of the plan all along.

Number 300 Mr. Wagnon answered that detailed plans had not yet been worked out, but that he was also surprised to learn of this, because in tentative discussions with Nana, they had talked in terms of easements, rights of way, and long term lease arrangements, but not actually buying the land.

Number 315 Chairman Sund asked why they wouldn't pursue fee simple ownership of the land.

Number 320 Mr. Wagnon answered that it would be against Nana's corporate philosophy to dispose of any of their land.

Number 323 Representative Cotten said that, since the road would benefit Nana, it seems strange that AIDA would have to buy the land. He suggested excluding the words "more than fair market value" and include the word "cost", and after the word land include the words "and materials".

Number 344 Mr. Elder said that, if the legislature is that specific about what should be a negotiable item, they may run the risk of legal problems leading to loss of the contract.

Number 350 Chairman Sund pointed out that there is no contract.

Number 355 Mr. Elder said no, but this would be in essence forming a contract.

Number 360 Representative Frank said that, if Nana wants the state to provide beneficial financing, then they should be willing to put up their part of the deal.

Number 365 Mr. Wagnon answered that Nana and AIDA have not yet agreed on what the cost will be. He said that, besides the land, there is also the material involved, and Nana will control the vast amount of material (gravel, rip rap, rock.) He said it wouldn't be appropriate for the state to say that they were going to obtain land for free that belongs to a private corporation. Some of these negotiations should not be put into statute.

Number 380 Chairman Sund said that the committee is trying to give AIDA the authority to issue

bonds, and since AIDA has not given any specifics on these issues, the committee coming up with guidelines to give AIDA direction and make the committee more comfortable.

Number 389 — Representative Duncan asked if the land in the national monument has been conveyed to Nana by the Dept. of Interior yet.

Number 400 — Mr. Don Argetsinger, Vice President of Nana Regional Corporation, answered that the road would go through land owned by Nana, state land, and it is proposed to go across 15 miles of the monument. He said that they had looked at two options:

(1) to try to get a right of way from the Secretary of Interior with the approval of Congress to go across the monument; and

(2) to do a land exchange between Nana and the Park Service. They chose the second option. Once this is done, they would grant a right of way to AIDA, with an agreed upon fee for the use of the right of way and the materials. He said that it is against corporate policy to sell the land, and the materials cannot be given away because they are share with other regional corporations. Appraisals would be done to determine the value of the land and gravel.

Number 439 — Chairman Sund asked if Nana feels that the state should pay fair market value for these things, or if not, what the cost would be.

Number 442 — Mr. Argetsinger answered that Nana feels that they need to get a fair market value price, independently determined, for the right of way.

Number 449 — Mr. Elder said these kinds of questions are inappropriate for the legislature to consider, since they should be between AIDA and Nana. He added that it is not without precedent to buy materials from a regional corporation.

Number 453 — Chairman Sund said that the committee is trying to get an idea of what is being contemplated, and they are not inappropriate.

Number 464 — Representative Duncan said that it looks to him as though the language talks about fair market value, and that Nana is talking about fair market value, so that it is not likely to end up being less.

Number 470 — Mr. Elder answered that there is no reason why Nana should not be compensated for the land and the materials, but that according to the wording, it could be any amount from zero to fair market value.

Number 480 — Representative Frank asked if the project cost estimate includes the cost of materials.

Number 483 — Mr. Wagnon said that the costs had been broken down for the materials, but he could not say exactly what the total is.

Number 490 — Chairman Sund asked for Mr. Argetsinger's comments on number 2 of the conditions, pertaining to the monument land exchange.

Number 495 — Mr. Argetsinger said that Nana is optimistic that the deal will go through.

Number 498 — Representative Uehling asked if the language in numbers 2 or 3 would restrict Nana in their negotiations.

Number 500 — Mr. Argetsinger answered no problem.

Number 514 — Representative Frank asked if the land being given up is larger or smaller than the land Nana would get in exchange, or if it is an acre for acre exchange.

Number 516 — Mr. Argetsinger answered that it is almost an acre for acre exchange. Nana will give up about 900 acres more than they are getting in exchange.

Number 524 — Representative Frank said that it seems inconsistent to be able to trade land but not sell it.

Number 527 — Mr. Argetsinger said that Nana does not feel that a sale is necessary, because they are achieving the same purpose as if they granted title to DOT.

Number 535 — Chairman Sund asked if there would be any problem with selling bonds to build a road

that will be on land not owned by AIDA.

Number 538 — Mr. Wagnon answered that there would be no problem. It depends on the terms of the lease. AIDA will finance nothing unless the lease is 10 years beyond the amortization of the loan.

Number 551 — Ms. Mary Nordale, Commissioner of Revenue, said that many states have built public roads on lease-hold right of ways.

Number 560 — Chairman Sund asked Mr. Wagnon if he envisions the bond authorization to to more than build the road and port or if some funds will be held in abeyance for future roads.

Number 565 — Mr. Wagnon said that AIDA wanted to make sure that they had other dedicated lands available because of possible additional users.

Number 575 — Chairman Sund said that he thinks it is essential that the agreement regarding dedicated lands be between AIDA and Nana, but the question remains whether AIDA expects to spend additional money in that region without coming back to the Legislature.

Number 580 — Mr. Wagnon said no, unless the proposed project is less than $50 million.

Number 584 — Representative Frank asked what is Nana's position regarding a proposed corridor going all the way across the state.

Number 608 — Mr. Argetsinger that there has been talk about the potential to serve other claims in the area in the future.

CHANGE TAPE #21, SIDE TWO

Number 010 — Chairman Sund asked Mr. Elder who the finance plan would be submitted to.

Number 013 — Mr. Elder answered that it would be submitted to the Board of AIDA, the Governor, the Legislature, and the State Bond Committee, as required by AS 44.88.173.

Number 040 — Chairman Sund asked about the toll schedule issue and the question of reasonable rate of

return (item #5). What, he asked, would AIDA do with the money if the project was a great success.

Number 050 — Mr. Wagnon answered that the money would go into the Economic Development Fund, and that the tentative plan is to have an agreement between AIDA and the state for funds to flow back to the state. The bond holders will have first call on the funds, however.

Number 070 — Chairman Sund asked how the funds would get from the Economic Development Fund into the General Fund.

Number 073 — Mr. Wagnon answered that it could be a loan agreement, or it could be subject to reappropriation annually, to leave it in the fund for future projects, etc.

Number 091 — Representative Duncan asked, if the money were left in the Economic Development Fund, would AIDA then be able to use it without legislative approval.

Number 095 — Mr. Wagnon said that, within the $50 million limit, they could authorize bonds, but that it had never occurred to him that AIDA might have cash available in large amounts to spend on other projects.

Number 098 — Representative Duncan asked if this meant the Legislature would not need to do anything to keep AIDA from spending the money.

Number 100 — Mr. Wagnon answered yes, no special action would need to be taken.

Number 138 — Representative Cotton said that the committee isn't sure what AIDA is able to do with the cash that goes into the Economic Development Fund.

Number 145 — Mr. Wagnon said that legally he thinks AIDA could build a project without legislative approval if the cost was under $50 million, but he would need to check the statutes to be sure.

Number 157 — Chairman Sund said, under item #5, he wants to know if periodic adjustments to the toll schedule could ever result in tolls going to zero, and if so, for what reasons.

Number 165 — Mr. Wagnon said that his opinion is that the project should be treated like the Brooklyn Bridge in that when you go across you pay a certain fee. Cominco, he added, has offered other proposals. One option is to bind Cominco contractually to make minimum tolls for a set number of years, after which the toll would be adjusted. It would be up to the AIDA Board at that time to determine what the tolls would be. Conceivably, the tolls could go to zero. The more conditions that are placed on the project, he said, the worse it will look to the bond council and the greater the chance of litigation. A letter of intent would be easier to deal with.

Number 210 — Representative Duncan said that zero tolls could not be construed to be a "reasonable return to the state", so zero tolls would not be an option under the language of the amendment.

Number 215 — Mr. Elder said that, at some time in the future, tolls may drop significantly because of an increase in the number of users.

Number 245 — Chairman Sund said that the Legislature will have to make up its mind as to whether it will build the road and port as a total grant, or whether the state will expect some money back, and if so, how much.

Number 250 — Mr. Elder said that there has never been any suggestion that it be a total grant.

Number 255 — Mr. Wagnon said that Cominco has agreed to pay user fees for the road and port of $260 million over a 30 year period. This does not include Operation and Maintenance costs, which will always be paid by the users.

Number 271 — Chairman Sund asked what authority AIDA would have to impose continuing toll fees on Cominco after they have paid back the $260 million.

Number 275 — Mr. Elder said that AIDA has the authority to negotiate a contract with Cominco that would settle those kinds of questions.

Number 282 — Mr. Wagnon said that AS 44.88.080 gives AIDA the authority to enter into such contracts.

Number 295 — Chairman Sund pointed out that there is no mechanism currently in place for the money to flow from the Economic Development Fund to anywhere else.

Number 305 — Mr. Elder said that reappropriation would be a mechanism for accomplishing this.

Number 345 — Mr. Wagnon said that probably the Economic Development Fund would be pledged for payment of the bonds.

Number 355 — Chairman Sund said that item #6 addresses the question of who would make sure that the conditions of the agreement are being met, and assigns this job to the Budget and Audit Committee.

Number 364 — Representative Duncan pointed out that the Budget and Audit Committee has limited powers, and #6 does not say what would happen after Budget and Audit gets the report.

Number 370 — Mr. Wagnon said that he has problems with the word "reasonable" and what this means.

Number 407 — Commissioner Nordale said that she is concerned about having the bond conditions encorporated in the authorization to issue the bonds. She suggested that Section 2 be ended at the end of the sentence (after "project") and another section be created stating that any financing plan approved by the Board of AIDA would encorporate to the extent feasible the following conditions. This would give them the leeway to deal with the ambiguities in the conditions.

Number 490 — There was discussion about having bond council available to answer questions and give advice, and about Commissioner Nordale's suggestions.

Number 570 — Chairman Sund said that a proposed CS for HB 105 would be prepared in time for a 3:00p.m. Thursday meeting.

Number 579 — The meeting was adjourned at 5:00 p.m.

HOUSE SPECIAL COMMITTEE
ON STATE LOANS
April 18, 1985
3:00 p.m.

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

COMMITTEE CALENDAR

HB 105 "An Act relating to the international airports revenue bonds authorization; and providing for an effective date." (With Red Dog Amendment.)

WITNESS REGISTER

Terry Elder, Deputy Commissioner
DCED
Pouch D
Juneau, AK 99811
465-2502
Position Statement: Testified in favor of Red Dog.

Ken Vassar
Wohlforth and Flint
900 W. 5th Avenue, Suite 600
Anchorage, AK 99501
276-6401
Position Statement: Testified as Bond Council for AIDA.

Mary Nordale, Commissioner
Department of Revenue
Pouch S
Juneau, AK 99811
465-2300
Position Statement: Observer.

David Kennedy
GCO Minerals Co.
1031 W. 4th Ave. #300
Anchorage, AK 99501
274-9541
Position Statement: Testified in favor of DeLong Mountains Transportation Project.

Brian Allen
Alaska Environmental Lobby
P.O. Box 73075

Fairbanks, AK 99707
586-2345
Position Statement: Opposed to DeLong Mountain Transportation Project.

Phil Barnett
Sierra Club Legal Defense Fund
419 6th Street, Suite 321
Juneau, AK 99801
586-2751
Position Statement: Opposed to DeLong Mountain Transportation Project.

Maureen Kennedy, Director
AKPIRG
P.O. Box 1093
Anchorage, AK 99510
278-3661
Position Statement: Posed questions regarding Red Dog.

Don Argetsinger
Nana Regional Corporation
4706 Harding Drive
Anchorage, AK 99501
248-3030
Position Statement: Testified in favor of Red Dog.

PREVIOUS ACTION

HB 105: Read the first time 01/23/85 with Governor's Transmittal Letter and referred to TRSP Rpt 3DP 1NR, Loans Referral added on 04/10/85, State Loans, Finance and Rules; fiscal note with analysis in Supplement #7. Previous hearings regarding Red Dog Mine by Loans Committee 2/8/85 (joint with Resources), 3/26/85 and 3/27/85. HB 105 with Red Dog testimony heard by House Loans Committee on 4/16/85.

ACTION NARRATIVE

TAPE # 22, Side One
Recording
Number 001

The meeting was called to order by Chairman Sund at 3:12 p.m. Members present included Representative Sund, Representative Cotten, and Representative Fuller. Representative Uehling arrive at 3:35. Representative Duncan arrive at 3:44. Chairman Sund explained that CSHB 105 (Loans) adds three sections to the bill: Sec. 2 authorizes

AIDA to sell $175 million in bonds to finance the DeLong Mountain Transportation Project; Sec. 3 lists the conditions that must first be met before the bonds are issued; and Sec. 4 requires AIDA to report annually to the Legislative Budget and Audit Committee, and to turn over to the Department of Revenue any toll money received in excess of what is required to pay off the bonds. This money would be deposited in the General Fund.

Number 107 — Mr. Terry Elder, Deputy Commissioner for DCED, commended the committee for the work done on the CS. He said it would accomplish the goals laid out in the last meeting and also allow for work to proceed on the project. He said that he was pleased with the CS and supportive of it.

Number 140 — Representative Cotten asked if Mr. Elder's view was also the position of the Administration.

Number 141 — Mr. Elder answered yes, it is the Administration's position.

Number 142 — Representative Cotten asked why the Administration did not introduce a bill that would allow the issue to be considered separately from the Anchorage Airport Bonds.

Number 145 — Mr. Elder said that he did not know why.

Number 149 — Mr. Ken Vassar of Wohlforth and Flint, Bond Council for AIDA, said that with respect to the Red Dog Project, AIDA has been retained by Cominco. For this reason, AIDA has retained the services of an independent bond council for the DeLong Mountain Transportation Project. He said that he would discuss the effects of this legislation on bond issuance and the ability of AIDA to issue bonds under the conditions outlined in the CS. He said that it appears to be a good bill with conditions that can be met without hindering or unnecessarily obstructing the issuance of the bonds.

Number 190 — Chairman Sund asked Mr. Vassar what AIDA's bonding history is, and what do they call their bonds.

Number 195 — Mr. Vassar responded that the term "revenue

bonds" refers to bonds where the debt service payments are secured solely by the revenue of the project being financed. Some of AIDA's bonds are secured in this way, but they also issue general obligation bonds of the Authority, in which case the bond holders also have the right to look to certain other assets for security for the bonds.

Number 225 — Chairman Sund asked, if the project goes ahead and bonds are sold, will any other of AIDA's assets be exposed.

Number 230 — Mr. Vassar answered that it would depend on how the project is put together. Typically, he added, AIDA pledges a particular fund.

Number 238 — Representative Cotten asked Mr. Elder what his intention is as far as what might be negotiated.

Number 240 — Mr. Elder said that they do not want to be restricted to Revenue bonds, but that it is the intention to pledge only the Economic Development Fund, its assets and cash flow.

Number 250 — Representative Cotten asked if there would be any difficulty for a bond sale if the legislature were to limit the ability of AIDA to pledge only the Economic Development Fund and the revenues from the project.

Number 260 — Mr. Vassar answered that the effect would be to limit the way that the transaction could be structured and so would limit AIDA's flexibility to put together a deal that would be optimally satisfactory in the marketplace.

Number 270 — Mr. Elder said that AS 44.88.172 (b) says that if a project is financed or developed through use of the assets of the Economic Development Fund, the Authority may not pledge or use other assets of the Authority to assist in the financing, development or operation of the project.

Number 285 — Representative Cotten asked if it was yet known how much the Legislature would be asked to put into the Economic Development Fund.

Number 290 — Mr. Elder answered that letters to Senator

Sturgulewski outline what the Legislature has been asked to do. This includes the appropriation of loans ($130 million) from the Department of Revenue, roughly $3 million that AIDA already has, and the authority to utilize funds already within AIDA for the project. This would include funds that are currently in multi-family housing programs that are in excess of the needs of that program (about $12 million.)

Number 300 — Representative Cotten commented that this is money that would otherwise be available to the Legislature for reappropriation. He then added up the numbers, including $18 million in revenue that would be produced from these loans in FY 86, for a total of $33 million for FY 86 that would otherwise be available to the Legislature.

Number 310 — Mr. Elder confirmed that this would be the total and noted that the $3 million and the $12 million would be available only for reappropriation.

Number 315 — Representative Cotten asked Mr. Elder if the revenues from the loans would stay in the Economic Development Fund until they exceed the debt service requirement.

Number 320 — Mr. Elder said yes, this would be the case.

Number 328 — Chairman Sund asked Mr. Milt Barker, Deputy Commissioner of Treasury for the Department of Revenue, if anything being done by the committee with respect to this issue would affect the general obligating authority of ability of the state.

Number 328 — Mr. Barker answered that there would be no direct effect. General Obligation Bonds are secured and paid by General Fund appropriations, whereas these bonds are secured by project revenues and the Economic Development Fund. Therefore, these will not be counted toward the State's outstanding debt. However, if the project is a success, it would increase the state's debt capacity. If the project were a failure and the state agreed to pick up the tab, which it is in no way obligated to do, then the state's debt capacity would be affected.

Number 364 — Representative Cotten asked Mr. Vassar how

big the Economic Development Fund would have to be before money could be returned to the General Fund.

Number 379

Mr. Vassar answered that it is typical to have one year's average annual debt service in a fund like the Economic Development Fund. It is also typical that 15% of the principle amount of the bonds is considered a ceiling for what is reasonably required to be in such a fund.

Number 420

Mr. Brian Allen, volunteer for the Alaska Environmental Lobby, said that there were no public hearings on Red Dog during the 1984 session. He said that the Red Dog issue is important to the Environmental Lobby for four reasons:

(1) because it affects natural resource conservation and development;

(2) the development of the mine and transportation corridor should be sensible and environmentally responsible;

(3) state subsidies are huge, and the state is going into the mining business with very little public debate or approval; and

(4) the state should be cautious in giving so much power to AIDA. He also said that the Environmental Lobby is concerned about the health of the workers who may be mining the lead, and about the fact that the state will be making cash contributions to help the project along. The level of the subsidy, he said, depends on the tolls that will be paid by Cominco, and these have not yet been set. The longer the interval without toll payments from Cominco, the greater the state contribution to the project. He concluded by urging the State to wait until all the facts are in (i.e. the finance plan.)

Number 532

Mr. Phil Barnett, attorney for the Sierra Club Legal Defense Fund, testified that the legislation appears to be unconstitutional, because it would be committing future revenues to a certain project. This loan package, he said, does not fall into any category that has been used as an exception to the dedicated funds provision. The

method which the state is choosing to subsidize the project creates a constitutional problem.

Number 563 — Representative Uehling asked Mr. Barnett how this project differs from other loan funds that have been dedicated.

Number 570 — Mr. Barnett responded that those other loan funds were dedicated to be used for their original purpose (i.e. a revolving loan fund.) These loans, however, were set up to generate revenues for the state and also to accomplish whatever purposes underlie the original legislation.

Number 581 — Representative Uehling said that he does not see how this is any different.

Number 588 — Chairman Sund said that there are loan funds that revolve with the principle, some with the principle and interest, and some that don't revolve at all. None of the loan funds being considered for transfer from the Department of Revenue are revolving.

Number 595 — Mr. Barnett responded that this project shows the soundness of the prohibition of dedicated funds, that it is unclear what the amount of the subsidy is, and that the legislature should get an idea of what the subsidy is. Also, they should know if the bonds are tax-exempt or taxable, and what kind of agreement for repayment there will be with AIDA.

Number 600 — Chairman Sund asked Mr. Barnett if he saw any problem with the legislature making a direct appropriation to help finance the project.

Number 605 — Mr. Barnett responded that he saw no constitutional problem regarding dedicated funds with that approach. He added that he would urge the Legislature to approach the project like an investment, by making a direct appropriation and then charging tolls.

Number 612 — Representative Cotten expressed surprise that the Sierra Club is approaching the question of this project from a constitutional perspective, rather than environmental. He asked if the Sierra Club

is opposed to the mine or to the road.

Number 620 — Mr. Barnett said that he was acting on behalf of the Environmental Lobby in reviewing the legislation. However, the Alaska Chapter of the Sierra Club is opposed to the location of the road corridor, i.e. through a national monument.

Number 625 — Representative Cotten said that he had asked the question out of curiosity, with all due respect for the fact that Mr. Barnett had every right to testify in whatever way he chose.

Number 630 — Representative Uehling asked Mr. Barnett if he had any objection to the language on page two regarding the National Monument.

Number 635 — Mr. Barnett responded that the Sierra Club is opposed to the road going through the monument, but that he saw no legal problem with the language.

Number 649 — Representative Cotten moved to adopt CSHB 105 (Loans), dated April 18, 1985. There were no objections and the CS was adopted.

Number 655 — Representative Cotten then moved to delete the phrase "to the extent feasible" from page 2, line 1.

CHANGE TAPE #22, SIDE TWO

Number 001 — Representative Duncan said that he would support the amendment with the understanding that the Finance Committee would have a chance to look at it.

Number 010 — chairman Sund said that he would feel more comfortable if the language were deleted, then there would be an opportunity to see what the ramifications of this would be before the Finance Committee hearing. There were no objections, and the motion passed.

Number 068 — Mr. David Kennedy, geologist for GCO Minerals, testified in favor of the DeLong Mountain Transportation Project, since GCO Minerals Co. and Noranda have the lick deposit about 12 miles N.W. of Red Dog. He said that there is need for a specific access guarantees for future users.

Number 145

Ms. Maureen Kennedy, Director of Alaska Public Interest Research Group (AKPIRG), said that AKPIRG is supportive of the Red Dog Mine itself, and believes that state participation is appropriate to get the project over the hump of marginal economics in the beginning. However, she said, there are many questions left unanswered, and that state involvement in the project is premature because of the uncertainties, such as the lack of a finance plan. She said that, although the Department of Revenue says that they anticipate the revenues coming from the loan portfolio will be about $18 million this year. However, the Governor's budget indicates a $31 million figure. AKPIRG's specific suggestions, she added, include the Legislature requiring Nana to make the land for the road available at no cost. The precise amount of the subsidy should also be quantified, and the combined users should be required to reimburse the state at the market rate of interest plus principle. She concluded by saying that, if the project is delayed and the "window of opportunity" is missed, then the state should be able to revoke the bond authorization. She suggested that the bond authorization automatically lapse after a certain date if bonds have not yet been issued, after which the Legislature can reconsider the issue.

Number 316

Representative Cotten said that Mr. Elder said that the total cost to the state this year would be $33 million.

Number 320

Ms. Kennedy responded that she believed the figure should be $46 million, to reflect $31 million in revenues from the loan programs.

Number 352

Chairman Sund pointed out that the $12 million from multi-family housing is already in AIDA and not in the General Fund. He went on to say that, regarding the cost of the land for the road corridor, the language saying "no more than fair market value" allows Nana to discuss the issue of what they want to charge for the lease of the land. He also said that he is not supportive of an arbitrary deadline, but that a mechanism for doing that is already built in, since bonds cannot be sold until the finance plan is completed.

Number 370	Representative Cotten moved to report out CSHB 105 (Loans), as amended, with individual recommendations. The motion passed with no objections.
Number 385	The meeting was adjourned at 4:35 p.m.

HOUSE SPECIAL COMMITTEE ON LOANS
Joint meeting with House Resources Committee
February 8, 1985
8:30 a.m.

Members Present:

Loans: Representative John Sund, Chair
Representative Rick Uehling
Representative Jack Fuller

Resources: Representative Dick Shultz, co-chair
Representative Kay Wallis
Representative Dave Thompson
Representative Mike W. Miller
Representative Bette Cato
Representative Drue Pearce
Representative Roger Jenkins

Members Absent:

Loans: Representative Sam Cotten
Representative Jim Duncan

Resources: Representative Adelheid Herrmann

Also Present: Representative Steve Rieger
Representative Randy Phillips
Representative Steve Frank

COMMITTEE CALENDAR

Red Dog Mine: Cominco and Alaska Industrial Development Authority presentations.

WITNESS REGISTER

Bert Wagnon, Executive Director
Alaska Industrial Development Authority
1577 "C" Street, Suite 304
Anchorage, AK 99501
274-1651
Position Statement: Testified in favor of DeLong Mountains Transportation Project.

Hank Giegerich, President and General Manager
Cominco Alaska, Inc.
5660 "B" Street
Anchorage, AK 99502
563-3686
Position Statement: Testified in favor of Red Dog mine.

Bill Wilson, President
Cominco, Ltd.
Suite 2300

200 Granville St.
Vancouver, B.C. V6C2R2
No phone given
Position Statement: Testified in favor of Red Dog.

John Schaeffer, President
Nana Regional Corporation
4706 Harding Drive
Anchorage, AK
248-3030
Position Statement: Testified in favor of Red Dog

David S. Kennedy, Senior Geologist
GCO Minerals Co.
1031 W. 4th Ave.
Anchorage, AK
274-9541
Position Statement: Observer

Geoffrey Snow, President
Noranda Exploration, Inc.
139 E. 51st Ave.
Anchorage, AK
561-1036
Position Statement: Observer

ACTION NARRATIVE

Tape #5
Side 1
Recording
Number 001 Chairman Sund called the meeting to order at 8:35 a.m. Members present were Representatives Thompson, Jenkins, M.W. Miller, Cato, Shultz, Sund and Pearce. Representative Wallis arrived at 8:35, Representatives Uehling and Fuller arrived at 8:47. Chairman Sund introduced Bert Wagnon, Executive Director of AIDA.

Number 020 Mr. Wagnon testified on behalf of AIDA in favor of the DeLong Mountains Transportation Project, including a port and a 55 mile long road in Western DeLong Mountains area near Kevalina. Estimated costs are $65 million for the port and $85 million for the road. Proposed mineral development in the region includes Red Dog Mine. He added that the entire region is heavily mineralized with good potential for future development. AIDA is proposing to construct the transportation project and then charge user fees to all users. Initially, Cominco would be the only significant user. Mr. Wagnon said that the $150 million to build the project can come from tax exempt revenue bonds, loans to AIDA and possibly state grants. So far the $3.4 million appropriation to AIDA by the legislature in 1984 has been used to pay for financial plan costs, engineering services, and miscellaneous AIDA expenses. An additional $18 million state loan is in the governor's FY 86 budget request. Mr. Wagnon justified the project on the grounds that it would bring jobs, tax revenues and increase economic stability to Alaska. He added that there has been a resolution of intent

between the Department of Commerce and Cominco. A RFP for the finance plan has been distributed (deadline 2/15/85,) as well as a RFP for civil engineering services.

Number 150 Representative Thompson asked Mr. Wagnon if the cost estimates for the port and road were AIDA's or Cominco's.

Number 154 Mr. Wagnon responded that they are Cominco's figures, stated in 1985 dollars.

Number 156 Chairman Sund asked if the finance plan will have to be submitted to the legislature.

Number 158 Mr. Wagnon answered that it must be submitted to the legislature, governor and State Bond Committee, but does not require legislative approval.

Number 208 Representative Frank asked if the debt to AIDA would be retired by fees from the initial user (Cominco).

Number 216 Mr. Wagnon responded that fees from future users would be required, and that about a $10 million tariff is expected from the first significant user of the project.

Number 240 There was discussion regarding the use of tax exempt bonds to finance the project beyond the $18 million in direct loan from the state.

Number 258 Representative Uehling asked what the projected costs of the project for the next several years would be.

Number 262 Mr. Wagnon answered that AIDA anticipates bonding for at least a portion of the remainder of the project beyond the $18 million loan for FY 86, but that if general funds were to be used for the entire project, the requirement would be $18 million in FY 86, $50 million for the second year, $50 million for the third year, and $10 or $20 million for the fourth year. He said that AIDA feels that that would be an unacceptable burden for the general fund to bear. Therefore, AIDA is working on alternative finance plans.

Number 313 John Schaeffer, president of Nana Regional Corporation, owner of the Red Dog deposit, testified in favor of the project. The reasons he cited are that the project would provide about 400 jobs, more than half of which would be filled locally. Nana Regional Corporation would also get 4% of the net smelter return until Cominco recovers its investment, then 25% of net profits after that, increasing by 5% every 5 years to a maximum of 50%. Of this money, Nana would get one third and the remaining two thirds would be distributed among eleven other regional corporations state-wide.

Number 465 Mr. Bill Wilson, president of Cominco, Ltd., summarized Cominco's activities world wide, discussed shifts in markets for zinc in recent years, and said that Cominco wants to bring Red Dog into production by the end of the decade. He said that Cominco was prepared to make guarantees covering repayment of the state financing and start-up of the

mine, backed by $2 billion in Cominco assets (Canadian dollars). He said that the current price of zinc is $.43 per pound.

Number 585 Mr. Giegerich gave a slide presentation to emphasize what Cominco believes the Red Dog development would mean to Alaska. He emphasized that 300 people would be employed during the construction phase, and about 400 when the mine is in operation and about 230 in the service industries. Cominco anticipates expenditures in Alaska of about $100 million yearly: $20 million in wages, $5 million in Alaskan purchases (services and materials,) $20 million in transportation payments, and $30 million in royalty payments. He emphasized that timing is critical because the world zinc industry is competitive and that a commitment is needed from the legislature in 1985 so that Red Dog can be brought into production by the end of the decade. He said that the capital cost of Red Dog is estimated at $400 million in 1985 dollars, $250 million of which is for the mine facilities and $150 million for transportation. He said that Cominco's proposal provides for a 30 year payback of the state's investment: $260 million in toll fees and taxes of $360 million (shared by Cominco and the Regional Corporations.) He said that Cominco has invested $25 million in the project to date, and will reach $40 million by the end of 1985.

Side 2
Recording
Number 106 Chairman Sund asked how Cominco feels about the risk involved in going ahead with the project before getting a commitment from the state.

Number 110 Mr. Wilson answered that Cominco's willingness to go ahead with the project depends on obtaining the AIDA loan, settling on an appropriate route to the sea, and location of the min in terms of management. Currently, the proposed mine site is in the North Slope Borough, and there is talk of moving boundaries and organizing a borough in the Nana Region.

Number 167 Representative Pearce asked Mr. Giegerich about the length of the shipping season.

Number 170 Mr. Giegerich responded that the shipping season is about 100 days, but the mine would operate year-round. He added that working capital (what it takes until the mine is operational and product is sold) is 35-50% of the capital cost. This compares with about 10% for a non-arctic project.

Number 180 There was some discussion regarding the marketing of ore when the shipping season is short.

Number 205 Representative Frank asked how the $10 million tariff was determined.

Number 208 Mr. Giegerich said that $10 million is based on the $150 million estimated capital cost, plus the payment schedule Cominco felt they could afford.

Number 215 There was some discussion regarding the price of zinc and what it would take for Cominco to recover its investment, and also about the

quality of ore, the stripping ratio and cost of transportation as those variables affect the cost of operation.

Number 306 There was some discussion regarding the average mining rate of return on investments and Cominco's expectation of a 20% return.

Number 350 Chairman Sund expressed doubts about the state becoming a risk taker in a private enterprise, unless the risk factors are identified, and concern about the cost of the state being a facilitator in financing the project. He said he would want to see the financial plan.

Number 357 Representative Frank asked when the financial plan would be ready.

Number 368 Mr. Wagnum answered that it should be ready by April 15th.

Number 372 The meeting was adjourned at 9:45 a.m.

HOUSE SPECIAL COMMITTEE
ON STATE LOANS

AND

HOUSE RESOURCES
STANDING COMMITTEE
February 8, 1985
8:30 a.m.

Members Present: Representative John Sund, Chair
Representative Rick Uehling
Representative Jack Fuller

Members Present: Representative Dick Shultz, co-chair
Representative Kay Wallis
Representative Dave Thompson
Representative Mike W. Miller
Representative Bette Cato
Representative Drue Pearce
Representative Roger Jenkins

Members Absent: Representative Sam Cotten
Representative Jim Duncan
Representative Adelheid Herrmann

COMMITTEE CALENDAR

Red Dog Mine: Cominco and Alaska Industrial Development Authority presentations.

WITNESS REGISTER

Bert Wagnon, Executive Director
Alaska Industrial Development Authority
1577 "C" Street, Suite 304
Anchorage, AK 99501
274-1651
Position Statement: Testified in favor of DeLong Mountains Transportation Project.

Hank Giegerich, President and General Manager
Cominco Alaska, Inc.
5660 "B" Street
Anchorage, AK 99502
563-3686
Position Statement: Testified in favor of Red Dog mine.

Bill Wilson, President
Cominco, Ltd.
Suite 2300

200 Granville St.
Vancouver, B.C. V6C2R2
Position Statement: Testified in favor of Red Dog.

John Schaeffer, President
Nana Regional Corporation
4706 Harding Drive
Anchorage, AK
248-3030
Position Statement: Testified in favor of Red Dog

David S. Kennedy, Senior Geologist
GCO Minerals Co.
1031 W. 4th Ave.
Anchorage, AK
274-9541
Position Statement: Observer

Geoffrey Snow, President
Noranda Exploration, Inc.
139 E. 51st Ave.
Anchorage, AK
561-1036
Position Statement: Observer

Representative Steve Rieger
Pouch V
Juneau, AK 99811
465-3464
Position Statement: Observer

Representative Randy Phillips
Pouch V
Juneau, AK 99811
465-4949
Position Statement: Observer

Representative Steve Frank
Pouch V
Juneau, AK 99811
465-3709
Position Statement: Observer

ACTION NARRATIVE

TAPE #5, SIDE ONE
Recording
Number 001

Chairman Sund called the meeting to order at 8:35 a.m. Members present were Representatives Thompson, Jenkins, M.W. Miller, Cato, Shultz, Sund and Pearce. Representative Wallis arrived at 8:35 a.m. Representatives Uehling and Fuller arrived

at 8:47 a.m. Chairman Sund introduced Bert Wagnon, Executive Director of AIDA.

Number 020

Mr. Wagnon testified on behalf of AIDA in favor of the DeLong Mountains Transportation Project, including a port and a 55 mile long road in Western DeLong Mountains area near Kevalina. Estimated costs are $65 million for the port and $85 million for the road. Proposed mineral development in the region includes Red Dog Mine. He added that the entire region is heavily mineralized with good potential for future development.

AIDA is proposing to construct the transportation project and then charge user fees to all users. Initially, Cominco would be the only significant user. Mr. Wagnon said that the $150 million to build the project can come from tax exempt revenue bonds, loans to AIDA and possibly state grants. So far the $3.4 million appropriation to AIDA by the legislature in 1984 has been used to pay for financial plan costs, engineering services, and miscellaneous AIDA expenses. An additional $18 million state loan is in the governor's FY 86 budget request. Mr. Wagnon justified the project on the grounds that it would bring jobs, tax revenues and increase economic stability to Alaska.

He added that there has been a resolution of intent between the Department of Commerce and Cominco. A RFP for the finance plan has been distributed (deadline 2/15/85,) as well as a RFP for civil engineering services.

Number 150

Representative Thompson asked Mr. Wagnon if the cost estimates for the port and road were AIDA's or Cominco's.

Number 154

Mr. Wagnon responded that they are Cominco's figures, stated in 1985 dollars.

Number 156

Chairman Sund asked if the finance plan will have to be submitted to the legislature.

Number 158

Mr. Wagnon answered that it must be submitted to the legislature, governor and State Bond Committee, but does not require legislative approval.

Number 208

Representative Frank asked if the debt to

AIDA would be retired by fees from the initial user (Cominco).

Number 216 — Mr. Wagnon responded that fees from future users would be required, and that about a $10 million tariff is expected from the first significant user of the project.

Number 240 — There was discussion regarding the use of tax exempt bonds to finance the project beyond the $18 million in direct loan from the state.

Number 258 — Representative Uehling asked what the projected costs of the project for the next several years would be.

Number 262 — Mr. Wagnon answered that AIDA anticipates bonding for at least a portion of the remainder of the project beyond the $18 million loan for FY 86, but that if general funds were to be used for the entire project, the requirement would be $18 million in FY 86, $50 million for the second year, $50 million for the third year, and $10 or $20 million for the fourth year. He said that AIDA feels that that would be an unacceptable burden for the general fund to bear. Therefore, AIDA is working on alternative finance plans.

Number 313 — John Schaeffer, president of Nana Regional Corporation, owner of the Red Dog deposit, testified in favor of the project. The reasons he cited are that the project would provide about 400 jobs, more than half of which would be filled locally. Nana Regional Corporation would also get 4% of the net smelter return until Cominco recovers its investment, then 25% of net profits after that, increasing by 5% every 5 years to a maximum of 50%. Of this money, Nana would get one third and the remaining two thirds would be distributed among eleven other regional corporations state-wide.

Number 465 — Mr. Bill Wilson, president of Cominco, Ltd., summarized Cominco's activities world wide, discussed shifts in markets for zinc in recent years, and said that Cominco wants to bring Red Dog into production by the end of the decade. He said that Cominco was prepared to make guarantees covering repayment of the state financing and start-

up of the mine, backed by $2 billion in Cominco assets (Canadian dollars). He said that the current price of zinc is $.43 per pound.

Number 585

Mr. Giegerich gave a slide presentation to emphasize what Cominco believes the Red Dog development would mean to Alaska. He emphasized that 300 people would be employed during the construction phase, and about 400 when the mine is in operation and about 230 in the service industries. Cominco anticipates expenditures in Alaska of about $100 million yearly: $20 million in wages, $5 million in Alaskan purchases (services and materials,) $20 million in transportation payments, and $30 million in royalty payments. He emphasized that timing is critical because the world zinc industry is competitive and that a commitment is needed from the legislature in 1985 so that Red Dog can be brought into production by the end of the decade. He said that the capital cost of Red Dog is estimated at $400 million in 1985 dollars, $250 million of which is for the mine facilities and $150 million for transportation. He said that Cominco's proposal provides for a 30 year payback of the state's investment: $260 million in toll fees and taxes of $360 million (shared by Cominco and the Regional Corporations.) He said that Cominco has invested $25 million in the project to date, and will reach $40 million by the end of 1985.

CHANGE TAPE #5 TO SIDE TWO

Number 106

Chairman Sund asked how Cominco feels about the risk involved in going ahead with the project before getting a commitment from the state.

Number 110

Mr. Wilson answered that Cominco's willingness to go ahead with the project depends on obtaining the AIDA loan, settling on an appropriate route to the sea, and location of the min in terms of management. Currently, the proposed mine site is in the North Slope Borough, and there is talk of moving boundaries and organizing a borough in the Nana Region.

Number 167

Representative Pearce asked Mr. Giegerich

about the length of the shipping season.

Number 170 — Mr. Giegerich responded that the shipping season is about 100 days, but the mine would operate year-round. He added that working capital (what it takes until the mine is operational and product is sold) is 35-50% of the capital cost. This compares with about 10% for a non-arctic project.

Number 180 — There was some discussion regarding the marketing of ore when the shipping season is short.

Number 205 — Representative Frank asked how the $10 million tariff was determined.

Number 208 — Mr. Giegerich said that $10 million is based on the $150 million estimated capital cost, plus the payment schedule Cominco felt they could afford.

Number 215 — There was some discussion regarding the price of zinc and what it would take for Cominco to recover its investment, and also about the quality of ore, the stripping ratio and cost of transportation as those variables affect the cost of operation.

Number 306 — There was some discussion regarding the average mining rate of return on investments and Cominco's expectation of a 20% return.

Number 350 — Chairman Sund expressed doubts about the state becoming a risk taker in a private enterprise, unless the risk factors are identified, and concern about the cost of the state being a facilitator in financing the project. He said he would want to see the financial plan.

Number 357 — Representative Frank asked when the financial plan would be ready.

Number 368 — Mr. Wagnon answered that it should be ready by April 15th.

Number 372 — The meeting was adjourned at 9:45 a.m.

HOUSE SPECIAL COMMITTEE
ON STATE LOANS
March 26, 1985
3:00 p.m.

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

COMMITTEE CALENDAR

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

Red Dog Mine Hearing

WITNESS REGISTER

Bert Wagnon, Executive Director
Alaska Industrial Development Authority
1577 "C" Street, Suite 304
Anchorage, AK 99501
274-1651
Position Statement: Testified in favor of appropriations for Red Dog.

John Sims, Office of Mineral Development
DCED
675 7th Ave. Stn. A
Fairbanks, AK
462-7464
Position Statement: Observer

Anselm Staack
Dept. of Administration
Pouch C
Juneau, AK 99811
465-2200
Position Statement: Testified re. SB 186

Terry Elder
Dept. of Commerce and Economic Development
Pouch D
Juneau, AK 99811
465-2502
Position Statement: Testified in favor of Red Dog.

Loren Lounsbury
Dept. of Commerce and Economic Development
Pouch D
Juneau, AK 99811
465-2500
Position Statement: Observer

Clark Gruening,
representing City of St. Paul
217 Second St., Suite 204
Juneau, AK 99811
586-8110
Position Statement: Testified in favor of SB 186

Hank Giegerich, President and General Manager
Cominco Alaska, Inc.
6562 Cabeway
Anchorage, AK 99502
243-0908
Position Statement: Observer

Don Argetsinger
Nana Regional Corporation
4706 Harding Drive
Anchorage, AK
248-3030
Position Statement: Observer

Randy Phillips, Representative
Pouch V
Juneau, AK 99811
465-4949
Position Statement: Questions and Statements

Steve Frank, Representative
Pouch V
Juneau, AK 99811
465-3709
Position Statement: Questions and Statements

Fred Zharoff, Senator
Pouch V
Juneau, AK 99811
465-3844
Position Statement: in favor of SB 186

PREVIOUS ACTION

SB 186: Read the first time 02/22/85 and referred to State Affairs Rpt 4DP. Passed by the Senate on 03/15/85.

Red Dog Mine: Please refer to House Special

Committee on State Loans dated 02/08/85.

ACTION NARRATIVE

TAPE #17, Side 1

Recording Number	
001	Chairman Sund Called the meeting to order at 3:46 p.m. Members present were Representatives Sund, Cotten, and Uehling. Representative Phillips and Representative Frank also attended. Representative Duncan arrived at 4:05 p.m.
015	Senator Zharoff said that the St. Paul Breakwater has received damage from two storms. SB 186 would authorize a loan for $3.4 million from the Disaster Relief Fund to the Division of Risk Management to repair damage. Zharoff continued to say that the project is covered by insurance and the loan will be repaid from proceeds. A $2.5 million Federal EDA grant is conditional upon completion of Phase 1 by June 30.
119	Mr. Anselm Stack, Deputy Commissioner for the Department of Administration, with responsibility for the Division of Risk Management. He said that the St. Paul Breakwater falls under an "all risk" policy held by the Division. He added that the deductible under the "all-risk" program coverage amounted to $600,000, $300,000 per storm. The deductible would be paid out of the annual cash flow appropriation to the Division. $3.4 million would eventually be covered by the insurance, which added to the $600,000 deductible equals $4 million total to repair the damage.
170	Chairman Sund asked if there were any design defects.
175	Mr. Staack answered that he was not aware of any.
179	Representative Frank asked if all capital projects are covered by all risk insurance.
183	Mr. Staack answered that most projects are covered, but not all.
203	Representative Frank then asked if the builders were responsible to provide risk

insurance.

Number 206 — Mr. Staack answered that, in this case, St. Paul contracted out the Phase 1 construction through a transfer of responsibility agreement. He said that often builders carry insurance.

Number 226 — Representative Frank said he thought it was the builder's responsibility while under construction to provide this insurance.

Number 230 — Mr. Staack answered that, in this case, there will be claims against the builder, but that the Division of Risk Management believes they have the first responsibility to go in and get their claims reimbursed.

Number 240 — Representative Uehling asked what kind of insurance they carry.

Number 245 — Mr. Staack said that there were several and that it is good coverage.

Number 250 — Representative Uehling then continued by asking when they expected payment from the insurance company.

Number 280 — Mr. Stack said that partial payment will be in 120 days, but will not receive full reimbursement until late in the year.

Number 285 — Chairman Sund asked if the 4 million dollars was an estimated cost and who would make up the $600,000 deductible.

Number 290 — Mr. Staack said that it was an estimated cost and appropriations from loss reserves in the Division of Risk Management would make up the $600,000 difference.

Number 314 — Representative Frank asked what the state policy was regarding insurance, because he thought the state wasn't at risk until the project was completed.

Number 319 — Mr. Staack said the department has accepted that the project was substantially completed at the time of the damage.

Number 354 — Mr. Clark Gruening, representing the City of St. Paul, made himself available to answer questions.

Number 356 — There was some discussion regarding insurance coverage, and assurances given that the state would be repaid the full $3.4 million before St. Paul received any money.

Number 450 — Chairman Sund suggested that the committee draft a letter of intent saying that St. Paul agrees to relinquish all claims to the insurance settlement and any other claims they may have, including the amount of the deductible.

Number 470 — Mr. Staack said that if the insurance payment was low, the Division of Risk Management would pay extra and request an appropriation from the legislature.

Number 515 — Representative Cotten made a motion to move SB 186 with a letter of intent and individual recommendations. There were no objections, so the motion passed.

Number 525 — Chairman Sund opened the meeting for Red Dog testimony.

Number 536 — Mr. Terry Elder, Deputy Commissioner of DCED, testified that the Administration supports Red Dog, and urged legislative approval of the $18 million loan. He added that the Board of AIDA supports the project, and expressed his belief that the project makes sound social and economic sense for Alaska.

Number 590 — Chairman Sund commented that it is appropriate for the state to function as a facilitator in financing projects, but that the state should not be put at risk in this project. He also expressed concern for the opportunity cost to the state.

Number 610 — Mr. Elder addressed the question of risk by saying that Cominco is agreeing to pay toll fees that would repay the state investment, the operation and maintenance, minimum toll payments and other payments necessary to repay the state's investment if the mine is delayed or if production is suspended after operation commences. Also, if the price of zinc goes higher than expected, then the state should recover its investment at an accelerated rate. He added that Nana Regional Corporation has agreed to provide necessary land to accomodate reasonable

expansion for future users.

Number 624 — Chairman Sund asked if these guarantees are being made by Cominco Ltd. in Canada or C.P. Railroad.

Number 626 — Mr. Bert Wagnon, Executive Director of AIDA, answered that the guarantees are made by Cominco Ltd., which has most of the financial strength. He emphasized that the road and port would be owned and operated by the State of Alaska but that all the operations and maintenance expense would be paid by the users, 100% by Cominco as long as they are the only user. The $18 million requested would be appropriated to the Economic Development Fund. Additional security will be required to satisfy the bond market. He said that the finance plan, being prepared by Stanford Research institute, will be available in late April or early May of 1985. He said that they also want to appropriate loans through the Department of Revenue and deposit them in the Economic Development Fund. He said that this would keep them from coming back to ask for more money next year. He said that Cominco is willing to pay about $260 million over a 25 year period in the form of toll fees alone. Interest rate on the loans is still hypothetical.

CHANGE TAPE #17, SIDE TWO

Number 119 — Chairman Sund asked how the loan funds would be obtained from where they are now into the Economic Development Fund.

Number 125 — Mr. Wagnon said that an appropriation bill for about $130 million would be needed.

Number 140 — Chairman Sund noted that the total being requested is then $148 million ($130 million plus $18 million.)

Number 147 — Mr. Elder said that any finance plan by SRI will include some bonding for the project, which would require bonding authorization and assets in the Economic Development Fund. The cash itself would not be used for the project, he said, but rather the bonds. He also said that he and Paul Engleman have estimated that the present value of the direct corporate taxes and the avoided

transfer costs alone is $210 million, not including user fees or anything else.

Number 200 — Chairman Sund asked for a detailed account of Mr. Elder's statement about the $210 million. He also asked Mr. Elder to explain what an avoided transfer payment is.

Number 210 — Mr. Elder answered that an avoided transfer payment is like a welfare payment that the state is currently making that it won't have to make after the person is employed.

Number 220 — Representative Cotten asked who calculated that this would amount to $40 million. Someone answered that the $40 million is based on estimates of the total transfer payments going into the region.

Number 222 — Representative Phillips asked about the alleged conflict of interest rising from the fact that the SRI representative preparing the finance plan was a former Cominco employee.

Number 230 — Mr. Wagnon explained the process by which SRI was selected, and that it was later discovered that Olaf Wolf had been employed by Cominco and was drawing a pension. Mr. Wagnon said that he then became concerned about the appearance of a conflict of interest and requested that Mr. Wolf be removed from the study. SRI then substituted Eugene Thayers for the study, and since he had good qualifications, the Board of AIDA decided to go ahead with contract with SRI. There was an appeal, which was dismissed by the Commissioner of Administration, so the Commissioner's decision to go with SRI is final.

Number 265 — Representative Duncan asked which is being suggested in the March 19th letter to Chairman Sund.

Number 273 — Mr. Wagnon answered that they are advocating Case 4, which asks for all the money this year. By contrast, Case 3 requires AIDA to come back to the Legislature each year for more money.

Number 316 — Mr. Elder explained that the timing and amount of the bond sale is different in the different cases.

Number 366 — Chairman Sund asked about the statement in the same letter which says that no provision has been made to repay the state contribution.

Number 372 — Mr. Wagnon said that the statement results from the assuming a bond interest rate of 10.5% and that $155 million in bonds would be issued. In this case, the state would not be repaid until the $155 million in bonds had been liquidated, after 25 years.

Number 387 — Representative Duncan asked if SRI shares the concern that there should not be a large or repeated appropriation.

Number 395 — Mr. Elder answered that since SRI is working for AIDA, they would share AIDA's concern.

Number 410 — Chairman Sund expressed concern that, since AIDA (as represented by the commissioners) and the Governor are in favor of this project, there are varying reports as to what the cost to the state will be, depending on who you talk to. By the time the SRI report is ready, the $148 million will already have been appropriated.

Number 420 — Mr. Elder said that if you look at the returns, the cost to the state is in fact a profit.

Number 457 — Chairman Sund requested a draft of the appropriation bill. The meeting was adjourned at 5:00 p.m., to be reconvened at 3:30 p.m. on March 27, 1985.

HOUSE SPECIAL COMMITTEE
ON STATE LOANS
March 27, 1985
3:30 p.m.

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

COMMITTEE CALENDAR

Red Dog Mine Hearing

WITNESS REGISTER

John Sims, Office of Mineral Development
DCED
675 7th Ave. Stn. A
Fairbanks, AK
462-7464
Position Statement: Observer

Terry Elder, Deputy Commissioner
Dept. of Commerce and Economic Development
Pouch D
Juneau, AK 99811
465-2502
Position Statement: Testified in favor of Red Dog Development

Hank Giegerich, President and General Manager
Cominco Alaska, Inc.
6562 Cabeway
Anchorage, AK 99502
243-0908
Position Statement: Testified in favor of Red Dog

R.R. Stone
Cominco, Ltd.
385 Moyne Dr.
West Vancouver, B.C.
926-2595
Position Statement: Testified on behalf of Cominco, Ltd.

Don Argetsinger
Nana Regional Corporation
4706 Harding Drive
Anchorage, AK
248-3030
Position Statement: Testified re. acquisition of monument land.

Representative Steve Frank
Pouch V
Juneau, AK 99811
465-3709
Position Statement: Questions and Statements

Steve Kettel
Dept. of Revenue
Pouch SA
Juneau, AK 99811
465-2343
Position Statement: Observer

Philip S. Barnett
Sierra Club Legal Defense Fund
419 6th St., Suite 321
Juneau, AK 99811
586-2751
Position Statement: Observer

Michael Cushing
Dept. of Community & Regional Affairs
Pouch BH
Juneau, AK 99811
465-4750
Position Statement: Observer

Mary Nordale, Commissioner
Department of Revenue
Pouch S
Juneau, AK 99811
465-2300
Position Statement: Testified in favor of appropriation for road and port.

PREVIOUS ACTION

Red Dog Mine: Refer to House Special Committee on State Loans Minutes dated 02/08/85 and 03/26/85.

ACTION NARRATIVE

TAPE #18, SIDE ONE
Recording
Number 001

The meeting was called to order by Chairman Sund at 3:36 p.m. Members present were Representative Sund, Representative Cotten, Representative Fuller, and Representative Uehling. Representative Duncan arrived at 3:45 p.m. Representative Frank was also present. Representative Uehling and

Representative Frank left at 4:05 p.m. Representative Uehling returned at 4:30 p.m. Chairman Sund asked Mr. Terry Elder, Deputy Commissioner of DCED, to explain Case #4 in terms of the loan appropriation.

Number 012 — Mr. Elder explained that the fourth scenario was put together by AIDA, and that what they hope to do is create a bonding mechanism for construction of the port and the road. Both the $18 million appropriation and the loan appropriation from the Department of Revenue would be deposited in AIDA's Economic Development Fund.

Number 035 — Chairman Sund asked what type of loans are in that portfolio, what the maturities are.

Number 040 — Mr. Elder answered that there was $141 million worth of outstanding principal amount as of January 31, 1985. The average interest rate is about 7.9%. The average maturity is about 10 years or less, though he said he wasn't sure.

Number 076 — Representative Uehling asked if money that is lapsing from the loan programs would now be made available to AIDA.

Number 085 — Mr. Elder answered no, these loans are owned by the Department of Revenue and serviced by DCED, as distinguished from cash that could be reappropriated because it had not been loaned out yet.

Number 125 — Representative Frank asked if the bonds would also be collateralized by a financial arrangement with Cominco.

Number 130 — Mr. Elder answered that, as part of the finance plan, there would be a contract with Cominco for user fees.

Number 140 — Representative Frank asked how the $100 million estimated par value of the loans relates to the $141 million figure.

Number 145 — Mr. Elder answered that there is $100 million in "good loans", but that there is a high delinquency rate.

Number 167 — Representative Frank asked how bonds could be collateralized by bad loans.

Number 170 — Mr. Elder answered that they were not all bad loans, just that there is a high delinquency rate.

Number 180 — Representative Frank noted a sentence that says no provision has been made to repay the state's contribution but that it might be paid out of excess revenues. He asked how this fits with Cominco's pledge to repay the state.

Number 200 — Mr. Elder answered that perhaps it does not fit, and said that he anticipates that the finance plan will reflect all the income that the state will receive.

Number 230 — Chairman Sund asked what is the cash flow of the existing loans.

Number 235 — Mr. Elder estimated that it is the neighborhood of $15 to $20 million annually. He added that the assets and the cash flow will collateralize the bonds, as well as the user fees. However, cash from user fees will not happen until the mine is in production. The cash flow would be used to meet annual obligations on the debt service in the meantime.

Number 257 — Chairman Sund asked Mr. Elder what the legislature has to do in order to implement the plan that he is discussing.

Number 265 — Mr. Elder answered that the legislature would have to appropriate $18 million to AIDA, to appropriate the outstanding principal amounts of the loans held by the Department of Revenue to AIDA, and to give AIDA the authority to issue bonds in an amount not to exceed $175 million.

Number 280 — Chairman Sund asked if these bonds would go against the state's bonding capacity.

Number 283 — Mr. Elder answered no, they would be the obligation of AIDA.

Number 292 — Representative Frank asked Mr. Elder why $18 million appropriation plus $141 million in loans is needed in order to proceed on schedule.

Number 298 — Mr. Elder answered that they want to proceed with construction in calendar year 1986.

The $18 million plus some of the proceeds from the bond sales would be required to do the final engineering and design, to bring them up to the point of construction. Some of the $18 million might also be used to pay the debt service on the bonds. The project would be delayed another year if the money is not appropriated for FY 86.

Number 310 — Chairman Sund asked if the bonds will be tax exempt.

Number 314 — Mr. Elder answered that they would be, if possible, but that the IRS would have to rule on it. He added that they are fairly sure that the bonds for the port will be tax exempt, but less sure about the road.

Number 330 — Representative Cotten asked if it is unusual for AIDA to take an active role in promoting this kind of project.

Number 335 — Mr. Elder answered that is not unusual, but this is the first owner-operator project for AIDA.

Number 340 — Representative Cotten asked how the possibility of cost overruns is being considered.

Number 344 — Mr. Elder answered that the estimates have been reviewed by experts, and they feels comfortable that the estimates are accurate.

Number 355 — Representative Cotten said that there is always a good chance of cost overruns and asked how they would deal with a 25% overrun.

Number 380 — Mr. Elder answered that some contingency had been worked into the plan, and that a change in the estimate of cost could be handled by the bond financing.

Number 390 — Chairman Sund asked if there is a guarantee of completion with Cominco.

Number 395 — Mr. Elder answered that, as a part of the finance plan, there will be a contract that would obligate the users to meet the debt obligations of the authority.

Number 402 — Representative Frank asked why AIDA was chosen instead of DOTPF to build the

project.

Number 410 — Mr. Elder answered that AIDA was chosen because of their expertise in putting financing packages together. Number

Number 420 — Mr. Hank Giegerich, President of Cominco Alaska, introduced himself and Mr. Bob Stone, Vice President of Finance for Cominco, Ltd.

Number 430 — Representative Cotten noted that the finance plan may not be ready until May 1, even though originally they thought it would be available April 15.

Number 435 — Mr. Elder answered that there had been delays and that the first draft would be available on May 6, but that SRI would be available in mid to late April to discuss the plan.

Number 460 — Representative Cotten expressed concern that the legislature would only have one week to review the finance plan and make a decision.

Number 465 — Mr. Elder answered that what is being requested of the legislature is the tools for the finance plan, and that there has been a verbal promise of safeguards by Cominco. The committee might want to draft a letter of intent which addresses these safeguards and making the use of the $18 conditional upon meeting the conditions of the letter.

Number 480 — Chairman Sund said that the committee will work on language for such a letter. He asked Mr. Giegerich when Cominco will start spending money.

Number 485 — Mr. Giegerich answered that Cominco would start spending money about the same time the state does, in order to get modules constructed.

Number 495 — Chairman Sund asked how much of Cominco's money would be spent in Alaska.

Number 500 — Mr. Giegerich answered that the modules would be built outside, but that all the on-site work would of course be in Alaska, and offered to provide the committee with a breakdown of where the money would be spent.

Number 520 — Chairman Sund asked how the congressional action to provide access across the monument is coming.

Number 540 — Mr. Don Argetsinger of the Nana Corporation answered that a land exchange agreement with the Department of Interior has been signed, requiring confirming legislation which was introduced early in February. He said that he expects passage by the time Congress recesses in early August. He added that if the bill does not pass by then, it will delay construction, but that there has been no significant objection to the bill so far.

Number 556 — Representative Duncan asked what Cominco would do if the legislature does not act this session on the requests for appropriations.

Number 565 — Mr. Giegerich answered that Cominco would no trash the whole project, but that Cominco is concerned that the mine be operational by the end of the decade because of the anticipated market opportunity at that time.

Number 620 — Representative Duncan expressed concern that the first draft of the finance plan would not be ready until May 6, hinting that the money should not be appropriated until 1986 when the plan has been completed. He asked if Cominco would use their own resources until that time.

Number 630 — Mr. Giegerich answered that Cominco must make a commitment to the construction of the modules early in 1986 and must have a contractor ready to go to work in July. He said that Cominco's board probably would not give the authority to proceed with the project if the state did not appropriate the money.

Number 618 — Mr. Stone added that Cominco had already spent about $25 million by the end of 1984 and that the 1985 expenditures will be about $12 million. He guessed that, if an agreement with the state is reached this session, it would be presented to the Board in the August meeting, after which the board would give the authority to proceed.

CHANGE TAPE #18, SIDE TWO

Number 056 Mr. Elder saidthat, since this is being developed as a publicly owned and operated regional transportation system, the state would not want a private corporation to develop the road and port. He added that all the details would be worked out before the sale of any bonds.

Number 108 Chairman Sund asked if the bond people would put a requirement of completion of the entire project on the bonds, since they will be paid off by toll fees after the mine is operational.

Number 120 Mr. Elder answered that the bond people would probably require some sort of take or pay contract.

Number 150 Ms. Mary Nordale, Commissioner of the Department of Revenue, said that the finance plan may not be complete in every detail when it comes out, and that they want a commitment from the legislature with the needed guarantees, so that AIDA can "fine tune" the finance plan.

Number 155 Mr. Giegerich said that Cominco is prepared to make a guarantee that the mine will be operational within a definite time period after completion of the transportation system, providing they can work out an agreement with AIDA. He added that Cominco understands that AIDA is committed to working out the details of a financial arrangement with Cominco during the next month.

Number 180 Representative Duncan asked Mr. Elder if they have talked to some bond people about the acceptability of the plan for bonding.

Number 190 Mr. Elder answered that AIDA has run it by its own financial advisor.

Number 200 Representative Duncan asked what would happen if the fund were capitalized but there was no appropriation this year.

Number 212 Mr. Elder answered that there would be expenditures early in 1986, and that without the $18 million appropriation, the project would probably be delayed.

Number 237 Mr. Giegerich added that the $18 million is

necessary to both AIDA and Cominco.

Number 250 — Ms. Nordale said that the finance package must be put together by AIDA. The $18 million would fund the preliminary work necessary to determine construction costs and the amount needed for the total financing of the project. Since AIDA, as an agency of the state, will own the transportation system, then they must borrow the money.

Number 290 — Chairman Sund said that there is a $100 million cap on loan programs this year, requiring $30 million to be cut from existing loan programs. If $18 million is appropriated to AIDA, then other programs will have to be chopped. He said that it is an important decision to be made with insufficient data.

Number 300 — Mr. Giegerich said that it is his understanding that AIDA needs the $18 million in order to put together the total financial plan, and Cominco must see the financial plan in order to make a commitment.

Number 310 — Representative Duncan asked Mr. Elder how much money would be needed between January and May of 1986.

Number 312 — Mr. Elder answered that he did not know, but that funds will be needed up front for construction of the project so that they can make commitments.

Number 338 — Ms. Nordale said that the $18 million will go for engineering for designing the project, and costs will not be determined until that is done.

Number 345 — Representative Duncan asked why the cash flow from the loans could not be used instead of an $18 million appropriation.

Number 350 — Ms. Nordale offered to meet with Representative Duncan to explain it. She said that starting July 1 there will be no money, and if they wait until January 1 when there will be money, they will have lost a year on the project.

Number 375 — Chairman Sund asked how much of the $18

million and the $141 million would ever come back to the General Fund.

Number 380 — Mr. Elder answered that, if the mine is developed, taxes and avoided transfer payments would be worth $210 million (present value), which goes to the General Fund.

Number 408 — Representative Duncan asked if it would be possible to outline what the $18 million will be used for. He also asked that they investigate how the $18 million could be reduced.

Number 420 — Mr. Elder answered that they would do as Representative Duncan requests and that they will not ask for more than is needed.

Number 437 — Representative Uehling agreed with Representative Duncan that the legislature should know what the $18 million will be spent for, and asked what is the time line for cost estimates, engineering the road, etc.

Number 450 — Mr. Elder said that he did not know.

Number 465 — Chairman Sund said that a meeting needs to be set to draft a letter of intent. The meeting was adjourned at 4:50 p.m.

4/25/85

MEMORANDUM

TO: Rep. John Sund

FROM: John Hartle, P

RE. CSHB 105 (Finance)

House Bill 105 is scheduled for Finance Committee consideration today and Rep. Adams has asked you to present the Loans CS. The Finance Committee Substitute is very close to the Loans CS, with just a couple changes which were taken from the proposed Senate Resources CS.

The House Special Committee on Loans held five hearings on the Delong Mountains Transportation project. I feel that we gave the proposal a health dose of skepticism, especially the state financing. The porblems we had were never with the mine itself, never with Cominco or NANA, only with the state agencies working on the project.

The situation is that we have no finance plan to work with. The AIDA statutes mandate that a plan of finance be in place before any debt is issued for a project that they intend to own and operate. Due to administrative procedures the finance paln is delayed; SRI, the contractor, will make an oral presentation on April 30 and may have a

draft plan ready by May 6. I assume that this plan will be subject to change many times before all is said and done.

The bill has been looked at by AIDA's bond attorney and found not to cause any problems for the bond issue.

The Loans CS does three things:

1. Authorizes and increase of the Anchorage Airport bonds by $23.7 million. We didn't really hear this issue in Loans; House TRansportation Committee heard this bill as originally introduced.

2. Authorizes AIDA to issue up to $175 million in bonds for the DeLong Mountains Transportation Project. These are "moral obligation" bonds, though are CS takes out those specific words. The bond authorization was taken from a draft by the AG's office and rewritten by legislative legal services. Moral obligation is a term of art which, as I understand it, mainly means that the Authority will have a pledged fund for the issue. As I understand it these binds will be a general obligation of AIDA.

3. Attaches some conditions ot the bond authorization. The Committee did not want to authorize any state agency to issue such a large amount of bonds (without a plan of finance) without some basic conditions being attached. This is a generic concern having nothing to do with Red Dog; it would apply to any state agency and any project of this size. This is particularly true as AIDA has never constructed anything.

Sectional Analysis:

Section 1. This is the Anchorage Airport bonds authorization. (Someone else would be better to answer any questions on this).

Section 2. AIDA authorization to issue up to $175 million in bonds. The latest plan from the ADministration I believe calls for issuence of $135 million.

Section 3. Reminds AIDA to follow AS 44.88.173 which requires the plan of finance. Then says that AIDA will incorporate into the final finance plan the following terms and conditions:

(best to just read the bill here for the conditions...)

Cominco will agree to pay for operation and maintenance on the road proportional to its use of the facility.

If Cominco ceases to develop the mine it will pay AIDA back for all costs and debts incurred.

Toll fees may be adjusted if the price of zinc goes up enough.

The land is made available for the route through the monument (if that is the route they actually use).

Page 2, line 33 (item (3)): NANA agrees to make available land for future expansion of the road and port. This section attracts a lot of

attention for the phrase "at no more than market value." The purpose of the section is to see that land is available to other users (i.e. that NANA and Cominco do not try to keep others out)

AIDA maximizes the use of tax-exempt financing.

A toll schedule is established that (A) ensures a reasonable rate of return on the state's investment and (B) guarantees equitable access to the facility by all users.

The road construction is subject to AS 36 - local hire and prevailing wage.

A new provision (from the Senate Bill): reasonable access to the road and port is guaranteed to all users.

AIDA is required to notify Legislative Budget and Audit that the above conditions have been met.

AIDA agrees that all funds from the project not needed for bond covenants will be returned to the General Fund. (This section has been amended in the Finance CS to meet the concerns of AIDA's bond attorney)

Cook
4/25/85 ✓

KEY:
— additions to Loans CS
[ ] deletions from Loans CS

Original sponsor: Rules/Governor

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 105 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes, establishing conditions under which the bonds or notes for the DeLong Mountain transportation project may be issued; and providing for an effective date."

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

* Section 1. AS 37.15.410 is amended to read:

Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of providing part or all of the money to be used, with or without any grants or other money that [WHICH] may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed $86,525,000 [$62,825,000] is authorized to acquire, equip, construct, and install the additions, improvements, extensions, and facilities authorized in AS 37.15.510. The principal of and interest on these bonds shall be paid out of and secured by the gross revenues derived by the state from the ownership, lease, use, and operation of the airports, and of all the facilities of them and out of any other revenues or money that [WHICH] the state legislature may provide exclusive of any state tax or license.

* Sec. 2. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 3. Before bonds or notes authorized under sec. 2 of this Act may be issued the Alaska Industrial Development Authority shall comply with

AS 44.88.173 and shall incorporate into the final finance plan for the DeLong Mountain transportation project the following terms and conditions:

(1) Cominco, Ltd. is required to agree in writing that

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco Alaska makes of the facilities compared to the use made by others;

(B) if Cominco Alaska ceases to develop the Red Dog Mine after costs or debts have been incurred by the Alaska Industrial Development Authority for the project, Cominco, Ltd. will repay the authority for those costs and debts;

[Alaska Ind. Development]

(C) toll fees paid by Cominco Alaska for the use of facilities constructed as part of the project to the Alaska Industrial Development Authority may be periodically adjusted if the price of zinc rises above a level that yields a return on investment commensurate with risk;

(2) the United States government makes available land in the Cape Krusenstern National Monument that is included in the proposed land exchange with NANA Regional Corporation to the corporation for construction of a transportation system; [is conveyed to by the U.S. Department of the Interior]

(3) NANA Regional Corporation is required to agree in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the project and land needed for future expansion of the road and port;

(4) tax exempt financing for the project is used to the maximum extent possible;

(5) a toll schedule, that may be periodically adjusted, is established for use of facilities constructed as part of the project that

(A) ensures a reasonable return on the state's investment in the project; and

(B) guarantees equitable access to the facilities by all users;

(6) contracts for the construction, operation, and maintenance of the port and road are subject to AS 36;

(7) reasonable access to the port and road is guaranteed to all users.

* Sec. 4. Before bonds or notes authorized under sec. 2 of this Act may be issued the Alaska Industrial Development Authority shall

(1) report in writing to the legislative budget and audit committee that the conditions under sec. 3 of this Act have been met; and

(2) agree with the Department of Revenue in writing to deliver all money generated by the DeLong Mountain transportation project to the Department of Revenue for deposit in the general fund, other than money necessary for payment of the principal and interest on bonds or notes issued under sec. 2 of this Act and except as may otherwise be provided in the bond or note covenants. [to the Dept. of Rev. for deposit in the general fund]

* Sec. 5. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Cook
4/18/85 ✓

Original sponsor: Rules/Governor

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 105 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes, establishing conditions under which the bonds or notes for the DeLong Mountain transportation project may be issued; and providing for an effective date."

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

* Section 1. AS 37.15.410 is amended to read:

Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of providing part or all of the money to be used, with or without any grants or other money <u>that</u> [WHICH] may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed <u>$86,525,000</u> [$62,825,000] is authorized to acquire, equip, construct<u>,</u> and install the additions, improvements, extensions<u>,</u> and facilities authorized in AS 37.15.510. The principal of and interest on these bonds shall be paid out of and secured by the gross revenues derived by the state from the ownership, lease, use<u>,</u> and operation of the airports, and of all the facilities of them and out of any other revenues or money <u>that</u> [WHICH] the state legislature may provide exclusive of any state tax or license.

* Sec. 2. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 3. Before bonds or notes authorized under sec. 2 of this Act may be issued the Alaska Industrial Development Authority shall comply with

AS 44.88.173 and[, to the extent feasible,] shall incorporate into the final finance plan for the DeLong Mountain transportation project the following terms and conditions:

(1) Cominco, Ltd. is required to agree in writing that

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco Alaska makes of the facilities compared to the use made by others;

(B) if Cominco Alaska ceases to develop the Red Dog Mine after costs or debts have been incurred for the project, Cominco, Ltd. will repay the Alaska Industrial Development Authority for those costs and debts;

(C) toll fees paid by Cominco Alaska for the use of facilities constructed as part of the project to the Alaska Industrial Development Authority may be periodically adjusted if the price of zinc rises above a level that yields a return on investment commensurate with risk;

(2) land in the Cape Krusenstern National Monument is conveyed to NANA Regional Corporation by the United States Department of the Interior;

(3) NANA Regional Corporation is required to agree in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the project and land needed for future expansion of the road and port;

(4) tax exempt financing for the project is used to the maximum extent possible;

(5) a toll schedule, that may be periodically adjusted, is established for use of facilities constructed as part of the project that

(A) ensures a reasonable return on the state's investment in the project; and

(B) guarantees equitable access to the facilities by all users.

* Sec. 4. Before bonds or notes authorized under sec. 2 of this Act may be issued the Alaska Industrial Development Authority shall

(1) report in writing to the legislative budget and audit committee that the conditions under sec. 3 of this Act have been met; and

(2) agree with the Department of Revenue in writing to deliver all money generated by the DeLong Mountain transportation project, other than money necessary for payment of the principal and interest on bonds or notes issued under sec. 2 of this Act, to the Department of Revenue for deposit in the general fund.

* Sec. 5. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Cook
4/17/85

Original sponsor: Rules/Governor

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 105 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes, establishing conditions under which the bonds or notes for the DeLong Mountain transportation project may be issued; and providing for an effective date."

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

* Section 1. AS 37.15.410 is amended to read:

Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of providing part or all of the money to be used, with or without any grants or other money that [WHICH] may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed $86,525,000 [$62,825,000] is authorized to acquire, equip, construct, and install the additions, improvements, extensions, and facilities authorized in AS 37.15.510. The principal of and interest on these bonds shall be paid out of and secured by the gross revenues derived by the state from the ownership, lease, use, and operation of the airports, and of all the facilities of them and out of any other revenues or money that [WHICH] the state legislature may provide exclusive of any state tax or license.

* Sec. 2. Subject to sec. 3 of this Act, the Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 3. Bonds or notes may not be issued for the Delong Mountain

transportation project until

(1) Cominco, Ltd. agrees in writing to terms and conditions under which

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco, Ltd. makes of the facilities compared to the use made by others;

(B) Cominco, Ltd. will repay all expenditures by the state for the project through toll fees for the use of facilities constructed as part of the project;

(C) payments by Cominco, Ltd. to the Alaska Industrial Development Authority will be accelerated if the price of zinc rises above a level determined by the Alaska Industrial Development Authority to yield a reasonable return on investment;

(2) land in the Cape Krusenstern National Monument is conveyed to NANA Regional Corporation by the United States Department of the Interior;

(3) NANA Regional Corporation agrees in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the DeLong Mountain transportation project and land needed for future expansion of the road and port;

(4) the Alaska Industrial Development Authority adopts a financial plan for the DeLong Mountain transportation project that uses tax exempt financing to the maximum extent possible;

(5) the Alaska Industrial Development Authority establishes a toll schedule for use of facilities constructed as part of the DeLong Mountain transportation project that ensures a reasonable return on the state's investment in the project and guarantees equitable access to the

facilities by all users; the toll schedule may be periodically adjusted; and

(6) the Alaska Industrial Development Authority reports in writing to the legislative budget and audit committee that the conditions under (1) - (5) of this section have been met.

* Sec. 4. Notwithstanding limitations on the establishment of a capital reserve fund under AS 44.88.105, the Alaska Industrial Development Authority may covenant and agree with the trustee or holders of the bonds or notes authorized under sec. 2 of this Act that the authority will establish a capital reserve fund for the purpose of securing the bonds or notes, that the chairman of the authority will, by January 2 of each year, certify in writing to the governor and the legislature the amount required to restore the capital reserve fund to the capital reserve fund requirement, and that the legislature may appropriate to the authority the amount certified by the chairman. Nothing in this section creates a debt or liability of the state.

* Sec. 5. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Cook ✓

AMENDMENT

Offered in the HOUSE BY THE HOUSE SPECIAL

TO: HB 105 COMMITTEE ON STATE LOANS

Page 1, lines 6 and 7, delete:

"international airport revenue bonds authorization" and insert "authorization of bonds or notes, establishing conditions under which the bonds or notes for the DeLong Mountain transportation project may be issued"

Page 1, after line 22, insert the following new bill sections:

"* Sec. 2. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project. ~~Bonds or notes may not be issued under this section until~~ (c) Sec. 3. The board of AIDA shall, prior to issuance and sale of the bonds, incorporate in its financing plans to the extent necessary and appropriate the following terms and conditions:

(1) Cominco, Ltd. agrees in writing to terms and conditions under which

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco, Ltd. makes of the facilities compared to the use made by others;

(B) Cominco, Ltd. will repay all expenditures by the state for the project through toll fees for the use of facilities constructed as part of the project;

(C) payments by Cominco, Ltd. to the state will be

4/16/85

accelerated if the price of zinc rises above a level determined by the Alaska Industrial Development Authority to yield a reasonable profit;

(2) land in the Cape Krusenstern National Monument is conveyed to NANA Regional Corporation by the United States Department of the Interior;

(3) NANA Regional Corporation agrees in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the DeLong Mountain transportation project and land needed for future expansion of the road and port;

(4) the Alaska Industrial Development Authority obtains a ruling from the Internal Revenue Service that bonds or notes issued under this section will qualify for tax exempt status;

(5) the Alaska Industrial Development Authority establishes a toll schedule for use of facilities constructed as part of the DeLong Mountain transportation project that ensures a reasonable return on the state's investment in the project and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted; and

Sec 4 (6) the Alaska Industrial Development Authority reports in writing to the legislative budget and audit committee that the conditions under (1) - (5) of this section have been met.

* Sec. 3. Notwithstanding limitations on the establishment of a capital reserve fund under AS 44.88.105, the authority may covenant and agree with the trustee or holders of the bonds or notes authorized under sec. 2 of this Act that the authority will establish a capital reserve fund for the

purpose of securing the bonds or notes, that the chairman of the authority will, by January 2 of each year, certify in writing to the governor and the legislature the amount required to restore the capital reserve fund to the capital reserve fund requirement, and that the legislature may appropriate to the authority the amount certified by the chairman. Nothing in this section creates a debt or liability of the state."

Renumber the following bill section.

Introduced: 1/23/85
Referred: Transportation and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 105

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the international airports revenue bonds authorization and to the authorization of bonds or notes for the DeLong Mountain transportation project and the establishment of conditions under which the bonds or notes for the DeLong Mountain transportation project may be issued; and providing for an effective date."

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

* Section 1. AS 37.15.410 is amended to read:

Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of providing part or all of the money to be used, with or without any grants or other money which may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed $86,525,000 [$62,825,000] is authorized to acquire, equip, construct, and install the additions, improvements, extensions, and facilities authorized in AS 37.15.510. The principal of and interest on these bonds

shall be paid out of and secured by the gross revenues derived by the state from the ownership, lease, use, and operation of the airports, and of all the facilities of them and out of any other revenues or money which the state legislature may provide exclusive of any state tax or license.

what kind?

* Sec. 2. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 3. Prior to the issuance and sale of any bonds or notes authorized in Sec. 2 the board of directors of the Alaska Industrial Development Authority ~~to the extent feasible~~ shall incorporate into the final finance plan substantially the following terms and conditions:

compliance with AS 44.88.173 and shall

(1) Cominco, Ltd. agrees in writing that

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project, based on the use Cominco, Ltd. makes of the facilities compared to the use made by others;

(B) if Cominco Alaska ceases to develop the Red Dog mine after expenditures on the road or port have commenced, Cominco, Ltd. will repay all expenditures by the Alaska Industrial Development Authority on the DeLong Mountain transportation project;

(C) toll fees paid by Cominco, Ltd. for the use of the road and port facilities to the Alaska Industrial Development Authority may be periodically adjusted if the price of zinc rises above a level agreed upon with the authority, which yields a return on investment commensurate with the risk;

(2) land in the Cape Krusenstern National Monument is conveyed to NANA Regional Corporation by the United States Department of the Interior;

(3) NANA Regional Corporation agrees in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the DeLong Mountain transportation project, and land needed for future expansion of the road and port;

(4) The Alaska Industrial Development Authority shall maximize the use of tax exempt financing;

(5) The Alaska Industrial Development Authority establishes a toll schedule for use of facilities constructed as part of the DeLong Mountain transportation project that ensures a reasonable return on the state's investment commensurate with project viability and future usage, and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted.

* Sec. 4. The Alaska Industrial Development Authority reports in writing to the legislative budget and audit committee that the conditions under (1) - (5) of Section 3 of this act have been met.

* Sec. 5. Notwithstanding limitations on the establishment of a capital reserve fund under AS 44.88.105, the authority may covenant and agree with the trustee or holders of the bonds or notes authorized under Sec. 2 of this act that the authority will establish a capital reserve fund for the purpose of securing the bonds or notes, that the chairman of the authority will, by January 2 of each year, certify in writing to the governor and the legislature the amount

required to restore the capital reserve fund to the capital reserve fund requirement, and that the legislature may appropriate to the authority the amount certified by the chairman. Nothing in this section creates a debt or liability of the state.

* Sec. 6. This act takes effect immediately in accordance with AS 01.10.070(c).

3/28/85

(Dept. of Commerce + Economic Development)

SUGGESTED DRAFT OF LETTER OF INTENT ATTACHED TO THE APPROPRIATION BILL WHICH INCLUDES THE APPROPRIATION OF $18.0 MILLION AND REVENUE'S LOANS TO AIDA:

It is the intent of the Legislature that, before the appropriation of $18.0 million and loans to the Economic Development Fund may be expended, obligated, or encumbered, the Alaska Industrial Development Authority must enter into a binding contractual agreement(s) with Cominco, Ltd. and with Nana Regional Corporation to execute substantially the assurances and guarantees represented by the parties to the Legislature.

Specifically, those assurances and guarantees are as follows:

1. Cominco, Ltd. will guarantee to pay toll fees that will repay State expenditures.

2. Cominco, Ltd. will guarantee to pay the operation and maintenance costs of the road and port facilities.

3. Cominco, Ltd. will guarantee minimum toll payments and other payments necessary to repay the State's investment if the mine is delayed or if production is suspended after operation commences.

4. Cominco, Ltd. will agree that, to the extent that the price of zinc should rise above a level presently contemplated to yield a reasonable profit, the State's investment will be repaid at an accelerated rate.

5. Nana Regional Corporation will guarantee to provide necessary land to accomodate reasonable expansion requirements for future users at the port site.

DRAFT
Law

D. Long 2
LC'52 2/28/85
#3

IN THE _____ BY THE _____ COMMITTEE
±

_____ BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project; and providing for an effective date."

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

* Section 1. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175 million to provide financing for the development of the DeLong Mountain transportation project.

* Sec. 2. The authority may pledge the moral obligation of the state in support of the issuance of bonds or notes authorized under sec. 1. If the moral obligation of the state is pledged, the authority shall establish appropriate capital reserve funds, and the chairman of the authority shall, no later than January 2 of each year, certify in writing to the governor and the legislature the amount, if any, required to restore a capital reserve fund to the capital reserve fund requirements. The legislature may appropriate to the authority the amount certified by the chairman of the authority. Nothing in this section creates a debt or liability of the state.

* Sec. 3. The authority may not issue bonds or notes authorized under this Act unless any limitations imposed by law with respect to the expenditure of money appropriated for the fiscal year ending June 30, 1986 to the authority as loans or grants for the purpose of the DeLong Mountain transportation project have been satisfied.

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

03-038

DRAFT
Law

"PROPOSED SECTION TO BUDGET BILL"

* Sec. __. (a) All right, title, and interest in loans of the type described in (b) of this section, in an amount not to exceed $142,000,000 in unpaid principal as of July 1, 1985, and all right, title, and interest in all mortgages, notes, and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated to the Alaska Industrial Development Authority for the purposes of its economic development fund (AS 44.88.172).

(b) This section transfers and appropriates

(1) veterans loans acquired or made under AS 26.15;

(2) commercial fishing loans acquired or made under AS 16.10.300 -- 16.10.360;

(3) small business loans acquired or made under AS 45.95;

(4) tourism loans acquired or made under AS 45.90;

(5) fisheries enhancement loans acquired or made under AS 16.10;

(6) child care loans acquired or made under AS 44.33; and

(7) historical district loans acquired or made under AS 45.98.

(c) In an amount not to exceed $30 million in unpaid principal as of July 1, 1985, all right, title, and interest in commercial fishing loans acquired or made under AS 16.10.300 -- 16.10.360 and secured by a limited entry permit, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated from the general fund to the commercial fishing revolving loan fund (AS 16.10.340) for the purposes of AS 16.10.300 -- 16.10.370.

(d) In an amount equal to the principal balance of loans appropriated under (c) of this section, all right, title, and interest in commercial

fishing loans, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, are transferred from the commercial fishing revolving loan fund to the Alaska Industrial Development Authority for the purposes of its economic development fund (AS 44.88.172). However, only loans which are not secured by a limited entry permit may be transferred or appropriated under this subsection.

SENATE JOURNAL

ALASKA STATE LEGISLATURE

FOURTEENTH LEGISLATURE - FIRST SESSION

JUNEAU, ALASKA MONDAY May 6, 1985

One Hundred Thirteenth Day

Pursuant to adjournment, the Senate was called to order by President Bennett at 11:09 a.m.

The roll showed nineteen members present. Senator Kerttula was excused from a call of the Senate but was present. Senator Sackett was absent.

The prayer was offered by the Chaplain, Pastor Hunt of the Resurrection Lutheran Church.

Senator Sackett requested that his presence be noted.

Senator Halford moved and asked unanimous consent that the journals for the one hundred eleventh and one hundred twelfth legislative days and Supplement No. 36 be approved as certified by the Secretary. Without objection, it was so ordered.

Senator Ziegler introduced former Senator Pete Meland and President Bennett granted him the privilege of the floor.

MESSAGES FROM THE GOVERNOR

Governor Sheffield signed the list of appointments, to be considered at Joint Session today, as correct. The list will be distributed to all Legislators.

MESSAGES FROM THE HOUSE

SB 172

Message of May 5 was read, stating the House passed and returned:

SENATE BILL NO. 172

(extending the termination date of the Council on Domestic Violence and Sexual Assault; efd)

SENATE BILL NO. 172 was referred to the Secretary for enrollment.

SB 218

Message of May 5 was read, stating the House passed and returned:

CS FOR SENATE BILL NO. 218 (L&C)

(extending the termination date of the Board of Barbers and Hairdressers; efd)

CS FOR SENATE BILL NO. 218 (L&C) was referred to the Secretary for enrollment.

SB 247

Message of May 5 was read, stating the House passed and returned:

CS FOR SENATE BILL NO. 247 (L&C)

(extending the termination date of the Alaska Public Utilities Commission; efd)

CS FOR SENATE BILL NO. 247 (L&C) was referred to the Secretary for enrollment.

HJR 35

Message of May 5 was read, stating the House concurred in the Senate amendment to HOUSE JOINT RESOLUTION NO. 35 (Urging the United States Olympic Committee to select Anchorage as the United States nominee for the site of the 1992 Winter Olympic Games), thus passing:

RULES - BELTZ ROOM 211 - 12:30 PM
May 06 MONDAY *4:00 PM SENATE FINANCE
HB 124 OLDER ALASKANS COMMISSION
TELE WITH ANCHORAGE
May 06 MONDAY *12:50 PM
CALENDAR BILLS

STATE AFFAIRS - BUTROVICH ROOM 205 - 8:30 AM
May 07 TUESDAY
HB 147 DIVISION OF EQUAL EMPLOYMENT OPPORTUNITY
SB 92 DEFERRED COMPENSATION BENEFIT UNDER SBS
SB 305 SALARY FREEZE FOR STATE EMPLOYEES
May 09 THURSDAY
SB 231 SUBSISTENCE & PERSONAL USE OF FISH & GAME
TELECONFERENCE IN SOUTHEAST

TRANSPORTATION - BUTROVICH ROOM 205 - 3:30 PM
May 06 MONDAY
HB 111 LOCAL SERVICE ROADS & TRAILS
May 08 WEDNESDAY
NO MEETING
May 10 FRIDAY
NO MEETING

CONFERENCE COMMITTEE -
May 06 MONDAY 1:30 PM SENATE FINANCE
HB 60 OPERATING BUDGET & LOAN PROGRAM EXPENSES

JOINT SESSION -
May 06 MONDAY 2:00 PM HOUSE CHAMBERS
GOVERNOR'S CONFIRMATION

MAJORITY CAUCUS -
May 06 MONDAY 1:00 PM BUTROVICH ROOM

Committee meetings in the Capital * Change in time or place*

COMMUNITY & REGIONAL AFFAIRS - BELTZ ROOM 211 - 3:30 PM
May 07 TUESDAY
NO MEETING

FINANCE - FINANCE ROOM 518 - 8:30 AM
May 07 TUESDAY
SB 27 APPROP CAPITAL PROJECTS - JOINT WITH HOUSE FINANCE
SB 128 LONGEVITY BONUS
HB 140 TELECONFERENCES ADMIN PROCEDURE ACT
HB 335 PRACTICE OF MIDWIFERY
HB 72 MUNICIPAL GOVERNMENT
HB 74 BIA SCHOOL ADMINISTRATORS IN TRS
HB 81 MOTOR VEHICLE INSPECTIONS
HB 103 CONTRACT PROCEDURES FOR ROYALTY OIL
HB 280 ANCHOR RV & FRITZ CK CRITICAL HABITAT AREA
May 08 WEDNESDAY
TBA
May 09 THURSDAY
TBA

HEALTH, EDUCATION & SOCIAL SERVICES - BELTZ ROOM 211 - 1:30 PM
May 07 TUESDAY
HB 215 COMMUNITY HEALTH AIDE GRANTS CONT'D

JUDICIARY - BUTROVICH ROOM 205 - 1:30 PM
May 07 TUESDAY
HB 267 FEES FOR USE OF STATE PARK CAMPSITES
SB 188 EVICTION FROM A MOBILE HOME
SB 95 SAFETY OF DAMS & RESERVOIRS
SB 193 POWER OF EMINENT DOMAIN
SB 226 VIOLATION OF COMPULSORY EDUCATION LAWS
HB 88 PROTECTION OF CHILDREN
May 09 THURSDAY
HB 126 EXTENDING COVERAGE OF SECURITIES ACT
SB 80 OPTION OF ONE PSYCH EXAM FOR DEFENDANT
HB 172 RIGHTS OF BLIND AND DISABLED PERSONS

LABOR AND COMMERCE - BELTZ ROOM 211 - 3:30 PM
May 06 MONDAY
HB 148 MOBILE HOME WARRANTIES
HB 102 ALASKA RESOURCE CORP

RESOURCES - BUTROVICH ROOM 205 - 1:30 PM
May 06 MONDAY
*HB 323, HB 165, HB 166 CANCELED - RESCHEDULED 5/7
May 07 TUESDAY *3:30 PM BELTZ ROOM 211
HB 323 GRANT STATE LAND IN PELICAN
HB 165 TRANSPLANTING OF ELK
HB 166 APPROP TO DEPT. OF FISH AND GAME
HB 316 NAVIGABLE & PUBLIC WATERS; OBSTRUCTIONS
May 08 WEDNESDAY
SB 271 ALASKA HIRE OIL/GAS PROJECTS ON STATE LAND
HJR 24 FED REVENUE SHARING OUTER CONTINENTAL SHELF
HB 248 LEASES ON FORMER UNIVERSITY LAND
May 10 FRIDAY
TBA

HJR 35 cont'd

HOUSE JOINT RESOLUTION NO. 35 am S

(Urging the United States Olympic Committee to select Anchorage as the United States nominee for the site of the 1992 Olympic Winter Games)

SCR 19

Message dated May 3 on CS FOR SENATE CONCURRENT RESOLUTION NO. 19 (FIN) and CS FOR SENATE CONCURRENT RESOLUTION NO. 19 (FIN) am H (Establishing a Joint Special Committee on Legislative Salaries) which was held from May 4 was read.

Senator Halford moved that the Senate concur in the House amendment and recommended the members vote no.

The question being: "Shall the Senate concur in the House amendment to CS FOR SENATE CONCURRENT RESOLUTION NO. 19 (FIN)?" The roll was taken with the following result:

CSSCR 19 FIN AM H CONCUR

Yeas:	0	
Nays:	19	Abood, Bennett, Coghill, DeVries, Fahrenkamp, Faiks, Ferguson, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Rodey, Sackett, Sturgulewski, Zharoff, Ziegler
Absent:	1	Eliason

and so, the Senate failed to concur.

President Bennett instructed the Secretary to notify the House of the Senate's action and request the House to recede from its amendment. In the event that the House fails to recede, the President appointed the following members to a CONFERENCE COMMITTEE to meet with a like committee from the House to consider the resolutions:

Senator Abood, Chairman
Senator Ferguson
Senator Ray

HB 78

Message of May 5 was read, stating the House failed to concur in the Senate amendment to CS FOR HOUSE BILL NO. 78 (L&C) am and respectfully requests the Senate to recede from its amendment, namely:

SENATE CS FOR CS FOR HOUSE BILL NO. 78 (L&C)

(occupational licensing fees; efd)

Messages of May 4 and 5 were read, stating the House passed:

FIRST READING AND REFERENCE OF HOUSE BILLS

HB 44

CS FOR HOUSE BILL NO. 44 (JUD) by the Judiciary Committee, entitled:

"An Act relating to marine park units of the state park system; and providing for an effective date."

with a House Letter of Intent was read the first time and referred to the Resources Committee, the Judiciary Committee and the Finance Committee.

HB 88

CS FOR HOUSE BILL NO. 88 (FIN) by the Finance Committee, entitled:

"An Act relating to the protection of children, family members, and dependent adults; and providing for an effective date."

was read the first time and referred to the Judiciary Committee and the Finance Committee.

HB 122

HOUSE BILL NO. 122 by the Rules Committee by request of the Governor, entitled:

"An Act abolishing inactive boards, councils, and commissions."

was read the first time and referred to the State Affairs Committee and the Finance Committee.

SB 247

CS FOR SENATE BILL NO. 247 (L&C) was enrolled, signed by the President and Secretary, Speaker and Chief Clerk and the engrossed and enrolled copies transmitted to the Office of the Governor at 1:55 p.m., May 6, 1985.

ADJOURNMENT

Senator Ziegler moved and asked unanimous consent that the Senate adjourn until 11:00 a.m., May 7, 1985. Without objection, the Senate adjourned at 3:03 p.m.

Peggy Mulligan
Secretary of the Senate

May 1985

AFTER RECESS

The Senate reconvened at 3:01 p.m.

ENGROSSMENT

SB 303

SENATE BILL NO. 303 was engrossed, signed by the President and Secretary and transmitted to the House for consideration.

SB 279

CS FOR SENATE BILL NO. 279 (FIN) was engrossed, signed by the President and Secretary and transmitted to the House for consideration.

SB 280

CS FOR SENATE BILL NO. 280 (FIN) am was engrossed, signed by the President and Secretary and transmitted to the House for consideration.

ENROLLMENT

SB 172

SENATE BILL NO. 172 was enrolled, signed by the President and Secretary, Speaker and Chief Clerk and the engrossed and enrolled copies transmitted to the Office of the Governor at 1:55 p.m. May 6, 1985.

SB 218

CS FOR SENATE BILL NO. 218 (L&C) was enrolled, signed by the President and Secretary, Speaker and Chief Clerk and the engrossed and enrolled copies transmitted to the Office of the Governor at 1:55 p.m., May 6, 1985.

HB 130

CS FOR HOUSE BILL NO. 130 (HESS) am by the Health, Education and Social Services Committee, entitled:

"An Act relating to educational employees' collective bargaining agreements; and providing for an effective date."

was read the first time and referred to the Health, Education and Social Services Committee and the Finance Committee.

HB 174

CS FOR HOUSE BILL NO. 174 (FIN) by the Finance Committee, entitled:

"An Act requiring training in emergency care for teachers certified in the state."

was read the first time and referred to the Health, Education and Social Services Committee and the Finance Committee.

HB 218

CS FOR HOUSE BILL NO. 218 (JUD) by the Judiciary Committee, entitled:

"An Act relating to standards of conduct of legislators and legislative employees and to the Select Committee on Legislative Ethics; and providing for an effective date."

was read the first time and referred to the State Affairs Committee, the Judiciary Committee and the Finance Committee.

HB 236

CS FOR HOUSE BILL NO. 236 (FIN) am by the Finance Committee, entitled:

"An Act creating a Quadrennial Olympic reserve account; and providing for an effective date."

was read the first time and referred to the Community and Regional Affairs Committee and the Finance Committee.

HB 288

CS FOR HOUSE BILL NO. 288 (JUD) am by the Judiciary Committee, entitled:

"An Act relating to the taking of fish and game for subsistence and personal use; and providing for an effective date."

with a House Letter of Intent was read the first time and referred to the State Affairs Committee, the Resources Committee and the Judiciary Committee.

HB 392

HOUSE BILL NO. 392 am by the Rules Committee by request of the Governor, entitled:

"An Act relating to the acquisition and development of state office and prison facilities; and providing for an effective date."

with a House Letter of Intent was read the first time and referred to the Labor and Commerce Committee, the Judiciary Committee and the Finance Committee.

COMMUNICATIONS

The Secretary announced receipt of the following short digests to audit reports which are on file in the Office of the Secretary of the Senate:

A SPECIAL REPORT ON THE DEPARTMENT OF EDUCATION, LOWER YUKON SCHOOL DISTRICT CONTRACTING PRACTICES, JANUARY 15, 1985

A REPORT ON THE DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT, DIVISION OF ACCOUNTING AND COLLECTIONS, LOAN PROGRAMS, FOR THE FISCAL YEAR ENDED JUNE 30, 1984

A SPECIAL REPORT ON THE DEPARTMENT OF REVENUE, POLITICAL CONTRIBUTION CREDIT PROGRAM, CLAIM YEARS 1981-1983, FEBRUARY 15, 1985

The short digests are on file in the Office of the Secretary of the Senate.

Senator Halford moved that Robert F. Williams be confirmed to the University of Alaska Board of Regents. Representative Thompson objected.

The question being: "Shall Robert F. Williams be confirmed to the University of Alaska Board of Regents?" The roll of the Senate was called with the following result:

SENATE

WILLIAMS

Yeas:	20	Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Rodey, Sackett, Sturgulewski, Zharoff, Ziegler, Abood, Coghill, DeVries, Eliason, Fahrenkamp, Faiks, Ferguson, Bennett
Nays:	0	

The roll of the House was taken with the following result:

HOUSE

WILLIAMS

Yeas:	34	Adams, Binkley, Boucher, Cato, Clocksin, Collins, Cotten, Duncan, Frank, Fuller, Furnace, Goll, Gruenberg, Grussendorf, Hanley, Herrmann, Hurley, Koponen, Larson, Marrou, Martin, Miller,M.M., Miller,M.W., Navarre, Pearce, Phillips, Pourchot, Rieger, Ringstad, Shultz, Sund, Szymanski, Taylor, Uehling
Nays:	6	Davis, Jenkins, Pettyjohn, Pignalberi, Thompson, Wallis

Herrmann changed from "nay" to "yea".

TOTALS: YEAS: 54 NAYS: 6

and so, Robert F. Williams was confirmed to the University of Alaska Board of Regents.

Senator Halford moved and asked unanimous consent that the Joint Session adjourn. Without objection, the Joint Session adjourned at 2:58 p.m.

Senator Halford moved and asked unanimous consent that Robert M. Piazza be confirmed to the Railroad Labor Relations Agency. Without objection, Robert M. Piazza was confirmed.

Senator Halford moved and asked unanimous consent that Grace Berg Schaible be confirmed to the University of Alaska Board of Regents. Representative Thompson objected.

The question being: "Shall Grace Berg Schaible be confirmed to the University of Alaska Board of Regents?" The roll of the House was taken with the following result:

HOUSE

SCHAIBLE

Yeas:	39	Adams, Binkley, Boucher, Cato, Clocksin, Collins, Cotten, Davis, Duncan, Frank, Fuller, Furnace, Goll, Gruenberg, Grussendorf, Hanley, Herrmann, Hurley, Jenkins, Koponen, Larson, Marrou, Martin, Miller,M.M., Miller,M.W., Navarre, Pearce, Pettyjohn, Phillips, Pignalberi, Pourchot, Rieger, Ringstad, Shultz, Sund, Szymanski, Taylor, Uehling, Wallis
Nays:	1	Thompson

The roll of the Senate was called with the following result:

SENATE

SCHAIBLE

Yeas:	20	Ferguson, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Rodey, Sackett, Sturgulewski, Zharoff, Ziegler, Abood, Coghill, DeVries, Eliason, Fahrenkamp, Faiks, Bennett
Nays:	0	

TOTALS: YEAS: 59 NAYS: 1

and so, Grace Berg Schaible was confirmed to the University of Alaska Board of Regents.

Continuation notice posted May 6:

> PUBLIC NOTICE, DEPARTMENT OF ENVIRONMENTAL CONSERVATION (solicit public comments on specific plans for selected projects: 1) Continuing placer mining monitoring; 2) Continuing the Placer Mining Advisory Group; 3) Preparing a Delta-Clearwater Creek Water Quality Management Plan; and 4) State position on amendments to the Clean Water Act)

Senator Sturgulewski, Chairman, moved and asked unanimous consent that the notice be referred to the Resources Committee. President Bennett stated that without objection, the notice would be referred to Resources.

STANDING COMMITTEE REPORTS

SB 279

The Rules Committee considered SENATE BILL NO. 279 (special appropriation to the economic development fund of the Alaska Industrial Development Authority, transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan fund; efd) and a majority of the committee recommended calendar May 6. The report was signed by Senator Kelly, Chairman and concurred in by Senators Coghill, Bennett and Faiks.

SENATE BILL NO. 279 appears on the calendar.

SB 280

The Rules Committee considered SENATE BILL NO. 280 (authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; efd) and a majority of the committee recommended calendar May 6. The report was signed by Senator Kelly, Chairman and concurred in by Senators Coghill, Bennett and Faiks.

SENATE BILL NO. 280 appears on the calendar.

HB 80

The Rules Committee considered CS FOR HOUSE BILL NO. 80 (L&C) (insurance fees and licenses; efd) and a majority of the committee recommended calendar May 6. The report was signed by Senator Kelly, Chairman and concurred in by Senators Coghill, Bennett and Faiks.

CS FOR HOUSE BILL NO. 80 (L&C) appears on the calendar.

INTRODUCTION AND REFERENCE OF SENATE BILLS

SB 310

SENATE BILL NO. 310 by Senators Sturgulewski, Vic Fischer, Rodey and Zharoff, entitled:

"An Act establishing the Alaska Natural Hazards Safety Commission."

was read the first time and referred to the State Affairs Committee and the Finance Committee.

SB 311

SENATE BILL NO. 311 by the Finance Committee, entitled:

"An Act increasing the bond authorization for airport revenue bonds; and providing for an effective date."

was read the first time and referred to the Finance Committee.

Senator Halford moved and asked unanimous consent that the Senate recess to a call of the Chair and announced a majority caucus. Without objection, the Senate recessed at 11:26 a.m.

AFTER RECESS

The Senate reconvened at 12:07 p.m.

CONSIDERATION OF THE CALENDAR

SECOND READING OF SENATE BILLS

SB 279

SENATE BILL NO. 279 (special appropriation to the economic development fund of the Alaska Industrial Development Authority, transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan fund; efd) was read the second time.

Senator Halford moved and asked unanimous consent that Charles Bovee be confirmed to the Board of Psychologist and Psychological Associate Examiners. Without objection, Charles Bovee was confirmed.

Senator Halford moved and asked unanimous consent that Linda Webber be confirmed to the Board of Psychologist and Psychological Associate Examiners. Without objection, Linda Webber was confirmed.

Senator Halford moved that C.R. "Steve" Halfing be confirmed to the Railroad Labor Relations Agency. Representative Marrou objected.

The question being: "Shall C.R. Steve Halfing be confirmed to the Railroad Labor Relations Agency?" The roll of the Senate was called with the following result:

SENATE

Yeas:	20	Faiks, Ferguson, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Rodey, Sackett, Sturgulewski, Zharoff, Ziegler, Abood, Coghill, DeVries, Eliason, Fahrenkamp, Bennett
Nays:	0	

The roll of the House was taken with the following result:

HOUSE

HALFING

Yeas:	39	Adams, Binkley, Boucher, Cato, Clocksin, Collins, Cotten, Davis, Duncan, Frank, Fuller, Furnace, Goll, Gruenberg, Grussendorf, Hanley, Herrmann, Hurley, Jenkins, Koponen, Larson, Martin, Miller,M.M., Miller,M.W., Navarre, Pearce, Pettyjohn, Phillips, Pignalberi, Pourchot, Rieger, Ringstad, Shultz, Sund, Szymanski, Taylor, Thompson, Uehling, Wallis
Nays:	1	Marrou

TOTALS: YEAS: 59 NAYS: 1

and so, C.R. "Steve" Halfing was confirmed to the Railroad Labor Relations Agency.

TOTALS: YEAS: 53 NAYS: 6 ABSENT: 1

and so, Ernest Carter was confirmed to the Board of Fisheries.

Senator Halford moved that Victor Van Ballenberghe be confirmed to the Board of Game. Representative Shultz objected.

The question being: "Shall Victor Van Ballenberghe be confirmed to the Board of Game?" The roll of the House was taken with the following result:

HOUSE

BALLENBERGHE

Yeas:	31	Adams, Binkley, Boucher, Cato, Clocksin, Collins, Cotten, Davis, Duncan, Frank, Fuller, Goll, Gruenberg, Grussendorf, Herrmann, Hurley, Koponen, Larson, Martin, Miller,M.M., Navarre, Pearce, Phillips, Pignalberi, Pourchot, Rieger, Ringstad, Sund, Szymanski, Uehling, Wallis
Nays:	9	Furnace, Hanley, Jenkins, Marrou, Miller,M.W., Pettyjohn, Shultz, Taylor, Thompson

The roll of the Senate was called with the following result:

SENATE

BALLENBERGHE

Yeas:	10	Fahrenkamp, Faiks, Ferguson, Fischer Vic, Halford, Josephson, Rodey, Sturgulewski, Zharoff, Ziegler
Nays:	9	Eliason, Fischer Paul, Kelly, Kerttula, Ray, Abood, Coghill, DeVries, Bennett
Absent:	1	Sackett

TOTALS: YEAS: 41 NAYS: 18 ABSENT 1

and so, Victor Van Ballenberghe was confirmed to the Board of Game.

SB 279 cont'd

Senator Faiks moved and asked unanimous consent for the adoption of the Finance Committee Substitute and new title offered on page 993. Without objection, CS FOR SENATE BILL NO. 279 (FIN) (transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan fund, transferring and appropriating money to the economic development fund; efd) was adopted.

CS FOR SENATE BILL NO. 279 (FIN) was read the second time.

SB 303

Senator Ferguson requested that the reconsideration on SENATE BILL NO. 303 am (removing a limitation on the power of the Alaska Railroad to apply for a right-of-way or exercise eminent domain) be taken up.

UNFINISHED BUSINESS

SENATE BILLS IN THIRD READING

SENATE BILL NO. 303 am was before the Senate on reconsideration.

Senator Ferguson moved and asked unanimous consent that SENATE BILL NO. 303 am be returned to second reading for the purpose of a rescinding motion. Without objection, it was so ordered.

Senator Ferguson moved and asked unanimous consent that the Senate rescind its action in adopting Amendment No. 1. Without objection, it was so ordered.

Senator Ferguson moved and asked unanimous unanimous consent that Amendment No. 1 be withdrawn. Without objection, Amendment No. 1 was withdrawn.

SENATE BILL NO. 303 was automatically in third reading.

SB 303 cont'd

The question to be reconsidered is: "Shall SENATE BILL NO. 303 (removing a limitation on the power of the Alaska Railroad to apply for a right-of-way or exercise eminent domain) pass the Senate?" The roll was taken with the following result:

SB 303 3RD

Yeas:	19	bood, Bennett, Coghill, DeVries, liason, Fahrenkamp, Faiks, Ferguson, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Sackett, Sturgulewski, Zharoff, Ziegler
Nays:	1	Rodey

and so, SENATE BILL NO. 303 passed the Senate on reconsideration and was referred to the Secretary for engrossment.

CALENDAR (continued)

SB 279

Senator Halford moved and asked unanimous consent that CS FOR SENATE BILL NO. 279 (FIN) be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered.

CS FOR SENATE BILL NO. 279 (FIN) was read the third time.

Senator Ferguson moved and asked unanimous consent that he be allowed to abstain from voting because of a conflict of interest. Senators Abood and Fahrenkamp objected.

The question being: "Shall CS FOR SENATE BILL NO. 279 (FIN) (transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan fund, transferring and appropriating money to the economic development fund; efd) pass the Senate?" The roll was taken with the following result:

CS SB 279 FIN 3RD

Yeas:	20	Abood, Bennett, Coghill, DeVries, Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Rodey, Sackett, Sturgulewski, Zharoff, Ziegler
Nays:	0	

and so, CS FOR SENATE BILL NO. 279 (FIN) passed the Senate.

The roll of the Senate was called with the following result:

SENATE

ROSS

Yeas:	12	Eliason, Fahrenkamp, Ferguson, Fischer Vic, Halford, Josephson, Kerttula, Ray, Sackett, Sturgulewski, Zharoff, Ziegler
Nays:	8	Abood, Coghill, DeVries, Faiks, Fischer Paul, Kelly, Rodey, Bennett
TOTALS:		YEAS: 37 Nays: 23

and so, William R. Ross was confirmed as the Commissioner of the Department of Environmental Conservation.

Senator Halford moved that Ernest Carter be confirmed to the Board of Fisheries. Senator Paul Fischer objected.

The question being: "Shall Ernest Carter be confirmed to the Board of Fisheries?" The roll of the Senate was called with the following result:

SENATE

CARTER

Yeas:	17	Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Rodey, Sturgulewski, Zharoff, Ziegler, Abood, Coghill, Bennett
Nays:	2	DeVries, Fischer Paul
Absent:	1	Sackett

The roll of the House was taken with the following result:

HOUSE

CARTER

Yeas:	36	Adams, Binkley, Boucher, Cato, Clocksin, Collins, Cotten, Davis, Duncan, Frank, Fuller, Goll, Gruenberg, Grussendorf, Hanley, Herrmann, Hurley, Koponen, Larson, Martin, Miller MM, Miller MW, Navarre, Pearce, Phillips, Pignalberi, Pourchot, Rieger, Ringstad, Shultz, Sund, Szymanski, Taylor, Thompson, Uehling, Wallace
Nays:	4	Furnace, Jenkins, Marrou, Pettyjohn

University of Alaska Board of Regents

Representative Thompson objected.

Alaska Public Utilities Commission

Alaska Public Offices Commission

Violent Crimes Compensation Board

Alaska Worker's Compensation Board

Without objection, the appointees, with the exception of the Board of Psychologist & Psychological Associate Examiners, Railroad Labor Relations Agency and University of Alaska Board of Regents, to boards or commissions were confirmed.

Senator Halford moved that William R. Ross be confirmed as the Commissioner of the Department of Environmental Conservation. Representative Pettyjohn objected.

The question being: "Shall William R. Ross be confirmed as Commissioner of the Department of Environmental Conservation?" The roll of the House was taken with the following result:

HOUSE

ROSS

Yeas:	25	Adams, Binkley, Boucher, Cato, Clocksin, Cotten, Davis, Duncan, Fuller, Goll, Gruenberg, Grussendorf, Herrmann, Hurley, Koponen, Larson, Miller,M.M., Navarre, Phillips, Pignalberi, Pourchot, Sund, Taylor, Thompson, Wallis
Nays:	15	Collins, Frank, Furnace, Hanley, Jenkins, Marrou, Martin, Miller,M.W., Pearce, Pettyjohn, Rieger, Ringstad, Shultz, Szymanski, Uehling

SB 279 cont'd

Senator Halford moved and asked unanimous consent that the vote on the passage of the bill be considered the vote on the effective date clauses, Secs. 8 and 9. Without objection, it was so ordered.

SB 280

SENATE BILL NO. 280 (authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; efd) was read the second time.

Senator Faiks moved and asked unanimous consent for the adoption of the Finance Committee Substitute offered on page 993. Without objection, CS FOR SENATE BILL NO. 280 (FIN) was adopted.

CS FOR SENATE BILL NO. 280 (FIN) was read the second time.

Senators Halford and Ferguson offered Amendment No. 1:

Page 1, line 17: After "plan"
insert "and agreement"

Page 2, lines 9-10: After "to" delete "make available"
insert "sell, lease for a prepaid term of at least 99 years or grant a perpetual easement"

Page 2, line 13: After "port"
insert ", subject to no terms or conditions inconsistent with use as a public road and port"

Senator Halford moved and asked unanimous consent for the adoption of Amendment No. 1. Without objection, Amendment No. 1 was adopted.

Senators Vic Fischer and Ferguson offered Amendment No. 2:

Page 2, line 18: After "ensures"
insert "full repayment of and"

Senator Vic Fischer moved and asked unanimous consent for the adoption of Amendment No. 2. Without objection, Amendment No. 2 was adopted.

SB 280 cont'd

Senators Coghill and Ferguson offered corrected Amendment No. 3:

Page 2, line 28: After "users"
insert "and potential users"

Senator Coghill moved and asked unanimous consent for the adoption of Amendment No. 3. Without objection, Amendment No. 3 was adopted.

Senator Halford moved and asked unanimous consent that CS FOR SENATE BILL NO. 280 (FIN) am be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered.

CS FOR SENATE BILL NO. 280 (FIN) am was read the third time.

The question being: "Shall CS FOR SENATE BILL NO. 280 (FIN) am (authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; efd) pass the Senate?" The roll was taken with the following result:

CSSB 280 FIN AM 3RD

Yeas:	19	Abood, Bennett, Coghill, DeVries, Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Sackett, Sturgulewski, Zharoff, Ziegler
Nays:	1	Rodey

and so, CS FOR SENATE BILL NO. 280 (FIN) am passed the Senate.

Senator Halford moved and asked unanimous consent that the vote on the passage of the bill be considered the vote on the effective date clause. Without objection, it was so ordered.

SB 279

Senator Ferguson gave notice of reconsideration on CS FOR SENATE BILL NO. 279 (FIN) (transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan fund, transferring and appropriating money to the economic development fund; efd) and moved and asked unanimous consent that it be taken up at this time. Without objection, it was so ordered.

Senator Halford moved and asked unanimous consent that with the exception of the Board of Fisheries and the Board of Game, all other appointees above be confirmed. Without objection, those appointees to boards or commissions were confirmed.

Senator Halford moved and asked unanimous consent that the following appointees to boards or commissions be confirmed:

Board of Marine Pilots

State Medical Board

Board of Nursing

Board of Nursing Home Administrators

Alaska Oil and Gas Conservation Commission

Board of Examiners in Optometry

Personnel Board

Board of Pharmacy

State Physical Therapy Board

Without objection, the appointees to boards or commissions were confirmed.

Senator Halford moved and asked unanimous consent that the following appointees to boards or commissions be confirmed:

Professional Teaching Practices Commission

Board of Psychologist & Psychological Associate Examiners

Representative Marrou objected.

Railroad Labor Relations Agency

Representative Marrou objected.

Real Estate Commission

Alcoholic Beverage Control Board

State Board of Architects, Engineers, & Land Surveyors

State Assessment Review Board

Athletic Commission

Board of Governors of the Alaska Bar

Board of Barbers and Hairdressers

Board of Chiropractic Examiners

Alaska Commercial Fisheries Entry Commission

Without objection, the appointees were confirmed to the boards or commissions named.

Senator Halford moved that appointees to the following boards or commissions be confirmed:

Board of Dental Examiners

Board of Dispensing Opticians

Board of Education

Board of Electrical Examiners

Board of Fisheries

Senator Paul Fischer objected.

Board of Game

Representative Shultz objected.

Guide Licensing and Control Board

State Commission for Human Rights

Commission on Judicial Conduct

Representative Pourchot objected and moved and asked unanimous consent that he be allowed to abstain from voting on the Commission on Judicial Conduct because of a conflict of interest. There were objections.

SB 279 cont'd

UNFINISHED BUSINESS

SENATE BILLS IN THIRD READING

CS FOR SENATE BILL NO. 279 (FIN) was before the Senate on reconsideration.

The question to be reconsidered is: "Shall CS FOR SENATE BILL NO. 279 (FIN) (transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan fund, transferring and appropriating money to the economic development fund; efd) pass the Senate?" The roll was taken with the following result:

CS SB 279 FIN RECON

Yeas:	19	Abood, Bennett, Coghill, DeVries, Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Sackett, Sturgulewski, Zharoff, Ziegler
Nays:	1	Rodey

and so, CS FOR SENATE BILL NO. 279 (FIN) passed the Senate on reconsideration.

Senator Halford moved and asked unanimous consent that the vote on the passage of the bill be considered the vote on the effective date clauses, Secs. 8 and 9. Without objection, it was so ordered.

CS FOR SENATE BILL NO. 279 (FIN) was referred to the Secretary for engrossment.

SB 280

Senator Ferguson gave notice of reconsideration on CS FOR SENATE BILL NO. 280 (FIN) am (authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; efd) and moved and asked unanimous consent that it be taken up at this time. Without objection, it was so ordered.

SENATE BILLS IN THIRD READING

CS FOR SENATE BILL NO. 280 (FIN) am was before the Senate on reconsideration.

SB 280 cont'd

The question to be reconsidered is: "Shall CS FOR SENATE BILL NO. 280 (FIN) am (authorization of bonds or notes for the De-Long Mountain transportation project, establishing conditions under which the bonds or notes may be issued; efd) pass the Senate?" The roll was taken with the following result:

CS SB 280 FIN AM RECON

Yeas: 19 Abood, Bennett, Coghill, DeVries, Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Sackett, Sturgulewski, Zharoff, Ziegler

Nays: 1 Rodey

and so, CS FOR SENATE BILL NO. 280 (FIN) am passed the Senate on reconsideration.

Senator Halford moved and asked unanimous consent that the vote on the passage of the bill be considered the vote on the effective date clause. Without objection, it was so ordered.

CS FOR SENATE BILL NO. 280 (FIN) am was referred to the Secretary for engrossment.

CALENDAR (continued)

SECOND READING OF HOUSE BILLS

HB 80

CS FOR HOUSE BILL NO. 80 (L&C) (insurance fees and licenses; efd) was read the second time.

Senator Halford moved and asked unanimous consent that CS FOR HOUSE BILL NO. 80 (L&C) be advanced to third reading and placed on final passage. Without objection, it was so ordered.

CS FOR HOUSE BILL NO. 80 (L&C) was read the third time.

The roll of the House was taken with the following result:

HOUSE

LOUNSBURY

Yeas: 40 Adams, Binkley, Boucher, Cato, Clocksin, Collins, Cotten, Davis, Duncan, Frank, Fuller, Furnace, Goll, Gruenberg, Grussendorf, Hanley, Herrmann, Hurley, Jenkins, Koponen, Larson, Marrou, Martin, Miller,M.M., Miller,M.W., Navarre, Pearce, Pettyjohn, Phillips, Pignalberi, Pourchot, Rieger, Ringstad, Shultz, Sund, Szymanski, Taylor, Thompson, Uehling, Wallis

Nays: 0

TOTALS: YEAS: 60 NAYS: 0

and so, Loren Lounsbury was confirmed as the Commissioner of the Department of Commerce and Economic Development.

Senator Halford moved that William R. Ross be confirmed as Commissioner of the Department of Environmental Conservation.

Representative Pettyjohn objected and moved that the Ross confirmation be moved to the bottom. Without objection, it was so ordered.

Senator Halford moved that those named on page two of Boards and Commissions confirmation list be confirmed. Without objection, it was so ordered.

Senator Halford moved and and asked unanimous consent that the members of boards and commissions listed on page three of the confirmation list dated May 6 be confirmed. Representative Pourchot objected.

President Bennett stated the motions on pages two and three would be void and appointments to boards or commissions would be named in the motion.

Senator Halford moved that appointees to the following boards or commissions be confirmed:

Alaska State Board of Public Accountancy

The question being: "Shall Mary Nordale be confirmed as Commissioner of the Department of Revenue?" The roll of the House was taken with the following result:

HOUSE

NORDALE

Yeas: 39 Binkley, Boucher, Cato, Clocksin, Collins, Cotten, Davis, Duncan, Frank, Fuller, Furnace, Goll, Gruenberg, Grussendorf, Hanley, Herrmann, Hurley, Jenkins, Koponen, Larson, Marrou, Martin, Miller,M.M., Miller,M.W., Navarre, Pearce, Pettyjohn, Phillips, Pignalberi, Pourchot, Rieger, Ringstad, Shultz, Sund, Szymanski, Taylor, Thompson, Uehling, Wallis

Nays: 1 Adams

The roll of the Senate was called with the following result:

SENATE

NORDALE

Yeas: 16 Coghill, Eliason, Fahrenkamp, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Rodey, Sackett, Sturgulewski, Zharoff, Ziegler, Bennett

Nays: 4 Abood, DeVries, Faiks, Ferguson

TOTAL YEAS: 55 NAYS: 5

and so, Mary Nordale was confirmed as Commissioner of the Department of Revenue.

Senator Halford moved that Loren Lounsbury be confirmed as the Commissioner of the Department of Commerce and Economic Development.

The question being: "Shall Loren Lounsbury be confirmed as Commissioner of the Department of Commerce and Economic Development?" The roll of the Senate was called with the following result:

SENATE

LOUNSBURY

Yeas: 20 Coghill, DeVries, Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Rodey, Sackett, Sturgulewski, Zharoff, Ziegler, Abood, Bennett

Nays: 0

HB 80 cont'd

The question being: "Shall CS FOR HOUSE BILL NO. 80 (L&C) (insurance fees and licenses; efd) pass the Senate?" The roll was taken with the following result:

CS HB 80 LC 3RD

Yeas: 20 Abood, Bennett, Coghill, DeVries, Eliason, Fahrenkamp, Faiks, Ferguson, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Rodey, Sackett, Sturgulewski, Zharoff, Ziegler

Nays: 0

and so, CS FOR HOUSE BILL NO. 80 (L&C) passed the Senate.

Senator Halford moved and asked unanimous consent that the vote on the passage of the bill be considered the vote on the effective date clauses, Secs. 31 and 32. Without objection, it was so ordered.

CS FOR HOUSE BILL NO. 80 (L&C) was signed by the President and Secretary and returned to the House.

CITATIONS

Honoring Jennifer Colonell
by Senators Bennett and Fahrenkamp

Honoring USS Alaska and crew
by All Members of the Senate

In Memoriam Loretta Rafson
by Senators Bennett, Fahrenkamp and Rodey

Senator Halford moved and asked unanimous consent that the citation calendar be adopted. Without objection, the citations were adopted and referred to the Secretary for transmittal.

UNFINISHED BUSINESS

SCR 24

Senator Sturgulewski moved and asked unanimous consent that she be added as a co-sponsor on SENATE CONCURRENT RESOLUTION NO. 24 (appointment of representatives to the Pacific Fisheries Legislative Task Force). Without objection, it was so ordered.

SJR 27

Senator Sturgulewski moved and asked unanimous consent that she be added as a co-sponsor on SENATE JOINT RESOLUTION NO. 27 (interception of Alaska Salmon on the high seas). Without objection, it was so ordered.

HB 130

Senator Abood, Chairman, moved and asked unanimous consent that CS FOR HOUSE BILL NO. 130 (HESS) am (educational employees' collective bargaining agreements; efd) have an added referral to the State Affairs Committee. Without objection, President Bennett stated the bill would be referred to the State Affairs Committee.

CS FOR HOUSE BILL NO. 130 (HESS) am was referred to the Health, Education and Social Services Committee, the State Affairs Committee and the Finance Committee.

ANNOUNCEMENTS

Senator Rodey, Chairman, moved and asked unanimous consent that the five-day notice rule be waived on CS FOR HOUSE BILL NO. 88 (FIN) (protection of children, family members, and dependent adults; efd) for the Judiciary Committee meeting on May 7. Without objection, it was so ordered.

Announcements appear at the end of the journal.

Senator Halford announced a majority caucus upon recess.

Senator Halford moved and asked unanimous consent that the Senate stand in recess until 2:00 p.m. for the Joint Session to consider the Governor's appointments for confirmation. Without objection, the Senate recessed at 12:41 p.m.

AFTER RECESS

JOINT SESSION IN THE HOUSE

Speaker Grussendorf called the House to order and in accordance with the Uniform Rules turned the gavel over to President Bennett who called the Joint Session to order at 2:05 p.m.

The purpose of the Joint Session was to consider the confirmation of the Governor's appointments.

Senator Halford moved that John R. Pugh be confirmed as Commissioner of the Department of Health and Social Services.

The question being: "Shall John R. Pugh be confirmed as Commissioner of the Department of Health and Social Services?" The roll of the Senate was called with the following result:

SENATE

PUGH

Yeas:	20	Abood, Coghill, DeVries, Eliason Fahrenkamp, Faiks, Ferguson, Fischer Paul, Fischer Vic, Halford, Josephson, Kelly, Kerttula, Ray, Rodey, Sackett, Sturgulewski, Zharoff, Ziegler, Bennett
Nays:	0	

The roll of the House was taken with the following result:

HOUSE

PUGH

Yeas:	39	Adams, Binkley, Boucher, Cato, Clocksin, Collins, Cotten, Davis, Duncan, Frank, Fuller, Goll, Gruenberg, Grussendorf, Hanley, Herrmann, Hurley, Jenkins, Koponen, Larson, Marrou, Martin, Miller,M.M., Miller,M.W., Navarre, Pearce, Pettyjohn, Phillips, Pignalberi, Pourchot, Rieger, Ringstad, Shultz, Sund, Szymanski, Taylor, Thompson, Uehling, Wallis
Nays:	1	Furnace

TOTALS: YEAS: 59 NAYS: 1

and so, John R. Pugh was confirmed as the Commissioner of the Department of Health and Social Services.

Senator Halford moved that Mary Nordale be confirmed as Commissioner of the Department of Revenue.

State Physical Therapy Board
*Dr. Morris Horning, Anchorage, 9/1/88
*E. "Budd" Simpson, Juneau, 9/1/88
Merle Young, Jr., Fairbanks, 9/1/88

Professional Teaching Practices Commission
Charles Rider, Fairbanks, 7/1/87
*Darleen Trent, Anchorage, 7/1/87
*Margaret Van Flein, Fairbanks, 7/1/87

Board of Psychologist & Psychological Associate Examiners
*Charles Bovee, Sitka, 7/1/88
Linda Webber, Anchorage, 7/1/88

**Railroad Labor Relations Agency
C.R. "Steve" Halfing, Anchorage, 2/6/85
Robert M. Piazza, Anchorage, 2/6/85

Real Estate Commission
*John Benson, Ketchikan, 1/31/89
Barry Brown, Fairbanks, 1/31/89
Iola Robinson, Palmer, 1/31/87

University of Alaska Board of Regents
Grace Berg Schaible, Fairbanks, 2/1/93
Robert F. Williams, Kenai, 2/1/93

Alaska Public Utilities Commission
*Marvin Weatherly, Anchorage, 10/31/90
Kathleen Whiteaker, Anchorage, 10/31/86

Alaska Public Offices Commission
Burke Riley, Juneau, 2/1/90

Violent Crimes Compensation Board
Millard Ingraham, Anchorage, 12/15/87

Alaska Worker's Compensation Board
Elmer Eller, Anchorage, 7/1/85
Mary Pierce, Anchorage, 7/1/87
*Joe Thomas II, Fairbanks, 7/1/87

*Reappointment
**Appt date only, serves @ pleasure of Governor

Senator Halford moved and asked unanimous consent that roll call of the Senate be waived and all members be shown as present. Without objection, it was so ordered.

Representative Clocksin moved and asked unanimous consent that the roll of the House be waived and all members be shown as present. Without objection, it was so ordered.

Commissioners and boards and commissions appointments are as follows:

1985 CONFIRMATION OF GOVERNOR'S APPOINTMENTS

COMMISSIONERS

John R. Pugh, Department of Health and Social Services

Mary Nordale, Department of Revenue

Loren Lounsbury, Department of Commerce and Economic Development

William R. Ross, Department of Environmental Conservation

BOARDS AND COMMISSIONS
(with dates of expiration)

Alaska State Board of Public Accountancy
*Kay May, Juneau, 4/25/87

Alcoholic Beverage Control Board
Jack Griffin, Anchorage, 1/31/88
*James McNamee, Fairbanks, 1/31/88

State Board of Architects, Engineers, & Land Surveyors
Rajeev Bhargava, Anchorage, 7/1/88
*Wayne Jensen, Juneau, 7/1/88
Patricia Partnow, Anchorage, 7/1/86
Robert Perkins, Fairbanks, 7/1/88

State Assessment Review Board
Michael Salazar, Ketchikan, 1/9/85
Steven Van Sant, Palmer, 10/23/84

Athletic Commission
Tom Behan, Anchorage, 5/14/85
Edwin Lawrence, Fairbanks, 5/14/86
Dan McClinton, Douglas, 5/14/86

Board of Governors of the Alaska Bar
Andonia Harrison, Anchorage, 6/30/85
*Lew Williams, Jr., Ketchikan, 6/30/87

Board of Barbers and Hairdressers
S. "Berni" Hein, Juneau, 7/1/86
*Carolyn Janzen, Anchorage, 7/1/87

Board of Chiropractic Examiners
Leland Olkjer, Jr., Valdez, 7/15/88

Alaska Commercial Fisheries Entry Commission
*Bruce Twomley, Juneau, 7/1/88

Board of Dental Examiners
Dr. Timothy Woller, Fairbanks, 2/1/86
Dr. Robert Warren, Anchorage, 2/1/88
Hugh Gellert, Anchorage, 2/1/89
Patrick J. Gullufsen, Juneau, 2/1/89
*Leslieann Luboff, Anchorage, 2/1/89
*Jerry Zemlicka, Juneau, 2/1/89

Board of Dispensing Opticians
Richard Hansen, Juneau, 6/14/86
Dr. William Reedy, Jr., Eagle River, 6/14/86
Sharla Thomas, Anchorage, 6/14/88

Board of Education
*Barney Gottstein, Anchorage, 1/31/90
*Don Gray, Fairbanks, 1/31/90
P. Janie Leask, Anchorage, 1/31/89

Board of Electrical Examiners
*Terence Duszynski, Fairbanks, 7/10/86

Board of Fisheries
*Ernest Carter, Fairbanks, 1/31/88

Board of Game
Victor Van Ballenberghe, Fairbanks, 1/31/88

Guide Licensing and Control Board
Ralph Fenner, Sitka, 6/15/87
*Edward Shavings, Sr., Mekoryuk, 6/15/87
Jim Harrower, Anchorage, 6/15/85

State Commission for Human Rights
Doris M. Volzke, Ketchikan, 1/31/90
Sandra A. Henricks, Fairbanks, 1/31/90

Commission on Judicial Conduct
Charlie Dargan, Jr., Anchorage, 12/31/88

Board of Marine Pilots
*William Barrington, Anchorage, 6/1/88
William Ruddy, Juneau, 6/1/88

State Medical Board
*Dr. George Brenneman, Anchorage, 7/8/88
Bonnie Coghlan, Fairbanks, 8/13/88
*Dr. Jeffrey Partnow, Fairbanks, 11/6/88

Board of Nursing
Connie Bertholf, Anchorage, 3/31/88
Dr. Effie Graham, Anchorage, 3/31/89
*Sammye Rink, Juneau, 3/31/85
Barbara Carberry, Kodiak, 3/31/90

Board of Nursing Home Administrators
Thomas Boling, Anchorage, 10/1/86
Raymond Davidson, Juneau, 10/1/88
*Ruth Roth, Sitka, 10/1/88
Jane Sabes, Nome, 10/1/88

Alaska Oil and Gas Conservation Commission
*Lonnie Smith, Anchorage, 12/31/90

Board of Examiners in Optometry
Jeanette Hopson, Barrow, 6/15/86
Dr. John Lounsbury, Fairbanks, 6/15/86

Personnel Board
*C. "Steve" Hafling, Anchorage, 6/20/90

Board of Pharmacy
*Sue Roberts, Anchor Point, 3/31/89
*Margaret Soden, Fairbanks, 3/31/89

Offered: 5/1/85
Referred: Rules

Original sponsor: Resources Committee

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 280 (Finance) am

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; and providing for an effective date."

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

* Section 1. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 2. Before bonds or notes authorized under sec. 1 of this Act may be issued, the Alaska Industrial Development Authority shall comply with AS 44.88.173 and shall incorporate into the final finance plan and agreement for the DeLong Mountain transportation project the following terms and conditions:

(1) Cominco, Ltd. is required to agree in writing that

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco Alaska makes of the facilities compared to the use made by others;

(B) if Cominco Alaska ceases to develop the Red Dog Mine after costs have been incurred by the Alaska Industrial Development Authority for the project, Cominco, Ltd. will pay the authority for those costs together with interest from the date the costs were incurred;

(C) toll fees paid by Cominco Alaska for the use of facilities constructed as part of the project to the Alaska Industrial Development Authority may be periodically adjusted if the price of zinc rises above a level that yields a return on investment commensurate with risk;

(2) the United States government makes available land in the Cape Krusenstern National Monument that is included in the proposed land exchange with NANA Regional Corporation to the corporation for construction of a transportation system;

(3) NANA Regional Corporation is required to agree in writing to sell, lease for a prepaid term of at least 99 years or grant a perpetual easement to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the project and land needed for future expansion of the road and port, subject to no terms or conditions inconsistent with use as a public road and port;

(4) tax exempt financing for the project is used to the maximum extent possible;

(5) a toll schedule, that may be periodically adjusted, is established for use of facilities constructed as part of the project that

(A) ensures full repayment of and a reasonable return on the state's investment in the project; and

(B) guarantees equitable access to the facilities by all users and potential users, including access to private property and access for travel necessary and related to resource exploration and development for which valid permits have been obtained and travel in support of resource exploration and development;

(6) contracts for the construction of the port and road are subject to AS 36;

(7) reasonable access to the port and road is guaranteed to all users and potential users;

(8) the Alaska Industrial Development Authority will own and operate the facilities collectively referred to as the Delong Mountain transportation project.

* Sec. 3. Before bonds or notes authorized under sec. 1 of this Act may be issued, the Alaska Industrial Development Authority shall

(1) report in writing to the legislative budget and audit committee that the conditions under sec. 2 of this Act have been met; and

(2) agree with the Department of Revenue in writing to deliver all money generated by the DeLong Mountain transportation project to the Department of Revenue for deposit in the general fund, other than money necessary for payment of the principal and interest on bonds or notes issued under sec. 1 of this Act and except as may otherwise be provided in the bond or note covenants.

* Sec. 4. As used in this Act, "reasonable return" means a rate of return on the total investment of the state of at least five percent.

* Sec. 5. This Act takes effect July 1, 1985.

Adopted
Senate
5/6/85

AMENDMENT #1

Offered in the SENATE

TO: CSSB 280(Fin) by Halford and Ferguson

Page 1, line 17

After "plan" insert "and agreement"

Page 2, line 9-10

After "to" delete "make available" and insert "sell, lease for a prepaid term of at least 99 years or grant a perpetual easement"

Page 2, line 13

After "port" delete ";" and insert ",subject to no terms or conditions inconsistent with use as a public road and port."

Adopted
Senate
5/6/85

SENATE AMENDMENT #2

BY SENATOR VIC FISCHER

To: CS SB 280 (Fin) SENATE BILL No. 280

To: _____ HOUSE BILL No. _____

Page 2, line 18

PAGE: 2 LINE: 18

after "ensures" add:

"full repayment of and"

Adopted Senate 5/6/85

SENATE AMENDMENT Replace #3

By Coghill Ferguson

To: ~~CSSB 266~~ SENATE BILL No. CSSB 266

To: _____ HOUSE BILL No. _____

PAGE: 2 LINE: 28

Delete ";"
after users ADD "and Potential Users;"

SENATE AMENDMENT

By SENATORS COGHILL AND FERGUSON

To: AMEND SENATE BILL No. SB 280

To: HOUSE BILL No.

PAGE: 2 LINE: 20

Following the word "users"

Delete [;]

Insert: AND POTENTIAL USERS INCLUDING COMMERCIAL AND INDUSTRIAL USERS

PAGE 2 LINE 25

Insert new section 3 to read:

FOR PURPOSES OF THE ACT COMMERCIAL AND INDUSTRIAL USERS INCLUDES:

(1) TRAVEL NECESSARY FOR AND RELATED TO RESOURCE EXPLORATION AND DEVELOPMENT FOR WHICH VALID PERMITS HAVE BEEN OBTAINED, OR TO SUPPORT THOSE ACTIVITIES:

(2) TRAVEL NECESSARY AND RELATED TO ACCESS ~~BY LOCAL RESIDENTS TO~~ PRIVATE PROPERTY.

and renumber remaining sections accordingly

CORRECTION

Discard CSSB 230 (FIN)

and retain this corrected version.

Offered: 5/1/85
Referred: Rules

Original sponsor: Resources Committee

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 280 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; and providing for an effective date."

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

* Section 1. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 2. Before bonds or notes authorized under sec. 1 of this Act may be issued, the Alaska Industrial Development Authority shall comply with AS 44.88.173 and shall incorporate into the final finance plan for the DeLong Mountain transportation project the following terms and conditions:

(1) Cominco, Ltd. is required to agree in writing that

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco Alaska makes of the facilities compared to the use made by others;

(B) if Cominco Alaska ceases to develop the Red Dog Mine after costs have been incurred by the Alaska Industrial Development Authority for the project, Cominco, Ltd. will pay the authority for those costs together with interest from the date the costs were incurred;

(C) toll fees paid by Cominco Alaska for the use of

facilities constructed as part of the project to the Alaska Industrial Development Authority may be periodically adjusted if the price of zinc rises above a level that yields a return on investment commensurate with risk;

(2) the United States government makes available land in the Cape Krusenstern National Monument that is included in the proposed land exchange with NANA Regional Corporation to the corporation for construction of a transportation system;

(3) NANA Regional Corporation is required to agree in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the project and land needed for future expansion of the road and port;

(4) tax exempt financing for the project is used to the maximum extent possible;

(5) a toll schedule, that may be periodically adjusted, is established for use of facilities constructed as part of the project that

(A) ensures a reasonable return on the state's investment in the project; and

(B) guarantees equitable access to the facilities by all users and potential users, including access to private property and access for travel necessary and related to resource exploration and development for which valid permits have been obtained and travel in support of resource exploration and development;

(6) contracts for the construction of the port and road are subject to AS 36;

(7) reasonable access to the port and road is guaranteed to all users;

(8) the Alaska Industrial Development Authority will own and

operate the facilities collectively referred to as the Delong Mountain transportation project.

* Sec. 3. Before bonds or notes authorized under sec. 1 of this Act may be issued, the Alaska Industrial Development Authority shall

(1) report in writing to the legislative budget and audit committee that the conditions under sec. 2 of this Act have been met; and

(2) agree with the Department of Revenue in writing to deliver all money generated by the DeLong Mountain transportation project to the Department of Revenue for deposit in the general fund, other than money necessary for payment of the principal and interest on bonds or notes issued under sec. 1 of this Act and except as may otherwise be provided in the bond or note covenants.

* Sec. 4. As used in this Act, "reasonable return" means a rate of return on the total investment of the state of at least five percent.

* Sec. 5. This Act takes effect July 1, 1985.

Adopted
SFC
5/1/85.

PROPOSED AMENDMENTS TO SB 280 (Resources)

Amendment #1

Page 1, Line 25 After the word "costs" delete "or debts".

Page 1, Line 27 After the word "costs" delete "and debts".

Page 1, Line 28 After the word "costs" delete "or debts".

Amendment #2

Page 2, Line 25 After the word "construction" delete ", operation, and maintenance".

Amendment #3

Page 2, Line 27 Delete the word "adequate" and insert "reasonable".

Amendment #4

Page 2, Line 28 Insert new subsection "(8) The Alaska Industrial Development Authority will own and operate the facilities collectively referred to as the DeLong Mountain transportation project."

Amendment #5

Page 3, Line 10 Insert new Section 4 "Definitions (a) Reasonable return means a rate of return on the state's total investment of at least five percent."

Renumber remaining section accordingly.

Cook ✓

A M E N D M E N T

Offered in the SENATE

TO: CSSB 280 (Resources)

Page 2, lines 1 - 3, delete all material after "the" and insert:

"(A) price of zinc rises above a level that yields a return on investment commensurate with risk;

(B) costs of operation and maintenance of facilities constructed as part of the project change; or

(C) toll fees paid by other users significantly increase;"

Page 2, lines 9 and 10:

Delete "more than fair market value" and insert "cost"

Page 2, line 17:

Delete "a reasonable" and insert "full"

Page 2, line 18:

After "project" insert ", including full repayment of principal and interest on bonds issued for the project and all costs of operation and maintenance of facilities constructed as part of the project"

Cook
4/24/85 ✓

w/ amendments

Original sponsor: Resources Committee

IN THE SENATE BY THE RESOURCES COMMITTEE

CS FOR SENATE BILL NO. 280 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; and providing for an effective date."

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

* Section 1. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 2. Before bonds or notes authorized under sec. 1 of this Act may be issued, the Alaska Industrial Development Authority shall comply with AS 44.88.173 and shall incorporate into the final finance plan for the DeLong Mountain transportation project the following terms and conditions:

(1) Cominco, Ltd. is required to agree in writing that

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco Alaska makes of the facilities compared to the use made by others;

(B) if Cominco Alaska ceases to develop the Red Dog Mine after costs or debts have been incurred by the Alaska Industrial Development Authority for the project, Cominco, Ltd. will repay the authority for those costs and debts; including interest

(C) toll fees paid by Cominco Alaska for the use of facilities constructed as part of the project to the Alaska Industrial

Development Authority may be periodically adjusted if the price of zinc rises above a level that yields a return on investment commensurate with risk;

(2) the United States government makes available land in the Cape Krusenstern National Monument that is included in the proposed land exchange with NANA Regional Corporation to the corporation for construction of a transportation system;

(3) NANA Regional Corporation is required to agree in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the project and land needed for future expansion of the road and port;

(4) tax exempt financing for the project is used to the maximum extent possible;

(5) a toll schedule, that may be periodically adjusted, is established for use of facilities constructed as part of the project that

(A) ensures a reasonable return on the state's investment in the project; and

(B) guarantees equitable access to the facilities by all users and potential users including commercial and industrial users.

(6) contracts for the construction, operation, and maintenance of the port and road are subject to AS 36;

(7) adequate access to the port and road is guaranteed to all users.

→ INSERT NEW SECTION 3 <

* Sec. 3. Before bonds or notes authorized under sec. 1 of this Act may be issued, the Alaska Industrial Development Authority shall

(1) report in writing to the legislative budget and audit committee that the conditions under sec. 2 of this Act have been met; and

(2) agree with the Department of Revenue in writing to deliver

all money generated by the DeLong Mountain transportation project to the Department of Revenue for deposit in the general fund, other than money necessary for payment of the principal and interest on bonds or notes issued under sec. 1 of this Act and except as may otherwise be provided in the bond or note covenants.

* Sec. 4. This Act takes effect ~~immediately in accordance with AS 01.-10.070(c).~~ July 1, 1985

Offered: 5/1/85
Referred: Rules

Original sponsor: Resources Committee

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 279 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan fund, transferring and appropriating money to the economic development fund; and providing for an effective date."

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

* Section 1. (a) All right, title, and interest in loans of the type described in (b) of this section, and all right, title, and interest in all mortgages, notes, and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated to the economic development fund (AS 44.88.172) of the Alaska Industrial Development Authority for the DeLong Mountain transportation project. However, if the amount in unpaid principal of the loans exceeds $112,000,000 as of July 1, 1985, only loans and instruments of security totaling $112,000,000 in unpaid principal are transferred and appropriated under this section.

(b) This section transfers and appropriates

(1) veterans loans acquired or made under AS 26.15;

(2) small business loans acquired or made under AS 45.95;

(3) tourism loans acquired or made under AS 45.90;

(4) fisheries enhancement loans acquired or made under AS 16.10;

(5) child care loans acquired or made under AS 44.33; and

(6) historical district loans acquired or made under AS 45.98.

* Sec. 2. All right, title, and interest in commercial fishing loans

acquired or made under AS 16.10.300 - 16.10.370 and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated from the general fund to the commercial fishing revolving loan fund (AS 16.10.340) for the purposes of AS 16.10.300 - 16.10.370. However, if the amount in unpaid principal of the loans exceeds $30,000,000 as of July 1, 1985, only loans and instruments of security totaling $30,000,000 in unpaid principal are transferred and appropriated under this section.

* Sec. 3. All right, title, and interest in loans that are not secured by limited entry permits in an amount equal to the principal balance of loans appropriated under sec. 2 of this Act, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, are transferred and appropriated from the commercial fishing revolving loan fund (AS 16.10.340), the small business revolving loan fund (AS 45.95.060), and the Alaska World War II Veterans' revolving fund (AS 26.15.090) to the economic development fund (AS 44.88.-172) of the Alaska Industrial Development Authority for the DeLong Mountain transportation project.

* Sec. 4. The sum of $12,000,000 is transferred and appropriated from the multifamily housing loans security fund (AS 44.88.156(h)) to the economic development fund (AS 44.88.172) for the purpose of financing the DeLong Mountain transportation project.

* Sec. 5. The appropriation made by sec. 2 of this Act is for capitalization of a loan fund and does not lapse in accordance with AS 37.25.010.

* Sec. 6. The appropriations made by secs. 1 and 3 of this Act are for a capital project and are subject to AS 37.25.020.

* Sec. 7. The appropriation made by sec. 4 of this Act is for a capital project and is subject to AS 37.25.020.

* Sec. 8. Sections 1 - 3, 5 and 6 of this Act take effect on the effective date of an Act entitled "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; and providing for an effective date."

* Sec. 9. Sections 4 and 7 of this Act take effect on the date the board of directors ~~of the~~ Alaska Industrial Development Authority adopts a resolution that declares there exists a surplus of at least $12,000,000 in the multifamily housing loans security fund (AS 44.88.156(h)) and that $12,000,000 is available for transfer to the economic development fund (AS 44.88.172).

Section 2 effective date?

Cook
4/22/85 ✓

Original sponsor: Resources Committee

IN THE SENATE BY THE RESOURCES COMMITTEE

CS FOR SENATE BILL NO. 279 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the economic development fund of the Alaska Industrial Development Authority, transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan fund; and providing for an effective date."

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

* Section 1. The sum of $18,000,000 is appropriated from the general fund to the economic development fund (AS 44.88.172) of the Alaska Industrial Development Authority for the DeLong Mountain transportation project.

* Sec. 2. (a) All right, title, and interest in loans of the type described in (b) of this section, and all right, title, and interest in all mortgages, notes, and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated to the economic development fund (AS 44.88.172) of the Alaska Industrial Development Authority for the DeLong Mountain transportation project. However, if the amount in unpaid principal of the loans exceeds $112,000,000 as of July 1, 1985, only loans and instruments of security totaling $112,000,000 in unpaid principal are transferred and appropriated under this section.

(b) This section transfers and appropriates

(1) veterans loans acquired or made under AS 26.15;

(2) small business loans acquired or made under AS 45.95;

(3) tourism loans acquired or made under AS 45.90;

(4) fisheries enhancement loans acquired or made under AS 16.10;

(5) child care loans acquired or made under AS 44.33; and

(6) historical district loans acquired or made under AS 45.98.

* Sec. 3. All right, title, and interest in commercial fishing loans acquired or made under AS 16.10.300 - 16.10.370 and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated from the general fund to the commercial fishing revolving loan fund (AS 16.10.340) for the purposes of AS 16.10.300 - 16.10.370. However, if the amount in unpaid principal of the loans exceeds $30,000,000 as of July 1, 1985, only loans and instruments of security totaling $30,000,000 in unpaid principal are transferred and appropriated under this section.

* Sec. 4. All right, title, and interest in loans that are not secured by limited entry permits in an amount equal to the principal balance of loans appropriated under sec. 3 of this Act, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, are transferred and appropriated from the commercial fishing revolving loan fund (AS 16.10.340), the small business revolving loan fund (AS 45.95.060), and the Alaska World War II Veterans' revolving fund (AS 26.15.090) to the economic development fund (AS 44.88.-172) of the Alaska Industrial Development Authority for the DeLong Mountain transportation project.

* Sec. 5. The appropriation made by sec. 3 of this Act is for capitalization of a loan fund and does not lapse in accordance with AS 37.25.010.

* Sec. 6. The appropriations made by secs. 1, 2 and 4 of this Act are for a capital project and are subject to AS 37.25.020.

* Sec. 7. This Act takes effect July 1, 1985.

COMMITTEE REPORT

SENATE

FURTHER: FINANCE

4/11/85

Date 4/26/85

Mr. President

The Committee on Resources considered SB 279

special appropriation to the economic development fund of AIDA, transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan fund; efd.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

[ ] do pass

[ ] do pass with attached amendment(s)

[X] replace with/or adopt CS for SB 279 (Res
[X] new title
[X] ~~same title and~~ recommends ~~individual Recommendations~~

[ ] and attached a "LETTER OF INTENT" [ ] NEW FISCAL NOTE

[ ] reports it back without recommendation

[ ] recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

Peter Johnson
[illegible]
[illegible]

MEMBERS HAVING
OTHER RECOMMENDATIONS

Rick Halford do not pass
[illegible] no rec.

Chairman

Do Pass
Chairman recommendation

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: SB 279

Title: Special approp. to econ. development fund of AIDA.

Sponsor: Resources Committee

Requestor:

Date of Request: 4/16/85

FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.

Program Category Affected: Economic Development

BRU, Program or Subprogram(s) Affected: Accounting & Collections

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		6.8				
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	6.8	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER Interagency receipts	-0-	6.8	-0-	-0-	-0-	-0-
TOTAL	-0-	6.8	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

See attached.

Prepared By: Margaret I. Hamley, Director Phone: 465-2555

Division: Accounting & Collections Date: 4-19-85

Approved by Commissioner: Loren H. Lounsbury Date: 4/19/85

Agency: Commerce and Economic Development

Distribution (by Agency preparing fiscal note):

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

7/1/84

2167W41985b

SB 279

Approximately 2,800 loans will be affected by the reappropriations proposed in SB 279.

The following assumptions are made:

- Effective date is July 1, 1985.
- AIDA will not service the transferred loans.
- Division of Accounting & Collections will continue to service these loans under contract with AIDA. If this legislation is enacted, service fees currently received from the Department of Revenue will be received from AIDA instead. There will be a net zero fiscal impact for the service fee portion of this fiscal note as the service fees retained by the Department of Commerce and Economic Development will remain the same.

Given these assumptions:

- the ability of the loan funds to meet future loan demand is not affected.
- effect on borrowers would be minimal; an information letter and new payment cards would be mailed to borrowers. Changes in policy are not anticipated.
- FY '86 budget requests for Division of Accounting & Collections and Division of Investments would not be affected. (Cash flow from these loans is remitted to the investor on a monthly basis, net of service fees, late fees, NSF fees and application and assumption fees which are retained by the fund. Veterans and commercial fish fees are appropriated by the Legislature to fund operating efforts in Division of Accounting & Collections and Division of Investments.)

Operating costs that will be incurred:

Contractual

Postage for information letter	
2,500 x .22 ea. =	$ 550
Postage for payment cards	
1,800 x .71 ea. (bulk rate) =	1,278
700 x .18 ea. (bulk rate) =	126
Increased long distance charges	
Estimated 20% of borrowers will contact	
the division with additional inquiries/questions	
560 calls x 5 minutes (ave. $4.25)	2,380
Filing fees for assignment of First Preferred	
Ship Mortgage for commercial fish portfolio	
500 filings x $5.00 ea.	2,500
TOTAL	$6,834

2167W41985c

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date

REQUEST
Bill/Resolution No: SB 279
Title: Appropriations to AIDA Economic Development Fund
Sponsor: Resources
Requestor: Senate Resources
Date of Request: April 12, 1985

FISCAL DETAIL
Agency Affected: General Fund
Program Category Affected:

BRU, Program of Subprogram(s) Affected:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
CASH FLOW	-	(17,800)	(17,300)	(16,500)	(14,900)	(14,300)

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	(17,800)	(17,300)	(16,500)	(14,900)	(14,300)
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker MB
Division: Treasury
Phone: 465-2350
Date: April 12, 1985

Approved by Commissioner: [signature]
Agency: Department of Revenue
Date: 4/16/85

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

SB 279
Fiscal Note Analysis

The cash flow figures shown in the fiscal note reflect the reduction in general funds available for appropriation arising from SB 279. These figures are based on the scheduled loan payments shown in the attached Table I after netting out service fees as calculated in Table II. Table II also provides a breakdown of the reduction into interest and principal.

Due to loan prepayments, actual receipts may be greater than scheduled in early years and less than scheduled in later years. This is the main reason why the FY 86 budget actually contains $31.3 million estimated loan cash flow, made up of $13.3 million interest and $18 million principal. The difference between the budget estimate and scheduled cash flow for FY 86, which is $13.5 million, will be a downward adjustment to the next revenue estimates in June.

Table I

General Fund Loans to be Appropriated to AIDA
Estimated Cash Flow (Principal and Interest)
($ 000)

Fiscal Year	Veterans	Small Business	Commercial Fish	Tourism	Child Care	Historical District	Fisheries Enhancement	Total
1986	9,247	2,855	6,105	308	5	22	N/A	18,542
1987	9,034	2,783	5,786	308	4	22		17,937
1988	8,784	2,613	5,409	308	3	22		17,139
1989	8,554	2,404	4,243	308	2	18		15,529
1990	8,379	2,279	3,870	282	1	14		14,825
1991	8,343	2,134	3,233	243		14		13,967
1992	8,042	1,946	2,037	229		14		12,268
1993	7,409	1,551	837	221		14		10,032
1994	6,955	907	214	212		7		8,295
1995	6,851	344	34	208				7,437
1996	6,814	59		201				7,074
1997	6,532			186				6,718
1998	6,174			85				6,259
1999	6,038							6,038
2000	5,998							5,998
2001	5,899							5,899
2002	5,096							5,096
2003	4,254							4,254
2004	4,035							4,035
2005	3,925							3,925
2006	3,865							3,865
2007	3,182							3,182
2008	1,709							1,709
2009	521							521
2010	98							98
2011	20							20
Total	145,758	19,875	31,768	3,099	15	147	6,804 (principal only)	207,466

1. This table represents the cash flow to the Department of Commerce and Economic Development. Cash flow to the general fund would be further reduced by .5% service fee on loans serviced by Commerce and .125% service fee to Commerce on loans serviced by banks.
2. Cash flow has not been adjusted for delinquency or default. Except for commercial fish non-permit loans, the state expects complete recovery on defaults. Thus, delinquency and default merely produce lags in receipts.

Table II

Scheduled Cash Flow From State Loans
Held by General Fund
($ Millions)

	FY 86	FY 87	FY 88	FY 89	FY 90
Balance at Start of Year	135.9	128.7	120.9	113.3	106.8
Interest @ 7.89%					
Service Fee to Commerce @ .5%	.7	.6	.6	.6	.5
General Fund Revenue @ 7.39%	10.0	9.5	8.9	8.4	7.9
Total	10.7	10.1	9.5	9.0	8.4
Principal Repayment	7.8	7.8	7.6	6.5	6.4
Balance at End of Year	128.1	120.9	113.3	106.8	100.4

14-0431
Ford
1/22/85

Funding Information
General Fund $18,000,000
Other Funds - 0 -
$18,000,000

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON LOANS

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Alaska Industrial Development Authority economic development fund for design and construction of the Delong Mountains regional transportation project."

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

* Section 1. The sum of $18,000,000 is appropriated from the general fund to the Alaska Industrial Development Authority economic development fund (AS 44.88.172) for design and construction of the Delong Mountains regional transportation project.

* Sec. 2. The appropriation made by this Act is for capitalization of a loan fund and does not lapse in accordance with AS 37.25.010.

Amendment to SB279

A BILL

For an Act entitled: "An Act _____; and providing for an effective date."

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

* Section 1. The sum of $12,000,000 is appropriated from the multifamily housing loans security fund (AS 44.88.156) to the economic development fund (AS 44.88.172) for the purpose of financing the DeLong Mountain transportation project.

* Sec. 2. This Act takes effect on the date that the board of directors of the Alaska Industrial Development Authority adopts a resolution which provides that there exists a surplus of at least $12,000,000 in the multifamily housing loans security fund, and that the funds are available for transfer to the economic development fund.

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4907

Senate
Committee on Resources

February 6, 1985
1:30 - 3:30
Senate Finance Committee Room

JOINT SENATE FINANCE AND RESOURCES HEARING: RED DOG MINING PROJECT OVERVIEW

I.	Alaska Industrial Development Authority * B. Wagnon	1:30 - 2:00
II.	Cominco Alaska * H.M. Giegerich (includes slide presentation) * W.G. Wilson R.R. Stone	2:00 - 2:35
III.	NANA Regional Corporation * J. Schaeffer D. Argetsinger	2:35 - 2:50
IV.	GCO Minerals Company * D. Kennedy	2.50 - 3:05
V.	Noranda * G. Snow * G. German D. Scheranback	3:05 - 3:15
VI.	Additional Questions and Answers	3:15 - 3:30

There will be time for questions at the end of each presentation.

* Speakers

W. G. WILSON

PRESIDENT

COMINCO LTD.

SENATE RESOURCE AND SENATE FINANCE COMMITTEES

WEDNESDAY, FEBRUARY 6, 1985

Madam Chairman of the Resource Committee, Madam Chairman and Mr. Chairman of the Finance Committee, Members of the Committees, Ladies and Gentlemen, good afternoon.

My name is Bill Wilson. I am President of Cominco Ltd. and I live in Vancouver, B.C. Accompanying me from Vancouver is Bob Stone, Vice President, Finance, of Cominco Ltd. Hank Giegerich has already described some aspects of Cominco and I would like to add a few comments.

Worldwide, Cominco employs approximately 10,500 people. In 1984 our total assets were more than $2 billion, and annual sales were about $2.1 billion. We have active operations in 9 countries and carry on exploration activities in a further 12 countries.

Our major business is mining and metals. Cominco Ltd. owns zinc and lead mines at Kimberley, at Pine Point and at Polaris, N.W.T., in Canada; Black Angel in Greenland; Rubiales in Spain;

2/...

Que River in Australia, and the Magmont mine in Missouri. Other mines owned by Cominco include a gold mine in the Northwest Territories of Canada and a gold mine in Nevada; a copper mine in British Columbia; a coal mine in British Columbia; a potash mine in Saskatchewan; and a phosphate rock mine in Montana. At Trail, British Columbia, Cominco operates the world's largest integrated smelter and refining complex, producing zinc, lead and silver plus chemical fertilizers, and high purity electronic materials. Cominco's sales of zinc and of lead amount to approximately 10% of each of the world's production.

Now I would like to talk a little about world metal markets, so that you can see where we think Red Dog will fit in. In the late 70's and early 80's, zinc concentrate markets were bouyant due to the general "boom" conditions that existed worldwide. This shifted dramatically in 1982 when the world moved into recession. Concentrate markets softened, inventories increased significantly, and prices dropped to the lowest "real" level in 50 years. For the metals industry this was the most severe recession since the 1930's.

During 1983/84 production and consumption remained in balance, and there was slow improvement in price, but not enough to put the industry back into complete health. The situation today is essentially unchanged. Zinc consumption in the Western World

3/...

has increased but so has production, so there is still some surplus capacity over-hanging the market. This was the major reason behind Cominco's recent temporary shutdowns -- to try to eliminate some of these surpluses. All of our mines are now operating again, and we will hope to see an improved inventory situation by next summer. And, if the economic recession that the experts are predicting for 1986 materializes, we may again see lower prices for a period and this may result in a shake-out in the market that will finally eliminate some of the high-cost, marginal producers.

However, by the end of this decade, we anticipate some significant changes in the world zinc market. To start with, there are going to be a number of good-sized mines going out of business due to exhaustion of ore reserves. These include our own Black Angel mine in Greenland, Nanisivik in Canada's arctic, the Meggan mine in West Germany (which has been in production for 300 years), plus other major operations in Canada and Australia. These shutdowns are going to take more than half a million tons off the market annually by the end of this decade. Exansions and new mines that have been announced will compensate for some of this, but will not take care of the new zinc production that will be required by 1990, due to the normal expansion of the world economy. So this is where Red Dog comes in, as this market gap that has been identified fits in with our proposed timing for bringing Red Dog on by the end of the decade.

4/...

Cominco is therefore taking metal prices and markets, and the future outlook, into consideration in our planning on when to bring the Red Dog mine into production. Our production decision will be based on these market considerations, plus the return on investment, and the risk. And probably the most critical factor is whether the State of Alaska can assist in the initial financing of the road and port facility. This is the single largest item in the project, and accounts for almost 40% of the total project cost. Our present studies indicate that if Cominco is required to directly finance this portion of the project, the return on the investment will not likely be adequate to justify developing this mine, with its problems of isolation, climate and short shipping season.

In return for State assistance in developing the transportation infrastructure, we have stated that Cominco will make certain guarantees to the State of Alaska covering repayment of the State financing and start-up of the mine. We have been asked what these guarantees mean, and whether the State of Alaska can count on Cominco. These guarantees are backed by the assets of Cominco Ltd., which are more than $2 billion, with two-thirds in fixed assets such as land, building, equipment and developed mineral properties. Cominco is owned by 20,000 shareholders in Canada and the U.S.A., including 54% by Canadian Pacific Ltd., the company instrumental in forming Cominco Ltd. over 80 years

5/...

ago. Canadian Pacific Ltd. is the largest company in Canada, with assets of $17.6 billion, and sales of $13.1 billion.

Another way to measure our guarantee is to look at our past performance. The proposal we are making to you is not new in the world, or to Cominco. In 1961 we reached an agreement with the Canadian Federal Government which called for the construction of a railroad and hydro-plant to assist in bringing the Pine Point mine in Northern Canada into production. We made commitments and guarantees similar to what we are proposing with the State of Alaska. One of these called for the repayment of capital costs for the railroad. As a result of increased production and higher revenues at the mine over that which we expected, we paid for the capital cost in a shorter time period than was required in the agreement. This mine is still in production and is expected to continue for another 5 to 10 years.

Thank you for the opportunity to address this hearing. I am sure that you have a lot of questions about our project and the company. We will be happy to answer any questions you might have, and look forward to meeting with you again.

Thank you.

David S. Kennedy

Senior Geologist

GCO Minerals Company

Joint Senate Resources & Finance

Committee Hearing

Wednesday, February 6, 1985

Madam chairman, members of the committee on behalf of GCO Minerals Company, I appreciate this opportunity to testify before you in support of an important mine development in Alaska. My name is David Kennedy, and I am a Senior Geologist for GCO. First of all, let me provide a brief background of GCO Minerals Company. GCO is a wholly-owned subsidiary of International Paper Company. International Paper Company, one of the largest wood products companies in the country, provides the wood products component of the Dow Jones Index. Annual sales in 1984 were in excess of four billion dollars. Until the Native Claims Settlement Act in Alaska, IP was the largest private land owner in the country. IP is still one of the largest private owners of real estate in the world, owning approximately seven million acres of timberland in the U.S.

To help illustrate the magnitude of probable mine development in northwestern Alaska, in addition to Red Dog, I would like to give a very brief review of GCO's DLM project and then provide some order-of-magnitude operational and financial data for the Lik deposit.

GCO has carried out exploration in Alaska since 1969 and has conducted a continuous exploration program in the DeLong Mountains region since announcement of significant lead-zinc mineralization at Red Dog on D-2 lands in 1976. To date, GCO has expended approximately twenty million dollars on this project, delineated significant zinc-lead ore reserves in the Lik deposit which is located approximately twelve miles northwest of Red Dog and maintains over 6,000 federal and state mining claims. These mining claims contain other good mineral showings which occur within ten to fifteen miles of the proposed right-of-way. An agreement between GCO and Noranda Exploration for further agressive exploration on these mineral claims has been recently consumated.

Prior to 1984, over 100 holes totalling more than 60,000 feet were drilled on the Lik deposit. Ore reserves indicated by this drilling were approximately 25,000,000 tons containing 12% combined zinc and lead with approximately 2 oz/ton silver. Exploration drilling this past summer resulted in the discovery of an extension to the known deposit which we feel confident will double the present reserves.

Conceptual engineering design and order-of magnitude feasibility studies have been carried out for the Lik deposit. These studies indicate a mine operation with the following parameters:

1) A mine operating at approximately 5,000 tons per day. Initial production will come from a small open pit with an underground mining system being introduced in later years.

2) Capital costs exclusive of a road and port would be in the order of 300 million dollars.

3) Concentrate production would be in the range of 275,000 to 350,000 tons per year with higher production occurring in early years due to selective mining of higher grade reserves near the surface.

4) The Lik operation would be connected to the DeLong Mountains Transportation system by a spur road 14 to 25 miles in length.

5) Direct full-time employment generated by the Lik operation will be in the order of 300 jobs at start-up with an additional 20% added at the point of phasing-in the underground operations.

6) The importance of the 1984 exploration results is a potential increase in mine life to at least 30 years.

We have not at this point calculated a dollar value for the benefits that will accrue to the state from this additional mine development. However, implications from the Lik conceptual mine plan in addition to those previously stated for the Red Dog mine clearly show long term economic benefits for Alaska.

There is no question that state aid in the financing of the road and port will speed the development of Red Dog and make possible additional mine developments such as Lik in the region. We are confident that the road and port will make the Lik deposit economically viable. The importance of the road and port project and the Red Dog mine to mine development in Alaska can be illustrated by an analogy with north slope oil development. Red Dog would be analogous to Prudhoe Bay development in the mid 1970's, and subsequent development of the Lik deposit and others would be analogous to development of the Kuparik, Milne Point and Endicott reservoirs.

In conclusion, GCO strongly endorses the Red Dog Project, as it will be the first major mine development in Alaska in over 50 years. In view of Cominco's unparalleled experience in mine development in arctic environments, the Red Dog project should set a very positive precedent for mine development in Alaska and is thus deserving of broad support from the state and the public. GCO believes that the state involvement in the development of the DeLong Mountains Transportation system will not only enhance the opportunity for development of mineral deposits in addition to Red Dog, but will be the first step in the creation of a viable mining industry in the state of Alaska.

Thank you.

Geoffrey G. Snow, President

Noranda Exploration, Inc.

Joint Senate Resources & Finance

Committee Hearing

Wednesday, February 6, 1985

Madam Chairman, members of the committee - Thank you for the opportunity to brief you today. Noranda Exploration, Inc. is the wholly-owned subsidary of Noranda Inc. Noranda Inc. is a major Canadian mining company and a major zinc producer. Noranda mines produce (in 1982) about 625,000 tons of zinc per year, or close to 15% of world consumption. Zinc is important to Noranda's earnings. A 10% change in the price of zinc (4¢ today) affects Noranda's earnings 30%.

I am employed because Noranda's mines are being depleted. In order to survive, a mining company must replace material mined-out. Noranda can look any were in the world, but our organization has focused on the western Brooks Range. We have just concluded an agreement with GCO Minerals that permits us to examine a large claim block in the DeLong Mountains.

Why did we select the DeLong Mountains? Figure 1 shows where zinc has been mined. Most was from the Mississippi Valley. We are not looking there because, at today's prices and costs, the 6% average grade is not attractive.

Further we think the environment labled volcanic-exhalitive has greater potential. Figure 2 shows where reserves are.

The Red Dog geologic environment is analogous to others in the world, for example the Selwyn Basin of the Yukon. There 10 deposits, ranging in size from 20 to 100 million tons, are in similar rocks over a length of 200 miles.

The point for me as an exploration geologist and for you as legislators is that deposits of this type occur in clusters. Noranda hopes to discover others in the Red Dog-Lik cluster.

We are not looking in the Yukon because that is too far from tide water. We are attracted to the DeLong Mountains because tide water is close. We are attracted because there is the possibility of a road to that water. We are attracted because Alaska's tax structure does not penalize those who produce.

The viability of mining operations is directly related to the capital required. A road into the DeLong Mountains will encourage exploration. Because of the clustering nature of deposits of this type, discoveries will hopefully result. Once started the DeLong Mountain zinc belt can provide long term employment, social benefit and new wealth to Alaska.

FIGURE 1

SOURCE OF 42 MILLION TONS OF ZINC PRODUCED IN THE UNITED STATES, 1864-1981

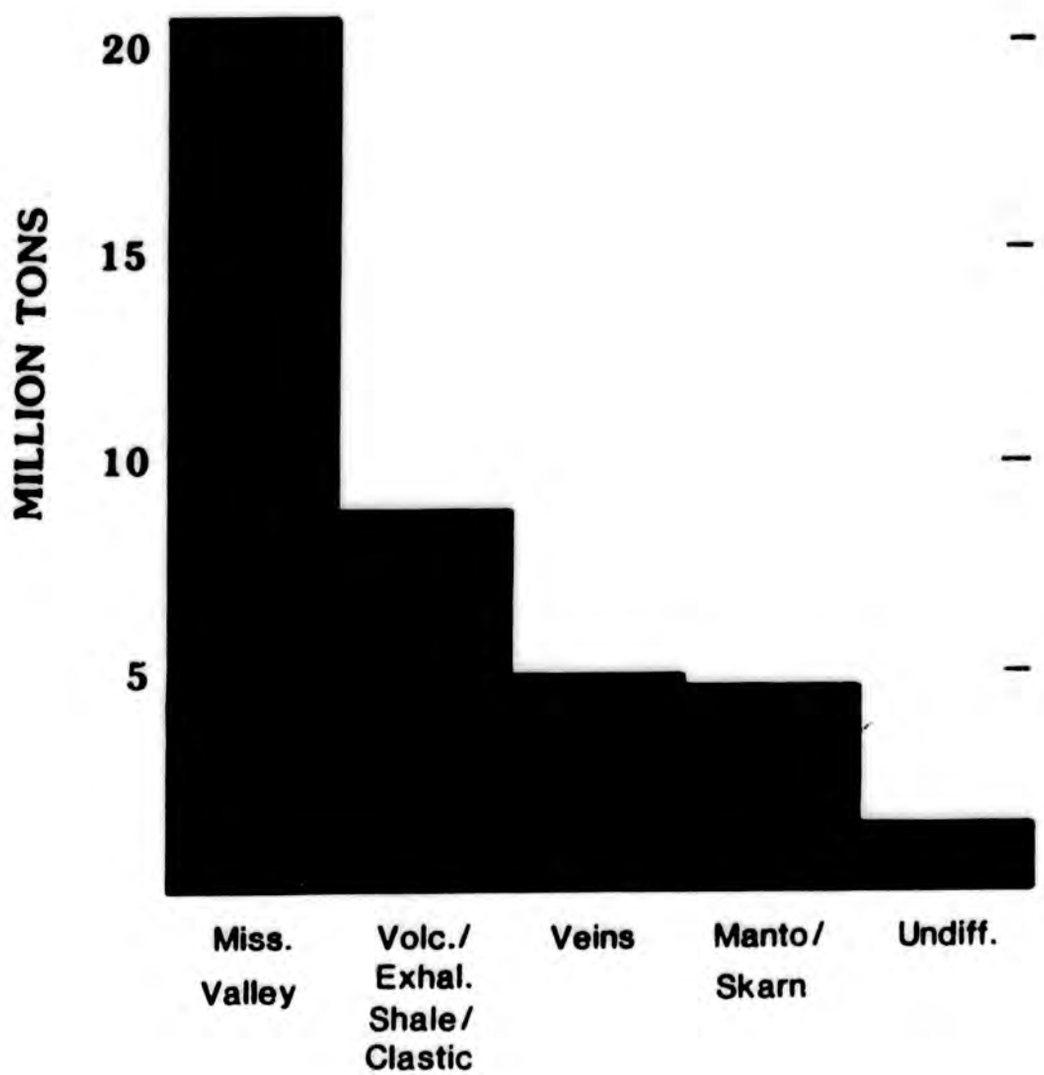
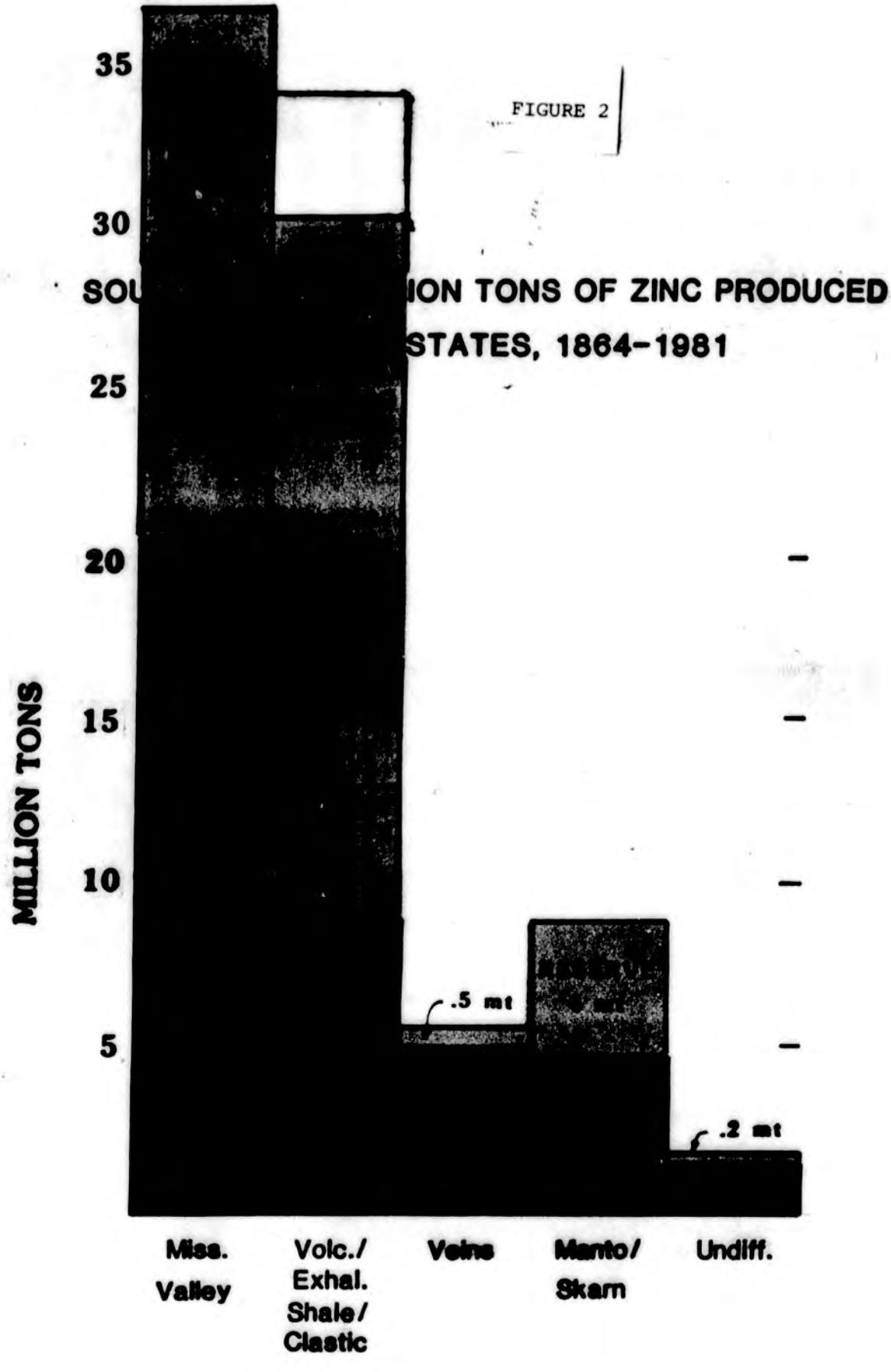


FIGURE 2


SOU ION TONS OF ZINC PRODUCED
STATES, 1864-1981
MILLION TONS
35
30
25
20
15
10
5
.5 mt
.2 mt
Miss. Valley
Volc./ Exhal. Shale/ Clastic
Veins
Manto/ Skarn
Undiff.

H. M. GIEGERICH

PRESIDENT AND GENERAL MANAGER

COMINCO ALASKA, INC.

SENATE RESOURCE AND SENATE FINANCE COMMITTEES

WEDNESDAY, FEBRUARY 6, 1985

MADAM CHAIRMAN OF THE RESOURCE COMMITTEE, MADAM CHAIRMAN AND MR. CHAIRMAN OF THE FINANCE COMMITTEE, MEMBERS OF THE COMMITTEES, LADIES AND GENTLEMEN, GOOD AFTERNOON.

THANK YOU FOR THE OPPORTUNITY TO TESTIFY BEFORE YOU ABOUT OUR PENDING DEVELOPMENT, THE RED DOG MINE. MY NAME IS HANK GIEGERICH, AND I AM PRESIDENT AND GENERAL MANAGER OF COMINCO, ALASKA, INC. BASED IN ANCHORAGE. WITH ME IS BILL WILSON, PRESIDENT OF OUR PARENT COMPANY, COMINCO LTD. OF CANADA, AND BOB STONE, CHIEF FINANCIAL OFFICER FOR COMINCO.

OUR PRESENTATION TODAY WILL BE DIVIDED INTO THREE SECTIONS. FIRST, BILL WILSON WILL COMMENT ON COMINCO'S BUSINESS ACTIVITIES, AND SOME OF THE ISSUES WHICH COMINCO WILL CONSIDER BEFORE MAKING A PRODUCTION DECISION. FOLLOWING THIS, I WILL PRESENT A SLIDE SHOW WITH DETAILS ON THE PROJECT. THEN, I WOULD LIKE TO WIND UP WITH SOME OF THE KEY REASONS WHY WE BELIEVE IT IS BENEFICIAL FOR COMINCO ALASKA, AND THE STATE OF ALASKA, TO DEVELOP THE RED DOG MINE.

COMINCO AMERICAN, WHICH IS A WHOLLY OWNED SUBSIDIARY OF COMINCO LTD. OF CANADA, HAS BEEN OPERATING IN THE STATE OF ALASKA SINCE 1973. COMINCO ALASKA, A SUBSIDIARY OF COMINCO AMERICAN, WAS INCORPORATED AS AN ALASKAN COMPANY IN 1982 TO LOOK AFTER ALL OF COMINCO'S BUSINESS ACTIVITIES IN ALASKA.

IN FEBRUARY 1982, NANA AND COMINCO AMERICAN SIGNED AN AGREEMENT FOR THE EVALUATION AND DEVELOPMENT OF THE DEPOSIT. THIS AGREEMENT REQUIRED NANA TO PUT THE MINERAL DEPOSIT IN A PARTNERSHIP IN WHICH COMINCO IS THE MANAGER AND FINANCER. MR. JOHN SCHAFFER, PRESIDENT OF NANA, WILL BE DISCUSSING THIS FURTHER.

NOW I WOULD LIKE TO CALL ON BILL WILSON.

I WOULD LIKE TO ELABORATE ON WHY WE CONSIDER RED DOG SHOULD BE DEVELOPED NOW. ALASKA IS AT A POINT IN ITS HISTORY AND DEVELOPMENT WHERE IT IS DESIRABLE FOR THE STATE TO DIVERSIFY ITS ECONOMY. THIS IS NECESSARY PRIMARILY BECAUSE OF THE STATE'S VULNERABILITY TO DECLINES IN OIL REVENUES. IF ALASKA DOES NOT BEGIN TO DIVERSIFY SOON, THERE WILL BE NO WAY TO CREATE THE NEW JOBS, NEW WEALTH, AND NEW OPPORTUNITIES FOR ALASKANS WHEN THE OIL IS GONE.

BY ASSISTING IN DEVELOPING THE TRANSPORTATION INFRASTRUCTURE, ALASKA WILL SEND OUT A SIGNAL THAT THE STATE IS SERIOUS ABOUT

DIVERSIFYING ITS ECONOMY AND BECOMING COMPETITIVE IN THE WORLD MINERAL MARKETS.

ANOTHER POSITIVE ASPECT TO ASSISTING WITH THIS PROJECT IS THE MESSAGE THAT IT WILL SEND TO OTHER MINING COMPANIES OPERATING IN ALASKA, AND TO COMPANIES INTERESTED IN DOING BUSINESS IN THE STATE IN THE FUTURE. IT IS IMPORTANT FOR A MAJOR MINE TO COME INTO PRODUCTION SOON IN ALASKA, TO ENCOURAGE FURTHER INVESTMENT IN NATURAL RESOURCES. THE RED DOG MINE WILL DEMONSTRATE THAT ALASKA KNOWS HOW TO USE ITS OIL REVENUES WISELY IN DEVELOPING ITS OTHER RESOURCES. MINING HAS PLAYED AN IMPORTANT ROLE IN ALASKA'S PAST, AND CAN PLAY AN EVEN MORE IMPORTANT ROLE IN ITS FUTURE.

AS I MENTIONED, TWO CRITICAL AND RELATED FACTORS IN THE DEVELOPMENT OF THE RED DOG MINE HAVE TO DO WITH TIMING AND MARKETS. FROM THE STANDPOINT OF TIMING, RED DOG MUST BE IN PRODUCTION BY THE END OF THIS DECADE SO THAT WE CAN TAKE ADVANTAGE OF THE MARKET OPPORTUNITY WE HAVE IDENTIFIED. IF ALASKA FALTERS, THE MARKET COULD BE LOST UNTIL SOMETIME IN THE FUTURE. THIS WOULD NOT ONLY BE A MISSED OPPORTUNITY FOR COMINCO, BUT, MORE IMPORTANTLY, IT WOULD BE A GREATLY MISSED OPPORTUNITY FOR THE STATE AND PEOPLE OF ALASKA.

I WOULD LIKE TO MAKE ONE FINAL POINT. OVER THE PAST FEW MONTHS THIS PROJECT HAS BEEN CRITICIZED BECAUSE OF THE PERCEPTION THAT

IT HELPS ONE INDUSTRY, ONE REGION AND ONE REGIONAL CORPORATION. LADIES AND GENTLEMEN, WE CONSIDER THIS TO BE FAR FROM THE TRUTH. AS HAS BEEN SHOWN BY RECENT STUDIES COMPILED BY THE ALASKA OIL AND GAS ASSOCIATION, INDUSTRIAL DEVELOPMENT RESULTS IN SIGNIFICANT SPIN-OFFS TO BUSINESSES IN THE REST OF THE STATE, DUE TO THE NEW MONEY THAT IS INJECTED INTO THE ECONOMY, AND MINING IS NO DIFFERENT. IN THE CASE OF RED DOG, A MAJORITY OF THE NEW MONEY WILL PROBABLY GO TO SERVICE INDUSTRIES IN THE ANCHORAGE/ FAIRBANKS AREA.

AS WELL, THE 7(i) PROVISION IN THE NATIVE CLAIMS SETTLEMENT ACT ENSURES THAT THE INCOME AND EXPENDITURES FOR THE RED DOG MINE WILL BE DISTRIBUTED, AND FELT, ALL AROUND ALASKA. THIS PROJECT CAN DEFINITELY BE DESCRIBED AS AN ALASKAN PROJECT!

WITH YOUR APPROVAL, BEFORE TAKING ANY QUESTIONS, WE WOULD FIRST LIKE TO SHOW A SLIDE PRESENTATION WHICH PROVIDES FURTHER DETAILS ON THE PROJECT. MR. WILSON WILL THEN CLOSE OUR FORMAL PRESENTATION.

Rough Draft

sf0430850840

SENATE FINANCE/SENATE RESOURCES
JOINT COMMITTEE MEETING
ON
RED DOG MINE FINANCING
April 30, 1985
8:40 a.m.

Joint SFC/Res 85-1, Side 1, #001 - End
Joint SFC/Res 85-1, Side 2, #001 - #719

CALL TO ORDER

Senator Jan Faiks, co-chairman of the Senate Finance Committee, called the meeting to order at approximately 8:40 a.m.

PRESENT

In addition to co-chairman Faiks, those FINANCE COMMITTEE members in attendance when the meeting convened were Senators Dick Eliason and Jay Kerttula. Senators Frank Ferguson, Paul Fischer, and Rick Halford arrived later in the meeting. Senator John Sackett, co-chairman, was absent.

RESOURCES COMMITTEE members in attendance when the meeting convened were Chairman Arliss Sturgulewski, and Senators Vic Fischer and Fred Zharoff. Senators Dick Eliason and Rick Halford are also members of the Resources Committee. Senator Jack Coghill arrived later in the meeting. Senator Bettye Fahrenkamp was absent.

Also in attendance: Representatives Al Adams, Red Boucher, Sam Cotten, Marco Pignalberi, and Steve Rieger.

Also present: John Moberly, director, Minerals and Metals Industries/Energy and Resource Center, and Gerry Marsh, senior consultant, Management Consulting Division, from Stanford Research Institute, International, of California; R.R. Stone, COMINCO, Ltd.; H.M. Gregerich, COMINCO/Alaska; John W. Schaeffer, president NANA Regional Corporation, Inc.; Joe M. Britton, district geologist, GCo Minerals; Commissioner Loren H. Lounsbury and Terry Elder, deputy commissioner, and Ron Lahr, deputy director, Alaska Industrial Development Authority, and Jim Deagan, development specialist, Department of Commerce and Economic Development; Guy Bell, Office of Management and Budget, Office of the Governor; Jonathan B. Rubini, assistant attorney general, Civil Division, Department of Law; legislative aides; various members of the news media.

Co-chairman Faiks announced this hearing is in connection with the following two bills concerning RED DOG MINE FINANCING:

SB 279 - An Act making a special appropriation to the economic development fund of the Alaska Industrial Development Authority, transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan; and providing for an effective date.

SB 280 - An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; and providing for an effective date.

Co-chairman Sturgulewski commented these two bills were forwarded to the Finance Committee from the Resources Committee with a series of conditions.

Co-chairman Faiks advised it is the intent of the Finance Committee to address SB 279 and SB 280 at its meeting tomorrow morning at 8:30 a.m.

The following is a transcript of the testimony presented by JOHN MOBERLY and JERRY MARSH of SRI, Inc.:

MOBERLY: We'd like to go over rather briefly today the work that we've conducted over the last six to eight weeks related to the Red Dog project, how some of our results have come out. It is our intention to have a draft interim report in written, published form to you next Monday, and we are on target with that.

KERTTULA: They are from Stanford Research?

FAIKS: They are from Stanford Research International.

KERTTULA: And what is Stanford Research, for the record?

MOBERLY: Actually, it's SRI International. For many years, it was called Stanford Research Institute, and as a consequence of some of the student disorders in the late 1960s, SRI, as we now call ourselves, and the university formally separated. Up until late 1960s/early '70s, SRI was an arm of the university, but is entirely an entirely separate facility, located in the San Francisco Bay area about two or three miles from the Stanford University campus.

(Senator Ferguson arrived at this time.)

SRI originally was formed in 1946. The basic purpose was to do research for West Coast industry; that was the initial goal. Over the years, that has changed quite a bit. SRI does about $180 million a year in contract research and consulting activities. We are structured in three main

operating divisions, one of which is called an engineering division. They do experimental work related to electronics, satellites, laser communications, that sort of thing. We have a large area of what we call Sciences Division. It's composed of both physical and life sciences activities. Almost all of the work in this area is of the experimental nature. Then we have a large consulting group that Gerry Marsh and I are a part of. We call it the Management and Economic Group. This is composed of consultants that work in a wide range of activities, from the more generic management type of consulting activity to specialists in various industry sectors. Gerry, actually, is one that comes out of the management consulting area. I come out of one of the industry areas that's related to the minerals industry. We are then a part of what we call a Resources Division, and there are many other industry areas within us. There are a chemicals industry, forest products industry, and what not. All told we have a staff of about 3,000 people. We conduct work for both private industry and the government. About 60% of SRI's revenue comes from the federal government. Most of that is in the sciences and in the engineering areas. The work that's done in this management consulting group is primarily for companies, both U.S. companies and international companies. I've been with SRI for a long time, initially. I joined SRI in 1961. I stayed with the Institute through 1979. I was on my own for about six years and had my own consulting firm. I rejoined SRI just January of this year. Gerry Marsh is also a recent hire of SRI, and when he starts talking, I'll let him mention a little bit about his background.

I would like to give a quick overview of the study and some of the items. Basically, this discussion will be divided between Gerry and myself. There were really five principles that SRI involved with the study. We gained two of them. My main roll was to take a look at the mine and mill and the economics of the Red Dog Mine and Mill, do the economics, the cost structure, return on investment, these conditions. Gerry's roll was to head up the financial overview, develop various financial plans, what sort of user fees would be necessary to cover the cost the State might bear for the road and port, both capital cost andoperating and maintenance cost. In addition, we used three other in individuals, one is a registered civil engineer in the State of California, who's long taken a look at road/port construction projects. His main purpose and main roll was to review the various documents that were submitted to us by COMINCO on the capital charges and the construction schedule of the road and port facility. We also used one of our transportation experts. That roll was filled by Clare Staried(?). Her main activity was to go over the operating and maintenance cost of the road and port facility during the life of the project. She did, in addition, develop cost for transporting these ore

concentrates around the world. One of the major costs that COMINCO will incur is the ocean freight, ocean shipping, and inland freight shipping for the ore concentrates to be delivered at smelters, literally, throughout the world. Finally, our project leader is Gene Tiers(?), who's long been in the minerals and metals game. He's at home right now trying to put together the final report. We've all written our sectors, and he's got the unenviable burden of putting it together in a very short time; otherwise, he would be here.

(Senator Paul Fischer arrived at this time.)

Before I get into what we want to talk about, I would like to say that we had extremely good cooperation from COMINCO all the way through this. We clearly would not have been able to do what we wanted to do if they had not willingly given us information on costs so we could examine them, felt they were reliable, which was the case. We had questions. We were free to call them, and they responded promptly. We clearly could have not done the study in the timeframe that we had -- roughly six/six-and-one-half weeks -- without their cooperation, and it was not only COMINCO directly, it was some of the engineering firms that COMINCO had contracted work to do. They were all very cooperative. Basically, we looked at the project from two points of view; one the way I looked at it, one the way Gerry looked at it. We essentially developed two computer models to analyze the project, one of which we call the COMINCO model, which is looking at the mine and mill from COMINCO's point of view, what were their costs, what were their profitability; and then the model, which is a basic financial model and a transportation model that we call the Alaska model, and it was to look at the road and port, the capital costs, the operation financing from the State of Alaska's point of view. Now one of the costs, of course, which COMINCO will incur is the road and port user fee. Now, that's a cost to COMINCO. It's a revenue to the State, so what the economic, transportation, financial model comes up with as a revenue is a cost that COMINCO incurs. In doing the work, we went through numerous documents supplied by COMINCO and their engineers, and one of the first things we looked at was the road and port capital cost. These were in a series of documents submitted to us. Our engineer looked at them. He also used an outside engineering firm, HARDING LAWSON(?), who had experience in Alaska to help assist in the evaluation. Now, all these things will be written up fully, and you'll see them in a week or two, but I'll just try to give you some of the highlights. We initally examined what we call the COMINCO-based proposal, and this examined the capital cost and the operating cost of the road and port that COMINCO envisioned. Basically, including escalation of cost during construction, but not interest during construction, we had the road at about $86 million, the port at $72 million. Since we have developed our initial numbers, we have received

some additional capital cost estimation for the port that has not been included in this initial report, but certainly will be included in the final report, which will be submitted sometime later. In addition to this what we call COMINCO-based case, we examined some "what if" situations, an alternative case, as we refer to it. Now, in no way were we trying to second guess the engineering estimates that COMINCO and their engineers had put up, but we wanted to take a look at what was the exposure to the State in case some of the things didn't go quite according to the initial engineering plan. We went through cost item by cost item in the capital estimates for the road and port, and we came up with some things that we said perhaps would be a little different. One of the things was the grade of the road. Apparently, in the initial concept, the road would have a 4% grade. It has been relaxed, as we understand it, to a allow grades of 8-10%. Our engineers just say possibly that might not work out: What are the consequences in capital charges? That could, in fact in our estimate, raise the capital cost by $8.5 million. We also examined and questioned the possible need of additional operating and maintenance cost of the road during the road construction period. That added about $2.1 million. Similarly, we had some possibilities that could happend in the port construction, basically, if there was an additional ice problem beyond what was anticipated. There might have to be more pilings to support the port. That could add like a $1.7 million. The ore storage and the oil(?) storage facilities could add an additional $2-3 million. In the initial $158 million estimate for the road and port -- now remember, that includes escalation during construction period -- we did not use the contingency that COMINCO had in their proposal. In the alternative case, we did include the possibility of the use of this contingency. All told, the $158 million on this alternative scenario goes up to $190 million. Now, Gerry will get into how we analyzed that and what the impact of that alternative scenario would be on the port and road user fees. Again, whether or not that would ever happen is strictly problematical. We have no idea, and we have no reason to believe that the initial engineering estimates might not exactly come about.

FAIKS: Are you saying that $190 million would be the maximum?

MOBERLY: From our initial overview, that was what we considered could be an upper limit.

FAIKS: If everything went wrong?

MOBERLY: If those items that we picked out could go wrong, that's correct. In addition to that, in actual operation of the road and port during the life of the project, we developed some additional cost. For example, if the road maintenance costs were a little bit higher, this would add to

the yearly operation and maintenance costs. We also said what if the sustaining capital charges for maintaining the road and port facility were a little bit higher. Those costs were also included in the sequential year-by-year estimate of costs.

(Senator Halford joined the meeting at this time.)

Now, as I mentioned, since we had this, we have received information that gives a lower estimate of the port charges, so we will be developing another scenario examining what would happen if these capital costs were a little bit lower than the $158 million. We had to essentially settle on what costs we were using about three weeks ago, so we had time to run off the analysis.

At this time, I would like to go into the project as I took a look at it, which was from the COMINCO point of view, the mine and mill. As I mentioned, COMINCO supplied us with many documents, one of which included capital charges. I have some questions on some of those. I got to them, and they responded immediately. We estimate that, during the construction period and including costs that COMINCO has spent since 1979, we have estimated that the capital costs of the mine and mill, including the inflation or escalation during the construction period, will be about $270 million. Now, this does not include interest during construction nor does it include the working capital. Working capital will probably add another $75 million in the first couple of years. We have in the report how these charges were spent over the period of years in the main categories of expenditure, be it concentrator, what they initially spent on ore delineation, airstrip, all the items as they've broken them down. We then went into what are the actual operating costs of the mine and mill during the life of the mine. Basically we had four/five major cost items, that we then broke down in subcategories. The first one was operating costs. This includes the operation of the mine, of the mill, maintenance costs, power generation, overhead costs, initial costs in the first few years for start-up, and a contingency factor. The second major category we had was the transportation charges. Now, this includes the transportation charge that COMINCO would incur to take their concentrates from the mine site 55 miles to the port. That is a cost that we have COMINCO bearing themselves. They would use their trucks, their own workers, to haul the concentrate to the port. The concentrate would be dumped at the port for loading four months a year, which is the few months of the year that they actually can operate. There then would be a port and road user fee. Now, once again, this is the revenue to the State. That's the second category in what we call transportation costs. The third cost, which COMINCO would incur, probably to an outside contractor, would

be costs of removing the concentrate by barge to the ocean-going ships. Then they would have charges for moving that concentrate from the ships through the ports. They will essentially ship the bulk of their material to Vancouver. Other quantities go to Japan, Eastern Canada, and Europe. Finally, there'll be a rail or service transportation charge from the port site to the smelter. I don't want to bother you with a lot of numbers, and I will pass over some initial dollars. Toward the end, I'll show some percentages which, I think, give you a better idea. After operating costs and transportation, the third major cost item, which we have in the mine and mill, is what we call other costs. This includes a corporate overhead charge, a sales general administrative charge. Basically, we examined the mine and mill as a stand-alone operation. So it's appropriate to assign a corporate overhead charge to that as a cost function. The second other cost would be the royalties. In the various documents, which we obtained from COMINCO, the royalties were explained. The formulas for calculating the royalties were included, and we were able to take those numbers with our model and determine the royalties that would be paid each year over the life of the project. Then, of course, there's a mining license tax paid to the State of Alaska. As you know, there is no mining license tax essentially for the first 3-1/2 years of operation. After that comes in, it's a rather complicated formula, and we included that. Finally, there are depletion and depreciation charges. These are not cash costs, but they're certainly need to calculate taxes, both federal and state income tax, mining license tax, and the minimum state and federal tax which do apply.

!TABO!x (Senator Paul Fischer left the meeting.)

The production schedule was what was supplied by COMINCO. Basically, it's the mine starting up in 1989, mining one million tons of ore a year. That increases to a little over two million tons about the third year of the operation. From that they will mill that ore, and when full production, ship roughly 710,000 tons of concentrate each year. We used their schedule of production. We had no question of it. Let me back up a minute and mention how we reviewed the COMINCO supplied information concerning the operating, maintenance, and operating costs, and the capital charges. Within the group that I worked with, we've long done economics of metal, mine and mill, be it lead/zinc, as this operation is, copper, or what not. We've looked at operations around the world. We've visited them. We feel we have a good understanding of the cost structure. Looking at the capital charges that COMINCO supplied us, we compared that with other new projects that we anticipate could come on over the timeframe that this one is scheduled. COMINCO's charges, capital charge estimates were certainly in line with any other capital

charge estimates that we know of of similar operations. Now, this is in a remote area, and there are some additional costs because of that, but we accepted without quarrel their capital cost estimates. Similarly, we accepted their operating and maintenance costs. We reviewed their manning tables. We reviewed their salary schedule. We reviewed their fuel consumption. Again, those were in line with the internal numbers that we have and have had for many years on similar type mines. We felt those numbers were straight through. The transportation numbers, we developed on our own. COMINCO had some; we felt we could do justice with our own numbers, and we used our own transportation numbers. The depreciation/depletion come from standard accounting formulas for similar type operations, so that was no problem. The main uncertainty in any mining project -- and it certainly became one of the main uncertainties in this project -- is what are the revenues, and this is dependent upon the metal prices, and in this case, lead and zinc price.

We have some viewgraphs (Attachment A) that can show this. I apologize that we haven't got visuals for everything. It's just there was a time constraint squeezed on us, and we just didn't have time to prepare things. We have long been involved in the economics of mines, mills, looking at metal prices, how do you forecast metal prices, what determines prices, what mechanisms, and clearly nobody has a crystal ball that they can say that gold's going to be such and such next year, and the same sort of thing applies to these lead and zinc commodity prices. This is actually the plot, and what we did is we developed three price scenarios: an optimistic case, a base case, which we think is the most likely case, and a pessimistic case. Now we explained in the report, and I don't think we need to go through it now just what all went into this methodology. I'll be glad to talk with any of you later about what we did. What this curve shows (page 1 of Attachment A) is actually how zinc prices have moved since 1970. They've slowly increased, and then we look at what we anticipate in 1989 and beyond, going out to the year 2000. That's in cents per pound. Zinc is currently priced about 45 cents a pound. The next chart (page 2 of Attachment A) shows the lead price. It's been up and down. Lead is currently about 19 cents a pound. Once again, those are our three price scenarios, and this is vital for the project, these price outlooks and what they imply. The past prices are in actual dollars that occurred in those particular years. Now, it's hard to get a good understanding when you show prices like that, because we all relate to what's going on in 1985. The next view (page 3 of Attachment A) shows zinc price, and what we have done is put them in -- as we call them -- 1985 constant dollars. In other words, we've had to inflate the past prices, and in effect, you deflate the future charges, and in constant '85 dollars -- certainly since 1970, going up initially, but then coming

down -- zinc has been on a downward trend. We see on all three of our price scenarios, in constant 1985 dollars, prices continuing to deteriorate essentially into the 1990 period. Now, we can talk afterward about why that is happening. We think there will be a recovery. Once we get to 1995, 10 years out, it's simply beyond our ability to make any reasonable estimate of price, and so beyond 1990, we have prices going at essentially inflation, constant dollars. It turned out that we go through a rather elaborate methodology to come up with these prices. The optimistic price beyond 1995 in 1985dollars is about 48 cents, slightly higher than it is today. The base case price is just about today's price. The pessimistic case is about 37 cents as I recall. The same sort of thing applies to lead (page 4 of Attachment A). Now lead isn't as critical to this project as zinc. Most of the revenue will be coming from zinc, so it's that zinc price which is going to be the main determinate in the profitability that COMINCO may achieve. Here you can see what's happened to that lead price. Recently, there was a spike-up. There was a large increase in lead demand in the late '70s that put upward price pressure. That has been alleviated now, and it's on a downward trend. As opposed to the zinc price, which we think may continue to deteriorate for a few years, we don't think that deterioration will be quite as great as lead. We think lead is pretty well bottomed out. Those prices are the key.

(Senators Eliason and Ferguson left the meeting.)

To give you a few numbers, if we look to 1992, and the reason we focus on 1992, that is the first year the mine will be fully operational, mining about 200 tons of ore a year. That's also the time that the start-up costs will be over, and COMINCO certainly expects to be on a stable cost schedule/production schedule. We have some rather large numbers. Sales of these concentrates based upon some formulas for determining concentrate price at these price scenarios. If we look at the base price scenario, and I'll only talk about that right here. We would be looking at sales from that operation of those concentrates in 1992 of about $215 million. Now, those are in inflated dollars. That includes the escalation in prices between now and then. Operating costs for the mine and mill -- that includes the mining activity, the milling, plant overhead -- will be about $73 million. The transportation charges, including port and road user fees, will be about $52 million by our estimates, and the other costs -- the royalty, mining license tax, corporate overhead -- about $16 million; depreciation and depletion, about $55 million.

(Senators Ferguson and Paul Fischer rejoined the meeting.)

I'll ask Gerry to write some numbers down of just what we see as the percentage of what these costs amount to. Put 1992, Gerry, '97, and 2002. We ran a five-year sequence. In the information you'll be getting will be yearly sequences of all of these costs. But by our estimates of the cost, operating cost will be about 37% of the total cost, pre-tax cost in 1992.

(Senator Coghill arrived at this time.)

Transportation cost, less road and port user fee, about 19%. Put 7% road and port user fee. The other costs category will be 8%. Depreciation and depletion will be about 29%. Hopefully, those add close to 100%. We look at '97, operating costs stay about 36%. Transportation, less road and port user fees, 17%. Road and port user fee will be a little less than 7% -- stay with 7%. Other costs jump to 19%. Depreciation and depletion will be about 20%. Depreciation/depletion will be high the first few years, because many of the capital items will be depreciated over five years. So when we get to 1997, major proportions of the initial capital charges will be fully depreciated. Now we look at 2002, we've got operating costs staying at 37%. Transportation cost, less road and port user fees, 16%. Road and port user fee itself will be down to 6%. Other costs, 23%. Depreciation/depletion, about 19-20%.

That trend continues for the life of the project. Operating costs stay at about the same percentage of the total. The transportation charges will continue to decrease slightly. The other costs increase significantly, mainly because of the royalty increase. We carried these all the way through to see what sort of return on investment COMINCO might achieve. Now, return on investment is only one way a mining company will look at a property. They have criteria of what may be acceptable rates of return. They frequently look at the payback period, how long it takes them to recover their capital. They will also look at a project of how it fits into the whole corporate structure. So rates of return, it turns out to be a handy way for analysis like this, because we come up with a nice, well-defined number. But it's certainly not the only way a mining company will look at a project. I'll just give you the case, and these are based upon the user fee, and I want to point out that the user fee we have up there is based on the COMINCO based proposal. Gerry Marsh will be talking about user fees on other scenarios. But using the COMINCO base proposal, we came up with a rate of return for COMINCO -- using the base case price of 16.5%. Now, this is a rate of return based on all the monies that COMINCO has spent up to date and capital charges they will incur between now 1989 when its production starts and also the sustaining capital that they will incur over the life of the project. So on the base case, we came

up with 16.5%. Under the optimistic price scenario, we came up with 19.3% as a rate of return, and under the pessimistic case, we got 10.3%. Now, this was calculated based on the assumption or analysis of all equity finance. Now obviously, when a mining company goes ahead with the project, they will use leverage, they will have some debt financing. When you do that, the rates of return will increase. But based on all equity financing and these price scenarios, we got rates of return varying from as low as 10% to 19%, a significant change based upon those prices. That is not surprising. In all mining projects, what the revenue is is the mystery, and it has a major impact on the rates of return one will achieve. I do want to mention, though, that in the analysis that we conducted, the operation generates profits, as in a positive cash-flow from the second year onward, even at the low price estimates.

FAIKS: Are there any questions for John at this point?

MOBERLY: I'll turn it over to Gerry.

MARSH: What I'd like to spend the next few minutes on is to take you through our evaluatin of the proposed investment that the State is considering in this transportation system, and we're looking at it now from the point of view of the State. I think just to preface my comments, I think I'd like to underline the investment concept that we've been working with, the assumptions behind that investment concept. First and foremost, we're talking about investment in a transportation system that will be owned, operated, and financed by the State through its agency, AIDA. The State will attempt to recover all or part of its investment through a schedule of user fees, and the third point that we were working with was to determine how this project could be financed at the least possible cost to the State and the least possible financial risk. Those are the assumptions we were working with in doing the investment evaluation.

We're going to be talking about our evaluation of the COMINCO proposal, which is our terminology. I'd just like to spend a few minutes to bring everyone to the same level of understanding in the data that we were working with. I was working with the information that was contained in a Memorandum of Understanding, dated December 11th, 1984, that plus the capital cost estimates provided to us by COMINCO and a series of other documents. That Memorandum of Understandingcontained a lot of terms in it. We didn't evaluate it from a legalistic point of view. We evaluated it from a financial and economic impact point of view, so there are a lot of clauses in that proposal that I'm not going to be dealing with that have legalistic implications and some terms that could affect the taxable status, or tax-exempt status of the bond. In any eventual negotiation, all these

other terms have to be carefully looked at. The other point I'd like to make, at least to the best of our knowledge, this Memorandum of Understanding is still a proposal. There's been no formal response to this. Indeed, in the Memorandum itself, it describes it as a basis for continuing negotiation and further discussion. So, the numbers we're going to be dealing with is an evaluation of the hypothesis that this is the impact on the State if these terms were accepted. So, it's hypothetical. These terms have not been accepted.

To evaluate COMINCO's proposal, we developed two scenarios. One we call the COMINCO base scenario, and John alluded to that before. That's using, basically, COMINCO's estimates as provided -- the capital costs as provided, less the project contingency. It's COMINCO's philosophy that they do not expect to spend project contingency, and that's the $158 million figure we're talking about in terms of as-spent dollars to the end of 1989. The other scenario we looked at, called the alternative scenario, and basically, this is an analysis we performed to get a feeling what the impact might be on the State if things don't go according to plan, that's the $190 million figure that John referred to earlier. Also in the alternative scenario, we have slightly operating and maintenance costs and slightly higher sustaining capital costs throughout the 30-year lifetime horizon that we use for analysis.

Now, I'd like to work on the flip-chart to show you the analysis we did and the matrix we developed to show COMINCO's profitability versus the implied level of State subsidy if the key terms in that Memorandum of Understanding are accepted, that the user fees in particular and the capital costs. Now, I'd just like to take you through this matrix, and it's a little complicated if you're not used to looking at these types of things, so I'll try to develop it before I show you what the actual numbers are. On this axis, we thought of COMINCO's mining profitability, and the measurement of profitability we used was return on investment. We have the mine (ROI/inaudible): 20% up here, 15% there, 10%, and 5%. Along this axis we looked at the implied level of State subsidy, if those user fees are accepted. We measured this by looking at all the funds that flow from the State into the project all during the construction and the financing and interest on money during construction phase, and then we take away from that all the money that flows into the State above the operating fees of this project. It's the revenues that come in through the user fees, less all the operating costs, and we call that net operating income. That's the money that flows back to the State. That's the only source of income the State has from this project to recover its investment and the cost of money associated with that investment, and then we discount that. Using a 10% discount rate, we assume that this cost of

capital to the State is roughly 10% to express it in 1985 dollars, numbers that we can relate to. We have two scenarios -- (inaudible) this bottom line here. This is what we call the COMINCO base scenario with the $158 million investment. Over her we have the alternative scenario which has the higher capital costs and higher operating costs that we used for analysis. Under this scenario, the implied level of State investment in '85 dollars is about $80 million. Under this scenario, it approaches $95 million, and to compound the effect, we have higher capital costs and financing during that stage, and the user charges do not escalate high enough under COMINCO's proposal; and hence, the State subsidy goes up. So that's the order of magnitude we're talking about in terms of implied/applied subsidy. Another way of looking at this is what is the return on the State's investment. The return in this area is around 2%. In other words, the State recovers all its original investment and makes 2% on its money. There's a subsidy here, because the money is costing the State roughly 10%. That's where the subsidy comes in.

Now, there is one clause in the COMINCO proposal that we wanted to draw your attention to, because it does increase the State's financial exposure. There's a clause in there that permits COMINCO to delay commercial start-up of the mine for up to two years at the completion transportation system. This can have quite a negative impact on the State, because you have a transportation system that's already to go, your money's all been invested in it, you have to finance that an extra two years, and there are no revenues for up to a two-year period. That has quite an impact. In fact, the impact's about $130 million on top of this worst-case scenario. So, with delay, from the State's point of view, it could be financial exposure of up to about $35 million. Now, this is the level of State subsidy.

Let's look at the applied profitability from COMINCO's point of view. Under this scenario, rate of return is in the 19% range, using the optimistic prices. To use our base case prices, we're in the 16% range, and if we use our pessimistic prices, we're down in the 10% range. Now, if this other scenario were developed, and we were to experience higher capital costs, COMINCO, under that situation, does experience slightly higher user charges, but they're not dramatically higher. So, the impact on profitability is very slight. In fact, the difference in profitability between these scenarios is less than a half a percentage point, about two tenths of a percentage point. So, we have corresponding profitability over here that is not much lower for any given pricing scenario. So, what we're saying is that the State's subsidy level is quite sensitive to these conditions, but the impact on COMINCO's profitability is not that sensitive in this situation.

Now, I think you can all anticipate that the State's greater return or the level of subsidy is going to be very sensitive to the level of user fees, and that's the next thing I'm going to show you, that sensitivity. I think I'll do it this time with a viewgraph (page 5 of Attachment A). Over here, what I was talking about on that lower axis, this is the level of State contribution in 1985 dollars. A moment ago, we were talking about this level, minus $80 million level. Under the COMINCO proposal/scenario, this the quoted average user fee we're talking about. I'll explain this number here. What I'm showing along here are user fees in dollars per ton. This is really approximate to the total amount of user fees. To get at this number, we basically calculated the amount of money that COMINCO would pay in user fees divided by the concentrate shipped in that year. That gave us an average user fee in dollars per ton in any one particular year over a 30-year period. We then converted all those numbers in 1985 dollars and took an average. So, COMINCO will not actually pay this. This is really approximate of how much they pay to allow us to develop a break-even analysis. Under the COMINCO proposal, we're talking about an $11 charge per ton in 1985 dollars on average over the life of the project. To get to break even from the State's point of view, the zero point, we'd have to move from about $11 up to the $19 range. So, the level of State subsidy is very sensitive to the level of user fees. Now, by break-even, what we mean here is that the State recovers all its investment and makes 10% on that. In other words, it recovers its costs of money as well. Under this scenario, where we have the higher capital costs, we need about another $4-5 more per ton on average to get to a break-even situation.

Now, the next thing I want to show you is COMINCO's profitability, how that carries users fees. Here we're looking at State subsidy versus user fee, now we'll look at profitability versus user fee (page 6 of Attachment A). For the moment, keeping in mind about $20, $19 a ton as the State's (inaudible). This would be up to the year 2018.

FAIKS: For the life of the project?

MARSH: Yes. We use a 30-year production cycle that COMINCO used in their analysis, which is a reasonable period of time to evaluate a mining program.

FAIKS: So you're using 30 years as the base amount to recover investment.

MARSH: Now, what we have here in this graph (page 6 of Attachment A), again we have mining profitability measured in terms of percent in return on investment -- percent/ROI. Here we have those user fee figures in dollars per ton, 16 here all the way up to 26, with breakeven occuring around the

$19-20 point. Two things I'd like to call your attention to on this graph -- first of all, the overall level of mining profitability is dramatically influenced by the price scenario. That's what these refer to -- optimistic level price scenario, base case metal price scenario, pessimistic price scenario. Profitability is highly sensitive to price assumptions. It is less sensitive to the user fees. That's the slope in these curves. To go from COMINCO's proposal of about $11 per ton back in here to the break-even point for any given price scenario, we use/lose this profitability by less than two percentage points. Now, I don't want to imply that that's not a significant two percentage points. I think what you should get from this thing is an appreciation from a businessman's point, a banker's point of view, in evaluating the risk. We're talking about a company risking $300 million investment, and they have to come to grips with which price forecast do they really believe in to make this kind of analyses, and that's going to be domineering in their thought process in this respect. User fees do have an impact, about a 2% impact.

COTTEN: What did you use to decide -- what was the base optimistic or pessimistic. One thing we do with State revenues, we assign a percentile. So, would you say that the base metal price was, using a 50th percentile, in other words, there's just as good a chance it would be higher as it would lower?

MOBERLY: It's pretty difficulty to assign a probability, as to if it would be off, would it be skewed more to the pessimistic. It's just not possible.

COTTEN: What is base metal price mean, then?

MOBERLY: Well, that is what we think is the most likely case of the direction of prices.

FAIKS: Is that your 70 percentile, then?

MOBERLY: It's not on a probability is what you're asking. It's basically going through a methodology of what we think is most likely to determine price.

FAIKS: And you've never equated it to a probability.

MOBERLY: There's no way to put a probability on it. I can appreciate your question. There's just no way to put a probability on that.

MARSH: I think that one thing we can add, although we call it pessimistic, in our view, it's still a plausible situation.

MOBERLY: That's correct. There could be some conditions happen where it could go there.

COTTEN: So then the conclusion is that, if things went wrong, if the capital costs were high, metal prices were low, the State wanted to break even, the mine wouldn't make any money.

MARSH: Not as much as it would like to.

MOBERLY: No. It still is profitable.

MARSH: But we're down around the 10% or lower area.

MOBERLY: Rate of return. It makes money.

COTTEN: What's the bottom of the line?

MOBERLY/MARSH: Eight percent.

HALFORD: But that's not return on capital.

MOBERLY: Yes. That's your accumulated cashflow return on invested capital throughout the life of the project.

HALFORD: But why do a project if you could put it in CDs at higher than that?

MOBERLY: Well, that's what some people say. But as I said, there's other ways that mining company will evaluate whether they'll go ahead with the project. You may not want to put your money into it, that 10% rate of return.

MARSH: Now, we don't know that COMINCO's point of view, what their philosophy is on future prices. They have their own viewpoint on this. We're showing you the range we think a plausible range is to the end to give you a feel for the rest of the associated (inaudible). I think I'd like to also say that we did the analysis to find out what it takes for the State to break even. We're by no means recommending that or suggesting that as a proposition. In fact, COMINCO should pay the full shot of this. That get to an issue of equity, and I'd like to finish out my presentation with that issue.

Just briefly, I'd like to talk about the financing of these various proposals. The second part of my assignment was to look at feasibility of financing this. Now, let me just go back to my notes for a minute. The overall approach we took to financing, and I should make you aware at this point that we've engaged First Boston in San Francisco to be advisers to us on financing issues, and they've been very helpful. In terms of the overall approach or the overall philosophy on financing, we feel that the State can minimize its cost and come up with the lowest cost approach to this by making the

most judicious use of the resources that are being contemplated being transferred to AIDA, the so-called capitalization. Here I'm referring to the $12 million appropriation that's under discussion, plus the transfer of the loan portfolio. Assuming that AIDA, in fact, received those financial resources, we can keep the bond size down to a minimum level, and the way we can do that is rather than issuing a large bond to provide a debt service reserve, we're suggesting that the AIDA financial resources be set aside for the debt service reserve. That allows AIDA to invest that money at a higher rate than the bond proceeds under tax exempt financing because of IRS arbitrage rules, bond proceed money that's not being used cannot be...

(End SFC/Res 85-1, Side 1 -- Begin SFC/Res 85-1, Side 2)

...so with judicious use AIDA resources we could set up a debt service reserve that earns money until the money's required. We use the bond proceeds to cover construction costs, and when they run out in '89, then we start drawing down on the AIDA funds that have been building up and accumulating over time from the loan portfolio and from reinvestment, and under that situation, and looking at the COMINCO proposal, we're coming up with a bond issue with a fixed rate financing of about a $100 million. It was lower than we originally anticipated, and that's because of the contemplative resources being transferred to AIDA. A bond level or bond issue of that size, First Boston is very comfortable with in terms of going to market. When we start to get up to bond levels of $175-200 million, which would be required if AIDA did not have those financial resources, because now you would have to issue a large enough bond to provide a debt service reserve and to provide for capitalized interest. That brings us up into the $200 million range, and people getting a little concerned about the marketability of that in view of this project. A key aspect in marketing the bonds is eventually going to be COMINCO's credit worthiness, because the bond holders are going to look through the project and look through to the principle user in year-to-years for repayment of debt service. So, we've tried to come up with a financing approach that keeps that bond issue down as small as possible and reduces the cost to the State. We've also looked at, and you'll see in the final reports, variable rate financing, which reduces the interest rate from 10-1/2% to 7%. However, the State is exposed to some more financial risk, the risk of interest rates moving up over time, and First Boston has a point of view on that, and they will be providing that advice to AIDA through our report.

We can't see any reason why the project should not proceed. It looks like a good project. It seems to me it really requires a true partnership of the three principal interests: the State, COMINCO, and the native associations through NANA

Corporation. In terms of can COMINCO afford to pay the full shot of the project, that's debatable. We don't want to put COMINCO management in that position of saying yes they, because you've got to look at those price scenarios, and you've got to look at their whole decision process and the risk they're facing. I'd rather address it by saying, is it equitable for COMINCO to pay the whole shot in view of other users that could be coming in the future and in view of other benefits to the region? I'd like to raise the question, when you look at the potential economic return from this mine site, is it equitable for the State to subsidize it to the tune of $75 million? I think that's a legitimate question. I don't think it has to be subsidized to that level. The third group, the third beneficiary of this project, are the native organizations through the NANA corporation. The amount of royalty that will be coming out of this project in 1985 dollars, using our base-case price scenario is in excess of a half a billion dollars. They are not facing the same sort of investment risk that COMINCO is facing. Is it equitable that that type of money be available and not somehow used, or part of it used, in this project. Now, we can't answer those questions. That's obviously the important part of the political process to decide what's equitable. But in our analysis, these are the thoughts that came to our mind as we went through it, and we just tabled them here for your discussion.

V FISCHER: In this kind of an analysis, is it appropriate to also count as a benefit other prospective revenues that may have accrued to the State, such as corporate income tax, various other kinds of revenues?

MARSH: I think, when you get into infrastructure type of projects, where the State's investing in infrastructure, you normally look at the broader cost benefits that accrue to the State, and I understand analysis like this has begun. This was not part of our assignment, and we can look at that, but I would be surprised if there aren't some quantifiable benefits from this project. I just don't know what the level might be, but that certainly is a consideration. That's why I say, looking at it from the State's point of view, you may not have to have a subsidy, but is that equitable? Should there be some subsidy to recognize those broader benefits?

MOBERLY: From the results of our work, we can easily just sum up what those total dollar figures are, just like Gerry mentioned the total accumulated royalty over a 30-year production period in excess of $500 million. We can easily come up with those other numbers of what the other State mining license tax, other State income taxes that will generated.

V FISCHER: Will that be part of your report?

MOBERLY: Those numbers will be included, yes. We have not done any cost-benefit analysis. That was not the intent, but just the absolute numbers that fall under the analysis will be there.

V FISCHER: You said the analysis is based on the 30-year projection, and that's the usual way of doing it. Under what circumstances, if any, would it make sense to have a 40-year analysis, and what would happen if one could do that?

MOBERLY: It won't have any consequence at all when you do a return of investment, because those revenues are generated so far out, it would not have any major impact at all on raising, say, that 16.2% or 4% of fraction. It simply wouldn't. It's just money too far out. Indeed, that's a lot of mony out there, and particularly if you look at it in inflated dollars, but it won't have any impact on the return of investment.

MARSH: That's assuming the present user situation. If another major mine were to come into development 10 or 15 years down the road, that would be a sufficiently large enough increase in revenues that it would have an impact in today's dollars, but just working with COMINCO's facility, the revenues that are coming out in the 30th and 35th year, by the time you discount them back to '85 dollars at 10%, they're not very large.

V FISCHER: Generally, we look at the current value. If the State placed a significant value on future revenues, counting that current revenues are generally spent, and the State will have need income in future years, would that in any way change our analysis, or our conclusion?

MARSH: I'm not sure what you mean. You mean using this project to generate revenue?

V FISCHER: Well, in part. That it may be more significant to the State to have major revenues in the future invest now to have revenues in the future, because the alternative, if in effect we have money now to spend, we probably will not invest it at 10%. We'll just spend it. Could that be a consideration?

MARSH: Yes, it could be. It depends on the mangnitude of those revenues and just how far out into the future they really are, but that's the key aspect.

MOBERLY: You could develop another scenario of how the user fee would be taking the same amount of dollars and spread them out over a different sequence. Once again, it would have an effect on the return investment if you'd reduce those in the

early years. It would be beneficial to COMINCO on a return on investment calculation.

(Senator Kerttula left the meeting.)

MARSH: One of the major benefits of this investment proposal the way it's structured right now, and a very valuable role that the State can provide in this, is the up-front financing of this whole project. That's very critical from a private company's point of view. This project can be financed by the State, and its cost can be repaid in part through user fees. That reduces the drain on COMINCO's cash at a very critical time in terms of developing its own facility, and that's a very valuable and valid role for the State to play is to provide that financing to ease the financial burden on the mining company until it gets its operation going, and then it has the ability from cashflow to pay back part of that investment over time. So that's a very valuable role that the State has proposed here in terms of financing this project and getting it launched.

STURGULEWSKI: Would you explain again your $500 million figure?

MARSH: Okay. What we did was calculated the royalties that would accrue to the native councils through the NANA Corporation, because that's an important cost to this project. We did it in each year, and then we expressed those amounts, because those royalties accrue out to the year 2018. We reduced them to 1985 dollars, and we added that up. Now, that amount is also sensitive to the pricing assumptions you use, and we used our base case pricing assumption. When we added it all up, we're about $600 million in 1985 dollars.

STURGULEWSKI: Then a specific question. The one thing that you talked about in terms of State risk was a delay in the beginning of the project, possibly by two years. What other elements are there? We have as one of the conditions, assuming the legislation goes through, a direction that, if something happens and the project does not move ahead, the company will see that the funds are repaid to the State. How much have you looked in terms of the State and where it is at risk?

MARSH: We looked at that particular aspect, because what it drives home is the need to consider just what sort of financial risk the State wants to assume opposite COMINCO during the negotiation phase, and the delay effect and the higher capital cost effect get at the same sort of thing. It's our experience that projects don't go according to plan, and part of the negotiation process from the State's point of view is to what extent does it want to assume the risk and to what extent does it want to share the risk with COMINCO -- some sort of contractual way on what you do with capital cost

overruns and delays -- and we just tried to say, from our point of view, trying to give you a feel for the magnitude of the dollars involved in this sort of thing, they're fairly significant. Now, it's basically a pointer in terms of eventually negotiating some kind of agreement.

HALFORD: You mentioned the $35 million figure as the cost of that delay.

MARSH: That's assuming the higher capital cost, too. So, we kind of loaded the thing to get a downside situation.

HALFORD: Okay. Well, your higher capital cost in '85 dollars is $95 million, and then, if the higher capital cost became a fact and you had a two-year delay...

MARSH: It goes from $95 million up to $130. So the difference is $35 million.

HALFORD: It's $130 million, and that's a subsidy cost?

MARSH: Yes. At that level, the State's return on investment is pretty close to zero. You're giving up the opportunity cost of money, basically.

HALFORD: So, then the State subsidy cost is $130 million.

MARSH: If that were to happen. If all those events were to happen.

HALFORD: But your graph of what the profitability to COMINCO was, if that happens, shows very little difference.

MARSH: That's right. Because their proposal insulates them to some extent from all that happening. Now, this gets back to a very important point. We don't believe that COMINCO would choose to delay the startup, because the impact on them is very severe. They've got a mine already to go. They've got some $200-300 million invested. It's not likely they would do that. The point is that clause is in the proposal. We just wanted to bring your attention to the impact of that clause from the State's point of view. We didn't analyze the impact on the mining profitability if it were a delayed-production situation.

HALFORD: I mean that clause may be there because they have properties worldwide and substantial reserves and want to have the flexibility to be able to utilize those reserves in the most efficient way.

MOBERLY: We think, on that issue, that once that mine is developed, it's such a good mine, that they would bring this mine on and bring it into production, possibly at the expense

of others. Now, that's our judgment. That's nothing from COMINCO. As Gerry said, they've got $270 million invested. It's certainly not in their best interests not to produce material from that mine.

FAIKS: Gentlemen, the impression that we're being left with is the State's taking all the risk, and I think you better clarify that thought.

MARSH: No, I don't think you're taking all the risk. I think if you accepted the terms that are in that Memorandum of Understanding, we're talking about a subsidy of $75-80 million, roughly.

HALFORD: Up to $130 million.

MARSH: If those other things were to occur.

V FISCHER: But, as I understood your analysis, the State is in the position of responding to the COMINCO proposal by indicating that, if the State protected itself by having user fees that were high enough to provide the State a decent or even a full return on investment, it would have only a minimal effect on COMINCO profitability, so in effect, if the State bought the COMINCO proposal, then the State would be fully at risk. But if the State took the position of a banker in this case, the State doesn't have to be at such great risk. Isn't that correct? I'm bargaining.

MARSH: Well, you're making it black and white, and don't think it's really that black and white. I understand what you're saying. The one thing I would caution you about -- our analysis shows that profitability for any given pricing scenario is not extremely sensitive to user fee, but you've got to avoid the situation of the straw breaking the camel's back, to some extent. When you start getting down to that 10% area, if you're looking at that as a plausible outcome, that 2% becomes important, and that's why I raised the point of are there other ways of the State recovering its investment through a portion of the NANA royalties, for instance. There are other ways to do this. You don't have to charge COMINCO. You can wait for other users to come on-stream.

(Senator Coghill left the meeting.)

HALFORD: Well, you mentioned that the three partners in this arrangement: the State, COMINCO, and the landowners, and you stated that the potential benefit to the landowners are $600 million in 1985 dollars over a 30-year period. The investment in benefits that will have been invested by COMINCO is $270 million. The investment by the State in total is $150 million backed out to a subsidy value of $80 or

$90 to $130 million. What is the investment by the corporations, or what's the rate of return for the landowners, COMINCO, and for the State? That comparison, I think, would be important to look at where the possible pieces to make the project go (inaudible).

MARSH: The royalty is basically economic rent.

MARSH/MOBERLY: There is no investment there.

MARSH: There's no money at risk in that situation. It's a royalty.

MOBERLY: So their rate of return is infinite.

COTTEN: Maybe I misunderstood you. Did you say that the $175 million authorization wasn't required, but in fact, only $100 million in authorization for AIDA bonds was all that was required?

MARSH: No. I don't think you should cut it that fine, because we had to make certain assumptions about the quality of that loan portfolio and the cashflow coming out of that, and we're still making assumptions. Something that I should mention that I'm glad you reminded me of is it's not at all clear at this stage as to whether the financing for this project will be tax exempt. That's being debated. First Boston had some views on it. AIDA's own bond counsel has views on it. It looks like it may take an advance ruling from the IRS to try to resolve that. If you have to go to partial tax-exempt financing, you're probably talking in the order of $120-125 million bond. The $175 certainly is safe. It gives you the room you might need. We approached this from what's the least size bond you could get away with to keep the overall cost down, and if AIDA has those resources, and if it can count on that cashflow from the loan portfolio -- we don't know the quality of that cashflow at this stage -- then there's a way to keep the size of that bond down.

COTTEN: So, if you had to do some non-tax-exempt bonds, you might have to go up to $125 million, then. Is that what you're saying?

(Representative Cotten left the meeting.)

V FISCHER: A followup to Senator Halford's previous questions. In calculating, referring to the owner, the rent, can one put into the equation the value of the property, the value of the minerals that NANA in effect is contributing? Is there a value to those minerals, as they exist when the mine commences operation?

MOBERLY: That could be done.

MARSH: I'm not sure of methodology.

MOBERLY: Reserves are sold. Now whether these would be saleable or not, I don't know, and then what would be the estimate of it?

V FISCHER: I was just wondering, so that when the question's asked, what is each party contributing? Nana in effect is contributing the property.

MOBERLY: It's contributing reserves. That's correct.

MARSH: But it's negotiated compensation for that through the royalty.

V FISCHER: Right. A more specific question: Based on your analysis, can you tell whether COMINCO could finance the port and the road themselves or is upfront financing by the State crucial to the project?

MARSH: We're not privileged to COMINCO's thinking in that regard. If you chose to back out of the project and put the full burden on COMINCO, that certainly is a heavy load to carry, given the state of mining these days. That certainly would put a heck of a load on their balance sheet, because they've still got to finance the mine, and we're talking a mine with working capital in excess of $300 million. We're talking this project -- by the time you put in capitalized interest in excess of $200 million, if you look at COMINCO's balance sheet, that's putting it out at a very high debt/equity ratio. I would be concerned about putting that kind of a load on a company.

MOBERLY: In other words, if you would capitalize the thing at the larger capital and adding the road and port to the mine and mill and then on the revenues generated from the whole situation, you'd have a lowerrate of return for COMINCO, because you see, the State essentially gets money at 10%, where COMINCO is going to want a higher rate of return. S, then in that effect, your ROI for the combined project would be lower than the numbers that we showed.

MARSH: If we had to look at this whole project from COMINCO's point of view, including the construction and financing of the road and all those cash outflows from the period '85-'89, that ROI would drop dramatically.

FAIKS: Did you get an answer to your question?

V FISCHER: I think so. The answer is basically the project is very sensitive to State participation, because as you pointed out in one of your charts, State involvement is simply critical to the level of terms.

MOBERLY/MARSH: Yes. That's right. That is correct. That's what we believe.

HALFORD: In following up an earlier question on tax exempt versus non-tax-exempt financing. If the higher price scenario came about and if the two-year delay came about, what is the effect of the cost in terms of subsidy cost, if in fact the majority of the bonds have to be taxable bonds, and who carries that cost?

MARSH: Well, actually the project carries the cost. It's a question of how much of that cost you recover through the user fees.

(Senators Paul Fischer and Dick Eliason left the meeting.)

HALFORD: What is the effect on the subsidy?

MARSH: It would go up slightly, but it's not a huge effect. For example, you'll see in our report an analysis where we assume a breakeven situation for the State under our base case scenario and COMINCO scenario. We use tax-exempt financing 100%, and we use a combination -- we say that the port is tax exempt, but the road is taxable financing -- that gives us an interest rate of around 12%. Under the tax-exempt financing, it was designed for breakeven, therefore, it means the State's rate of return is 10.0%. If we went with a partial tax-exempt situation, the State's rate of return drops to about 9.8%. It's not terribly sensitive.

HALFORD: So, what's that mean in terms of total subsidy cost -- $5 million, $10 million?

MARSH: Yes. I haven't worked it out, but it's in the report -- that order of magnitude.

HALFORD: So it gets up to maybe $130-135 million.

MARSH: You're using that very outside figure, which we really see as a real downside, outside figure. By the way, if you look at what bond issues require, assuming all those things are going to happen, you're talking about a $145 million bond issue, if you take the delay plus the alternative scenario. If you load the project with those kinds of costs, the bond issue now climbs to about $145 million.

HALFORD: With regard to the legislation that the Legislature has been considering, as an entity which is representing the peoples' funds basically, do you think that we're basically issuing an authority to go forward to AIDA which says there will be a return, we don't know how much it'll be, there will be a payback, we don't know when it'll come, we don't know what the total cost is, and we don't know if it's taxable or

non-taxable, we don't know all these things. I guess that calls for too much of a substantive question. I was going to ask you if you thought that was the responsible way to manage as an entity loaning money. Would anyone in the private sector do that.

MARSH: Are you giving them a blank check, basically, to carry on. It's a Catch 22 here, because you can't start nailing some of these things down until you come to grips and have some sort of contractual arrangement with both COMINCO and NANA. Right now we have proposals. You really can't proceed until you can get contractual arrangements. On the other hand, how can AIDA negotiate in good faith and demonstrate that the State supports this project and is behind it if they don't have some sort of general parameters to work within, as proposed by the legislation. If you always are going to second guess them on when they are going to get these financial resources and what the bond authority might be, they're trying to negotiate with one hand behind their back, and looking at it from a private sector point of view, it's difficult to negotiate with someone that's not in a position to negotiate. So, I don't know how you resolve that problem.

HALFORD: The State deals with these kind of cases in negotiations on royalty, and what happens is the negotiations are carried out, and once the contract is completed and signed off, it comes back before the Legislature for ratification. My question is can we give AIDA the authority to go forward but still require that the final contractual arrangement, which really says the total dollar figures and all the figures come back before the Legislature for ratification by law before they go forward.

MARSH: I don't think I want to comment on something that involves due process and constitutional issues. It's just beyond my capability.

STURGULEWSKI: I would hope that while you gentlemen are in town -- certainly your contract with the Administration, but certainly this information is vital to the Legislature -- I would hope that you would be able to review the legislation that has been proposed and is now before the Finance Committee as to whether or not those conditions generally address those questions where the State is most at risk. We had some problems in tightening those up because of the situation with bond council saying that you can go so far, and then you start to get into an area of concern. So, I would appreciate some response on those pieces of legislation. Also, the major thing that has come, I think, in this discussion is the lack, perhaps, of sensitivity of the user fees to the overall return on the project, although of course, there's a point at the lower level where you might have some problems. I guess I would like to know, and

certainly the Finance Committee should consider, as to whether or not we should be looking at more specific direction in that range of user fees, again to minimize the State's potential risk in this. So, I'd really appreciate some comment now or some during the course of the day on that issue.

MARSH: Okay. Perhaps we could talk later to give us some time to think about it.

PIGNALBERI: I heard you mention earlier that you thought a valid question is should the State subsidize the project for $75 million, and you said that's probably not necessary. Do you have a figure in mind, an amount of subsidy that you think is necessary?

MARSH: No. I think that's the equity issue that I think, unfortunately, that's precisely the type of issue you people have to come to grips with -- what represents the true benefit to the State. Then you have to look at things like the cost benefit analysis we talked about earlier. We're not in the position to advise what's a desireable subsidy. That's something we can't answer.

PIGNALBERI: But you did say that you thought it was not necessary --

MARSH: I think the project generates a high enough economic return, when you look at what's accruing to COMINCO and what's accruing to the native organizations through the royalty, that you could avoid a subsidy if you wanted to. Now, you've got to be careful, I think, about the methods you use. If you loaded up on user fee, then you're affecting COMINCO's rate of return. If you take the tack of appropriating part of the royalties, you don't affect the rate of return. It's another way of recouping some of that subsidy.

FAIKS: Right now, the State of Alaska does not have a severance tax on minerals. Did you look at cranking in a couple of percentage severance tax for the State to get its rate of return back that way?

MOBERLY: No, but we could. We did not put that in.

MARSH: In effect, that has the same sort of affect as increasing the user charge.

MOBERLY: That's correct. It's just an added cost.

MARSH: It's an added cost that comes out before the royalties are worked up.

FAIKS: Well, that's right. If it comes out before the royalties are worked out, then that's a way for the State to get some of its return back prior to the native corporations getting their royalty fee, right?

MARSH: What it will do is pull down the rate of return on the project.

MOBERLY: No, but it possibly would reduce somewhat the royalty. We could run the numbers.

FAIKS: I would appreciate it if you could run the numbers for me, starting at 1-2-3, going up to about 5%.

(3) "corporation" means the Alaska Resources Corporation;

(4)—(7) *[Repealed, § 16 ch 161 SLA 1984.]* (§ 3 ch 179 SLA 1978; am §§ 23 — 28 ch 142 SLA 1982; am § 16 ch 161 SLA 1984; r § 18 ch 161 SLA 1984)

Effect of amendments. — The 1984 amendment, effective July 7, 1984, repealed paragraphs (1), (4)—(7).

Chapter 15. State Bonding Act.

Article

1. General Obligation Bonds (§ 37.15.012)
3. International Airports Revenue Bonds (§ 37.15.415)
4. Toll Facilities Revenue Bonds (§§ 37.15.610 — 37.15.760)

Article 1. General Obligation Bonds.

Section

12. Continuing debt service appropriation

Sec. 37.15.012. Continuing debt service appropriation. The amounts required annually to pay the principal, interest, and redemption premium on all issued and outstanding general obligation bonds of the state are appropriated each fiscal year from the general fund to the state bond committee to make all required payments of principal, interest, and redemption premium. (§ 1 ch 100 SLA 1981; am § 1 ch 156 SLA 1984)

Effect of amendments. — The 1984 amendment, effective July 6, 1984, substituted "each fiscal" for "on July 1 of each."

Article 3. International Airports Revenue Bonds.

Section

415. Continuing revenue bond debt service appropriation

Sec. 37.15.415. Continuing revenue bond debt service appropriation. The amounts required annually to pay the principal, interest, and redemption premium on all issued and outstanding international airports revenue bonds of the state are appropriated each fiscal year from the international airports revenue fund to the state bond committee to make all required payments of principal, interest, and redemption premium. (§ 2 ch 156 SLA 1984)

Effective dates. — Section 5, ch. 156, SLA 1984 makes this section effective July 6, 1984, in accordance with AS 01.10.070(c).

Article 4. Toll Facilities Revenue Bonds.

Section	Section
610. Bond authorization	690. Bond negotiability
620. Construction fund	700. Refunding
630. Revenue fund	710. Bonds as legal investments
640. Bond redemption fund	720. State toll facilities
650. Bond terms	730. Knik Arm Crossing
660. Bond resolution	740. Toll facility charges
670. Enforcement by holder	750. Statutory construction
680. Amounts required for payments	760. Definitions

Sec. 37.15.610. Bond authorization. For the purpose of providing part or all of the money to be used, with or without any grants or other money that may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed $500,000,000 is authorized to acquire, construct, equip, and install the additions, improvements, extensions, and facilities authorized in AS 37.15.720 and 37.15.730. The principal of and interest on these bonds are paid out of and secured by the gross revenues derived by the state from the ownership, use, and operation of the toll facilities, and out of any other revenue or money that the state legislature may provide exclusive of any state tax or license. Bonds may not be issued to assist in the acquisition, financing, or operation of projects without prior approval from the legislature. (§ 1 ch 162 SLA 1984)

Sec. 37.15.620. Construction fund. (a) The toll facilities construction fund is established for deposit of proceeds of the sale of the bonds authorized by AS 37.15.610 and any grant or other money that is legally provided for the same purposes for which the bonds are authorized except for any accrued interest paid on the bonds by the purchaser. The money in the construction fund is used to pay the cost of acquiring, constructing, and equipping facilities authorized in AS 37.15.720 and 37.15.730 and costs incidental to those activities, including costs of the authorization, issuance, and sale of the bonds. To the extent allowed in the bond resolution, money in the construction fund may also be used for the payment of interest on the bonds during the time of actual construction, and for any additional time, not exceeding one year after construction is completed. Money in the construction fund may also be transferred to the bond redemption fund, as permitted by the bond resolution, to establish a reserve for the payment of the principal and interest on the bonds.

(b) The bond resolution may provide for the investment of money in the construction fund as the committee determines. The interest earned upon or any profit derived from the sale of the investment is deposited in the construction fund. (§ 1 ch 162 SLA 1984)

Sec. 37.15.630. Revenue fund. (a) The toll facilities revenue fund is established and shall be set apart from all other money of the state. The toll facilities revenue fund is a trust fund for the purposes under

AS 37.15.610 — 37.15.760, where all revenue, fees, tolls, charges, and rentals are deposited that are derived by the state from the ownership, lease, use, and operation of the facilities authorized by AS 37.15.720 and 37.15.730. The revenue, fees, tolls, charges, and rentals may not include the proceeds of any state tax or license. The money in the revenue fund may only be used to

(1) pay or secure the payment of the principal of and interest on the toll facilities bonds and principal of and interest on any other revenue bonds issued by authorization of the legislature to provide money to acquire, construct, and equip facilities authorized by AS 37.15.720 and 37.15.730 and to be payable out of the revenue fund;

(2) pay the normal and necessary costs of maintaining and operating the facilities acquired, constructed, or equipped under AS 37.15.610 — 37.15.760;

(3) pay the costs of renewals, replacements, and extraordinary repairs to facilities acquired, constructed, or equipped under AS 37.15.610 — 37.15.760;

(4) redeem before their fixed maturities any and all revenue bonds issued for the purpose of acquiring, constructing, and equipping facilities authorized by AS 37.15.720 and 37.15.730;

(5) provide money to acquire, construct, and equip necessary additions and improvements to facilities authorized by AS 37.15.720 and 37.15.730; and

(6) provide money to pay any and all other costs relating to the ownership, use, and operation of the facilities.

(b) The investment of money in the revenue fund may be made as the committee determines. The interest earned upon or any profits derived from the sale of an investment under this subsection shall be deposited in the revenue fund. (§ 1 ch 162 SLA 1984)

Sec. 37.15.640. Bond redemption fund. The toll facilities revenue bond redemption fund is established for deposit in trust of money for paying and securing the payment of principal of and interest and redemption premium, if any, on bonds and is set apart from all other money of the state. The committee, on behalf of the state, shall obligate the state to set aside and pay into the bond redemption fund from the revenue fund an amount of money sufficient to pay the principal of and interest and redemption premium, if any, on the bonds as the payments become due and, if the committee considers it necessary, to set aside and maintain a reserve for this purpose. The bond redemption fund is drawn upon for the purpose of paying the principal of and interest and redemption premium, if any, on the bonds, and the bonds do not constitute a general obligation of the state. (§ 1 ch 162 SLA 1984)

Sec. 37.15.650. Bond terms. (a) The toll facilities bonds are sold in the amounts or series and at the time as determined by the committee. Before selling a series of bonds, the committee shall give notice

inviting sealed bids. If satisfactory bids are received, the bonds offered for sale are awarded to the highest responsible bidder. If the committee determines that a bid received is not satisfactory as to price or responsibility of the bidder, the committee may reject the bid received. Bonds, or a series of bonds, may not be sold if the effective interest rate over the life of the bonds exceeds 11 percent per year or that rate of interest that is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest is payable annually or semiannually.

(b) The bonds mature at the time fixed by the committee. The bonds may be subject to redemption before their fixed maturities as determined by the committee and with the premium fixed by the committee, but a bond may not be subject to redemption before its fixed maturity date unless the right to redeem that bond is expressly mentioned on the face of the bond. The bonds

(1) may be in denominations determined by the committee;

(2) may be issued in coupon form or in fully registered form, and may be registrable as to principal or both principal and interest, all under regulations and conditions the committee provides;

(3) are payable as to principal and interest at the place determined by the committee;

(4) shall be signed on behalf of the state by the governor and shall be attested to by the lieutenant governor, both of which signatures may be facsimile signatures, and each of the interest coupons attached to them shall be signed by the facsimile signatures of these officials;

(5) shall have the seal of the state impressed, printed, or lithographed on them; and

(6) shall be issued under and subject to the terms, conditions, and covenants, providing for the payment of the principal of and interest on the bonds and the other terms, conditions, covenants, and protective features safeguarding this payment and relating to the maintenance, operation, and improvement of the toll facilities as found necessary by the committee, which covenants may include a provision requiring the setting aside and maintenance of certain reserves to secure the payment of the principal and interest.

(c) If found reasonably necessary, the committee may select a trustee or trustees for the holders of the bonds or any series of the bonds, for the safeguarding and disbursement of any of the money in any of the funds created by AS 37.15.620, 37.15.630, and 37.15.640, or for the duties for authentication, delivery, and registration of the bonds as the committee may determine. The committee shall also fix the rights, duties, powers, and obligations of the trustee or trustees.

(d) In the committee's determination of all of the matters and questions relating to the issuance and sale of the bonds and the fixing of the maturities, terms, conditions, and covenants of the bonds as provided

in (a) — (c) of this section, the decisions of the committee shall be those found to be reasonably necessary for the best interests of the state and its inhabitants, and those that will accomplish the most advantageous sale of the bonds, with due regard, however, (1) to necessary or normal costs of maintenance and operation; (2) to renewals and replacements of and repairs to the toll facilities; (3) to all improvements to toll facilities and property of toll facilities owned, used, operated, or leased in connection with toll facilities; and (4) to the future growth and expansion of all of the facilities and the possibility of additional revenue bond financing for toll facilities purposes. A decision of the committee, as expressed in any bond resolution, is final when any bonds have been issued under the bond resolution.

(e) A bond resolution may provide that the bonds issued contain a recital that they are issued under AS 37.15.610 — 37.15.760, and any bonds containing this recital are conclusively considered to be valid and to have been issued in conformity with AS 37.15.610 — 37.15.760.

(f) The validity of the authorization and issuance of bonds is not affected by any proceeding for the acquisition or construction of the additions, improvements, or facilities for which the bonds have been issued or by any contract in connection with the acquisition or construction. (§ 1 ch 162 SLA 1984)

Sec. 37.15.660. Bond resolution. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide whether the notice of sale is to be published elsewhere in addition to the publication required by AS 37.15.650. (§ 1 ch 162 SLA 1984)

Sec. 37.15.670. Enforcement by holder. The holder of any bonds or the trustee for the holders of the bonds or any series of them, may, by appropriate proceedings in the courts of record of the state, compel the transfer, setting aside, and payment of money and the enforcement of all of the terms, conditions, and covenants as required and provided in AS 37.15.610 — 37.15.760 and in the bond resolution. (§ 1 ch 162 SLA 1984)

Sec. 37.15.680. Amounts required for payments. The committee shall, before December 31 of each year, commencing with the year in which the bonds are issued, certify to the commissioner of revenue and the commissioner of transportation and public facilities the amounts required in the next ensuing calendar year by a bond resolution to be paid out of the revenue fund into the bond redemption fund and to be

paid into and maintained in any reserve fund or account or any other fund or account created by a bond resolution. The committee shall also certify to the commissioners the last date upon which payments may be made. (§ 1 ch 162 SLA 1984)

Sec. 37.15.690. Bond negotiability. The bonds and the coupons attached to them are fully negotiable instruments under the laws of the state. (§ 1 ch 162 SLA 1984)

Sec. 37.15.700. Refunding. (a) The bonds or any part of them may be refunded at or before their maturity by the issuance of refunding revenue bonds of the state if in the opinion of the committee refunding is advantageous to and in the best interest of the state and its inhabitants.

(b) The issuance of refunding bonds need not be authorized by an act of the legislature, and the committee shall adopt the resolution and prepare all other documents and proceedings necessary for the issuance, exchange or sale, and delivery of the bonds. All provisions of AS 37.15.610 — 37.15.760 applicable to revenue bonds are applicable to the refunding bonds and to the issuance, sale, or exchange of the bonds, except as otherwise provided in this section.

(c) Refunding bonds may be issued in a principal amount sufficient to provide money for the payment of all bonds to be refunded by them, and, in addition, for the payment of all expenses incident to the calling, retiring, or paying of the outstanding bonds, and the issuance of the refunding bonds. These expenses include the difference in amount between the par value of the refunding bonds and any amount less than par for which the refunding bonds are sold, any amount necessary to be made available for the payment of interest on the refunding bonds from the date of sale of them to the date of payment of the bonds to be refunded or to the date upon which the bonds to be refunded will be paid under the call of the bonds or agreement with the holders of them, and the premium, if any, necessary to be paid in order to call or retire the outstanding bonds and the interest accruing on the outstanding bonds to the date of the call or retirement. (§ 1 ch 162 SLA 1984)

Sec. 37.15.710. Bonds as legal investments. Toll facilities bonds are legal investments for all banks, trust companies, savings banks, savings and loan associations, and other persons carrying on a banking business, all insurance companies and other persons carrying on an insurance business, and all executors, administrators, trustees, and other fiduciaries. The bonds may be accepted as security for deposits of all money of the state and its political subdivisions. (§ 1 ch 162 SLA 1984)

Sec. 37.15.720. State toll facilities. The state is authorized to acquire, construct, equip, and maintain toll bridges, highways, roads, crossings, and causeways found to be necessary by the commissioner of transportation and public facilities. (§ 1 ch 162 SLA 1984)

Sec. 37.15.730. Knik Arm Crossing. Notwithstanding the provisions of AS 37.15.720 the first state toll facility to be financed under AS 37.15.610 — 37.15.760 is the Knik Arm Crossing near Anchorage if the following conditions are met:

(1) the department submits to the governor and the legislature a feasibility study that finds that the crossing is financially feasible and able to produce revenue adequate to repay the bonds with which it is financed;

(2) if financing in addition to revenue bonds is anticipated, the department submits to the governor and legislature a finance plan to include an estimate of the total cost of the project and a description of the sources of money that will be used to finance the total cost of the project; and

(3) the office of management and budget reviews the feasibility study and the finance plan, if required, and reports its findings and recommendations to the governor and legislature not later than 90 days after the study and plan are received by the office. (§ 1 ch 162 SLA 1984)

Sec. 37.15.740. Toll facility charges. The commissioner of transportation and public facilities shall fix and collect the fees, charges, tolls, and rentals derived by the state from the ownership, lease, use, and operation of the facilities authorized by AS 37.15.720 and 37.15.730 and improvements of the facilities as will provide revenues sufficient to comply with all of the covenants of the bond resolution. (§ 1 ch 162 SLA 1984)

Sec. 37.15.750. Statutory construction. AS 37.15.610 — 37.15.760 shall be liberally construed in order to carry out the purposes for which the provisions were enacted, and all existing laws in conflict with AS 37.15.610 — 37.15.760 are superseded as necessary to accomplish the purposes of AS 37.15.610 — 37.15.760. (§ 1 ch 162 SLA 1984)

Sec. 37.15.760. Definitions. In AS 37.15.610 — 37.15.760, unless the context requires otherwise

(1) "bond redemption fund" means the toll facilities revenue bond redemption fund created by AS 37.15.640, including any accounts that are created in that fund after the effective date of this Act;

(2) "bond resolution" means the resolution authorizing the issuance of bonds, adopted by the committee under AS 37.15.660;

(3) "bonds" means the toll facilities revenue bonds authorized by AS 37.15.610 — 37.15.760;

(4) "committee" means the state bond committee created by AS 37.15.110, or any other committee, body, department, or officer of the state that or who succeeds to the rights, powers, duties, and obligations of the state bond committee by act of the legislature;

(5) "construction fund" means the toll facilities construction fund created by AS 37.15.620;

(6) "revenue fund" means the toll facilities revenue fund created by AS 37.15.630;

(7) "toll facilities" means highways, roads, bridges, crossings, and causeways upon which tolls, charges, rentals, or other user fees are placed by the commissioner of transportation and public facilities. (§ 1 ch 162 SLA 1984)

Chapter 25. Miscellaneous Provisions.

Sec. 37.25.020. Unexpended balances of appropriation for capital projects.

Opinions of attorney general. — Appropriations that are available for expenditure in a fiscal year should be counted only against the appropriation limit of § 16, art. IX, of the state constitution, for the first fiscal year during which they could be completely expended, even if an unexpended balance is carried forward into the next fiscal year. 1983 Op. Att'y Gen. No. 01.

(b) The commissioner of revenue may

(1) invest and reinvest the principal of the funds;

(2) sell, exchange, convey, transfer, or otherwise dispose of investments of the funds by private contract or at public auction;

(3) vote upon a stock, bond, or other security; give a general or special proxy or power of attorney with or without power of substitution; exercise a conversion privilege, subscription right, or other option and make payments incidental to it; consent to or participate in a corporate reorganization or other change affecting corporate securities, delegate discretionary power, pay an assessment or charge in connection with the delegation; and generally exercise any of the powers of an owner with respect to stocks, bonds, securities, or other investments held in the funds;

(4) make, execute, acknowledge, and deliver documents of transfer and conveyance and instruments necessary or appropriate to carry out the powers granted;

(5) register investments held in a fund in the name of the board having the power to approve investments for a fund;

(6) do all acts whether or not expressly authorized which are considered proper for the protection of the investments held in the funds. (§ 4 ch 182 SLA 1978)

Chapter 15. State Bonding Act.

Article
1. General Obligation Bonds (§§ 37.15.010 — 37.15.220)
2. Bond Anticipation Notes (§§ 37.15.300 — 37.15.390)
3. International Airports Revenue Bonds (§§ 37.15.410 — 37.15.550)

Article 1. General Obligation Bonds.

Section
10. Full faith and credit for general obligation bonds
12. Continuing debt service appropriation
15. Committee shall publish notice of existing state indebtedness before election
20. Manner and amounts of sale
30. Interest rate and maturity
40. Sale of bonds
50. Redemption
60. Form and registration of bonds
70. Place of payment
80. Signatures and seal
90. Terms and conditions
100. Trustee
110. Creation and membership of state bond committee
120. Regulations
130. Officers, records and proceedings
140. Duties of state bond committee
150. Committee may employ special services
155. Prohibited bidding on bonds and anticipation notes
160. Contents of resolution
170. State bond committee to certify annual principal, interest, and reserve requirements
180. Remedies of bondholders
190. Negotiability
200. Bonds as legal investments
210. Refunding bonds
215. Official statements
220. Short title

Sec. 37.15.010. Full faith and credit for general obligation bonds. The full faith, credit and resources of the state are hereby pledged to the payment of the principal of and interest and redemption premium, if any, on all general obligation bonds of the state authorized pursuant to art. IX, § 8 of the constitution. (§ 1 ch 175 SLA 1960; am § 1 ch 104 SLA 1967)

Collateral references. — 63 Am.Jur.2d, Public Funds, §§ 23-32. 64 Am.Jur.2d, Public Securities and Obligations, § 1 et seq.

81A C.J.S., States, §§ 250-262.

Funding or refunding obligations as subject to conditions respecting approval by voters, 97 ALR 442.

Validity of bond issue in excess of amount permitted by law within authorized debt, tax or voted limit, 175 ALR 823.

Sec. 37.15.012. Continuing debt service appropriation. The amounts required annually to pay the principal, interest, and redemption premium on all issued and outstanding general obligation bonds of the state are appropriated on July 1 of each year from the general fund to the state bond committee to make all required payments of principal, interest, and redemption premium. (§ 1 ch 100 SLA 1981)

Opinions of attorney general. — This section does not represent an unconstitutional dedication of public funds under § 7, art. IX, of the state constitution, as that section of the constitution contains an implied exception for bond obligations. November 30, 1982, Op. Att'y Gen.

Sec. 37.15.015. Committee shall publish notice of existing state indebtedness before election. (a) Before a general or special election in which a bond issue is offered for ratification, the state bond committee shall publish a notice of existing state bonded indebtedness at least once a week for three consecutive weeks in a newspaper of general circulation in each of the four judicial districts of the state. The first notice shall be published at least 20 days before the date of the election. A notice shall contain

(1) the current total bonded indebtedness of the state,

(2) the cost of the debt service on the current indebtedness.

(b) Neither the failure to publish the notice of existing state bonded indebtedness nor a defect in the publication affects the validity of the bond issue offered for ratification or of a general or special election in which a bond issue is offered for ratification. (§ 2 ch 50 SLA 1964; am § 1 ch 8 SLA 1969)

Collateral references. — Effect of inclusion in call for election, or in proposal for bond issue submitted to people, of unauthorized method of payment or retirement, 93 ALR 362.

Bonds issued by state officer or board payable solely out of proceeds of obligations of political subdivisions pledged as within constitutional or statutory provisions which impose a limit on state indebtedness or require consent of electors, 100 ALR 1114.

Mistake, ambiguity, or omission in statement as to indebtedness, in call for

election or proposal for bond issue, as affecting validity of election or bonds issued pursuant thereto, 116 ALR 1258.

Effect of delay after authorization by voters on power of governmental unit to issue bonds, 135 ALR 768.

Validity, within authorized debt, tax, or voted limit, of bond issue in excess of amount permitted by law, 175 ALR 823.

Sec. 37.15.020. Manner and amounts of sale. The state bond committee shall sell the bonds of each authorization in the amounts or series and at the times which it finds are for the best interests of the state and its inhabitants. (§ 1 ch 175 SLA 1960)

Sec. 37.15.030. Interest rate and maturity. Each issue or series of bonds shall bear interest at an effective rate over the life of the bonds not to exceed 11 percent a year or that rate of interest which is 110 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. The bonds shall mature in not more than 30 years from date of issue, unless a longer period is specifically authorized by statute. (§ 1 ch 175 SLA 1960; am § 2 ch 104 SLA 1967; am § 1 ch 92 SLA 1970; am § 1 ch 29 SLA 1976; am § 1 ch 85 SLA 1980; am § 1 ch 110 SLA 1982)

Effect of amendments. — The 1980 amendment substituted "10" for "eight" preceding "percent a year" at the end of the first sentence.

The 1982 amendment substituted the language beginning "11 percent a year" for "10 percent a year" at the end of the first sentence.

Collateral references. — Right to call governmental bonds in advance of their maturity, 109 ALR 988.

Sec. 37.15.040. Sale of bonds. Before selling an issue or series of bonds, the state bond committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received. (§ 1 ch 175 SLA 1960; am § 3 ch 104 SLA 1967; am § 1 ch 43 SLA 1969)

Sec. 37.15.050. Redemption. The state bond committee may determine whether the bonds are subject to redemption before their fixed maturities and may fix the premium for and all other terms of the redemption. No bond may be subject to redemption before its fixed maturity date unless the right to so redeem the bond is expressly mentioned on the face of the bond. (§ 1 ch 175 SLA 1960; am § 4 ch 104 SLA 1967; am § 1 ch 26 SLA 1968; am § 7 ch 143 SLA 1968)

Collateral references. — 81A C.J.S., States, § 261.

Funding or refunding obligations as subject to conditions respecting limitation

of indebtedness, 97 ALR 442.

Validity of bond issue in excess of amount permitted by law within authorized debt, tax or voted limit, 175 ALR 823.

Sec. 37.15.060. Form and registration of bonds. An issue or series of bonds may be issued in coupon form payable to bearer or in fully registered form, and bonds in coupon form may be made registrable as to principal or principal and interest, as determined by the state bond committee. (§ 1 ch 175 SLA 1960; am § 2 ch 26 SLA 1968)

Sec. 37.15.070. Place of payment. The state bond committee may fix the place or places of payment of the principal, interest and redemption premium, if any. (§ 1 ch 175 SLA 1960; am § 5 ch 104 SLA 1967)

Sec. 37.15.080. Signatures and seal. (a) Each bond shall be signed on behalf of the state by the governor and attested by the lieutenant governor, which signatures may be facsimile signatures. The seal of the state shall be impressed, imprinted or otherwise reproduced on each bond. Each interest coupon attached to the bond shall be signed by the facsimile signatures of the governor and lieutenant governor. If an officer whose signature appears on the bonds or coupons ceases to be an officer before delivery of the bonds, the signature is, nevertheless, valid and sufficient for all purposes, as if the officer had remained in office until delivery.

(b) A signature required on a bond issued by a political subdivision of the state may be a facsimile signature. (§ 1 ch 175 SLA 1960; am § 6 ch 104 SLA 1967)

Collateral references. — Printing, lithographing, or other mechanical signature on public bonds, coupons, or other pecuniary obligation, 94 ALR 768.

Sec. 37.15.090. Terms and conditions. Each issue or series of bonds shall be issued under and subject to the terms, conditions, and covenants providing for the payment of the principal and the interest and other terms, conditions, covenants, and protective provisions safeguarding the payment as found reasonably necessary by the state bond committee for the most advantageous sale. The terms, conditions, and covenants may include the setting aside and maintaining of certain reserves to secure the payment of principal and interest. (§ 1 ch 175 SLA 1960)

Collateral references. — Effect of inclusion in call for election, or in proposal for bond issue submitted to people, of unauthorized method of payment or retirement, 93 ALR 362.

Power of legislature to add to or make more onerous the conditions or limitations prescribed by Constitution upon incurring public debts, 106 ALR 231.

Power and discretion of officer or board authorized to issue bonds of governmental unit as regards terms or conditions to be included therein, 119 ALR 190.

Sec. 37.15.100. Trustee. If the state bond committee finds it necessary to accomplish the most advantageous sale of the bonds, the committee shall select a trustee for the owners and holders of the bonds or for the safeguarding and disbursement of the proceeds of the sale of the bonds for the use and purpose for which issued, and shall fix the rights, duties, powers, and obligations of the trustee. (§ 1 ch 175 SLA 1960)

Sec. 37.15.110. Creation and membership of state bond committee. There is created a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, and the commissioner of revenue. If a member of the committee is absent or otherwise unable to act, the member's designee in the department shall act as a member of the committee in the member's place. (§ 2 ch 175 SLA 1960; am § 7 ch 104 SLA 1967; am § 81 ch 218 SLA 1976)

Sec. 37.15.120. Regulations. The state bond committee may adopt regulations for the performance of its duties and may designate by resolution one of its members to perform any act necessary to effectuate its duties not required by statute to be performed by the state bond committee in meeting or by resolution, or by another officer of the state. (§ 2 ch 175 SLA 1960; am § 8 ch 104 SLA 1967)

Sec. 37.15.130. Officers, records and proceedings. The commissioner of commerce and economic development is the chairman of the state bond committee and the commissioner of revenue is the secretary. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent record of its proceedings. All records and correspondence of the committee shall be kept in the office of the commissioner of revenue. (§ 2 ch 175 SLA 1960; am § 82 ch 218 SLA 1976)

Collateral references. — Personal liability of officers to holders of invalid public money obligations, 87 ALR 273.

Sec. 37.15.140. Duties of state bond committee. The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, sale, and delivery of bonds. (§ 3 ch 175 SLA 1960)

Sec. 37.15.150. Committee may employ special services. If the state bond committee considers it necessary and advisable, it may procure architectural or engineering, fiscal agent or municipal investment, legal and other expert or specialized services at reasonable and customary fees to assist it in accomplishing the most advantageous sale of the bonds. The fees may be paid from the proceeds of the sale or advanced from the contingency fund in the office of the governor or otherwise. (§ 3 ch 175 SLA 1960)

Sec. 37.15.155. Prohibited bidding on bonds and anticipation notes. (a) No person who provides financial programming or marketing assistance to the state bond committee in connection with the issuance or sale of general obligation bonds, revenue bonds or bond anticipation notes of the state may bid on the bonds.

(b) The sale of general obligation bonds, revenue bonds or bond anticipation notes of the state to a person who is prohibited from bidding on the bonds or notes under (a) of this section is against public policy and the sale is void.

(c) In this section "person" means an individual, firm, agent, factor, intermediary, partnership, corporation, association, bond house, stockbroker or bond broker. (§ 1 ch 102 SLA 1974)

Sec. 37.15.160. Contents of resolution. The resolution adopted by the state bond committee shall

(1) fix the principal amount, denominations, date, maturities, place of payment, terms, right of redemption if any, form, conditions and covenants of the bonds;

(2) fix the date of sale and the form of the notice of sale; and

(3) provide if the notice is to be published elsewhere in addition to the publication required by AS 37.15.040. (§ 3 ch 175 SLA 1960; am § 3 ch 26 SLA 1968)

Sec. 37.15.170. State bond committee to certify annual principal, interest, and reserve requirements. (a) Before January 1 of each year after bonds are issued, the state bond committee shall certify to the commissioner of administration the amount needed for the following calendar year to meet principal, interest, and reserve requirements on all bonds or issues or series of bonds then outstanding.

(b) The commissioner of administration shall set aside these amounts or make the necessary provisions for the setting aside of these amounts so that there will be sufficient money to pay the principal and interest on the due date and to meet reserve requirements. (§ 4 ch 175 SLA 1960)

Sec. 37.15.180. Remedies of bondholders. The owner and holder of each bond or the trustee may by appropriate proceeding require and compel the transfer and payment of money as directed by this chapter. (§ 4 ch 175 SLA 1960)

Sec. 37.15.190. Negotiability. General obligation bonds of the state and the coupons attached to the bonds are negotiable instruments. (§ 5 ch 175 SLA 1960)

Collateral references. — Negotiability of state warrants, 36 ALR 949.

Sec. 37.15.200. Bonds as legal investments. General obligation bonds of the state are legal investments for all state funds, or for funds under state control, and for all funds of a political subdivision of the state. (§ 5 ch 175 SLA 1960)

Sec. 37.15.210. Refunding bonds. (a) All or a part of the general obligation bonds of the state, or all or a part of each outstanding issue or series of bonds, may be refunded at or before maturity by the issuance of general obligation refunding bonds of the state if, in the opinion of the state bond committee, refunding is advantageous to and in the best interest of the state and its inhabitants. Money set aside as reserve to secure the payment of the principal and interest of bonds being refunded may be used to pay the principal and interest on these bonds or may be retained by the state to secure the payment of the principal and interest on the refunding bonds to be issued.

(b) Refunding bonds and the coupons attached to them are negotiable instruments. The effective rate of interest over the life of refunding bonds may not exceed 11 percent a year or that rate of interest which is 110 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of bonds, whichever is higher, and the amount of premium which is paid to effect the redemption of outstanding bonds may not be considered in determining the effective rate of interest.

(c) Refunding bonds may be exchanged for the bonds being refunded or refunding bonds may be sold in the manner and at the prices which the state bond committee determines to be for the best interest of the state and its inhabitants either at public or private sale.

(d) The issuance of refunding bonds need not be authorized by the qualified voters of the state. The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, exchange or sale, and delivery of refunding bonds. The provisions of this chapter relating to the terms, conditions, covenants, issuance, and sale of general obligation bonds of the state apply to refunding bonds except as otherwise specifically provided in this section. (§ 6 ch 175 SLA 1960; am § 2 ch 92 SLA 1970; am § 2 ch 85 SLA 1980; am § 2 ch 110 SLA 1982)

Effect of amendments. — The 1980 amendment substituted "10" for "seven" preceding "percent a year" in the second sentence of subsection (b).

The 1982 amendment substituted the language beginning "11 percent a year" and ending "date of sale of bonds, whichever is higher" for "10 percent a year" in subsection (b).

Collateral references. — Funding or refunding obligations as subject to conditions respecting limitation of indebtedness or approval by voters. 97 ALR 442.

Power of governmental unit to issue bonds as implying power to refund them. 1 ALR2d 134.

Sec. 37.15.215. Official statements. To the extent practicable the official statements and other documentation issued in connection with an offering of state or local government securities shall comply with

the guidelines of the Municipal Finance Officers Association or other nationally recognized guidelines. (§ 12 ch 168 SLA 1978)

Sec. 37.15.220. Short title. AS 37.15.010 — 37.15.220 may be cited as the State Bonding Act. (§ 7 ch 175 SLA 1960; am § 54 ch 127 SLA 1974)

Article 2. Bond Anticipation Notes.

Section		Section	
300.	Borrowing in anticipation of sale of bonds permitted	350.	Security for repayment of revenue bonds
310.	Issuance of notes	360.	Limitation on issuance of notes
330.	Repayment of notes	370.	Use of proceeds from sale of notes
340.	Security for repayment of general obligation bonds	380.	Sale of notes
		390.	Execution of notes

Sec. 37.15.300. Borrowing in anticipation of sale of bonds permitted. When the state bond committee considers it in the best interests of the state, it may borrow money in anticipation of the sale of general obligation and revenue bonds, if

(1) the general obligation bonds to be sold have been authorized by law and ratified by a majority vote of the qualified voters of the state who vote on the question; or

(2) the general obligation bonds to be sold have been authorized by law for the purpose of meeting natural disasters, repelling invasion, suppressing insurrection, or defending the state in war; or

(3) the revenue bonds to be sold have been authorized by law; and

(4) money to be derived from the sale of general obligation and revenue bonds has been appropriated by the legislature. (§ 1 ch 42 SLA 1964; am § 1 ch 74 SLA 1964)

Sec. 37.15.310. Issuance of notes. The state bond committee shall issue notes for the amounts borrowed with a maturity date not to exceed one year from the date of issue. All the notes are payable at a fixed place, on or before a fixed time, or at a fixed time, from the proceeds of the sale of bonds, in anticipation of which the original note or notes were issued, unless the bonds have not been sold by the maturity date of the notes. Interest on the notes is payable at a fixed place, on or before a fixed time, out of appropriations made for the payment of interest on general obligation notes or bonds of the state. (§ 1 ch 42 SLA 1964; am § 1 ch 127 SLA 1976)

Sec. 37.15.320. Issuance of new notes. [Repealed, § 3 ch 41 SLA 1967.]

Sec. 37.15.330. Repayment of notes. Every note shall be payable from the proceeds of the next succeeding sale of bonds or from the proceeds of the sale of new bond anticipation notes. (§ 1 ch 42 SLA 1964)

Sec. 37.15.340. Security for repayment of general obligation bonds. Notes issued in anticipation of the sale of general obligation bonds and the interest thereon are secured by the full faith, credit, and resources of the state. (§ 1 ch 42 SLA 1964)

Sec. 37.15.350. Security for repayment of revenue bonds. Notes issued in anticipation of the sale of revenue bonds and the interest thereon are secured in the same manner as are the revenue bonds in anticipation of which the notes are issued. (§ 1 ch 42 SLA 1964)

Sec. 37.15.360. Limitation on issuance of notes. The total amount of such notes issued and outstanding shall at no time exceed the total amount of bonds authorized to be issued. (§ 1 ch 42 SLA 1964)

Sec. 37.15.370. Use of proceeds from sale of notes. The proceeds from the sale of the notes shall be used only for the purposes for which the proceeds from the sale of bonds may be used or to meet payment of outstanding bond anticipation notes. (§ 1 ch 42 SLA 1964)

Sec. 37.15.380. Sale of notes. Notes issued under this chapter shall be sold by the state bond committee in such manner and at such price or prices as it shall determine, at either public or private sale; however, no such note shall be sold for less than par and accrued interest or at an interest rate exceeding 11 percent a year or that rate of interest which is 110 percent of the rate of Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the notes, whichever is higher. (§ 1 ch 42 SLA 1964; am § 3 ch 92 SLA 1970; am § 3 ch 85 SLA 1980; am § 3 ch 110 SLA 1982)

Effect of amendments. — The 1980 amendment substituted "10" for "seven" preceding "percent a year" at the end of the section.

The 1982 amendment substituted the language beginning "11 percent a year" for "10 percent a year" at the end of the section.

Sec. 37.15.390. Execution of notes. Notes for money borrowed in anticipation of receipts from the sale of bonds shall be signed by the governor and countersigned by the lieutenant governor. The governor's and lieutenant governor's signatures may be facsimile signatures. (§ 1 ch 42 SLA 1964; am § 4 ch 110 SLA 1982)

Effect of amendments. — The 1982 amendment substituted the present second sentence for the former sentence, which read: "The governor's signature may be a facsimile signature."

Article 3. International Airports Revenue Bonds.

Section		Section	
410.	Bond authorization	490.	Bond negotiability
420.	Construction fund	500.	Airport charges
430.	Revenue fund	510.	State improvements to airports
440.	Redemption fund	520.	Refunding
450.	Bond terms	530.	Bonds as legal investments
460.	Bond resolution	540.	Statutory construction
470.	Enforcement by holder	550.	Definitions
480.	Amounts required for payments		

Legislative history reports. — For report on ch. 149, SLA 1972 (CSHB 531), see 1972 House Journal, p. 1233.

Sec. 37.15.410. Bond authorization. For the purpose of providing part or all of the money to be used, with or without any grants or other money which may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed $62,825,000 is authorized to acquire, equip, construct and install the additions, improvements, extensions and facilities authorized in AS 37.15.510. The principal of and interest on these bonds shall be paid out of and secured by the gross revenues derived by the state from the ownership, lease, use and operation of the airports, and of all the facilities of them and out of any other revenues or money which the state legislature may provide exclusive of any state tax or license. (§ 1 ch 149 SLA 1972; am § 1 ch 66 SLA 1974; am § 1 ch 68 SLA 1979; am § 1 ch 11 SLA 1982; am § 1 ch 25 SLA 1983)

Effect of amendments. — The 1979 amendment substituted "$43,325,000" for "$34,825,000" in the first sentence.

The 1982 amendment, substituted "$34,825,000" for "$43,325,000" in the first sentence.

The 1983 amendment substituted "$62,825,000" for "$34,825,000" in the first sentence.

Editor's notes. — See ch. 69, SLA 1979 in Temporary and Special Acts and Resolves for the appropriation of the increase in bonds authorized by ch. 68, SLA 1979.

Sec. 37.15.420. Construction fund. (a) There is a special fund of the state known as the "International Airports Construction Fund," into which shall be paid the proceeds of the sale of the bonds (except any accrued interest paid on them, which shall be paid into the bond redemption fund) and any grant or other money which is legally provided for the same purposes for which the bonds are authorized. The money in the construction fund shall be used to pay the costs of acquiring, equipping, constructing and installing additions and improvements to and extensions of and facilities for the airports and costs incidental thereto, including costs of the authorization, issuance and

sale of the bonds. To the extent provided in the bond resolution, money in the construction fund may also be used for the payment of interest on the bonds during the period of actual construction, and for such further period, not exceeding one year after the period of construction, as may be provided in the bond resolution. Money in the construction fund may also be transferred to the bond redemption fund, to the extent provided in the bond resolution, to establish a reserve for the payment of the principal of and interest on the bonds.

(b) The bond resolution may provide for the investment of money in the construction fund in such manner as the committee may determine. The interest earned upon or any profits derived from the sale of this investment shall be deposited in and become a part of the construction fund. (§ 1 ch 149 SLA 1972)

Cross references. — For initial appropriations to fund, see section 2, ch. 149, SLA 1972, Temporary and Special Acts.

Opinions of Attorney General. — This fund does not represent an unconstitutional dedication of public funds under § 7, art. IX, of the state constitution, as that section of the constitution contains an implied exception for revenue derived from bond issues and for revenue derived from facilities constructed with bond proceeds, at least to the extent that it is necessary to satisfy the debt obligation or maintain the facility so that it continues to generate revenues for that purpose. November 30, 1982, Op. Att'y Gen.

Sec. 37.15.430. Revenue fund. (a) There is another special fund of the state, known as the "International Airports Revenue Fund," which shall be completely segregated and set apart from all other funds of the state, which is a trust fund for the uses and purposes provided in AS 37.15.410 — 37.15.550, and into which shall be paid all revenues, fees, charges and rentals derived by the state from the ownership, lease, use and operation of the airports and all of the facilities and improvements of them and facilities and improvements used in connection with them. These revenues, charges, fees and rentals shall not include the proceeds of any state tax or license. The money in the revenue fund shall only be used for the purpose of paying or securing the payment of the principal of and interest on the bonds and of and on any other revenue bonds issued by authorization of the legislature to provide funds to acquire, equip, construct and install additions and improvements to, and extensions of and facilities for, the airports and to be payable out of the revenue fund, the purpose of paying the normal and necessary costs of maintaining and operating the airports and all of the improvements and facilities of them, the purpose of paying the costs of renewals, replacements and extraordinary repairs to the airports and all of the improvements and facilities of them, the purpose of redeeming before their fixed maturities any and all revenue bonds issued for the purposes of the airports, the purpose of providing funds to acquire, construct and install necessary additions and improvements to and extensions of and facilities for the airports and all of their facilities, and the purpose of providing funds to pay any and all other costs relating to the ownership, use and operation of the airports.

(b) The investment of money in the revenue fund may be made in such manner as the committee may determine. The interest earned upon or any profits derived from the sale of this investment shall be deposited in and become a part of the revenue fund. (§ 1 ch 149 SLA 1972)

Opinions of Attorney General. — This fund does not represent an unconstitutional dedication of public funds under § 7, art. IX, of the state constitution, as that section of the constitution contains an implied exception for revenue derived from bond issues and for revenue derived from facilities constructed with bond proceeds, at least to the extent that it is necessary to satisfy the debt obligation or maintain the facility so that it continues to generate revenues for that purpose. November 30, 1982, Op. Att'y Gen.

Sec. 37.15.440. Redemption fund. There is another special fund of the state, known as the "International Airports Revenue Bond Redemption Fund," which is a trust fund for paying and securing the payment of the principal of and interest and redemption premium, if any, on the bonds and which shall be at all times completely segregated and set apart from all other funds of the state. The committee, on behalf of the state, shall obligate and bind the state to set aside and pay into the bond redemption fund any part or parts of, or all of, or a fixed proportion of, or a fixed amount of the money in the revenue fund sufficient to pay the principal of and interest and redemption premium, if any, on the bonds as the payments become due and, if it considers it necessary, to set aside and maintain reserves for this purpose. The bond redemption fund shall be drawn upon for the purpose of paying the principal of and interest and redemption premium, if any, on the bonds, and the bonds do not constitute a general obligation of the state. (§ 1 ch 149 SLA 1972)

Opinions of Attorney General. — This fund does not represent an unconstitutional dedication of public funds under § 7, art. IX, of the state constitution, as that section of the constitution contains an implied exception for revenue derived from bond issues and for revenue derived from facilities constructed with bond proceeds, at least to the extent that it is necessary to satisfy the debt obligation or maintain the facility so that it continues to generate revenues for that purpose. November 30, 1982, Op. Att'y Gen.

Sec. 37.15.450. Bond terms. (a) The bonds shall be sold in such amounts or series and at such time or times as determined by the committee. Before selling a series of bonds, the committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder. If the committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received. The bonds, or each series of them, shall be sold at such a price so that the effective interest rate over the life of the bonds does not exceed 11 percent per year or that

rate of interest which is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest shall be payable annually or semiannually.

(b) The bonds shall mature at such time or times as fixed by the committee. The bonds may be subject to redemption before their fixed maturities as determined by the committee and with such premium or premiums as fixed by the committee, but no bond may be subject to redemption before its fixed maturity date unless the right so to redeem that bond is expressly mentioned on the face of the bond. The bonds may be in denominations determined by the committee; may be issued in coupon form or in fully registered form, and may be registrable as to principal or both principal and interest, all under such regulations and conditions as the committee shall provide; shall be payable as to principal and interest at such place or places as may be determined by the committee; shall be signed on behalf of the state by the governor and shall be attested by the lieutenant governor, both of which signatures may be facsimile signatures; shall have the seal of the state impressed, printed or lithographed on them, and each of the interest coupons attached to them shall be signed by the facsimile signatures of these officials; shall be issued under and subject to such terms, conditions and covenants providing for the payment of the principal of them and interest on them and such other terms, conditions, covenants and protective features safeguarding this payment and relating to the maintenance, operation and improvement of the airports as found necessary by the committee, which covenants may include a provision requiring the setting aside and maintenance of certain reserves to secure the payment of this principal and interest. The committee may provide that any additional bonds authorized after June 27, 1972 by the legislature to be payable out of the same source or sources as the bonds authorized as of that date may later be issued on a parity with the bonds authorized as of that date upon compliance with any conditions which the committee may prescribe.

(c) If found reasonably necessary, the committee may select a trustee or trustees for the holders of the bonds or any series of them, for the safeguarding and disbursement of any of the money in any of the funds created by AS 37.15.420, 37.15.430 and 37.15.440, or for such duties with respect to the authentication, delivery and registration of the bonds as the committee may determine, and shall fix the rights, duties, powers and obligations of the trustee or trustees.

(d) In its determination of all of the matters and questions relating to the issuance and sale of the bonds and the fixing of the maturities, terms, conditions and covenants of them as provided in (a), (b) and (c) of this section, the decisions of the committee shall be those found to be reasonably necessary for the best interests of the state and its inhabitants, and those which will accomplish the most advantageous sale of

the bonds, with due regard, however, to necessary or normal costs of maintenance and operation, renewals and replacements of and repairs to the airports and to all improvements to them and facilities of them owned, used, operated or leased in connection with them, the future growth and expansion of the airports and all of such facilities, and the possibility of additional revenue bond financing for airports purposes. Any such decisions of the committee, as expressed in any bond resolution, are final and conclusive when any bonds have been issued pursuant to the bond resolution.

(e) A bond resolution may provide that the bonds issued shall contain a recital that they are issued under AS 37.15.410 — 37.15.550, and any such bonds containing this recital shall be conclusively considered to be valid and to have been issued in conformity with AS 37.15.410 — 37.15.550.

(f) The validity of the authorization and issuance of bonds is not affected by any proceedings for the acquisition or construction of the additions, improvements, extensions or facilities for which the bonds have been issued or by any contracts in connection with the acquisition or construction. (§ 1 ch 149 SLA 1972; am §§ 1, 2 ch 19 SLA 1973; am § 4 ch 85 SLA 1980; am § 5 ch 110 SLA 1982)

Revisor's notes. — AS 37.15.450 was derived from § 7, ch. 88, SLA 1961, as amended by § 8, ch. 62, SLA 1968 and § 3, ch. 173, SLA 1970. In the last sentence of what is now designated subsection (b), the only differences between the wording here and in those earlier versions are that "hereafter" was changed to "after the effective date of this Act" and "authorized by this Act" (in two places) was changed to "authorized as of that date." The latter change suggests that the date referred to in the former change is June 27, 1972, the effective date of the Act putting these provisions in the Alaska Statutes, rather than April 15, 1961, the effective date of the original international airports bond authorization Act. Therefore, under AS 01.05.031(b)(5), the 1972 date has been inserted in the text.

Effect of amendments. — The 1980 amendment substituted "10" for "eight" preceding "percent per year" near the end of the next-to-last sentence of subsection (a).

The 1982 amendment substituted the language beginning "11 percent per year" for "10 percent per year" at the end of the next-to-last sentence of subsection (a).

Sec. 37.15.460. Bond resolution. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide whether the notice of sale is to be published elsewhere in addition to the publication required by AS 37.15.450. (§ 1 ch 149 SLA 1972)

Sec. 37.15.470. Enforcement by holder. The holder of any bonds or the trustee for the holders of the bonds or any series of them, may by appropriate proceedings in the courts of record of the state, require and compel the transfer, setting aside and payment of money and the enforcement of all of the terms, conditions and covenants as required and provided in AS 37.15.410 — 37.15.550 and in the bond resolution. (§ 1 ch 149 SLA 1972)

Sec. 37.15.480. Amounts required for payments. The committee shall, before December 31 of each year, commencing with the year in which the bonds are issued, certify to the commissioners of revenue and transportation and public facilities the amounts required in the next ensuing calendar year by the bond resolution or resolutions to be paid out of the revenue fund into the bond redemption fund and to be paid into and maintained in any reserve fund or account or any other fund or account created by the bond resolution or resolutions, and shall also certify to the commissioners the last date or dates upon which payments may be made. (§ 1 ch 149 SLA 1972)

Sec. 37.15.490. Bond negotiability. The bonds and the coupons attached to them are fully negotiable instruments under the laws of the state. (§ 1 ch 149 SLA 1972)

Sec. 37.15.500. Airport charges. The commissioner of transportation and public facilities shall fix and collect such fees, charges and rentals derived by the state from the ownership, lease, use and operation of the airports and all of the facilities and improvements of them or used in connection with them as will provide revenues sufficient to comply with all of the covenants of the bond resolution. (§ 1 ch 149 SLA 1972)

Sec. 37.15.510. State improvements to airports. The state is authorized to acquire, equip, construct and install additions and improvements to and extensions of the airports, facilities for the landing, parking, loading, storing, repairing, safety and utility of aircraft at the airports and passenger, freight and terminal facilities, including safety equipment and devices at the airports, found to be necessary by the commissioner of transportation and public facilities. (§ 1 ch 149 SLA 1972)

Sec. 37.15.520. Refunding. (a) The bonds or any part of them may be refunded at or before their maturity by the issuance of refunding revenue bonds of the state if in the opinion of the committee refunding is advantageous to and in the best interests of the state and its inhabitants.

(b) The issuance of refunding bonds need not be authorized by an Act of the legislature, and the committee is authorized and directed to adopt the resolution or resolutions and prepare all other documents and proceedings necessary for the issuance, exchange or sale, and

delivery of such bonds. All provisions of AS 37.15.410 — 37.15.550 applicable to revenue bonds are applicable to the refunding bonds and to the issuance, sale or exchange of them, except as otherwise provided in this section.

(c) Refunding bonds may be issued in a principal amount sufficient to provide funds for the payment of all bonds to be refunded by them, and, in addition, for the payment of all expenses incident to the calling, retiring or paying of the outstanding bonds, and the issuance of the refunding bonds. These expenses include the difference in amount between the par value of the refunding bonds and any amount less than par for which the refunding bonds are sold, any amount necessary to be made available for the payment of interest upon the refunding bonds from the date of sale of them to the date of payment of the bonds to be refunded or to the date upon which the bonds to be refunded will be paid pursuant to the call of them or agreement with the holders of them, and the premium, if any, necessary to be paid in order to call or retire the outstanding bonds and the interest accruing on them to the date of the call or retirement. (§ 1 ch 149 SLA 1972)

Collateral references. — Funding or refunding obligations as subject to conditions respecting limitation of indebtedness or approval by voters. 97 ALR 442.

Power of governmental unit to issue bonds as implying power to refund them. 1 ALR2d 134.

Sec. 37.15.530. Bonds as legal investments. The bonds are legal investments for all banks, trust companies, savings banks, savings and loan associations and other persons carrying on a banking business, all insurance companies and other persons carrying on an insurance business, and all executors, administrators, trustees and other fiduciaries. The bonds may be accepted as security for deposits of all funds of the state and its political subdivisions. (§ 1 ch 149 SLA 1972)

Sec. 37.15.540. Statutory construction. AS 37.15.410 — 37.15.550 shall be liberally construed in order to carry out the purposes for which they were enacted, and all existing laws in conflict with any of these sections are superseded insofar as necessary to accomplish the purposes of and carry out the provisions of these sections. (§ 1 ch 149 SLA 1972)

Sec. 37.15.550. Definitions. As used in AS 37.15.410 — 37.15.550, unless the context otherwise requires:

(1) "airports" means the international airports owned and operated by the state and located at or near the cities of Anchorage and Fairbanks;

(2) "bond redemption fund" means the International Airports Revenue Bond Redemption Fund created by AS 37.15.440, including any accounts which are created in that fund after June 27, 1972;

(3) "bond resolution" means the resolution or resolutions authorizing the issuance of bonds, adopted by the committee under AS 37.15.460;

(4) "bonds" means the international airports revenue bonds authorized by AS 37.15.410 — 37.15.550;

(5) "commissioner of transportation and public facilities" means the principal executive officer of the Department of Transportation and Public Facilities of the state as provided in AS 44.42.010, or a successor;

(6) "commissioner of revenue" means the principal executive officer of the Department of Revenue of the state as provided in AS 44.25.010, or a successor;

(7) "committee" means the state bond committee created by AS 37.15.110, or any other committee, body, department or officer of the state which or who succeeds to the rights, powers, duties and obligations of the state bond committee by lawful Act of the legislature;

(8) "construction fund" means the International Airports Construction Fund created by AS 37.15.420;

(9) "revenue fund" means the International Airports Revenue Fund created by AS 37.15.430. (§ 1 ch 149 SLA 1972)

Chapter 20. Acceptance of Federal Funds.

Section	Section
10. Acceptance of federal grants and transfers of property	30. Jurisdiction of accepted property
20. Federal Transitional Grants Account	40. Alaska Native Fund

Sec. 37.20.010. Acceptance of federal grants and transfers of property. The governor is authorized to accept on behalf of the state all federal grants and transfers of property of an emergency, transitional or omnibus nature upon conditions imposed by the federal government. (§ 1 ch 176 SLA 1959)

Sec. 37.20.020. Federal Transitional Grants Account. There is established in the general fund a special account designated the Federal Transitional Grants Account. All grants of money accepted under this chapter shall be deposited in this special account. (§ 2 ch 176 SLA 1959)

Sec. 37.20.030. Jurisdiction of accepted property. (a) All chattels accepted under the provisions of AS 37.20.010 and 37.20.020 are subject to the jurisdiction of the Department of Administration for distribution to the appropriate department.

(b) All land accepted under the provisions of AS 37.20.010 and 37.20.020 is subject to the jurisdiction of the Department of Natural Resources.

Chapter 162

AN ACT

Authorizing the construction of the Knik Arm Crossing and relating to the acquisition, construction, equipping, and maintenance of toll facilities funded by revenue bonds and providing toll collection authority.

---

* Section 1. AS 37.15 is amended by adding new sections to read:

ARTICLE 4. TOLL FACILITIES REVENUE BONDS.

37.15.610 Sec. 37.15.610. BOND AUTHORIZATION. For the purpose of providing part or all of the money to be used, with or without any grants or other money that may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed $500,000,000 is authorized to acquire, construct, equip, and install the additions, improvements, extensions, and facilities authorized in AS 37.15.720 and 37.15.730. The principal of and interest on these bonds are paid out of and secured by the gross revenues derived by the state from the ownership, use, and operation of the toll facilities, and out of any other revenue or money that the state legislature may provide exclusive of any state tax or license. Bonds may not be issued to assist in the acquisition, financing, or operation of projects without prior approval from the legislature.

37.15.620 Sec. 37.15.620. CONSTRUCTION FUND. (a) The toll facilities construction fund is established for deposit of proceeds of the sale of the bonds authorized by AS 37.15.610 and any grant or other money

Chapter 162

that is legally provided for the same purposes for which the bonds are authorized except for any accrued interest paid on the bonds by the purchaser. The money in the construction fund is used to pay the cost of acquiring, constructing, and equipping facilities authorized in AS 37.15.720 and 37.15.730 and costs incidental to those activities, including costs of the authorization, issuance, and sale of the bonds. To the extent allowed in the bond resolution, money in the construction fund may also be used for the payment of interest on the bonds during the time of actual construction, and for any additional time, not exceeding one year after construction is completed. Money in the construction fund may also be transferred to the bond redemption fund, as permitted by the bond resolution, to establish a reserve for the payment of the principal and interest on the bonds.

(b) The bond resolution may provide for the investment of money in the construction fund as the committee determines. The interest earned upon or any profit derived from the sale of the investment is deposited in the construction fund.

Sec. 37.15.630. REVENUE FUND. (a) The toll facilities revenue fund is established and shall be set apart from all other money of the state. The toll facilities revenue fund is a trust fund for the purposes under AS 37.15.610 - 37.15.760, where all revenue, fees, tolls, charges, and rentals are deposited that are derived by the state from the ownership, lease, use, and operation of the facilities authorized by AS 37.15.720 and 37.15.730. The revenue, fees, tolls, charges, and rentals may not include the proceeds of any state tax or license. The money in the revenue fund may only be used to 37.15.630

(1) pay or secure the payment of the principal of and interest on the toll facilities bonds and principal of and interest on any other revenue bonds issued by authorization of the legislature to

determined by the committee;

(4) shall be signed on behalf of the state by the governor and shall be attested to by the lieutenant governor, both of which signatures may be facsimile signatures, and each of the interest coupons attached to them shall be signed by the facsimile signatures of these officials;

(5) shall have the seal of the state impressed, printed, or lithographed on them; and

(6) shall be issued under and subject to the terms, conditions, and covenants, providing for the payment of the principal of and interest on the bonds and the other terms, conditions, covenants, and protective features safeguarding this payment and relating to the maintenance, operation, and improvement of the toll facilities as found necessary by the committee, which covenants may include a provision requiring the setting aside and maintenance of certain reserves to secure the payment of the principal and interest.

(c) If found reasonably necessary, the committee may select a trustee or trustees for the holders of the bonds or any series of the bonds, for the safeguarding and disbursement of any of the money in any of the funds created by AS 37.15.620, 37.15.630, and 37.15.640, or for the duties for authentication, delivery, and registration of the bonds as the committee may determine. The committee shall also fix the rights, duties, powers, and obligations of the trustee or trustees.

(d) In the committee's determination of all of the matters and questions relating to the issuance and sale of the bonds and the fixing of the maturities, terms, conditions, and covenants of the bonds as provided in (a) - (c) of this section, the decisions of the committee shall be those found to be reasonably necessary for the best

interests of the state and its inhabitants, and those that will accomplish the most advantageous sale of the bonds, with due regard, however, (1) to necessary or normal costs of maintenance and operation; (2) to renewals and replacements of and repairs to the toll facilities; (3) to all improvements to toll facilities and property of toll facilities owned, used, operated, or leased in connection with toll facilities; and (4) to the future growth and expansion of all of the facilities and the possibility of additional revenue bond financing for toll facilities purposes. A decision of the committee, as expressed in any bond resolution, is final when any bonds have been issued under the bond resolution.

(e) A bond resolution may provide that the bonds issued contain a recital that they are issued under AS 37.15.610 - 37.15.760, and any bonds containing this recital are conclusively considered to be valid and to have been issued in conformity with AS 37.15.610 - 37.15.760.

(f) The validity of the authorization and issuance of bonds is not affected by any proceeding for the acquisition or construction of the additions, improvements, or facilities for which the bonds have been issued or by any contract in connection with the acquisition or construction.

Sec. 37.15.660. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide whether the notice of sale is to be

37.15.660

published elsewhere in addition to the publication required by AS 37.-15.650.

37.15.670 Sec. 37.15.670. ENFORCEMENT BY HOLDER. The holder of any bonds or the trustee for the holders of the bonds or any series of them, may, by appropriate proceedings in the courts of record of the state, compel the transfer, setting aside, and payment of money and the enforcement of all of the terms, conditions, and covenants as required and provided in AS 37.15.610 - 37.15.760 and in the bond resolution.

37.15.680 Sec. 37.15.680. AMOUNTS REQUIRED FOR PAYMENTS. The committee shall, before December 31 of each year, commencing with the year in which the bonds are issued, certify to the commissioner of revenue and the commissioner of transportation and public facilities the amounts required in the next ensuing calendar year by a bond resolution to be paid out of the revenue fund into the bond redemption fund and to be paid into and maintained in any reserve fund or account or any other fund or account created by a bond resolution. The committee shall also certify to the commissioners the last date upon which payments may be made.

37.15.690 Sec. 37.15.690. BOND NEGOTIABILITY. The bonds and the coupons attached to them are fully negotiable instruments under the laws of the state.

37.15.700 Sec. 37.15.700. REFUNDING. (a) The bonds or any part of them may be refunded at or before their maturity by the issuance of refunding revenue bonds of the state if in the opinion of the committee refunding is advantageous to and in the best interest of the state and its inhabitants.

(b) The issuance of refunding bonds need not be authorized by an act of the legislature, and the committee shall adopt the resolution and prepare all other documents and proceedings necessary for the

issuance, exchange or sale, and delivery of the bonds. All provisions of AS 37.15.611 - 37.15.760 applicable to revenue bonds are applicable to the refunding bonds and to the issuance, sale, or exchange of the bonds, except as otherwise provided in this section.

(c) Refunding bonds may be issued in a principal amount sufficient to provide money for the payment of all bonds to be refunded by them, and, in addition, for the payment of all expenses incident to the calling, retiring, or paying of the outstanding bonds, and the issuance of the refunding bonds. These expenses include the difference in amount between the par value of the refunding bonds and any amount less than par for which the refunding bonds are sold, any amount necessary to be made available for the payment of interest on the refunding bonds from the date of sale of them to the date of payment of the bonds to be refunded or to the date upon which the bonds to be refunded will be paid under the call of the bonds or agreement with the holders of them, and the premium, if any, necessary to be paid in order to call or retire the outstanding bonds and the interest accruing on the outstanding bonds to the date of the call or retirement.

Sec. 37.15.710. BONDS AS LEGAL INVESTMENTS. Toll facilities bonds are legal investments for all banks, trust companies, savings banks, savings and loan associations, and other persons carrying on a banking business, all insurance companies and other persons carrying on an insurance business, and all executors, administrators, trustees, and other fiduciaries. The bonds may be accepted as security for deposits of all money of the state and its political subdivisions. 37.15.710

Sec. 37.15.720. STATE TOLL FACILITIES. The state is authorized to acquire, construct, equip, and maintain toll bridges, highways, roads, crossings, and causeways found to be necessary by the 37.15.720

commissioner of transportation and public facilities.

37.15.730 Sec. 37.15.730. KNIK ARM CROSSING. Notwithstanding the provisions of AS 37.15.720 the first state toll facility to be financed under this article is the Knik Arm Crossing near Anchorage if the following conditions are met:

(1) the department submits to the governor and the legislature a feasibility study that finds that the crossing is financially feasible and able to produce revenue adequate to repay the bonds with which it is financed;

(2) if financing in addition to revenue bonds is anticipated, the department submits to the governor and legislature a finance plan to include an estimate of the total cost of the project and a description of the sources of money that will be used to finance the total cost of the project; and

(3) the office of management and budget reviews the feasibility study and the finance plan, if required, and reports its findings and recommendations to the governor and legislature not later than 90 days after the study and plan are received by the office.

37.15.740 Sec. 37.15.740. TOLL FACILITY CHARGES. The commissioner of transportation and public facilities shall fix and collect the fees, charges, tolls, and rentals derived by the state from the ownership, lease, use, and operation of the facilities authorized by AS 37.15.720 and 37.15.730 and improvements of the facilities as will provide revenues sufficient to comply with all of the covenants of the bond resolution.

37.15.750 Sec. 37.15.750. STATUTORY CONSTRUCTION. AS 37.15.610 - 37.15.760 shall be liberally construed in order to carry out the purposes for which the provisions were enacted, and all existing laws in conflict with AS 37.15.610 - 37.15.760 are superseded as necessary to

accomplish the purposes of AS 37.15.610 - 37.15.760.

Sec. 37.15.760. DEFINITIONS. In AS 37.15.610 - 37.15.760, unless the context requires otherwise 37.15.760

(1) "bond redemption fund" means the toll facilities revenue bond redemption fund created by AS 37.15.640, including any accounts that are created in that fund after the effective date of this Act;

(2) "bond resolution" means the resolution authorizing the issuance of bonds, adopted by the committee under AS 37.15.660;

(3) "bonds" means the toll facilities revenue bonds authorized by AS 37.15.610 - 37.15.760;

(4) "committee" means the state bond committee created by AS 37.15.110, or any other committee, body, department, or officer of the state that or who succeeds to the rights, powers, duties, and obligations of the state bond committee by act of the legislature;

(5) "construction fund" means the toll facilities construction fund created by AS 37.15.620;

(6) "revenue fund" means the toll facilities revenue fund created by AS 37.15.630;

(7) "toll facilities" means highways, roads, bridges, crossings, and causeways upon which tolls, charges, rentals, or other user fees are placed by the commissioner of transportation and public facilities.

* Sec. 2. AS 19.05.040 is amended to read:

Sec. 19.05.040. POWERS OF DEPARTMENT. The department may 19.05.040

(1) acquire property;

(2) exercise the power of eminent domain;

(3) take immediate possession of real property, or any interest in it under a declaration of taking or by other lawful means;

(4) acquire rights-of-way for present or future use;

(5) control access to highways;

(6) regulate roadside development;

(7) preserve and maintain the scenic beauty along state highways;

(8) dispose of property acquired for highway purposes;

(9) accept and dispose of federal funds or property available for highway construction, maintenance, or equipment;

(10) enter into contracts or agreements relating to highways with the federal government, municipalities, a political subdivision, or with a foreign government, if the contract is approved by the federal government; [AND]

(11) establish, levy, and collect tolls, fees, charges, and rentals for the use of state roads, highways, bridges, crossings, and causeways; and

(12) exercise any other power necessary to carry out the purpose of AS 19.05 - 19.25.

* Sec 3. AS 44.88.010(a) is amended to read:

44.88.010(a)

(a) The legislature finds, determines and declares that

(1) there exist areas of the state in which seasonal and nonseasonal unemployment exist;

(2) this unemployment is a serious menace to the health, safety and general welfare, not only to the people in those areas, but also to the people of the entire state;

(3) the state lacks the basic manufacturing, industrial, and business enterprises and the other facilities referred to in (5) of this subsection necessary to permit adequate development of its natural resources and the balanced growth of its economy;

(4) the establishment and expansion of industrial,

ent or future use;

enic beauty along state

r highway purposes;
funds or property avail-
r equipment;
ments relating to highways
a political subdivision,
tract is approved by the

tolls, fees, charges, and
s, bridges, crossings, and

ecessary to carry out the

and declares that
ate in which seasonal and

ous menace to the health,
people in those areas, but

manufacturing, industrial,
ilities referred to in (5)
equate development of its
its economy;
expansion of industrial,

Chapter 162

manufacturing, and business enterprises in Alaska and the other facilities referred to in (5) of this subsection are essential to the development of the natural resources and the long-term economic growth of the state, and will directly and indirectly alleviate unemployment in the state;

(5) the achievement of the goal of full employment, and of establishment and continuing operation and development of industrial, manufacturing, and business enterprises in the state, including, without limitation, facilities for [AIR AND WATER] transportation, facilities for pollution control and waste disposal, facilities for the local furnishing of gas, facilities for water, [AND] facilities for industrial parks, mass commuting vehicles, facilities for local district heating or cooling, parking facilities, or a storage or training facility relating to a plant or facility, will be accelerated and facilitated by the creation of an instrumentality of the state with powers to incur debt, to own and operate facilities, [AND] to make and insure loans to finance, and to assist private lenders to make loans to finance, the establishment, operation, and development of industrial, manufacturing, and business enterprises, including, without limitation, facilities for [AIR AND WATER] transportation, facilities for pollution control and waste disposal, facilities for the local furnishing of gas, facilities for water, [AND] facilities for industrial parks, mass commuting vehicles, facilities for local district heating or cooling, parking facilities, or a storage or training facility relating to a plant or facility;

(6) it is in the public interest to promote the prosperity and general welfare of all citizens of the state by stimulating commercial and industrial growth and expansion by encouraging an increase of private investment by banks, investment houses, insurance

HCS CSSB 347(SA) am H

companies, and other financial institutions, including pension and retirement funds, to help satisfy the need for economic expansion;

(7) it is in the state's interest to import private capital to create new economic activity which would not otherwise take place in the state.

* Sec. 4. AS 44.88.070 is amended to read:

44.88.070 Sec. 44.88.070. PURPOSE OF THE AUTHORITY. The purpose of the authority is to promote, develop and advance the general prosperity and economic welfare of the people of Alaska, to relieve problems of unemployment, and to create additional employment by providing various means of financing and means of facilitating the financing of industrial, manufacturing, and business enterprises and the other facilities referred to in AS 44.88.010(a)(5) within the state, and by owning and operating the enterprises and other facilities.

* Sec. 5. AS 44.88.080 is amended to read:

44.88.080 Sec. 44.88.080. POWERS OF THE AUTHORITY. In furtherance of its corporate purposes, the authority has the following powers in addition to its other powers:

(1) to sue and be sued;

(2) to have a seal and alter it at pleasure;

(3) to make and alter bylaws for its organization and internal management;

(4) to adopt regulations governing the exercise of its corporate powers;

(5) to acquire an interest in a project as necessary or appropriate to provide financing for the project, whether by purchase, gift or lease;

(6) to lease to others a project acquired by it for the rentals and upon the terms and conditions the authority may consider

including pension and re-
economic expansion;
to import private capital
not otherwise take place

RITY. The purpose of the
nce the general prosperity
ka, to relieve problems of
ovment by providing various
ng the financing of indus-
rises and the other facil-
thin the state, and by own-
facilities.

TY. In furtherance of its
llowing powers in addition

t pleasure;
for its organization and

rning the exercise of its

a project as necessary or
roject, whether by purchase,

ect acquired by it for the
the authority may consider

advisable, including, without limitation, provisions for options to purchase or renew;

(7) to issue bonds, in accordance with AS 44.88.090, to pay the cost of a project and to secure payment of the bonds as provided in this chapter;

(8) to sell, by installment sale or otherwise, exchange, donate, convey or encumber in any manner by mortgage or by creation of any other security interest, real or personal property owned by it, or in which it has an interest, including a project, when, in the judgment of the authority, the action is in furtherance of its corporate purposes;

(9) to accept gifts, grants or loans from, and enter into contracts or other transactions regarding them, with a federal agency or an agency or instrumentality of the state, a municipality, private organization or other source;

(10) to deposit or invest its funds, subject to agreements with bondholders;

(11) to enter into contracts or agreements with respect to the exercise of any of its powers, and do all things necessary or convenient to carry out its corporate purposes and exercise the powers granted in this chapter;

(12) to purchase or insure loans to finance the costs of manufacturing, industrial, and business enterprise projects;

(13) to enter into loan agreements with respect to one or more projects upon the terms and conditions the authority considers advisable;

(14) to acquire, manage, and operate projects as the authority considers [A PROJECT WHEN IT BECOMES] necessary or appropriate [DESIRABLE] to serve a public purpose [DO SO TO SAFEGUARD THE

AUTHORITY FROM LOSSES];

(15) to assist private lenders to make loans to finance the costs of projects through loan commitments, short-term financing, or otherwise;

(16) to accept gifts, grants, or loans from a federal agency, from an agency or instrumentality of the state or of a municipality, or from any other source;

(17) to enter into contracts or other transactions with a federal agency, with an agency or instrumentality of the state or of a municipality, or with a private organization or other entity consistent with the exercise of any power under this chapter;

(18) to facilitate the expansion of a secondary market for the resale of federally or commercially insured loans made to finance the costs of projects in Alaska held by federal and state chartered financial institutions or by the Alaska Commercial Fishing and Agriculture Bank;

(19) to charge fees or other forms of remuneration for the use or possession of the projects described in (14) of this section in accordance with the agreements described in (11) and (17) of this section, other agreements pertaining to the projects, covenants, or representations made in bond documents pertaining to the projects, or regulations of the authority pertaining to the projects.

* Sec. 6. AS 44.88.105 is amended by adding a new subsection to read:

44.88.105(h) (h) Notwithstanding any other provision of this section, the authority may waive or modify the requirements of (a) of this section establishing maximum costs of $10,000,000 for a project and the requirements of (f) of this section as it considers appropriate and prudent in order to finance a project if the authority intends to own the project. However, if the authority intends to lease or otherwise

Chapter 162

ers to make loans to finance the
ments, short-term financing, or

s, or loans from a federal agen-
y of the state or of a munici-

ts or other transactions with a
rumentality of the state or of a
nization or other entity consis-
nder this chapter;
nsion of a secondary market for
ly insured loans made to finance
by federal and state chartered
ska Commercial Fishing and Agri-

or forms of remuneration for the
cribed in (14) of this section in
cribed in (11) and (17) of this
to the projects, covenants, or
s pertaining to the projects, or
ng to the projects.
dding a new subsection to read:
provision of this section, the
quirements of (a) of this section
00,000 for a project and the re-
as it considers appropriate and
t if the authority intends to own
rity intends to lease or otherwise

Chapter 162

permit the state to use or occupy a majority of the project, the authority may only establish a reserve fund under (g) of this section to secure bonds issued to finance a project.

* Sec. 7. AS 44.88.155 is amended by adding a new subsection to read:

(g) Notwithstanding any other provision of this section, the authority may waive or modify the requirements of this section as it considers appropriate and prudent in order to finance a project if the authority intends to own the project. 44.88.155(g)

* Sec. 8. AS 44.88 is amended by adding new sections to read:

Sec. 44.88.172. ECONOMIC DEVELOPMENT FUND. (a) The economic development fund is established in the authority. The fund consists of money or assets appropriated, loaned, or transferred to the authority, and other money or assets deposited in the fund by the authority. The fund may only be used to finance, acquire, manage, and operate projects that the authority intends to own and operate. The term "operate" includes operation directly by the authority, or by an agent of the authority. 44.88.172

(b) If a project is financed or developed through use of the assets of the economic development fund, the authority may not pledge or use other assets of the authority to assist in the financing, development, or operation of the project. However, whether or not the authority uses the economic development fund, it may issue bonds to finance a project and may secure the bonds with a mortgage, pledge, or assignment of the project or of revenues, money, or agreements attributable to the project or the bonds as provided in sec. 10 of this Act.

Sec. 44.88.173. FINANCE PLAN. (a) Before approving a project financed under AS 44.88.172, the authority shall prepare a finance plan. The finance plan must include an estimate of the total cost of the project, and a description of the sources of money that will be 44.88.173

used to finance the total cost of the project. The finance plan must also include an estimate of the operational costs of the completed project, as well as a description of the source of the money that is to be used to pay the operational costs.

(b) The authority shall give preference to a project that does not require financial assistance from the state. If the authority determines that a project requires state financial assistance, and if the authority further determines that it is desirable to finance the project, the authority shall recommend a method of financing that minimizes cost to the state. A finance plan required under (a) of this section must identify the method of financing that minimizes the cost to the state.

(c) The authority shall submit a finance plan prepared under this section to the state bond committee, the governor, and the legislature before issuing bonds or otherwise incurring debt for the project. If a project requires financial assistance from the state, the state financial assistance must be available before bonds are issued for the project.

44.88.174

Sec. 44.88.174. REGIONAL RESOURCE ADVISORY COUNCIL. (a) Within 30 days after the authority adopts a resolution certifying that a project in the unorganized borough is eligible for financing under AS 44.88.172, the governor shall appoint a Regional Resource Advisory Council in the area of the state where the project is to be located and for which a regional housing authority has been established under AS 18.55.996. The purpose of a council is to assist the authority in reviewing a project that has been proposed for development in its area of the state.

(b) A Regional Resource Advisory Council consists of five members registered to vote in the region. The governor shall appoint the

members to reflect the economic and geographic diversity of the region. Council members serve three-year terms at the pleasure of the governor, except that the initial members may be appointed for less than three years so that the term of at least one of the members expires each year. The governor shall appoint a chairperson who shall call meetings as required and preside over the deliberations of the council. A majority of the council constitutes a quorum for conducting the business of the council.

(c) Members of a Regional Resource Advisory Council do not receive compensation for their services on the council, but are entitled to per diem and travel expenses authorized by law for state boards and commissions under AS 39.20.180.

Sec. 44.88.175. REQUIREMENTS PRIOR TO APPROVAL OF PROJECTS. (a) Before entering into an agreement to finance or to develop a proposed project with a cost in excess of $10,000,000 that is financed under AS 44.88.172, the authority shall obtain the approval of each Regional Resource Advisory Council or municipality in the area in which the proposed project is to be located. Approval under this subsection must be evidenced by a certified copy of a resolution of the council or of the governing body of the municipality. 44.88.175

(b) Before approving a project financed under AS 44.88.172 for which bonds must be issued, the authority shall

(1) obtain approval under (a) of this section;

(2) find, on the basis of all information reasonably available to it, that

(A) the project and its development under this chapter will be economically advantageous to the state and to the general public welfare and will contribute to the economic growth of the state;

(B) the project applicant is financially responsible;

(C) the project is economically and financially feasible and able to produce revenue adequate to repay the bonds or loans with which it is financed;

(D) increased demand on public facilities that might result from the project will be provided for;

(E) the project will provide or retain employment reasonably related to the amount of the financing by the authority, considering the amount of investment per employee for comparable facilities, and other relevant factors;

(F) the scope of the project is sufficient to provide a reasonable expectation of a benefit to the economy of the state;

(G) the project is in compliance with applicable law; and

(H) issuance of the bonds is not expected to adversely affect the ability of the state or any political subdivision of the state to market other bonds.

44.88.176 Sec. 44.88.176. HEARING TO CONSIDER PROPOSED PROJECT. Before considering a resolution regarding the approval or rejection of the development or financing of a proposed project with a cost in excess of $10,000,000, that is financed under AS 44.88.172, a Regional Resource Advisory Council shall conduct a public hearing within the region. If a proposed project is located within a municipality, the governing body of a municipality shall conduct a hearing on the proposed project.

44.88.177 Sec. 44.88.177. OPERATION OF PROJECTS. If a project is financed under AS 44.88.172, the authority shall solicit the review and advice of the Regional Resource Advisory Council or governing body in the

Chapter 162

area in which a project is located before the execution of contracts, agreements, resolutions, or other matters that directly concern the development, maintenance, and operation of a project.

* Sec. 9. AS 44.88.220(5) is amended to read:

44.88.220(5)

(5) "project" means

(A) a plant or facility used or intended for use

(i) in connection with making, processing, preparing, or producing in any manner, goods, products or substances of any kind or nature or in connection with developing or utilizing a natural resource, or extracting, smelting, transporting, converting, assembling or producing in any manner, minerals, raw materials, chemicals, compounds, alloys, fibers, commodities and materials, products or substances of any kind or nature;

(ii) [, ANY PLANT OR FACILITY USED OR INTENDED FOR USE] as an industrial park; [OR] in connection with [AIR AND WATER] transportation; [, OR ANY PLANT OR FACILITY] for the prevention, limitation or control of [AIR OR WATER] pollution; [,] for the disposal of sewage or solid waste; [,] for the local furnishing of gas; [, OR] for the furnishing of water; as or in connection with mass commuting vehicles; for local district heating or cooling; as a parking facility; or as a storage or training facility directly related to a plant or facility described in this paragraph;

(B) a plant or facility used or intended for use in connection with a business enterprise;

(C) commercial activity by a small enterprise;

* Sec. 10. The authority may not issue bonds to assist in the acquisition, financing, or operation of projects under AS 44.88.172 enacted by

sec. 8 of this Act without prior legislative approval.

* Sec. 11. It is the intent of the legislature to minimize the cost of state financial assistance for projects funded under AS 44.88.172, enacted by sec. 6 of this Act. To the extent possible, financial assistance shall be extended in the form of loans.

Eff. 10/4/84

AUTHORITY FROM LOSSES];

(15) to assist private lenders to make loans to finance the costs of projects through loan commitments, short-term financing, or otherwise;

(16) to accept gifts, grants, or loans from a federal agency, from an agency or instrumentality of the state or of a municipality, or from any other source;

(17) to enter into contracts or other transactions with a federal agency, with an agency or instrumentality of the state or of a municipality, or with a private organization or other entity consistent with the exercise of any power under this chapter;

(18) to facilitate the expansion of a secondary market for the resale of federally or commercially insured loans made to finance the costs of projects in Alaska held by federal and state chartered financial institutions or by the Alaska Commercial Fishing and Agriculture Bank;

(19) to charge fees or other forms of remuneration for the use or possession of the projects described in (14) of this section in accordance with the agreements described in (11) and (17) of this section, other agreements pertaining to the projects, covenants, or representations made in bond documents pertaining to the projects, or regulations of the authority pertaining to the projects.

* Sec. 6. AS 44.88.105 is amended by adding a new subsection to read:

44.88.105(h)

(h) Notwithstanding any other provision of this section, the authority may waive or modify the requirements of (a) of this section establishing maximum costs of $10,000,000 for a project and the requirements of (f) of this section as it considers appropriate and prudent in order to finance a project if the authority intends to own the project. However, if the authority intends to lease or otherwise

A.I.D.A. 274-1651

permit the state to use or occupy a majority of the project, the authority may only establish a reserve fund under (g) of this section to secure bonds issued to finance a project.

* Sec. 7. AS 44.88.155 is amended by adding a new subsection to read:

44.88.155(g)

(g) Notwithstanding any other provision of this section, the authority may waive or modify the requirements of this section as it considers appropriate and prudent in order to finance a project if the authority intends to own the project.

* Sec. 8. AS 44.88 is amended by adding new sections to read:

44.88.172

Sec. 44.88.172. ECONOMIC DEVELOPMENT FUND. (a) The economic development fund is established in the authority. The fund consists of money or assets appropriated, loaned, or transferred to the authority, and other money or assets deposited in the fund by the authority. The fund may only be used to finance, acquire, manage, and operate projects that the authority intends to own and operate. The term "operate" includes operation directly by the authority, or by an agent of the authority.

(b) If a project is financed or developed through use of the assets of the economic development fund, the authority may not pledge or use other assets of the authority to assist in the financing, development, or operation of the project. However, whether or not the authority uses the economic development fund, it may issue bonds to finance a project and may secure the bonds with a mortgage, pledge, or assignment of the project or of revenues, money, or agreements attributable to the project or the bonds as provided in sec. 10 of this Act.

44.88.173

Sec. 44.88.173. FINANCE PLAN. (a) Before approving a project financed under AS 44.88.172, the authority shall prepare a finance plan. The finance plan must include an estimate of the total cost of the project, and a description of the sources of money that will be

used to finance the total cost of the project. The finance plan must also include an estimate of the operational costs of the completed project, as well as a description of the source of the money that is to be used to pay the operational costs.

(b) The authority shall give preference to a project that does not require financial assistance from the state. If the authority determines that a project requires state financial assistance, and if the authority further determines that it is desirable to finance the project, the authority shall recommend a method of financing that minimizes cost to the state. A finance plan required under (a) of this section must identify the method of financing that minimizes the cost to the state.

(c) The authority shall submit a finance plan prepared under this section to the state bond committee, the governor, and the legislature before issuing bonds or otherwise incurring debt for the project. If a project requires financial assistance from the state, the state financial assistance must be available before bonds are issued for the project.

44.88.174

Sec. 44.88.174. REGIONAL RESOURCE ADVISORY COUNCIL. (a) Within 30 days after the authority adopts a resolution certifying that a project in the unorganized borough is eligible for financing under AS 44.88.172, the governor shall appoint a Regional Resource Advisory Council in the area of the state where the project is to be located and for which a regional housing authority has been established under AS 18.55.996. The purpose of a council is to assist the authority in reviewing a project that has been proposed for development in its area of the state.

(b) A Regional Resource Advisory Council consists of five members registered to vote in the region. The governor shall appoint the

members to reflect the economic and geographic diversity of the region. Council members serve three-year terms at the pleasure of the governor, except that the initial members may be appointed for less than three years so that the term of at least one of the members expires each year. The governor shall appoint a chairperson who shall call meetings as required and preside over the deliberations of the council. A majority of the council constitutes a quorum for conducting the business of the council.

(c) Members of a Regional Resource Advisory Council do not receive compensation for their services on the council, but are entitled to per diem and travel expenses authorized by law for state boards and commissions under AS 39.20.180.

44.88.175

Sec. 44.88.175. REQUIREMENTS PRIOR TO APPROVAL OF PROJECTS. (a) Before entering into an agreement to finance or to develop a proposed project with a cost in excess of $10,000,000 that is financed under AS 44.88.172, the authority shall obtain the approval of each Regional Resource Advisory Council or municipality in the area in which the proposed project is to be located. Approval under this subsection must be evidenced by a certified copy of a resolution of the council or of the governing body of the municipality.

(b) Before approving a project financed under AS 44.88.172 for which bonds must be issued, the authority shall

(1) obtain approval under (a) of this section;

(2) find, on the basis of all information reasonably available to it, that

(A) the project and its development under this chapter will be economically advantageous to the state and to the general public welfare and will contribute to the economic growth of the state;

(B) the project applicant is financially responsible;

(C) the project is economically and financially feasible and able to produce revenue adequate to repay the bonds or loans with which it is financed;

(D) increased demand on public facilities that might result from the project will be provided for;

(E) the project will provide or retain employment reasonably related to the amount of the financing by the authority, considering the amount of investment per employee for comparable facilities, and other relevant factors;

(F) the scope of the project is sufficient to provide a reasonable expectation of a benefit to the economy of the state;

(G) the project is in compliance with applicable law; and

(H) issuance of the bonds is not expected to adversely affect the ability of the state or any political subdivision of the state to market other bonds.

44.88.176 Sec. 44.88.176. HEARING TO CONSIDER PROPOSED PROJECT. Before considering a resolution regarding the approval or rejection of the development or financing of a proposed project with a cost in excess of $10,000,000, that is financed under AS 44.88.172, a Regional Resource Advisory Council shall conduct a public hearing within the region. If a proposed project is located within a municipality, the governing body of a municipality shall conduct a hearing on the proposed project.

44.88.177 Sec. 44.88.177. OPERATION OF PROJECTS. If a project is financed under AS 44.88.172, the authority shall solicit the review and advice of the Regional Resource Advisory Council or governing body in the

area in which a project is located before the execution of contracts, agreements, resolutions, or other matters that directly concern the development, maintenance, and operation of a project.

* Sec. 9. AS 44.88.220(5) is amended to read:

44.88.220(5) (5) "project" means

(A) a plant or facility used or intended for use

(i) in connection with making, processing, preparing, or producing in any manner, goods, products or substances of any kind or nature or in connection with developing or utilizing a natural resource, or extracting, smelting, transporting, con erting, assembling or producing in any manner, minerals, raw materials, chemicals, compounds, alloys, fibers, commodities and materials, products or substances of any kind or nature;

(ii) [, ANY PLANT OR FACILITY USED OR INTENDED FOR USE] as an industrial park; [OR] in connection with [AIR AND WATER] transportation; [, OR ANY PLANT OR FACILITY] for the prevention, limitation or control of [AIR OR WATER] pollution; [,] for the disposal of sewage or solid waste; [,] for the local furnishing of gas; [, OR] for the furnishing of water; as or in connection with mass commuting vehicles; for local district heating or cooling; as a parking facility; or as a storage or training facility directly related to a plant or facility described in this paragraph;

(B) a plant or facility used or intended for use in connection with a business enterprise;

(C) commercial activity by a small enterprise;

* Sec. 10. The authority may not issue bonds to assist in the acquisition, financing, or operation of projects under AS 44.88.172 enacted by

Chapter 162

sec. 8 of this Act without prior legislative approval.

* Sec. 11. It is the intent of the legislature to minimize the cost of state financial assistance for projects funded under AS 44.88.172, enacted by sec. 6 of this Act. To the extent possible, financial assistance shall be extended in the form of loans.

Eff. 10/4/84

Chapter 163

AN ACT

Extending the termination date of the Alcoholic Beverage Control Board; and providing for an effective date.

* Section 1. AS 44.66.010(a)(1) is amended to read:

(1) Alcoholic Beverage Control Board (AS 04.06.010) -- June 30, 1986 [1984]; 44.66.010(a)(1)

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Eff. 7/7/84

14-0431
Ford
1/22/85

Funding Information
General Fund $18,000,000
Other Funds - 0 -
$18,000,000

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON LOANS

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Alaska Industrial Development Authority economic development fund for design and construction of the Delong Mountains regional transportation project."

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

* Section 1. The sum of $18,000,000 is appropriated from the general fund to the Alaska Industrial Development Authority economic development fund (AS 44.88.172) for design and construction of the Delong Mountains regional transportation project.

* Sec. 2. The appropriation made by this Act is for capitalization of a loan fund and does not lapse in accordance with AS 37.25.010.

SCOMM
#50:10

PRESENT VALUE DETERMINATION
RED DOG TAXES AND TRANSFERS
(millions $)

Year Project Begins	Assumed annual transfer amount (real $)	Present value of the transfers	Estimated annual taxes (real $)	Present value of the taxes	Total present value of taxes and transfers
1	2.1	2.04	2.06	2.00	4.04
2	2.1	1.98	2.06	1.94	3.92
3	2.1	1.92	2.06	1.89	3.81
4	2.1	1.87	2.89	2.57	4.43
5	2.1	1.81	8.84	7.63	9.44
6	2.1	1.76	10.23	8.57	10.33
7	2.1	1.71	10.23	8.32	10.03
8	2.1	1.66	10.23	8.08	9.73
9	2.1	1.61	10.23	7.84	9.45
10	2.1	1.56	10.23	7.61	9.17
11	2.1	1.52	10.23	7.39	8.91
12	2.1	1.47	10.23	7.18	8.65
13	2.1	1.43	10.23	6.97	8.40
14	2.1	1.39	10.23	6.76	8.15
15	2.1	1.35	10.23	6.57	7.91
16	2.1	1.31	10.23	6.37	7.68
17	2.1	1.27	10.23	6.19	7.46
18	2.1	1.23	10.23	6.01	7.24
19	2.1	1.20	10.23	5.83	7.03
20	2.1	1.16	10.23	5.66	6.83
21	2.1	1.13	10.23	5.50	6.63
22	2.1	1.10	10.23	5.34	6.43
23	2.1	1.06	10.23	5.18	6.25
24	2.1	1.03	10.23	5.03	6.07
25	2.1	1.00	10.23	4.89	5.89
26	2.1	0.97	10.23	4.74	5.72
27	2.1	0.95	10.23	4.61	5.55
28	2.1	0.92	10.23	4.47	5.39
29	2.1	0.89	10.23	4.34	5.23
30	2.1	0.87	10.23	4.21	5.08
Total		41.16		169.68	210.84

Present value based on long term real rate of return of 3%
since all dollar values are in real terms

Paul Engelman 03/27/85

Rep. Rick Wehling

STATISTICS ON DCED LOAN PROGRAMS
(Thousands of Dollars)

January 31, 1985

	Veterans	Small Business	Commercial Fish	Tourism	Bulk Fuel	Child Care	Hist Dist	Mining	Alternate Energy	Resid. Energy	Fish Enhance	Power Dev.	Water Resource	Total
Commitments														
Total No. Loans Committed FY '72-85	7,718	1,338	2,657	59	148	42	9	65	2,691	2,173	97	3	5	17,005
Total Dollar Amount Committed FY '72-85	371,795.2	202,529.3	154,396.7	29,874.7	5,482.6	1,320.4	667.7	28,160.0	17,140.9	8,151.2	37,084.1	191,165.0	2,500.0	1,050,267.8
Total No. Loans Committed FY '85	-0-	-0-	110	-0-	28	6	-0-	2	183	159	9	3	-0-	500
Total Dollar Amount Committed FY '85	-0-	-0-	6,148.1	-0-	962.9	276.2	-0-	1,128.1	1,394.2	404.4	3,780.1	191,165.0	-0-	205,259.0
Appropriations														
FY '83	-0-	-0-	9,400.0	-0-	1,000.0	400.0	500.0	15,000.0	4,000.0	4,500.0	22,000.0 [1]	N/A	-0-	56,800.0
FY '84	-0-	-0-	9,091.0	-0-	-0-	869.5	500.0	-0-	2,400.0	3,123.4	6,500.0	N/A	-0-	22,483.9
FY '85	-0-	-0-	3,500.0	-0-	-0-	-0-	-0-	-0-	1,000.0	-0-	5,000.0	210,000.0	-0-	219,500.0
Loans Outstanding														
Owned by Fund														
Number of Loans Outstanding	135	268	999	5	49	25	3	48	1,944	1,571	81	3	1	5,132
Principal Amount Outstanding	6,129.4	33,835.6	48,402.5	3,258.2	1,257.0	867.0	339.9	18,833.6	12,051.7	4,966.0	31,116.2	191,165.0	909.8	353,131.9
Average Loan Amount Outstanding	45.5	201.4	48.5	651.6	25.7	34.7	113.9	392.4	6.2	3.2	38.5	63,721.7	909.8	68.8
Serviced for the Dept. of Revenue														
Number of Loans Outstanding	1,841	225	764	14	N/A	3	3	N/A	N/A	N/A	14	N/A	N/A	2,864
Principal Amount Outstanding	83,241.0	18,587.5	30,215.1	2,578.9		16.9	124.3				6,604.2			141,367.9
Average Loan Amount Outstanding	45.2	82.6	39.5	184.2		5.6	41.4				471.7			49.4
Summary														
Total No. of Loans Outstanding	1,976	493	1,763	19	49	28	6	48	1,944	1,571	95	3	1	7,996
Total Principal Amount Outstanding	89,370.4	52,423.1	78,617.6	5,837.1	1,257.0	883.9	464.2	18,833.6	12,051.7	4,966.0	37,720.4	191,165.0	909.8	494,499.8
Delinquency Rates (includes defaults)														
Number of Loans %	18.3%	32.8% [2]	14.9% [3]	10.5% [2]	20.4%	14.8%	-0-	47.9%	16.6%	15.8%	N/A	N/A	-0-	17.8%
Outstanding Balance %	19.2%	34.1%	18.5%	3.5%	11.1%	13.9%	-0-	56.3%	15.8%	16.0%	N/A	N/A	-0-	24.0%

33 million
15-20 million

1 See Ch 114, Sec 5 and Ch 141, Sec 242 SLA 1982, and Ch 106 Sec 11 SLA 1983.
2 Adjusted for Bank Participation system inaccuracies
3 Adjusted for approved extension requests

Prepared by: Division of Accounting and Collections, 465-2555

2/25/85

PROGRAMS WITH CASH AVAILABLE	DATE OF ENACTMENT OF PROGRAM	STAT MAXIMUM	STAT TERM	AVER TERM	STAT RATE	DATE RATE EFFECTIVE	NOTES:	DELINQUENCY INFO. 1/31/85 DEFAULT	DELINQUENCY INCL. DEFAULT
WW II Veterans RLF AS 26.15.010-170	04-03-46	$125,000			9.5% Fed VA rate 8.0% 6.0% 5.0%	06-01-79 05-27-71 05-07-69 10-07-67 04-08-65	No new loans being made although statutory authority still exists for personal loans ($10,000) and multi-family loans ($110,000), with the total amount loaned per veteran not to exceed $125,000.	1.4%	19.2%
Mining RLF AS 27.09.010-060	06-21-80	$5,000,000	15 yrs.		10.0%	06-21-80	Purpose: advanced mineral exploration, development or mining. Collateral may be deed of trust, mortgage secured by assignment of the leasehold interest in the mining claim or security interest in machinery and equipment.	15.2%	56.3%
Child Care Facilities RLF AS 44.33.240-275	07-01-76	$ 50,000	20 yrs.		7.0% 6.0%	07-01-79 06-10-76	Purpose: construction, renovation or the purchase of equipment for a child care facility; not for interim financing.	0.0%	13.9%
Residential Energy Cons. RLF AS 45.89.010-500	07-01-80	$ 5,000	10 yrs.	5 yrs.	Mkt-tied (11.0%) 5.0%	01-01-84 07-01-80	Purpose: energy conservation improvements in existing buildings only.	.3%	16.0%
Historical District RLF AS 45.98.010-070	09-16-77	$250,000	30 yrs.	30 yrs.	7.5% 6.5%	06-01-79 09-16-77	Purpose: restoration, improvement, rehabilitation, maintenance of historical buildings. Any individual, firm, business or municipality may apply. Project must be approved by a local Historical District Commission and by the Historic Sites Advisory Committee.	0.0%	0.0%
Power Development RLF AS 44.33.600-630	07-14-84	No Max.	50 yrs.	35 yrs.	Mkt. rate of int. and est. costs of alter-native sources of power (8% to date)	07-14-84	Purpose: financing of a power project acquired or constructed under the energy program for Alaska for: (1) Cost of final design, acquisition and construction of a power project. (2) Defeasance or payment of bonds or notes . . . issued for a power project. (3) Establishment of a reserve fund. (4) Other project related expenses.		

OTHER PROGRAMS	DATE OF ENACTMENT OF PROGRAM	STAT MAXIMUM	STAT TERM	AVER TERM	STAT RATE	DATE RATE EFFECTIVE	NOTES:	DELINQUENCY INFO. 1/31/85 DEFAULT	DELINQUENCY INCL. DEFAULT
Small Business RLF AS 45.95.010 - .080	05-27-71	$500,000	15 yrs.	10 yrs.	9.5% 8.0%	06-01-79 05-27-71	Purpose: loans to acquire, finance, refinance or equip businesses. [Repealed S71 Ch 106, SLA 1980 7/1/81]	4.2%	34.1%
Commercial Fishing RLF AS 16.10.300 - .370	06-21-72	$300,000 Type A $100,000 Type B, C	15 yrs.	10 yrs.	10.5% 9.5% 7.0%	06-25-82 06-01-79 06-21-72	Purpose: loans to promote rehabilitation of the State's fisheries, the development of a predominantly resident fishery and continued maintenance of commercial fishing gear and vessels . . . by means of long-term, low interest loans.	2.0%	18.5%
Tourism RLF AS 45.90.010 - .040	07-07-72	$3,000,000	20 yrs.	14 yrs.	9.5% 8.0%	06-01-79 07-07-72	Purpose: loans to individuals or businesses directly involved in the tourism industry to provide goods or services to the tourist. [Repealed S71 Ch 106, SLA 1980 7/1/81]	1.4%	3.5%
Bulk Fuel RLF AS 45.87.010 - 030; .500	06-13-80	$ 50,000	1 yr.		0% 1st loan, 5% 2nd loan, municipal bond rate for 3rd or more	06-13-80	Purpose: loans to help rural communities purchase bulk fuel oil.	0%	11.1%
Alternative Technology and Energy RLF AS 45.88.010 - .040, .500	07-13-78	$ 30,000	20 yrs.	10 yrs.	5% on $15,000 15% on $15-30,000	07-13-78	Purpose: loans for the purchase, construction and installation of alternative energy systems and for the development and implementation of more efficient, less costly, less energy intensive and more appropriate technology.	.7%	14.4%
Fisheries Enhancement RLF AS 16.10.500 - .620	06-19-76	$10,000,000	30 yrs.	25 yrs.	9.5% 8.0%	06-01-79 06-19-76	Purpose: loans to qualified regional associations or nonprofit corporations, for planning and implementation of fisheries enhancement and rehabilitation activities.	N/A	N/A
Water Resources RLF AS 45.86.010 - .060	07-03-75	No Max.	50 yrs.	30 yrs.	3-5%		Purpose: loans for capital construction projects for hydroelectric generation and potable water supply. [Repealed S44 Ch 83, SLA 1980 6/13/80]	0%	0%

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

Loan Commitments (FY '72-'85)
(Thousands of Dollars)

Programs With Cash Available	FY 72-73	FY 74-75	FY 76-77	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85 thru 1/31/85	Total
WW II Veterans[1]	15,446.4[2]	17,515.5[2]	98,150.5	95,513.6	91,640.5	5,447.4	2,136.8[3]					325,850.7
Mining							9,935.2	6,933.5	6,300.0	3,863.1	1,128.2	28,160.0
Child Care			34.2	34.0	30.0	35.8	9.0	297.7	211.9	391.6	276.2	1,320.4
Resid. Energy Conser.							601.8	2,446.7	3,418.4	1,279.9	404.4	8,151.2
Historical District	-	-	-	-	78.7	214.0	-	200.0	75.0	100.0	-	667.7
Power Development											191,165.0	191,165.0
SUBTOTAL	15,446.4[2]	17,515.5[2]	98,184.7	95,547.6	91,749.2	5,697.2	12,682.8	9,877.9	10,005.3	5,634.6	192,973.8	555,315.0
Other Programs												
Small Business	685.9	4,864.5	7,020.6	22,369.1	42,096.4	78,531.2	46,961.6					202,529.3
Commercial Fish	11.5	3,460.5	9,419.1	13,044.3	29,733.6	32,548.1	21,205.6	9,054.3	2,282.2			120,759.2
Fisherman's Mort. & Note								1,797.6				1,797.6
Comm. Fish - Type A									5,914.9	6,527.0	2,613.4	15,055.3
- Type B									5,743.7	7,371.2	3,534.7	16,649.6
- Type C									118.4	16.5	-	134.9
Tourism	2,251.2	7,205.1	3,846.9	4,194.0	4,230.5	3,828.2	4,318.8					29,874.7
Bulk Fuel							50.0	804.8	1,685.2	1,979.6	963.0	5,482.6
Alternative Energy						10.0	2,243.2	5,392.2	4,591.8	3,509.5	1,394.2	17,140.9
Fish Enhancement			965.0	2,865.0	945.7	2,210.1	4,733.5	7,830.7	6,978.1	6,775.9	3,780.1	37,084.1
Water Resources			450.0	2,050.0								2,500.0
SUBTOTAL	2,948.6	15,530.1	21,701.6	44,522.4	77,006.2	117,127.6	79,512.7	24,879.6	27,314.3	26,179.7	12,285.4	449,008.2
TOTAL	18,395.0	33,045.6	119,886.3	140,070.0	168,755.4	122,824.8	92,195.5	34,757.5	37,319.6	31,814.3	205,259.2	1,004,323.2

1 Statistics are provided on loans closed rather than loans committed.
2 Estimated.
3 Loans were committed in FY '80 and not closed until FY '81.

Prepared by: Division of Accounting and Collections - 465-2555

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

Loan Commitments (FY '72-'85)
Number of Loans

Programs With Cash Available	FY 72-73	FY 74-75	FY 76-77	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85 thru 1/31/85	Total
WW II Veterans[1]	630[2]	474[2]	2,095	1,707	1,574	78	35[3]					6,593
Mining							14	16	19	14	2	65
Child Care			4	4	1	2	1	7	6	11	6	42
Resid. Energy Conser.							159	653	880	322	159	2,173
Historical District					1	3	-	3	1	1	-	9
Power Development											3	3
SUBTOTAL	630[2]	474[2]	2,099	1,711	1,576	83	209	679	906	348	170	8,885
Other Programs												
Small Business	17	84	94	138	237	470	298					1,338
Commercial Fish	2	87	211	234	357	555	352	197	11			2,006
Fishermen's Mort. & Note								31				31
Comm. Fish - Type A									147	95	34	276
- Type B									121	144	76	341
- Type C									2	1	-	3
Tourism	7	17	10	3	8	10	4					59
Bulk Fuel							1	23	45	51	28	148
Alternative Energy						1	440	1,172	503	392	183	2,691
Fish Enhancement			3	2	4	11	20	18	12	18	9	97
Water Resources			1	4								5
SUBTOTAL	26	188	319	381	606	1,047	1,115	1,441	841	701	330	6,995
TOTAL	656	662	2,418	2,092	2,182	1,130	1,324	2,120	1,747	1,049	500	15,880

1 Statistics are provided on loans closed rather than loans committed.
2 Estimated.
3 Loans were committed in FY '80 and not closed until FY '81.

Prepared by: Division of Accounting and Collections - 465-2555

sa0619s

Department of Commerce & Economic Development
Division of Accounting and Collections
Loan Program Funding Summary

(in thousands of dollars)

March 14, 1985

			WWII Veterans	Small Business	Commercial Fish	Tourism	Bulk Fuel	Child Care	Historical District	Mining	Alternative Technology & Energy	Residential Energy	Fisheries Enhance.	Water Resources	Residential Care	Fisherman's Mtg & Note	Power Develop.	Line Total
		Established	SLA 1946 Ch 27	SLA 1971 Ch 108 § 1	SLA 1972 Ch 134 § 1	SLA 1972 Ch 171 § 1	SLA 1980 Ch 83 § 41	SLA 1976 Ch 253 § 9	SLA 1977 Ch 139 § 3	SLA 1980 Ch 106 § 35	SLA 1980 Ch 29 § 1	SLA 1980 Ch 83 § 35	SLA 1976 Ch 190 § 1	SLA 1975 Ch 218 § 1	SLA 1978 Ch 153 § 6	SLA 1980 Ch 106 § 9	SLA 1984 Ch 169	
		Repealed		SLA 1980 Ch 106 § 71		SLA 1980 Ch 106 § 71								SLA 1980 Ch 83	SLA 1982 Ch 113 § 72	SLA 1982 Ch 113 § 72		
SLA 55	Ch 5		1,000.0															1,000.0
SLA 60	Ch 136		1,200.0															1,200.0
SLA 72	Ch 109				1,000.0													1,000.0
SLA 72	Ch 158					1,000.0												1,000.0
SLA 72	Ch 34			135.4														135.4
SLA 76	Ch 237													2,500.0				2,500.0
SLA 77	Ch 153	Vetoed																
SLA 80	Ch 120	Sec 6		36,500.0	24,000.0	6,500.0		300.0			600.0		6,000.0		400.0	6,500.0		80,800.0
SLA 80	Ch 120	Sec 7								10,000.0								10,000.0
SLA 80	Ch 120	Sec 52					1,500.0					1,600.0						3,100.0
RP 08-81-	258X	(JV 81-2222)		11,000.0	[3,000.0]	[5,000.0]										[3,000.0]		0.0
RP 08-81-	292X	(JV 81-2436)									1,000.0					[1,000.0]		0.0
RP 08-81-	486X	(JV 81-13626)		[1,700.0]							1,700.0							0.0
SLA 81	Ch 82	Sec 13			4,500.0		1,000.0	180.0	200.0	20,000.0	500.0	500.0	8,000.0		120.0	1,800.0		36,800.0
SLA 81	Ch 72	Sec 1 (FY 82 only)								10,000.0								10,000.0
SLA 81	Ch 90	Sec 36									3,750.0	3,750.0						7,500.0
SLA 81	Ch 90	Sec 37									1,250.0	1,250.0						2,500.0
RP 08-81-	635X	(JV 81-14253)				1,739.0										[1,739.0]		0.0
RP 08-81-	664X	(JV 82-0062)		886.8		1,079.8		[291.0]			[914.6]		354.1		[354.1]	[761.0]		0.0
SLA 82	Ch 141	Sec 257 Repealed Ch 90 Sec 37 SLA 81									[1,250.0]	[1,250.0]						[2,500.0]
SLA 82	Ch 114	Sec 5			9,400.0		1,000.0	400.0	500.0	15,000.0	4,000.0	4,500.0	17,000.0					51,800.0
SLA 82	Ch 141	Sec 242											6,350.0					6,350.0
RP 08-82-	472X	(JV 82-4742)			5,000.0					[5,000.0]								0.0
RP 08-82-	524X	(JV 82-4836)						120.0							[120.0]			0.0
RP 08-82-	634X	(JV 82-5378)									1,000.0	[1,000.0]						0.0
SLA 83	Ch 107	Sec 22			9,091.0			869.5	500.0		2,400.0	3,123.4	6,500.0					22,483.9
SLA 83	Ch 106	Sec 11 (See Ch 141 Sec 242 SLA 82)											[1,350.0]					[1,350.0]
SLA 83	Ch 107	Sec 17 and 18		[16,800.0]		[2,700.0]												[19,500.0]
SLA 83	Ch 106	Sec 265		[1,000.0]														[1,000.0]
SLA 84	Ch 171	Sec 306			3,500.0						1,000.0		5,000.0					9,500.0
SLA 84	Ch 171	Sec 313															210,000.0	210,000.0
SLA 84	Ch 156	Sec 3 and 4		[Annual Receipts]		[Annual Receipts]												[Annual Receipts]

1/30/85

MEMORANDUM

TO: Rep. John Sund
FROM: J. Hartle, AA JH

RE: Red Dog Mine

Here are some questions, issues, and comments relating to the Red Dog mine.

According to its annual report, Cominco had an operating loss of $39.3 million in 1983 and $49.3 million in 1982. What was the loss for 1984 and what is it anticipated to be this year?

The Dept. of Commerce & Economic Development report on Red Dog states that government spending (especially the U.S. Federal Government) is a major fraction of the world zinc market. The outlook for increased (or even level) spending by the government is not good for the next few years. What will this mean in terms of zinc prices?

World market price? World market price? World market price? World market price? World market price? World market price? World market price? World market price? World market price?

What is the status of the plan of finance required by AIDA statutes before any of this money can be spent? When will it be done? What will it say?

What happened to last year's appropriation of $3.4 million?

Is the price of labor too high in Northwest Alaska to profit from mining? (especially considering the last question above)

What happens to Cominco's guarantees (tarriff, loan payback, etc) if the state does not meet the proposed payment schedule of $18 million this year, $50 M next year, $50 M the next year, and $30+ M the year after that?

What assets are Cominco willing to put up to guarantee payback (note that if the mine is not developed, then, of course, the minerals aren't worth much as a guarantee, either!)

With the North American mining industry losing so much money how will the bond market look at a bond issue guaranteed by tarriffs on a mining road?

What is the level of Cominco's current debt? Their percentage of debt to capitalization? (According to the annual report it is very high - do they need a large new debt? Can they afford to pay interest?)

Will the strength of the U.S. dollar make it too expensive for Cominco to invest in an American mine?

Demand/prices Demand/prices Demand/prices Demand/prices
Demand/prices Demand/prices Demand/prices Demand/prices
NEED TO SEE LOTS OF CHARTS AND GRAPHS
AND THEY BETTER LOOK GOOD

Comincio has a mine in South Africa. Would they be willing to get rid of it? How would it look for the State of Alaska to be working with a company that has investments in a country with one of the most repressive governments in the world?

Cominco has a zinc discovery in Australia with very high-grade ore - 20% zinc and silver 6 oz/ton. Will this compete with Red Dog? Will it come on line sooner than Red Dog? Cominco also has found new zinc in the Yukon Territory.

After we purchase the port and road with the General Fund - then the mine? (work our way uphill so to speak?)

What is the status of access through the park for the road - the proposed land swap with Nana needed for the whole project to go?

Will this $18 million be like the Susitna continuing appropriation that supposedly could not be spent until some decision was reached on Susitna that now the APA is able to spend?

Is this another Alpetco?

Background Materials on the Dedication Clause

Prepared by

Philip S. Barnett, Law Associate, Sierra Club
Legal Defense Fund, Inc.

April 16, 1985

Article IX, § 7, of the Alaska Constitution, the dedicated funds clause, provides as follows:

> The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska.

In State v. Alex, 646 P.2d 203 (Alaska 1982), the Alaska Supreme Court held that the application of the clause should not be limited to taxes and licenses. The Court observed that in a draft at the Constitutional Convention, the prohibition against dedication was applied to "all revenues." After a review of the history of the Convention, the Court held that the change from the draft to the final version was not intended to have significant consequences. Rather, "the purpose of the proposed amendment was to allow for the setting up of certain special funds." Id. at 210. All other dedications were intended to be prohibited.

The "certain special funds" mentioned in Alex are easily identified, for they were expressly referred to during the Constitutional Convention. Specifically, they are pension contributions, proceeds from bond issues, sinking fund receipts, revolving fund receipts, contributions from local government units for state-local cooperative programs, and tax receipts which the state might collect on behalf of local government units. See 1982 Alaska Op. Atty. Gen. No. 13 at 10-11.

The loans that will be used to capitalize the road and port do not fit within one of the exempt "certain special funds." Therefore, they cannot be dedicated.

APPENDIX B

GENERAL GUIDELINES OF STATE/COMINCO RELATIONSHIP

SHOULD STATE INVEST IN THE PROJECT

(1) The State of Alaska thru AIDA will own and operate the port and road.

(2) Cominco will enter into an agreement with AIDA for payment of a user fee for operations and maintenance expense, as well as a toll fee for use of the facility.

(3) Additional users will be accommodated upon payment of appropriate fees.

(4) Satisfactory guarantees of total repayment of state expenditures by Cominco in the event the mine does not commence operation and accordingly completion guarantees by AIDA will be required.

(5) NANA will provide the necessary leases and rights-of-way for the land required.

3/26/85

MEMORANDUM CONFIDENTIAL

TO: Rep. John Sund

FROM: John Hartle, AA

RE: Questions for agencies on Red Dog Mine

What we are looking for in this hearing is for the Administration to come forward and say: "this is the plan" but as of this morning, there seems to be no plan or perhaps it is secret....

1. AIDA: What is the status the finance plan? New contractor? Delay? When will we have a draft? When will we have the final? Are we going to be expected to commit state money to this project without a plan of finance? (The finance plan is mandated by statute) What is SRI's credibility now? Is it hopelessly compromised? Will the adiministrative appeal of the RFP award delay the whole plan?

2. AIDA: [see AIDA financing proposals] Which of the four plans looks most feasible? Which requires the least General Fund commitment from the state? Which provides for the best return on the state's investment (not including all the claimed tax benefits)?

3. Revenue: What will the true tax benefits be of this project? Will Cominco actually pay any taxes, considering that the Mining License Tax has a 3½-year moratorium on payments for new projects and the newly-enacted Investment Tax Credit will shelter Cominco from the Corporate Income Tax to a large extent and under the 7(i) provisions the royalty share that Nana receives will be distributed 13 ways?

4. Commerce: The update of your project analysis still shows a very optomistic projection for the price of zinc over the long term. Is this the case even though the price looks flat? What happens to the projections if the timing on the project slips by a year? Two years? (Cominco says that the timing <u>has already slipped two years</u> from where they want to be).

5. AIDA: Why do you think that your first experience in the construction business will be any better than that of the APA? Why shouldn't the construction schedule slip (like the dams) and why shouldn't the project have cost overruns (like the dams)?

6. AIDA: The Finance Committee Chairmen have announced that there will be a major reduction in loan program funding. Can you take a cut like the other loan programs?

7. Commerce: Are you willing to see other Commerce loan programs cut to include this $18 million?

8. AIDA/Commerce: Now (Monday at Senate Resources) AIDA is proposing that $100 million be appropriated in existing loans (with interest) to AIDA for the project. Is the Governor going to submit a bill to do this? If so, when? If not, why not? Are the specific loans identified? What is the difference between this and general fund? Are the loan proceeds to be used to repay the state? Does this make sense? (we already own those loans!!)

10. C&RA: You predict an <u>increase</u> in the need for state programs in the Nana region based on the influx of workers; Cominco and DCED has made a big deal of the reduction of transfer payments to the region. Who is right and how much money are we talking about?

11. AIDA: Why do so many of your scenarios show no provision for return of the state's investment? We want you to drive a hard bargain with Cominco; (at least as hard a bargain as they are offerering!!) Why doesn't it look like you are doing so?

12. AIDA: all assumptions about bonding assume tax exampt financing will be available for this project - will it?

13. DCED: Status of land trade for right of way - Congressional action expected soon?

14. DCRA: Status of moving project out of North Slope Borough? Is this still a critical decision point as indicated by Cominco President Bill Wilson?

15. AIDA: Present value of subsidy to Cominco under each of the four financing scenarios?

14. AIDA: (Again) Why must we appropriate funds this year? (Despite the lack of the statutorily-mandated plan of finance) Can we put a late effective date on the appropriation? Tie it to conditions?

15. AIDA: Can private lenders provide the funds needed by Cominco for building the road? (Bill Wilson says yes) If so, at what rate? If not, why not? If not, why should we? Monday in Senate Resources Bert Wagnon said that Cominco could not afford to pay back $150 million with interest. Why not?

ALASKA PUBLIC INTEREST RESEARCH GROUP
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

April 25, 1985

Alaska Senate
Alaska House of Representatives
Pouch V
Juneau, AK 99811

Dear Legislator:

The Alaska Public Interest Research Group is very supportive of development of the Red Dog lead and zinc mine in northwest Alaska. The project will bring needed employment and earnings to the area, and the benefits of the multiplier effect will be felt in the NANA region and throughout the state.

We have several very serious reservations concerning the $175 million appropriation ($33 million in direct appropriations and $142 million in loan appropriations) and additional $175 million bond authorization planned this year for the Red Dog Road and Port Project:

*If the project is pursued as most-recently planned, the State will divert $435 million from the General Fund to the Road and Port Facility over the next 30 years in the form of a direct state subsidy. The Alaska Industrial Development Authority (AIDA) intends to issue $175 million in bonds early next year. Over 30 years, our liabilities to bondholders will mount to $662 million. Cominco Alaska has agreed in principal to contribute a total of $260 million over 30 years in the form of toll fees. The balance, $402 million, will be picked up by AIDA.

To this figure must be added the $33 million in direct appropriations ($15 million now available for reappropriation within AIDA which will be redirected to the Red Dog project, and $18 million in principal and interest which will accrue to AIDA's Economic Development Fund rather than to the Dept. of Commerce as a result of the transfer of the $142 million loan portfolio) for a total subsidy of $435 million over 30 years.

We anticipate that a major portion of the state subsidy will come from interest and principal payments on the $142 million loan

portfolio. The Dept. of Revenue estimates that these payments will total only $207.5 million over 25 years. However, the difference between the $435 million in outstanding obligations and the $207 million in diverted General Funds ($228 million) may have to come from future General Fund appropriations to AIDA.

Nothing in HB 105 or SB 280 (the bond authorization bills with accompanying commitments) requires AIDA to cover the difference between its bond obligations without resorting to future General Fund appropriations through increased assessments to road and port users. Without this insurance, the state is not protected from a major revenue drain in the future.

*According to the statute authorizing AIDA's Economic Development Fund, AIDA must "submit a finance plan prepared under this section (AS 44.88.172) to the state bond committee, the governor, and the legislature before issuing bonds or otherwise incurring debt for the project." The finance plan "must identify the method of financing that minimizes the cost to the state." Clearly, the intent of this section was to ensure that the legislature and administration had sufficient background information to make an informed, rational funding decision.

The Finance Plan for the Red Dog Road and Port Project will not be available until August 15th, at the earliest, according to AIDA. In the meantime, you are being asked to make a $862 million decision based on "financing options" hastily assembled and constantly changing. Those options, one of which is embodied in the appropriation and authorization bills before you, may be dramatically different from the Finance Plan "that minimizes the cost to the state" finally developed by SRI in August. Or the other hand, the Finance Plan may be a rubber stamp of that developed in late March, and less-expensive options may not be fully examined.

*Finally, although the end of the session is only 3 short weeks away, many of the details of the Red Dog package are still murky: the Administration says it no longer needs a direct appropriation of $18 million (still in the budget) but rather a reappropriation of $12 million (not yet in the budget). HB 105 and SB 280 both authorize a $175 million bond issue, yet AIDA says it needs only $135 million. The $142 million in loans is scheduled to be transferred from DCED to AIDA, yet Commerce officials say only $136 is available. The actual cost of construction on the project has increased 65% since February, 1984 (from $135 million to $208 million). Even those following the project must carefully do not know exactly what is being appropriated or to what extent the State is committing itself over the long term.

We urge you to wait until these issues are resolved before voting for funding for the project. Under the current scenario, each of the 347 jobs anticipated for Alaskans at the Red Dog mine will entail a $1.2 million state subsidy. Is Red Dog a good deal in that light?

Sincerely,

Maureen Kennedy

Maureen Kennedy
Director

ALASKA PUBLIC INTEREST RESEARCH GROUP
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

The Red Dog Road and Port Project

THE PROPOSAL: Cominco/NANA have formed a joint venture to develop the Red Dog zinc/lead deposit just north of Kotzebue near the mouth of the Noatak River. The deposit is 55 miles from tidewater. With Administration support, Cominco /NANA is pushing the State to build a port facility and road from the deposit to tidewater for transportation to smelters in British Columbia and Japan.

Though majoir components of the plan have changed several times in the last 2 months, the most recent plan is for the State to transfer $142 million of the State's loan portfolio to the Alaska Industrial Development Authority's (AIDA) Economic Development Fund. The loan principal and interest would form collateral for a $175 bond issue for construction of the road and port. Some portion of construction costs would be paid by facilities users over the life of the project.

Until today, an $18 million appropriation to AIDA for the project was in the governor's budget. In February, 1984, the total cost of the project was anticipated at $135 million. That figure increased to $150 million in February, 1985, to $165 million in March, 1985 and $193 million in late March, 1985.

Varying moratoria on repayments, low-interest or no-interest loan terms, term repayment schedules and outright grants have been discussed by state policymakers and Cominco. The value of direct subsidy on the part of the State has varied from $40.1 million in February, 1984 to $65 million in February, 1985 to a high of $90 million in March, 1985.

NANA and Cominco have worked out a detailed agreement covering shared profits, local hire goals, efforts to minimize the adverse impacts of the project on the NANA region, etc.

Once the infrastructure is in place, the State and Cominco/NANA anticipate that other deposits in the area will be exploited as development

costs go down. GCO, Inc. owns rights to the Lik deposit 10 miles from Red Dog, and Cominco has control of the nearby Su deposit.

COST/BENEFIT OF PROJECT: The State projects a 5.3/1 (down from 6.2/1) cost-benefit ratio for the port and road project. (Assumes .60/lb. price for zinc, 15% return on investment for Cominco/NANA, $40.1 million subsidy, $169 million in direct returns to the State in taxes or transfer payment savings.)

"The ratio is high because it appears the project would not be viable without State support. Under the foregoing assumptions, the minimum level of investment the State can make in the project and have any expectation of immediate development is estimated to be $40.1 million. Higher involvement by the State through larger amounts of subsidy will increase expected rates of return to Cominco . . . . The State could subsidize the project up to $245.0 million and still have a benefit/cost ratio greater than 1 . . . . If the zinc price is lowered from .60 to .55 per pound (the low side of our estimated future price), the rate of return to Cominco would also fall. At the .55 price, to get the return to Cominco up to 15% the State might have to put up a subsidy of $158.0 million in the project. Because of the lower price, the taxes are also lower; this, coupled with the higher level of subsidy, reduces the benefit/cost ratio to 1.25 in comparison to the 6.2 figure generated by a .60 price." (Red Dog Project Analysis, February, 1984.)

At .63/lb., the project is expected to be viable without state investment. The current price of zinc is .45/lb.; of lead, .19/lb.

OTHER ISSUES: In addition to state sponsorship of the project, a few other issues must be resolved . The road route preferred by Cominco/NANA, the southern route, is less environmentally damaging. However, it runs through the Cape Krusenstern National Monument. The joint venture has applied for a land exchange and right of way from the Dept. of Interior. Congress is considering a bill approving the land exchange.

Just as difficult is the conflict between NANA and the North Slope Borough over jurisdiction over the Red Dog deposit. After ANCSA, the Arctic Slope Native Assoc. formed a borough which included a strip of land (the Red Dog deposit) which now is part of the NANA regional corporation. The borough and regional corporation boundaries should be roughly contiguous, but the processes were completed out of synch with each other and thus the important discrepancy occurred.

Without the tax base represented by the Red Dog mine, a proposed NANA area borough will not have enough revenues to function. Since the disputed area is not populated (and a simple vote cannot be taken), a complicated detachment process is underway. Various technicalities preempt the Legislature from signing off on any agreement until the '86 legislative session. NANA has indicated that if the boundary dispute is not settled, and tax policy is not clear, the mine will not be developed.

COST/BENEFIT OF THE MINE ITSELF: The Red Dog Project Analysis anticipates the following costs and benefits of the mine:

Employment:

Direct:	143 jobs during construction (40% NANA residents) 375 jobs during production (50-75% NANA residents)
Indirect:	92 during construction (23 in NANA villages) 226 during production (106 in villages)

Income:

Direct:	$8.8 million/yr during construction ($3.5 million to NANA residents) $12 million/yr during production ($7.5 million to NANA residents)
Indirect:	$2.3 million/yr during construction ($.575 million/yr in villages) $5.7 million/yr during production ($2.7 million/yr in villages)

Jobs for previously unemployed people:

During Construction: 38-- 12 in villages, 7 outside AK
During Production: 93--51 in villages, 10 outside AK

Tax revenues:

(Corporate income tax and mining license tax, based on probable price of zinc at .60/lb)
Cominco:
$2 million per year through 1992, $8 million in 1993, average $10 million per year through 2008.
NANA:
$2.36 million per year through 1991, $6.68 million after 1991.

Last year's investment tax credit grants the joint venture nearly $15 million in tax breaks through 1994.

ZINC OUTLOOK: Today's zinc price is .45 lb., lead price is .20/lb. The State's analysis of the Red Dog project assumes 20 year real prices for zinc and lead to average .60/lb and .35/lb respectively. Today's low prices are supposedly reflective of low recessionary demand and high supply of metals. Developing technology should bring about some product substitution for lead, little for zinc.

Business Week's 12/17/84 issue featured a cover story, "The Death of Mining." In it, the authors lump zinc and lead in with copper, nickel and moly markets and envision bad times ahead for the long term future. Cominco has reflected worldwide difficulties: it lost $31 million in 1982 and $39 million 1983. Analusts anticipate that lead and zinc demand will increase by 1-2% in the next ten years. The State is assuming a 2.5% increase in demand annually. The article does emphasize that third world mines are coming on line rapidly and are far superior to American mines as far as recovery technology goes. The Red Dog mne is analogous to a third world mine in this sense, except that transportation costs as a proportion of production costs are higher (40%) than average (10%).

Brad Tuck of the Institute for Social and Economic Research, wrote a chapter on mining in Alaska Resource Development last year. He anticipates that world metal prices will not increase significantly (prices would have to increase by 35% to reach the probable price of .60/lb in the state analysis). "The State will at best derive only modest revenues from non-fuel mineral and coal development. Annual revenues by the mid 1990s from Red Dog, Eagle, Greens Creek and Quartz Hill will be less than $10 million."

ALASKA PUBLIC INTEREST RESEARCH GROUP
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

RED DOG ROAD AND PORT FACTSHEET

The Alaska Industrial Development Authority (AIDA) with the support of the Administration, is pushing for an $18 million appropriation to AIDA's Economic Development Fund, along with a commitment of the interest and principal on $142 million of the State's loan portfolio. This commitment will become collateral for a bond issue of $175 million for actual road and port construction.

Over the past year, the estimated cost of the project has risen from $135 million to $193 million, an increase of 42%. The level of direct state subsidy increase from $40.1 milliion to $65 million between February, 1984 and February, 1985. Current options include direct subsidies of up to $90 million. If no appropriation is made, the State will provide a $15 million subsidy to the project through tax breaks already on the books.

When the legislature gave AIDA authority to develop and own projects such as the proposed road and port, it required that AIDA produce a Finance Plan for the legislature and the governor, laying out financing options. AIDA is specifically required to seriously consider those options requiring the least state involvement.

Although the legislature is being pressed to fund the project now, before the money runs out, the conclusions of the Finance Plan will not be available until next August at the earliest. In the meantime, the legislature is considering a $142 million loan appropriation and $175 million bond authorization based on a series of "finance options" assembled in less than 24 hours.

The Alaska Public Interest Research Group feels that the DeLong Mountain Regional Road and Port Facility is a poorly planned project, based on inadequate financial backup and nonexistent investment criteria. Given the State's other pressing needs and declining revenues, the project should not be funded this year.

If the legislature chooses to invest jn the Red Dog road and port project, it should protect Alaskans' interests by:

*Limiting the extent of the State's direct subsidy to the initial appropriation of $18 million;

*Requiring Cominco/NANA and any other future users to repay the principal and interest of a market value state loan from AIDA;

*Requiring Cominco/NANA and any other future users to cover operation and maintenance costs of the project;

*Requiring AIDA to return to the General Fund any toll payments beyond those necessary to repay the debt service and secure outstanding bonds;

*Putting a time limit on the project: if conditions are not met by March 15, 1986, the bond authorization lapses.

Introduced: 1/23/85
Referred: Transportation and Finance

Terry Elder Draft
AK/PIRG comments

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 105

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the international airports revenue bonds authorization, and to the authorization of bonds or notes for the DeLong Mountain transportation project and the establishment of conditions under which the bonds or notes for the DeLong Mountain transportation project may be issued; and providing for an effective date."

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

* Section 1. AS 37.15.410 is amended to read:

Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of providing part or all of the money to be used, with or without any grants or other money which may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed $86,525,000 [$62,825,000] is authorized to acquire, equip, construct, and install the additions, improvements, extensions, and facilities authorized in AS 37.15.510. The principal of and interest on these bonds

shall be paid out of and secured by the gross revenues derived by the state from the ownership, lease, use, and operation of the airports, and of all the facilities of them and out of any other revenues or money which the state legislature may provide exclusive of any state tax or license.

* Sec. 2. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 3. Prior to the issuance and sale of any bonds or notes authorized in Sec. 2 the board of directors of the Alaska Industrial Development Authority to the extent feasible shall incorporate into the final finance plan substantially the following terms and conditions:

(1) Cominco, Ltd. agrees in writing that

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project, based on the use Cominco, Ltd. makes of the facilities compared to the use made by others;

(B) if Cominco Alaska ceases to develop the Red Dog mine after expenditures on the road or port have commenced, Cominco, Ltd. will repay all expenditures by the Alaska Industrial Development Authority on the DeLong Mountain transportation project;

(C) toll fees by Cominco, Ltd. to the Alaska Industrial Development Authority may be adjusted if the price of zinc rises above a level, agreed upon with the Authority, which yields a return on investment commensurate with the risk;

(2) land in the Cape Krusenstern National Monument is conveyed to NANA Regional Corporation by the United States Department of the Interior;

(3) NANA Regional Corporation agrees in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the DeLong Mountain transportation project, and land needed for future expansion of the road and port;

make available at no cost — long term lease

(4) The Alaska Industrial Development Authority shall maximize the use of tax exempt financing;

(5) The Alaska Industrial Development Authority establishes a toll schedule for use of facilities constructed as part of the DeLong ~~Mountain transportation~~ project that ensures a reasonable return on the state's investment commensurate with project viability and future usage, and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted.

We're further away from the original stat. language re: repay expenditures

Sec. 4. The Alaska Industrial Development Authority reports in writing to the legislative budget and audit committee that the conditions under (1) - (5) of Section 3 of this act have been met.

* Sec. 5. Notwithstanding limitations on the establishment of a capital reserve fund under AS 44.88.105, the authority may covenant and agree with the trustee or holders of the bonds or notes authorized under Sec. 2 of this act that the authority will establish a capital reserve fund for the purpose of securing the bonds or notes, that the chairman of the authority will, by January 2 of each year, certify in writing to the governor and the legislature the amount

AIDA should be able to agree ~~to~~ that the "combined" users will pay fees that will at a minimum cover the P+I, without risking tax exempt status

required to restore the capital reserve fund to the capital reserve fund requirement, and that the legislature may appropriate to the authority the amount certified by the chairman. Nothing in this section creates a debt or liability of the state.

* Sec. 6. This act takes effect immediately in accordance with AS 01.10.070(c).

Missing: AIDA assures that Cominco & future users will cover O&M (as opposed to just requiring Cominco to cover its proportion).

The bond authorization lapses if the bonds aren't issued by mid '86 — if we will miss the "window of opportunity," then the State ought not be involved. Even Cominco agrees it will not be feasible.

ALASKA PUBLIC INTEREST RESEARCH GROUP
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

Proposed Amendments to SB 280

Section 1. (1) (c) Cominco, Ltd. will repay all expenditures (market rate interest and principal) by the State for the project through toll fees paid beginning the year of project completion for the use of facilities constructed as part of the project; (and other payments;)

Section 1. (2) The United States Congress approves the Cape Krusenstern National Monument land exchange between NANA Regional Corporation and the United States Dept. of Interior or a right of way as authorized by Title II of ANILCA;

Section 1. (3) NANA Regional Corporation agrees in writing to convey to the Alaska Industrial Development Authority, (at no more than fair market value,) at no cost, land needed for the port and road constructed as part of the DeLong Mountain transportation project and land needed for future expansion of the road and port;

Section 1. (5) the Alaska Industrial Development Authority obtains a ruling from the Internal Revenue Service that all bonds or notes issued under this section will qualify for tax exempt status; (and;)

Section 1. (6) the Alaska Industrial Development Authority establishes a toll schedule for use of facilities constructed as part of the DeLong Mountain transportation project that minimizes the cost to the State of (ensures the greatest return on the state's investment in) the project and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted.

Section 1. (7) the Alaska Industrial Development Authority ensures that Cominco and any other future users will pay all operation and maintenance of facilities constructed as part of the project, on a pro rata basis;

Section 1. (8) the Alaska Industrial Development Authority agrees to limit the present value of the direct subsidy to the project to $18 million;

Section 1. (9) the Alaska Industrial Development Authority agrees to turn over any funds not necessary for bond security or construction of the authorized project to the general fund as they become available;

Section (2). If the Alaska Industrial Development Authority does not issue bonds for the project by March 15th, 1986, this bond authorization lapses.

MAR 1 1 1985

ALASKA PUBLIC INTEREST RESEARCH GROUP
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

March 6, 1985

Sen. Arliss Sturgulewski
Pouch V
Juneau, AK 99811

Dear Sen. Sturgulewski:

Thanks very much for meeting with me last week to discuss issues. I wanted to get back in touch with you to point out some areas of the Red Dog Project Analysis that should be updated by staff before the Resources Committee examines the Delong Road and Port Project more seriously.

1. The analysis does not include the impact of the Investment Tax Credit which the legislature passed last year. The lost revenues will be very substantial as the new law provides a 100% tax credit on both mining license tax and state corporate tax payments on the first $50 million in investment, an 80% tax break on the next $50 million and so on up to $250 million for up to 10 years. I'm also unclear whether the tax exemption would apply to the $150 million in road and port construction as well as the $400 million in mine development--if the State is acting as bank, wouldn't Cominco/NANA be eligible for the credit on the $150 million too?

2. We are also unclear on how the new mining license tax regs will impact the project. The regs were not in existence at the time of the analysis; now proposed regs are available and can be used to evaluate the revenue potential (or loss).

3. Although savings in regional shipping costs are touted as a major justification for state investment in the project, the projected savings are small and OMB did not have time to check 4 of 6 issues factored into the estimate. Are the other assumptions and the total estimated savings correct?

4. What discount rate is Cominco using in its proposal, and what rate of return will it require before committing to the project? The company provided this information to Canadian provinces when negotiating state assistance with infrastructure there; why does

the State have to make assumptions about these critical factors, basically making major fiscal decisions in a dark room?

5. While project benefits have been outlined extensively in the Analysis, costs have not been delineated because "time constraints have prevented analysis," and "no attempt is made here to place a dollar value on the increase in social service delivery." Costs should be fleshed out to the same degree as have benefits.

6. Shouldn't the royalty payments to NANA ($658 million) be included in the cost-benefit analysis, since according to Cominco, development and therefore royalties, would not come through if the State does not invest in the project?

7. How is the dramatic difference in estimated tax payments cited at $205.69 million on p. IV-2 of the Analysis and $420 million on pp. V-66 and V-68 explained (these final figures are extrapolated from the "probable" figures listed on those pages, multiplied by a conservative 20-year mine life).

8. Does the State or legislature have any recent indications as to the likelihood of a detachment agreement between the NSB and the potential NANA borough?

9. Since AIDA has recently decided to scrap its contract for geotechnical studies with Cominco, will that $3 million be available to the project as the first installment of an $18 million appropriation, reducing this year's appropriation down to $15 million?

As I expressed to you during our meeting, AkPIRG is very supportive of the development of the Red Dog Mine in NW Alaska; we are, however, concerned that the State go into negotiations with accurate information and a full hand. Given that the session is nearly half over, that a proposal is still not on the table, that Cominco has said it cannot agree to develop the mine unless certain commitments are ironed out, and since these difficulties are very likely NOT to be ironed out before May 15th, we have strong reservations about the manner in which the state seems to be rushing headlong into a commitment.

I hope you will ask your staff to include these issues as part of its updated analysis of the project.

Sincerely,

Maureen Kennedy

Maureen Kennedy
Director

To: AkPIRG Board CONFIDENTIAL
From: Maureen
Re: Red Dog Mine road and port proposal
Date: 2/5/85

As agreed at our last Board meeting, I have done extensive research on the Delong Mt. Port and Road Project. Please read this memo so we can make a decision on our involvement in the issue at the next Board meeting. Things are moving fast, so we must make SOME decision on the 12th.

THE PROPOSAL:

Cominco/NANA have formed a joint venture to develop the Red Dog zinc/lead/molybdenum deposit just north of Kotzebue near the mouth of the Noatak River. The deposit is 55 miles from tidewater. With Administration support, Cominco/NANA is pushing the State to build a port facility and road from the deposit to tidewater for transportation to smelters in BC and Japan.

Though few details have been worked out, the most often-cited plan is for the State to loan the venture $135 million plus inflation and cost overruns to build the project, with repayment based on road and port user fees. Though facilities users would pay for the project, the State would actually own it. Eighteen million dollars is scheduled for appropriation to the Alaska Industrial Development Authority this year, which in turn would lend to C/N, $50 million next year, $50 million in '87/'88 and $18 million plus inflation and overruns in the final year to round out the project. The most-often considered proposal includes forgiving $28 million of this total. C/N have asked for a ten year moratorium on repayments; a 6 year moratorium seems more popular at this time. Interest rates, collateral, repayment schedules, etc. are all up in the air.

NANA and Cominco have worked out a detailed agreement covering shared profits, local hire goals, efforts to minimize the adverse impacts of the project on the NANA region, etc. With the exception of local hire provisions (targets, not commitments; NANA is responsible for training of workers), NANA seems to be getting a good deal.

Once the infrastructure is in place, the State and C/N anticipate that other deposits in the area will be exploited as development costs go down. GCO owns rights to the Lik deposit 10 miles away, and Cominco also has control of the nearby Su deposit.

This whole proposal originated with Cominco: the State has gone through and tried to test the assumptions, costs, and cost/benefits suggested by Cominco. It has been a difficult task however, since Cominco has not been willing to turn over much of the critical metals price forecasts, or information about its corporate decisionmaking (necessary rate of return, etc...

COST/BENEFIT OF PROJECT:

The State projects a 6.2 : 1 cost benefit ratio for the port and road project. (Assumes .60/lb price for zinc, 15% return on investment, $40.1 million necessary state subsidy, $245.85 million in direct returns to the State in taxes or transfer payment savings.)

> "The ratio is high because it appears the project would not be viable without State support. Under the foregoing assumptions, the minimum level of investment the State can make in the project and have any expectation of immediate development is estimated to be $40.1 million. Higher involvement by the State through larger amounts of subsidy will increase expected rates of return to Cominco . . . . The State could subsidize the project up to $245.0 million and still have a benefit/cost ratio greater than 1 . . . . If the zinc price is lowered from .60 to .55 per pound (the low side of our estimated future price), the rate of return to Cominco would also fall. At the .55 price, to get the return to Cominco up to 15% the State might have to put a subsidy of $158.0 million in the project. Because of the lower price, the taxes are also lower; this, coupled with the higher level of subsidy, reduces the benefit cost ratio to 1.25 in comparison to the 6.2 figure generated by a .60 price."

At .63/lb., the project is expected to be viable without state investment.

COMPLICATIONS:

In addition to state sponsorship of the project, a few other things may impede the whole project. The road route preferred by C/N, the southern route, is less environmentally damaging. However, it runs through the Cape Krusenstern National Monument. C/N have applied for a right-of-way permit from the DOI; the Sierra Club is opposing it. A land swap between NANA and the Monument has also been proposed.

Just as difficult is the conflict between NANA and the North Slope Borough over jurisdiction over the Red Dog deposit. After ANCSA, the Arctic Slope Native Association formed a borough which included a strip of land which now is part of the NANA regional corporation. The borough and regional corp. boundaries should be roughly contiguous, but the processes were completed out of synch with each other and thus the important discrepancy occurred. Without the tax base represented by the Red Dog Mine, a proposed NANA area borough would not have enough revenues to function. Since the disputed area is not populated (and a simple vote cannot be taken), a complicated detachment process is underway. Various technicalities preempt the Legislature from signing off on any agreement until the '86 legislative session. Cominco has indicated that if the boundary dispute is not settled, and tax policy not clear, the company is unlikely to move forward with the mine project.

COST/BENEFIT OF THE [illegible]:

I think it is crucial to be clear that our interest [illegible] the road and port project, not the proposal by NANA/Cominco [illegible] a private development project on private land. Nevertheless, the feasibility of the mine impacts the likelihood that the State will actually get repaid for its investment, and influences the need for any state involvement at all.

The Red Dog Project Analysis attributes the following jobs and benefits of the project:

Employment:

Direct: 143 jobs during construction
(40% NANA residents)
375 jobs during production
(50-75% NANA residents)

Indirect: 92 during construction
(23 in NANA villages)
226 during production
(106 in villages)

Income:

Direct: $8.8 million/yr during construction
($3.5 million to NANA residents)
$12 million/yr during production
($7.5 million to NANA residents)

Indirect: $2.3 million/yr during construction
($.575 million/yr in villages)
$5.7 million/yr during production
($2.7 million/yr in villages)

Jobs for Previously Unemployed People:

During Construction: 33, 12 in villages, 7 outside of AK
During Production: 93, 51 in villages, 10 outside AK

Supposed savings in Shipping Costs to Kotzebue Area:

(Very uncertain because of Jones Act restrictions, etc)
$2-3 million annually

Tax Revenues to AK mining tax and [illegible] tax:

Cominco estimate based on
probable price of zinc at .60/lb: $10.21 million/yr
(Note--Project is exempt from mining
license tax for first 3 1/2 yrs. of
production)

NANA taxes, same assumptions: $2.[illegible] million/yr '88-91
$5.75 million/yr '91-

Population Impacts:

During construction:
During Production:
(NB: with the exception of [illegible], which [illegible] capacity right now, the State does not anticipate any additional costs based on population increase.

Road and Port Requirements:

See attached table. IMPORTANT. [illegible] year deferred payment is a present [illegible] of $28-45 million to the State, representing a direct [illegible] of $60-107 million of the project. An 8% loan with a 5 year moratorium has a present value of $57-91 million, representing a $44-78 million cost to the State. BIG DIFFERENCE.

THE BIG PICTURE, OR MAUREEN'S THUMBNAIL SKETCH OF THE FUTURE OF WORLDWIDE ZINC PRICES:

Since 85% of the revenues of Red Dog will be based on zinc concentrate sales, and since loan repayment is based on a successful mine project, this is an important issue.

Today's zinc price is .43/lb., lead price is .23/lb. The State's analysis of the Red Dog Project assumes 20 year real prices for zinc and lead to average .60/lb and .35/lb respectively. Today's low prices are supposedly reflective of low recessionary demand and high supply of metals. Developing technology should bring about some product substitution for lead, little for zinc.

Business Week's 12/17/85 issue featured a cover story, "The Death of Mining." In it, the authors lump zinc in with the copper, nickel, lead and moly markets and envision bad times ahead for the long term future. Cominco has reflected worldwide difficulties--it lost $91 million in 1982 and $39 million in 1985. (through Sept. 84, things were on the rebound: Akt income was $29 million). Analysts anticipate that lead and zinc demand will increase by 1-2% in the next ten years. The State is assuming a 2.5% increase in demand annually. The article does emphasize that third world mines are coming on line rapidly and are far superior to American mines as far as recovery technology goes. The Red Dog mine is analogous to a third world mine in this sense, except that transportation costs as a proportion of production costs are higher (40%) than average (10%).

Brad Tuck of the Institute for Social and Economic Research wrote a chapter on mining in Alaska Resource Development last year. He anticipates that world metals prices will not increase significantly (price would have to increase by 50% to reach probable price of .60/lb in State analysis). "The State will at

best derive only modest revenues from non-fuel minerals and coal development. Annual revenues in the mid 1990s from Red Dog, Eagle, Greens Creek and Quartz Pipe will be less than $1 million."

Cominco anticipates an increase in demand of 2% per year for zinc and 1% for lead.

World supplies for zinc and lead are expected to decline over the next 10 years. Smelters, including those owned by Cominco, will be looking for new sources of concentrate. The most likely competition for Red Dog will be from Australian sources.

POLITICS:

1. The deal has to go through House and Senate Resources, Finance and the House Special Committee on Loans. These are chaired by Herrmann/Schultz, Sturgulewski, Adams, Faiks/Sackett and Sund. Because the project is in his district, Adams is very attached to it. Adams, Ferguson, Sackett, and Willie Hensley are committed to pushing the project through.

2. The Governor is behind the project. Both John Shaffer and John Shively have connections with NANA.

3. The House minority and the Senate majority have expressed opposition or concerns about the propriety of state involvement.

4. The State analysis of the project includes a list of other potential mine projects and necessary infrastructure--the state could conceivably receive $1.9 billion in requests for state aid on other roads, railroad spurs and ports just for the mining industry. Equity question.

5. Cominco agrees that Red Dog will be developed at some point, it's just a question of when. With State involvement, it'll happen that much sooner.

6. Impact on ACAP.

7. No one else is willing to enter the discussion with our viewpoint. Ann Cony couldn't get anyone to go on record with concerns, much less opposition to the investment when the News did its analysis piece on Red Dog.

8. Sheffield can be fairly criticized for ignoring the real unemployment problem in Bush Alaska (less than 5% of the Red Dog area population is "fully employed"). The road and port project will produce construction jobs and facilitate production jobs.

9. John Hartle, John Sund's staffperson on the loans committee, says the approval is wired.

10. The State hasn't promulgated mining license tax regs yet.

RECOMMENDATION:

I suggest that we go ahead and involve ourselves in the issue. Adams et al. will have plenty to be pissed off at us about already and this is exactly the type of boondoggle appropriation we should be known for influencing. I think we could be successful in changing certain [illegible] of the deal such as interest rates, moratorium, payback terms, collateral on the loan, tax deferments, etc. Cominco agrees that it will be mining the richest portion of the deposit first, yet that is the time that payments to the state might be forgiven or delayed, and when any mining taxes might be forgiven.

At the Pine Point mine in Canada, Cominco engineered an agreement for the State to build a railway spur with payments based on tons shipped, with an overall cap on total annual payments. Should payments be based on value or volume? In the first couple of years, the mine was unexpectedly successful, yet Cominco's annual payments were limited by the cap.

We will enhance our credibility with the public. With every additional point of interest charged, the people save roughly $5 million 1983 dollars. Getting rid of the 6 year deferment saves roughly $40 million. Alot's at stake.

With the paranoia about declining revenues, legislators might see the light and realize that subsidies on the project must be scaled back and we would win out.

TABLE D-4

COST TO THE STATE

OF NO-INTEREST LOAN OF $135 MILLION

WITH VARYING PAYBACK PERIODS*

(Millions--1983 Dollars)

Payback Deferment Options	Present Value to State of Payback @ OCC =			Direct State Costs (-NPV) OCC =		
	8%	10%	12%	8%	10%	12%
10 Years	$30	$22	$16	$105	$113	$119
5 Years	45	35	28	90	100	107
No Deferment	67	58	51	68	77	84

OCC = Opportunity cost of capital for the State.
-NPV = Negative net present value.

* Loan is to be paid back in equal installments over a 20-year period, with different deferment periods as shown.

NB: Estimates based on overnight construction costs, (i.e., initial loan is made at a single point in time, after which the deferment period or repayment period begins).

Source: Office of Management and Budget, State of Alaska

11/1368

TABLE D-5

REPAYMENT OPTIONS AND STATE COSTS FOR $135 MILLION LOAN
(1983 Dollars, In Millions)

REPAYMENT OPTIONS:

Interest Rate	Deferment	PV OF Payback	Direct Costs To State
0%	10 yr	$16-30	$105-119
	5 yr	28-45	90-107
	none	51-67	68-84
5%	10 yr	25-48	87-110
	5 yr	45-72	63-90
	none	81-107	28-54
8%	10 yr	31-61	74-104
	5 yr	57-91	44-78
	none	103-135	0-32
10%	10 yr	36-71	64-99
	5 yr	66-105	30-69
	none	0-118	0-17
12%	10 yr	41-80	55-94
	5 yr	75-120	15-60
	none	0-135	-0-

Source: Office of Management and Budget, State of Alaska

11/1368

ALASKA PUBLIC INTEREST RESEARCH GROUP
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

April 26, 1985

Terry Elder
Dept. of Commerce and Economic Development
Pouch D
Juneau, AK 99811

Dear Terry:

I understand you have some questions concerning the assumptions we used in quantifying the subsidy involved in the Red Dog Road and Port Project. Before explaining our figures, I would like to make a few points.

Jobs: The jobs generated by state investment in the Red Dog project are 5 year jobs. Cominco officials have said time and time again that the Red Dog project will be developed with or without state help--the only question is timing. In atesting to the value of the Red Dog deposit, Cominco lobbyists have told us that the mine would be developed 5-8 years later than the proposed schedule without this year's $175 million appropriation and $175 million bond authorization. By funding Red Dog this year, the legislature is simply bringing those jobs on line 5 years sooner, at a nominal cost of $1.2 million over 5 years.

Taxes and Avoided Transfer Payments: You would be correct in saying that our subsidy estimate did not include increased future state revenues in the form of taxes and avoided transfer payments only if these payments would not accrue without state investment in the project. As we pointed out above, Red Dog will be developed and the benefits will accrue--starting in 1989 with state investment or 5-8 years later without. Since the State will receive the $169 million in taxes and transfer payment savings in any event, these cannot be counted as a benefit of the project.

"Finance Plan": You are correct in saying that an official Finance Plan is not yet in place. This has been a source of great concern to us. In the meantime, the Dept. of Commerce and AIDA have proffered a finance "option" and have based legislative requests on it. All our estimates are based on the "option" discussed in the numerous letters DCED, DoR and AIDA have written

in response to Committee questions. Our assumptions are, in fact your assumptions, and I have referenced them in the footnotes below.

As you know, I have asked many times over the past months for an Administration estimate of the subsidy to Red Dog similar to the one given in the Red Dog Project Analysis. No one has answered. If you do not agree with our estimate, I would be very interested in hearing your figure.

THE SUBSIDY LEDGER

Nominal Costs:	Benefits:
$175 million bond issue-- annuitized sinking fund payment of $22.09 mil. per year for 30 years will cover state debt. $22.09 million x 30 = $662 million(1)	$10 million in payments over 30 years in toll fees from Cominco, capped at-- $260 million(4)
Available in AIDA for re-appropriation but now to be directed to Red Dog-- $ 15 million(2)	
FY 86 P+I on loan portfolio transferred from DCED to AIDA $ 18 million(3)	
COST: $625 million	BENEFITS: $260 million

Difference (subsidy) = $435 million

(1) Assumes $175 million bond issue (SB 280), tax exempt rate of 10.5% (AIDA letter to Sturgulewski, 3/19/85, page 9 <unnumbered> of Appendix A, Case IV), taxable rate of 13.5% (3% margin between tax exempt and taxable), port costs (ibid., p. 9) are tax exempt, $12 million in bonds called 1990 (ibid., p. 9), 30 year term (ibid., page 2).

(2) $3 million in FY 85 app. to AIDA for DeLong Mountain Regional Port and Road available for reappropriation (AIDA letter to Sturgulewski, 4/9/85, p. 2), $12 million in multifamily housing funds to be reappropriated to the project (committee testimony, 4/16/85).

(3) Dept. of Revenue letter to Sturgulewski, 4/15/85, p. 2).

(4) AIDA letter to Sturgulewski, 3/19/85, p. 9. Assumes 4 year moratorium on payments (conversations with Cominco, Red Dog Project Analysis options, p. V-72, explicit cap at $260 million rather than $300 million over 30 years).

Real Costs:	Real Benefits:
Present Value of construction (value of bond issue)--	PV of $260 millinn over 30 years beginning year 5--
$175 million	$67.82 million

PV of net subsidy--$107.2 million* or 61% of total project cost.

*Same assumptions as above

I would be happy to answer any questions you may have on these figures.

Sincerely,

Maureen Kennedy

Maureen Kennedy
Director

Post Office Box 1093/ Anchorage, Alaska 99510/ (907) 278-3661

Proposed Amendments to SB 280

Section 1. (1) (c) Cominco, Ltd. will repay all expenditures (market rate interest and principal) by the State for the project through toll fees paid beginning the year of project completion for the use of facilities constructed as part of the project; (and other payments;)

Section 1. (2) The United States Congress approves the Cape Krusenstern National Monument land exchange between NANA Regional Corporation and the United States Dept. of Interior or a right of way as authorized by Title II of ANILCA;

Section 1. (3) NANA Regional Corporation agrees in writing to convey to the Alaska Industrial Development Authority, (at no more than fair market value,) at no cost, land needed for the port and road constructed as part of the DeLong Mountain transportation project and land needed for future expansion of the road and port;

Section 1. (5) the Alaska Industrial Development Authority obtains a ruling from the Internal Revenue Service that all bonds or notes issued under this section will qualify for tax exempt status; (and;)

Section 1. (6) the Alaska Industrial Development Authority establishes a toll schedule for use of facilities constructed as part of the DeLong Mountain transportation project that minimizes the cost to the State of (ensures the greatest return on the state's investment in) the project and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted.

Section 1. (7) the Alaska Industrial Development Authority ensures that Cominco and any other future users will pay all operation and maintenance of facilities constructed as part of the project, on a pro rata basis;

Section 1. (8) the Alaska Industrial Development Authority agrees to limit the present value of the direct subsidy to the project to $18 million;

Section 1. (9) the Alaska Industrial Development Authority agrees to turn over any funds not necessary for bond security or construction of the authorized project to the general fund as they become available;

Section (2). If the Alaska Industrial Development Authority does not issue bonds for the project by March 15th, 1986, this bond authorization lapses.

Cominco's Red Dog plan masks subsidy



Steve Cowper

Views expressed here do not necessarily represent those of the Daily News-Miner

A few weeks ago, three representatives from Cominco, a Canadian-based mining company, argued their case for the Red Dog zinc mine before the Fairbanks Chamber of Commerce.

It was quite a presentation. There was a film and a slide show to boot. The inescapable conclusion seemed to be that the mine was of great benefit to the state. People would get jobs during the construction phase and, for a lucky 400, there would be permanent employment at the mine itself.

NANA, the Kotzebue-based regional corporation, owns the prospective minesite, for which it expects to receive hefty royalties. Because of some peculiar provisions of the Alaska Native Claims Settlement Act, all the other regional corporations will share in the profits. It sounded like a good deal for everybody.

Cominco's arguments were persuasive, except for just one item. The whole project was said to depend on the expenditure of $150 million by the state to build a road for hauling the ore and a port facility for shipping it out. Only then could the company put its financing package together for the rest of the operation.

With all the free-market advocates in the room, you'd have thought somebody might at least twitch or moan softly over that part of the deal. Nobody did, though. Apparently that kind of state spending is universally acceptable in Alaska these days.

In fairness, the Cominco people thought that the $150 million was not really a subsidy. Besides being the kind of "infrastructure" that the state is supposed to provide, the road and port would generate a user fee of $10 million every year for 30 years, thereby doubling the state's money.

The trouble with the "infrastructure" argument is that the facilities aren't being built for public use, but for private profit. And if you do your math, you'll find that $150 million paid back over 30 years at $10 million a year amounts to a loan at a very low interest rate.

If a low-interest loan isn't a subsidy, why can't you get one to buy a computer, or a front-end loader, or an addition to your house? Of course the state's contribution to Red Dog is a subsidy; furthermore, it raises important questions of policy in Alaska.

If the state's arrangements with Cominco and NANA are approved, you can bet it won't be the last such request. In fact, it will be a signal for all sorts of proposals to "create jobs" and to "diversify the economy."

Who is going to get these subsidies? The ones who promise campaign contributions? Those in the districts who deliver the votes to the right people? Furthermore, who is to control where the subsidies go? The legislature? The governor? A council of wizards? A dart board?

Down in Ketchikan, U. S. Borax is waiting for better market conditions before developing their molybdenum mine some miles away. To Borax's credit, they've never asked for a state subsidy, but after Red Dog, why shouldn't they? Jobs are hard to come by in Ketchikan, and more people live and vote there than in Northwest Alaska.

In case you hadn't noticed, there aren't any rules any more about public spending. Nothing is out of bounds. The money's free (meaning it comes from the oil companies), so there isn't any reason to watch the till. Plenty more where that came from, right?

Wrong. The downward drift in worldwide oil prices has created a massive treasure hunt in Juneau. They're looking for money everywhere, but they won't find much. The next thing you know, they'll be looking at our wallets.

So we'd better make some kind of informed judgment as to whether we really want to subsidize industries in Alaska, and if so, which ones. If we decide that government participation in private business ventures is a good thing, then we need to decide what standards will apply to such activities so that things won't get out of hand.

Government participation in the marketplace is not new. All sorts of countries have tried it: Great Britain, Brazil, Nigeria, Poland. None of them could figure out how to make it work, though, for in the end the government does not respond to the market. It responds instead to political pressure.

According to the available evidence, the wisest course for Alaska to take is to forget subsidies to industry. We can help to encourage entrepreneurship in a lot of intelligent ways - providing useful information, a sensible regulatory structure, low taxes - but all the indications are that the laws of the marketplace ought to determine whether natural resource extraction can be profitable.

None of this is an indication of hostility towards the Red Dog project. I hope the world suddenly discovers thousands of new uses for zinc. I hope Cominco and NANA are able to put it together and that everybody involved gets rich. I wish them all the success they can achieve, as long as they don't use my tax money.

In the meantime, here's some more math. If we invested the $150 million at 11 percent, the $16.5 million in annual interest would be enough to give each one of those 400 Red Dog employees $41,250 a year forever, and none of them would even have to pick up a shovel.

Of course math is the same thing as logic, and we all know how much logic has to do with it.

Steve Cowper, a former state legislator representing Fairbanks, is a lawyer now engaged in professional arbitration.

...or high school student.

Junkie didn't do well. He slowed down, got fat and dropped dead. Healthnut stayed healthy and learned to speed through the maze. And Lori Demond, a student at Wasilla Junior High School, concluded in her project that diet had affected her pets' performance.

Junkie did not die in vain. He was a participant in one of the 213 experiments that packed West High the International Science and Engineering Fair on May 11.

Some of the projects were simple; others were startling in their sophistication. And some were just plain fun.

There were the banana batteries, created by amateur scientist Bill Norton. The student plugged zinc and copper plugs into fruit and measured the trickles of power produced by chemical changes inside. The banana wasn't too great, Norton wrote. The the judges plenty of consumer tips. Youths determined that a "new and improved" brand of gum tasted no better than its unimproved ancestor. The students also tested shampoos, toothpastes and the teeth-staining power of various soft drinks.

"Some of these projects are really something," said fair director Robert Pawlowski.

While science fairs have been held here for decades, the sophistication of the projects have been increasing

Curiosity and tenacity provided the winning combinati... for the 11 first-place winners.

The grand-prize winner, Jeff Morgheim, won a trip to the International Fair for his elaborate experiment on the effects of ultraviolet light on some forms of plant hormones. Other first-place winners studied the effects of aloe vera on rabbit injuries; the effects of cold tempera-

See Page B3, SCIENCE

...tigator and one of the mission astronauts, Don Lind, a magnetospheric physicist, with information about expected auroral activity.

"It's really going to be up to Don. There will be so much aurora, and he will make the decision about which to videotape and when. He spent a year at UAF as a visiting professor, so he has a good idea of what I'd be considering."

Clocksin urges close look at Cominco ties to S. Africa

By ROBB FULCHER
United Press International

JUNEAU — An international mining firm's plan to develop a huge zinc deposit in northwest Alaska should be carefully scrutinized, because the firm has a joint venture diamond mine in South Africa, the House majority leader said Friday.

"I have always been cautious about the Red Dog Mine project because of the amount of state money involved, and the fact that they have interests in South Africa does not make them look any better," Rep. Don Clocksin, D-Anchorage, said.

Clocksin has co-sponsored a resolution calling for the state of Alaska to sever its business ties with South Africa until racial oppression in that country is ended.

South Africa's apartheid system of racial separation, which sharply curtails the liberties of the country's 22 million blacks and does not recognize them as citizens, is drawing increasing criticism in the United States.

Cominco Ltd., a Vancouver, British Columbia-based mining firm, wants to develop a vast zinc deposit northwest of Kotzebue, in cooperation with the NANA Native regional corp., which owns the land over the mineral deposit.

The Sheffield administration has supported the development, and has announced plans to pump $150 million into the project, although officials have not made it clear how the money would be made available.

Legislation has been introduced in the House and Senate that would make $175 million available for the project in the form of bonds and grants to fund the construction of a road and port to service the mine.

Under plans by the legislature and the administration, the state would recover its investment in the mine through tolls and user fees from the road and port.

Clocksin said the Cominco project should be looked at closely because of the amount of state money involved, and the South African connection makes the project even more questionable.

"South Africa would not be a deciding factor in my decision on whether to support the project, but it is one of the considerations," Clocksin said.

Cominco has been taking part since 1978 in a small, joint venture diamond mine north of Cape Town, South Africa, and maintains an exploration office in Johannesburg, company spokeswoman Lisa Parker said.

There are 120 employees, almost all of them black South Africans, at the mine, and nine employees at the exploration office, Parker said.

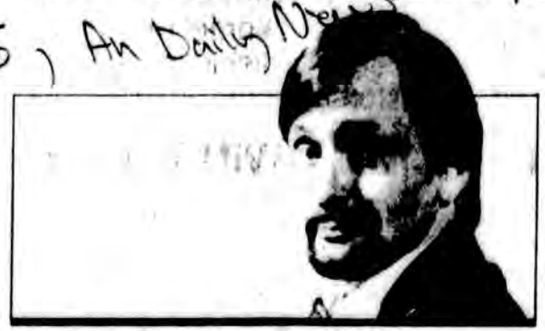
Cominco officials stressed that the South Africa employees are paid at least 50 percent above the prevailing South African minimum wage, and they have benefits such as a pension plan, death and disability benefits and a minimum 18 days paid vacation each year.

The mine employees work a five-day, 51-hour week and are paid room and board in addition to their wages, Parker said.

See Page B-3, COMINCO

Spotlight on libraries — something you can make book on

April 15, An Daily News



satch carlson

It's going up, this wonderfully huge building that looks like an assemblage of Quaker Oats boxes: the new state headquarters library, which probably is to be called the Loussac Library, but which I would just as soon name after Wilda Marston. On my list of civic priorities, I have to admit I put libraries at the top, even ahead of performing arts centers and limited-access freeways. I am, I suppose, a library junkie.

I am not the only one.

There is in fact a group called Friends of the Library, which sounds like a pretty good group to belong to if you are a joiner. [illegible] need all the help [illegible]

ets.

Besides, if it weren't for libraries, I wouldn't be what I am today. Whatever that is.

I don't remember how it was that I came to be familiar with the Washoe County Library as a child; it was a somber, gothic place (since replaced with the most wonderful library in the Western Hemisphere — but that's another story), with a special section for children, one of which I was stuck as at the time. But it didn't seem to bother the librarians if I wandered out of the children's section into the Big Time, the REAL stacks. (Not that the

strongly influenced by H. Allen Smith. Twenty years later, on rereading him, I was astounded at the similarities in our writing styles — and I can't think of a way to claim that his was derived from mine.)

The first time I checked out books from the real stacks, of course, I was terrified, but the librarians didn't bat an eye; they didn't care if I was corrupting my morals by reading humorists, as long as I got the books back on time. For my part, I was enchanted and grateful to live in a place that provided books, all kinds of books, that I could read for free.

Hill's project started with a tankful of dead fish and a mystery. The fish were floating in an aquarium near the blackboard in a Dillingham High School classroom. The mystery was what killed them.

Hill, a sophomore, spent months chasing the fish killer — which she now suspects was dust left by newfangled blackboard pens. Those pens, Hill said, contained kentone solvents which can lead to skin irritation and are suspected of causing respiratory and nervous damage.

"We thought that the dust from the pens may have fallen into the tank," she said. "Once we put a cover over the fish, they stopped dying."

Hill's work garnered her $50 in cash, a blue ribbon and a blender.

But while she won, she said she wants to know a lot more about the pens which are now commonly used in Alaska schools. She wrote to several pen manafactures asking them for information on their ink. There were no replies, she said.

"I still haven't figured out exactly what's in them," Hill said of the suspect pens. "The manufacturers don't give away that kind of information."

Manslaughter conviction upheld

The Associated Press

The conviction and sentence of Stephan J. Dresnek of Anchorage for manslaughter and assault in connection with a drunken driving case were upheld Friday by the Alaska Court of Appeals.

A two-ton pickup driven by Dresnek collided with a

...since.

Today there are 129 international students at UAF. Canadians (32) still dominate, but there is a smorgasboard of global representation.

Most students have made their way here without a formal exchange program and without financial assistance. Many are older, graduate students.

"Homesickness is of more importance with them because they are quite a bit farther from their homes," says Greg Snoddy, head resident at Nerland Hall, where many of the foreign students live. "The important thing is to keep them busy, get them in with the crowd, try to introduce them to people, activities, on campus."

Toward that end, Nerland Hall is the scene of international dinners, speakers, student programs on their home countries and slide shows. "We ...directors or deans to allow the students to enter the university even though their English is not up to par," Snoddy says. "That's a major problem. We need to set a straight policy on English language ability for the students."

Arna Isacsson is from Sweden. Her English is easily understood, with only a faint accent.

"I wanted to see a wildlife management program in the states. Since I'm from up north in Sweden, I wanted something similar (geographically)," she says. "We don't have wildlife programs in universities like they have here."

Isacsson wants to return to Sweden to work with wildlife in the Laplands, specifically wolves. There are only eight, but even with such a small population, "the wolf question in Sweden is as hot as it is here," she says, referring to predation conflicts.

Swedish children study English in ...they watch TV."

Isacsson says she's had problems because she insists on doing independent study and taking higher level courses. But lectures are the tough part.

"It's so fast all the time. You're listening with your pen. So many words I didn't know how to spell."

She'd write those down, guessing at the spelling, "and I couldn't figure out what I meant" later, she says.

"I have found the people that are most open to me are the people from other countries," says Isacsson. "They yield more. They open up more, to learn what I have to say from my culture, while Americans say, 'This is not Sweden. You have to adapt.'"

Masumi Tsurumi is on exchange from Nagoya Gakuin University in Japan, studying economics. Her English does not come easy, although it was required at junior and senior ...and reading comprehension ...learned, Tsurumi says speaking ...glish is another matter.

"We have an English handicap ...listen to lecture in my case, s... ...times I can't understand what ...structor say. Sometimes I need ...transfer from English to Japanese ...she explains.

Vahid Hashemi, an Iranian, ha... ...head start. He went to high schoo... ...America, and started at a jun... ...college in California before coming ...UAF to major in electrical engine... ...ing.

He was surprised to find ma... ...things in Alaska are less expensi... ...than Outside.

"The food is not cheaper, defini... ...ly, but the overall living on camp... ...comes out cheaper than the Low... ...48," he says.

But what he likes best about Ala... ...ka is that people are "friendly, ve... ...friendly. When I was in the Lower 4... ...they were friendly, but there was ...distance," he says.

Cominco ties questioned

Continued from Page B-1

The employees get a three-day weekend and free travel home to their villages once each month, Parker said.

The South African government maintains that the country's blacks are not citizens of South Africa but are instead citizens of black-only villages, and they are allowed to live permanently on only 13 percnet of the country's land.

Cominco spokesman Don Townson said Cominco is in compliance with the Canadian Code of Conduct Concerning the Employment Practices of Canadian Companies Operating in South Africa.

The code, established by the Canadian government, directs companies to pay equal wages for equal work, to pay at least 50 percent above South Africa's minimum wage, and to allow workers to form unions.



State of Alaska

PERMANENT FUND DIVIDEND ASSISTANCE

A Representative from the Alaska Department of Revenue will be available for Permanent Fund Dividend Assistance Tuesday, April 16 thru Saturday, April 20 at the following location:

SEARS MALL - Sears Entrance

11:00 a.m.- 7:30 p.m. Tuesday thru Friday
10:00 a.m. - 6:00 p.m. Saturday

Note: There will not be a representative available from 3:00 - 4:00 pm.

Business License Applications and 1984 Claim for Refund of Political Contributions and Child Care Expenses will also be available. For information, assistance, or applications contact our representative at the above location or call 276-...

State contract delayed on Red Dog mine study

By ANN CONY
Daily News reporter

JUNEAU — Work on a $267,000 state contract to study options for financing Cominco Ltd.'s proposed Red Dog mine has been delayed by a conflict of interest within the company chosen to do the study.

The conflict, involving SRI International of Menlo Park, Calif., was revealed earlier this month when state officials learned that the SRI project manager was a retired Cominco officer. The man draws a monthly pension from Cominco, according to Bert Wagnon, executive director of the Alaska Industrial Development Authority, which is overseeing the study.

SRI has since named a new

See Back Page, RED DOG

Red Dog Mine study delayed

Continued from Page A-1

project manager to avoid the appearance of a conflict of interest, said Wagnon.

AIDA plans to negotiate with Cominco the terms of proposed state financing after the SRI study is completed. The study is to include recommendations on financing terms and conditions.

Cominco is asking the state for a $150 million low-interest loan to build a port and a 57-mile road to serve the proposed zinc mine north of Kotzebue.

Cominco, an international mining company based in Canada, plans to develop the Red Dog zinc deposit in partnership with Nana Regional Corp., a Kotzebue-based Native corporation that owns the land.

Cominco and the Sheffield administration have asked the legislature to appropriate the first $18 million of the loan this year, though terms and conditions for state financing of the port and road will not be nailed down before the legislative session ends.

Department of Administration Commissioner Lisa Rudd on Wednesday cleared the way for AIDA to enter into a contract with SRI by rejecting as too late a protest filed Monday by an SRI competitor.

Arthur Young & Co., whose proposal had been rated second-best, argued that the state should re-evaluate the top proposals for the financing study because SRI's proposal relied heavily on the experience of A. Olaf Wolff, a former vice president of Cominco, whom SRI originally designated as the project manager.

"SRI's independence and objectivity were compromised by placing an ex-Cominco official in the key role of project leader on their team," the Arthur Young protest said. "Obviously the firm selected to assist AIDA in developing a finance plan for the Red Dog mine and por will be in a unique position c influence concerning th state's potential bargainin position in negotiating th commercial terms and cond tions of any future state f nancial assistance to Comir co."

SRI officials could not b reached for comment Wednes day evening.

Wolff's resume, which wa included in SRI's study pro posal, states that he is former vice president of Com inco.

Wagnon said he and othe AIDA staff members wer aware of that when they rat ed SRI's proposal above Ar thur Young's and 11 others.

While the resume did no list the dates of Wolff's em ployment with Cominco, i appeared that he had beer with Cominco for five years and he had held held jobs with two other companies including SRI, since leaving Cominco, Wagnon said.

The AIDA board of direc tors, controlled by Sheffield appointees, on Feb. 25 accept ed staff recommendations that SRI receive the contract.

While negotiating the SRI contract, "I came to find out that he (Wolff) retired from Cominco in 1970 and that he was there for 25 or 30 years," Wagnon said. "When he said the word 'retired,' that's when the red light went on."

Wagnon said he learned that Wolff receives monthly pension payments from Cominco.

SRI replaced Wolff with Eugene Thiers, who, like Wolff, holds the title of senior management consultant, Wagnon said.

The AIDA evaluation team reviewed Thiers' resume and judged his qualifications to be equal to or better than Wolff's, and the AIDA board of directors concurred, Wagnon said.

AIDA had planned to submit a first draft of the Red Dog financing plan to the legislature in mid-April.

Anc Daily News 3/21/85 p1

Cominco closing may rescue zinc

by Olav Svela

When Cominco Ltd. announced a month-long closure starting mid-December of the Polaris zinc-lead mine and the Black Angel mine in Greenland, it was thought its European customers' appetite for concentrates had been sated.

That is true. The European smelters and refiners of Cominco zinc concentrates are sitting with seasonally high inventories.

But the real reason for the closing of two profitable mines could be quite different than what is generally accepted, says Raymond Goldie, mining analyst with Richardson Greenshields.

At the time of the announcement, Cominco and its overseas customers, who rely on the company for nearly one-quarter of zinc metal production, were in the midst of negotiations. In the absence of new agreements, the Europeans could be sitting with near-empty warehouses by the spring of 1985.

Mr. Goldie believes Cominco is prepared to extend the shutdowns to prove a point — if the Europeans still demand discounts from the posted $US900-per-tonne price, then Cominco will not be shipping concentrates.

"Cominco's actions appear to carry an implicit threat that, if zinc prices don't improve, Cominco will extend the shutdowns," Mr. Goldie said.

There is also the possibility the company, fed up with the braying for discounts by its traditional buyers, could strike a deal with Japanese smelters.

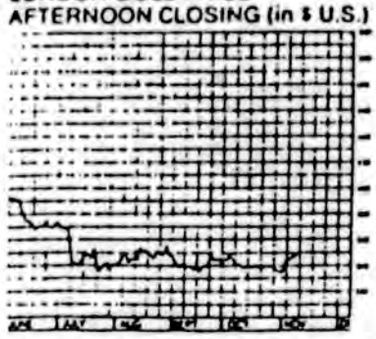
Nor does Cominco seem overly concerned about losing market share, Mr. Goldie noted. Marginal suppliers only reopened mines about a year ago when prices improved. With tags again at lower levels, these producers might be loathe to boost production until solid price gains have been made.

Besides, Mr. Goldie observed, any expansions would require six months to complete.

So Cominco is taking the lead in showing discipline.

"It demonstrates that at least one producer is willing to make a stand when it believes that it is not getting a fair price for its product," the analyst said.

LONDON GOLD PRICE — AFTERNOON CLOSING (in $ U.S.)



LONDON SILVER PRICE (in $ U.S.)



METAL AND MINERALS



Courtesy: GPS Publishing, Toronto

The implication for the price of zinc? Obviously, less concentrates should translate into a tighter market. It hasn't happened so far with free market prices (London Metal Exchange) having slipped nearly a cent to 39.1¢ (US) since the Cominco move.

But Mr. Goldie is confident that with supply and demand in fairly close balance even before Cominco's actions, prices will respond.

Cominco itself projects world shortages.

"Cominco and the smelters both have their eyes on the long term. Cominco wants to take full advantage of a major world shortage of zinc concentrates which, it expects, will develop by the late 1980s," Mr. Goldie said.

The strength of the yellow metal, meanwhile, continues. At press-time the second London fix (Nov. 13) was $US350.45 while the key December contract on Comex was trading at $350.90.

Richardson Greenshields analyst David R. James, noting "the much more positive tone to the gold market," said he expects a "ragged, slow erosion" of the American dollar if newly-re-elected President Ronald Reagan keeps his promise to try to lower interest rates.

DEC 1984
ALASKA OIL AND GAS NEWS
DECEMBER 1984

300

Closure of Polaris mine proof of Cominco's Red Dog commitment

By BERT TARRANT

There's more than meets the eye in Cominco Ltd. of Canada's recent announcement of a month-long closure (which began Dec. 1) of its Polaris lead-zinc mine in northern Canada.

When word of the closure was announced, the fact was jumped on by the Anchorage media as if it were proof positive that any efforts by the state to help Cominco Alaska and partner, NANA Regional Corp., develop the Red Dog lead-zinc project would be throwing so much money down a rat hole.

Cominco and NANA, the Kotzebue-based Native regional corporation, are seeking help from the state to take the edge off the steep front-end infrastructure costs (road and port) the joint venture faces if it is to develop what is considered the richest lead-zinc deposit in the world.

NANA and Cominco had made notable progress in pleading their case and demonstrating the benefits of the project (especially in local hire in unemployment-plagued northwest Alaska) for state help when the Polaris closure (and one in Greenland) was announced.

Tactically, the announcement came at an inopportune time. The knee-jerk reaction from the media and some state-help opponents was that the closures indicated Red Dog wasn't all it was cracked up to be.

But mining industry analysts of international repute are taking an entirely different view of the closures.

When Cominco announced closure of the Polaris mine and the Black Angel mine in Greenland, it was thought its European customers' appetites for concentrates had been sated.

That is true, according to industry observers in Canada. The European smelters and refiners of Cominco zinc concentrates are sitting on seasonally high inventories.

But the real reason for the closure of the two profitable mines could be quite different than what is generally accepted, says Raymond Goldie, mining analyst with Richardson Greenshields.

At the time of the announcement, Cominco and its overseas customers, who rely on the company for nearly one-fourth of zinc metal production, were in the midst of negotiations. In the absence of new agreements, the Europeans could be sitting with near-empty warehouses by the spring of next year.

Goldie believes Cominco is prepared to extend the shutdowns to prove a point -- if the Europeans still demand discounts from the posted $900 per ton price, then Cominco will not be shipping concentrates.

"Cominco's actions appear to carry an implicit threat that, if zinc prices don't improve, Cominco will extend the shutdowns," Goldie said.

There is also the possibility the company, fed up with the braying for discounts by its traditional buyers, could strike a deal with Japanese smelters.

Nor does Cominco seem overly concerned about losing market share, Goldie noted. Marginal suppliers only reopened mines about a year ago when

See COMINCO, Page 18

• Cominco's mine move shows spine

Continued from Page 1

prices improved. With lower prices once again, these producers might be loathe to boost production until solid price gains have been made.

Besides, Goldie said, any expansions would take six months to complete. So Cominco is taking the lead in showing discipline.

"It demonstrates that at least one producer is willing to make a stand when it believes it is not getting a fair price for its product," the analyst said.

Although it hasn't happened so far, that should translate into a tighter market and higher prices and Goldie is confident, with supply and demand in fairly close balance even before Cominco's actions, prices will respond.

Cominco itself projects world shortages. "Cominco and the smelters both have their eyes on the long term. Cominco wants to take full advantage of a world shortage of zinc concentrates which it expects will develop by the late 1980s," Goldie said.

And the late 1980s, incidentally, is when Cominco and NANA would like to bring the Red Dog project on line.

Natives, U.S., Audubon ba

By BETTY MILLS
Daily News correspondent

WASHINGTON — Reagan administration officials, Native leaders and representatives of two national environmental groups Monday endorsed legislation to ratify a land exchange that would allow development of a major lead and zinc mine in Northwest Alaska.

Environmentalists from three national groups opposed the bill, which would allow construction of a road across land that is now within the Cape Krusenstern National Monument. The road would allow the NANA Regional Corporation to gain access to its claim at the Red Dog mine, located 82 miles north of Kotzebue.

The testimony came at a Senate Energy subcommittee hearing chaired by Alaska Republican Frank Murkowski.

The bill was introduced by the Alaska delegation to implement the land exchange negotiated by NANA and the Interior Department. Under the deal, the Natives would receive 64,000 acres of land in the northern part of the monument and would relinquish 102,000 acres the corporation selected on the eastern side of the monument.

NANA and Cominco Alaska have joined forces to develop the mine and want to build an access road in what is now the northwest corner of the monument. The route was determined to be environmentally preferred and economically acc
environmental
ment issued las

Bill Horn,
secretary of th
partment, said
change "preser
tial integrity ar
purposes of Cap
National Monu
not significantl
istence uses and

Roger Conto
gional director
al Park Service
swap would be

Red Dog mine draws widespread support

Continued from Page C-1

Anchorage. The city's utility headquarters are in additional buildings and would not be included in a consolidation of city offices.

But the city is quickly running out of room for its workers and will need to lease more space for the 2,868 employees expected to be on the city payroll by 2005.

Mann and his staff looked at six options for future city office space, including purchasing the Hill Building, leasing a large office building to consolidate city offices and continuing the current practice of leasing several buildings throughout town.

But Mann said Monday the best deal for the city is to construct a new building with about 180,000 square feet of office space. A low-interest, tax-exempt loan could be used to finance the project, he said.

If work beg now on finding a site, arranging financing and designing a building, Mann said the new city hall could be ready in three years.

Any new leases in the next five years should include a clause that would allow it to be canceled when the new facility is completed, Mann said.

The city now pays about $957,000 a year in rent to Zamarello's Olympic Inc. If the lease is extended through 1990, the rent would rise to about $1.07 million a year.

The city pays about 89 cents a square foot in the Hill Building, well below current market rate for downtown office space, Mann said.

The $8.7 million asking price for the building could be a bargain. The property was appraised at $13.7 million by city assessors.

Red Dog mine

neficial to resident or migratory wildlife of the monument" and would enhance fishery protection.

Willie Hensley, vice president of NANA, stressed the importance of the Red Dog project as a means of employing Natives in the area.

"For our shareholders, Red Dog means approximately 400 year-round jobs. These jobs and the economic survival of our people are what is at stake," he said.

The mineral prospect, located in the DeLong Mountains of the western Brooks Range, represents one of the largest lead/zinc/silver deposits in the world, according to Henry Giegerich, president of Cominco Alaska. The deposit has known reserves of 85 million tons and the proposed mine has a projected life of 50 years, he said. The mining claim is not in the monument.

Murkowski said the land swap would benefit the Na-

See Page C-3, RED DOG

Red Dog Mine study delayed

Continued from Page A-1

project manager to avoid the appearance of a conflict of interest, said Wagnon.

AIDA plans to negotiate with Cominco the terms of proposed state financing after the SRI study is completed. The study is to include recommendations on financing terms and conditions.

Cominco is asking the state for a $150 million low-interest loan to build a port and a 57-mile road to serve the proposed zinc mine north of Kotzebue.

Cominco, an international mining company based in Canada, plans to develop the Red Dog zinc deposit in partnership with Nana Regional Corp., a Kotzebue-based Native corporation that owns the land.

Cominco and the Sheffield administration have asked the legislature to appropriate the first $18 million of the loan this year, though terms and conditions for state financing of the port and road will not be nailed down before the legislative session ends.

Department of Administration Commissioner Lisa Rudd on Wednesday cleared the way for AIDA to enter into a contract with SRI by rejecting as too late a protest filed Monday by an SRI competitor.

Arthur Young & Co., whose proposal had been rated second-best, argued that the state should re-evaluate the top proposals for the financing study because SRI's proposal relied heavily on the experience of A. Olaf Wolff, a former vice president of Cominco, whom SRI originally designated as the project manager.

"SRI's independence and objectivity were compromised by placing an ex-Cominco official in the key role of project leader on their team," the Arthur Young protest said. "Obviously the firm selected to assist AIDA in developing a finance plan for the Red Dog mine and port will be in a unique position of influence concerning the state's potential bargaining position in negotiating the commercial terms and conditions of any future state financial assistance to Cominco."

SRI officials could not be reached for comment Wednesday evening.

Wolff's resume, which was included in SRI's study proposal, states that he is a former vice president of Cominco.

Wagnon said he and other AIDA staff members were aware of that when they rated SRI's proposal above Arthur Young's and 11 others.

While the resume did not list the dates of Wolff's employment with Cominco, it appeared that he had been with Cominco for five years and he had held held jobs with two other companies, including SRI, since leaving Cominco, Wagnon said.

The AIDA board of directors, controlled by Sheffield appointees, on Feb. 25 accepted staff recommendations that SRI receive the contract.

While negotiating the SRI contract, "I came to find out that he (Wolff) retired from Cominco in 1970 and that he was there for 25 or 30 years," Wagnon said. "When he said the word 'retired,' that's when the red light went on."

Wagnon said he learned that Wolff receives monthly pension payments from Cominco.

SRI replaced Wolff with Eugene Thiers, who, like Wolff, holds the title of senior management consultant, Wagnon said.

The AIDA evaluation team reviewed Thiers' resume and judged his qualifications to be equal to or better than Wolff's, and the AIDA board of directors concurred, Wagnon said.

AIDA had planned to submit a first draft of the Red Dog financing plan to the legislature in mid-April.

Anc Daily News 3/21/85 p.1

State contract delayed on Red Dog mine study

By ANN CONY
Daily News reporter

JUNEAU — Work on a $267,000 state contract to study options for financing Cominco Ltd.'s proposed Red Dog mine has been delayed by a conflict of interest with the company chosen to do the study.

The conflict, involving SRI International of Menlo Park, Calif., was revealed earlier this month when state officials learned that the SRI project manager was a retired Cominco officer. The man draws a monthly pension from Cominco, according to Bert Wagnon, executive director of the Alaska Industrial Development Authority, which is overseeing the study. SRI has since named a new

See Back Page, RED DOG

Read 12/19/84 HH

REPRESENTATIVE TONY VASKA

Alaska State Legislature
House of Representatives

HOME
P.O. BOX 1495
BETHEL, ALASKA 99559

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99811

(907) 465 4914
(907) 465 3071

DISTRICT 25
AKIACHAK
AKIAK
ATMAUTHLUAK
BETHEL
CHEFORNAK
EEK
GOODNEWS BAY
KASIGLUK
KIPNUK
KONGIGANAK
KWIGILLINGOK
KWETHLUK
MEKORYUK
NAPAKIAK
NAPASKIAK
NEWTOK
NIGHTMUTE
NUNAPITCHUK
OSCARVILLE
PLATINUM
QUINHAGAK
TOKSOOK BAY
TUNTUTULIAK
TUNUNAK

December 19, 1984

Dear House and Senate Resource Committee Members:

I am enclosing a copy of an article titled "The Death of Mining," which appeared in the December 17, 1984, edition of Business Week. I hope that you will read this article, as it contains information which should be useful to you in deciding whether to spend state money to support the mining industry.

The article displays that the mining industry in this country is in serious trouble. The article says that:

> "The recovery of 1983-1984 largely by-passed producers of copper, iron ore, nickel, lead, zinc and molybdenum. Now, after a prolonger period of painful losses, these companies are reeling from what are clearly chronic problems: shrinking markets, huge debt, and depressed prices. Three or four major metals producers may even be forced out of the business over the next few years. In a very real sense the industry is dying."

As you know, the state does not receive tax revenues from the mining industry. Therefore, I fear that spending large amounts of money to support the mining industry would have little benefit to the state. There is a very real chance that even with this state financial support mining industries could not survive.

Sincerely,

Tony

Representative Tony Vaska

Encl.

ANV/krh



THE DEATH OF MINING

AMERICA IS LOSING ONE OF ITS MOST BASIC INDUSTRIES

Just south of Tucson, a two-lane highway rolls through the desert to Mexico. Along one 26-mi. stretch, it skirts five open-pit copper mines amid the saguaro cactus, mesquite, and ironwood. This is U.S. 89, known as *el camino de la muerte*—"road of death"—for the toll it has taken on drivers zooming north from a hard-drinking night in the border town of Nogales. But the macabre name might just as easily refer to the mines that line this lonely road. Once the workplaces of thousands, they are now either closed or up for sale—a stark reminder of the sad state not only of U.S. copper companies, but of most of the rest of the North American metals mining industry.

The recovery of 1983-84 largely bypassed producers of copper, iron ore, nickel, lead, zinc, and molybdenum. Now, after a prolonged period of painful losses, these companies are reeling f what are clearly chronic proble shrinking markets, huge debt, and pressed prices. Three or four major als producers may even be forced ou the business over the next few years a very real sense the industry is dyi

The pangs of mining are the la example of what may be an indust megatrend: the inexorable shift of production and processing of all b



(TOP) JACK RENDLEIGH (BOTTOM) JEFFREY HAMILTON

materials from the industrial countries to the Third World. Like steelmaking, metals mining is vulnerable to some fundamental forces. It is an industrial activity in which, these days, the developing nations have an almost unbeatable pair of economic advantages: cheap labor plus very-low-cost reserves.

The industry's plight ripples far beyond the dozen or so companies that dominate metals mining in North America. Just four years ago, metals mining in the U.S. was an $8.9 billion enterprise. By 1983 it had shrunk to just $5.9 billion. Mining employment, already down to 44,800 at the start of this year from 109,000 in 1981, could fall a further 30% over the next two to three years. The contraction is already creating modern-day ghost towns (page 68) in mining regions of the country. And while lower metals prices do mean at least a short-term benefit for manufacturers and consumers, some observers are concerned that the industry's problems may one day put national security at risk. "We need a copper industry, for defense purposes if nothing else," asserts Representative Morris K. Udall (D-Ariz.), chairman of the House Interior Committee.

REAL DANGER. For all these reasons, metals mining could become the next *cause célèbre* in Washington's continuing debate over industrial policy. Many officials within the Commerce, Defense, and Interior Depts., as well as in Congress, now believe the U.S. may soon have to choose between forgoing major segments of its minerals-producing capability and subsidizing them. "We are in real danger of losing 75% of our copper industry and 40% to 50% of our iron-ore industry," warns Robert C. Horton, head of the Bureau of Mines. All across the mining spectrum the signs are plain:

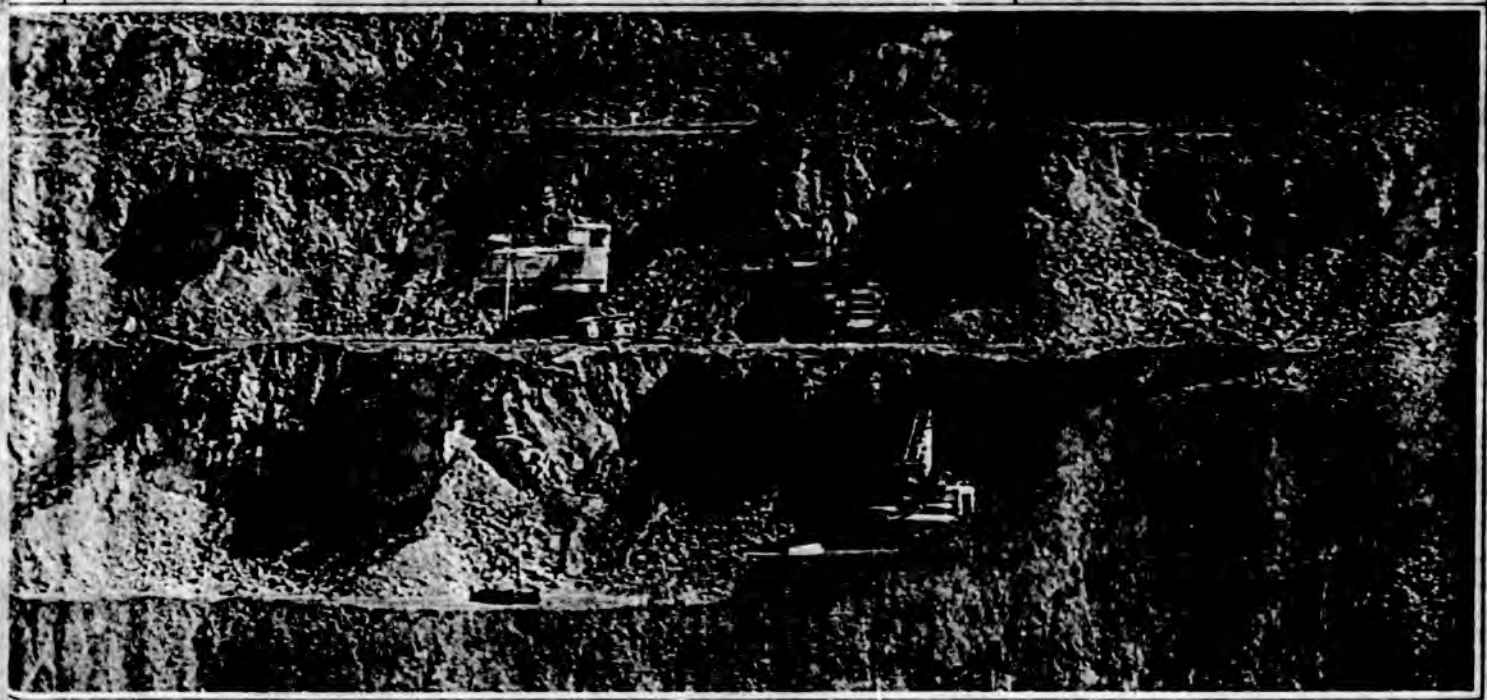
- The largest copper producers—Kennecott, Asarco, and Phelps Dodge—are deep in the red again this year. Phelps Dodge lost $50 million in the first nine months. Kennecott Corp.'s $41 million operating loss in metals during the third quarter brings its total loss in the business since 1981 to $483 million. Asarco Inc., which suffered a net loss of $70 million in the first nine months of 1984, had to cancel its fourth-quarter dividend.
- The major oil companies—which once rushed into metals as the next best thing to oil—are already giving up. Last month, Pennzoil Co. took a hefty $100 million write-off to reflect the decreased value of Duval Corp., its copper and molybdenum mining subsidiary. Three months earlier, Atlantic Richfield Co. took a $785 million write-off on Anaconda Minerals Co., a copper and metals fabricator it purchased in 1977 for $680 million. Both companies have put their metals operations on the block.
- In iron ore, U.S. Steel, Hanna Mining, and Pickands Mather announced in November yet another round of temporary mine closings that will shut down most of Minnesota's iron-ore Mesabi Range this winter. Days later, Canadian steelmaker Stelco Inc. announced that it was permanently closing its Griffith Iron Ore Mine. That added a further 1.5 million tons of ore-producing capacity to the 25 million that has been shut down for good in the U.S. and Canada since 1980.
- In nickel, zinc, and lead, the scene is much the same. Toronto-based Inco Ltd., a giant nickel producer, has posted 13 consecutive quarters of operating deficits. Noranda Inc., a major zinc and lead producer, lost $38 million in the third quarter, wiping out its first-half profit.

A series of factors accounts for mining's malaise. The industry is hobbled by a worldwide excess of capacity that shows no sign of abating. Despite disappointing demand for most metals, Third World countries, eager to exploit more of their natural resources, keep opening giant new mines that incorporate the latest recovery techniques. The strong dollar makes their low-cost products particularly appealing to U.S. buyers. Underlying all this is a weakening geological base: Many of the richest domestic base-metal reserves are coming close to depletion, while the low-grade ore that remains is becoming too costly to recover.

In their day, North American mining companies ranked among the world's industrial elite. Amax, Anaconda, Asarco, Kennecott, or their forerunners helped settle the West. Huge family fortunes derived from mining, including the Hearsts' and the Guggenheims'. Mining companies were among the first U.S. multinationals, dominating world markets during the boom that followed World War II. Amax Inc. once held 50% of the Free World market for molybdenum, a metal used in everything from light bulbs to jet engines. Inco once supplied 90% of the world's nickel.

WILD FLUCTUATIONS. Things began to change in the 1970s. Copper and iron-ore mines in South America and Africa were expropriated. The North American industry was hit with large environmental expenditures. New competitors from the Third World appeared, many of them state-owned and blessed with abundant reserves.

Price-setting, once the province of the North American oligopolies, shifted to



PENNZOIL'S SIERRITA COPPER MINE IN ARIZONA: THOUGH UP FOR SALE, IT HAS SO FAR SURVIVED BY CUTTING WAGES AND BENEFITS AND EXTENDING WORK HOURS

the floors of the world's commodities exchanges, chiefly the London Metal Exchange. Steady prices yielded to the wild fluctuations now the norm in the business. Demand for iron ore, nickel, and molybdenum started to wobble as the biggest customer for all three metals—the U. S. steel industry—faltered.

But the most devastating blows came with the recession of 1981-82. After hitting record, or near record, levels in 1979 and 1980, earnings of the North American producers collapsed. From 1982 through this year's third quarter, 10 of the largest independent North American mining companies reported net losses totaling $1.8 billion. At the start of 1981, their debt amounted to 36% of their capitalization; by the end of this year's third quarter, it was close to 41%—at least 10 percentage points above the average for U. S. industry. Return on shareholders' equity, which stood at 18% five years ago, is likely to end up this year at minus 1%. On average, the shares of the U. S. metals mining companies in the group sell for 36% below book value.

The situation has grown so grim that Interior Secretary William P. Clark, who last fall tried to win import relief for copper producers, is now publicly voicing his alarm. Worried about U. S. dependence on foreign minerals, Clark has appointed a 25-member task force to search for ways to preserve the nation's remaining mines. In mid-November, the panel, headed by retired Rear Admiral William C. Mott, issued its first substantive proposal. It called for the U. S. strategic metals stockpile to be placed in the hands of a Comsat-type, quasi-government corporation instead of several agencies. A single entity presumably could make decisions more smoothly than the present mix of overseers can.

ROCKS IN WATER. The industry's most visible problem is prices, which have lately had all the buoyancy of rocks in water. Even though strikes have curtailed 63% of U. S. lead mining capacity since summer, lead has nonetheless fallen an additional 5¢ a lb. since July. Although inventories of copper on the London and New York exchanges have dropped 50% since January and world demand for the metal may hit a record 8.3 million tons this year, copper is now 61¢ a lb.—9¢ below its price last April.

"These are not normal economics as we have known them," says Asarco President Richard de J. Osborne. "Based on the fundamentals and on historic precedent, we should now be several quarters into a price recovery." Yet, in real terms, the price of copper is lower now than at any time in this century except during the trough of

Industry executives h
blame on the mighty U.
has allowed foreign pr
metal to U. S. buyers a
to maintain—or even fat
gins in their own curre
Inco's Chairman Charles
U. S. dollar is killing us
tives are hoping the d
weaken. But even if it
too little, too late. "The
rency devaluation is ove
Brian E. Felske, a Toron
consultant. "A 10% decli
good, but it isn't going
producers back to profita

Moreover, a declining
necessarily mean that th
per, lead, and molybde
notes Firoze E. Katrak,
of the Boston commoditie
Charles River Associates
son: Even in times of glut
ers set their prices on th
ing costs of the most exp
which happen to be in th
dollar would thus affect
tion costs nor market
U. S.—and would also ha
on worldwide supplies o
though Katrak believes pr
rise moderately over the

WHY CHILE IS THE KING OF COPPER



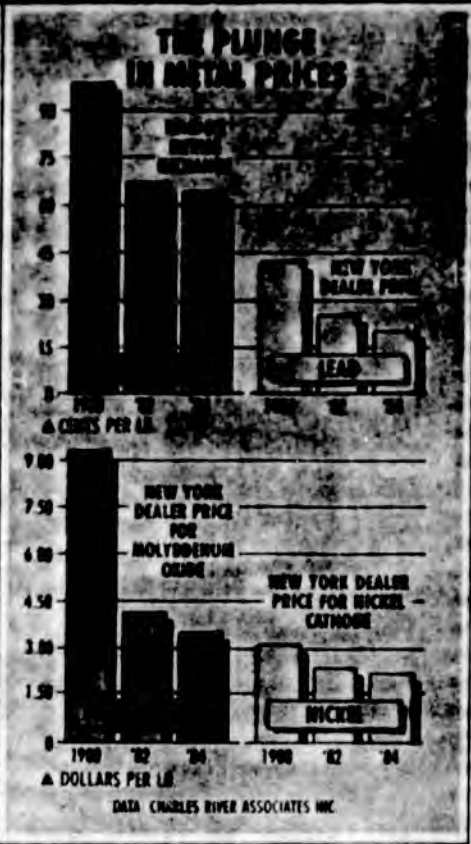
ABBAS/MAGNUM

CHEAPER LABOR: CODELCO MINERS' WAGES ARE HIGH BY CHILEAN STANDARDS—BUT ONLY A TENTH OF WHAT U. S. MINE

he thinks they will more likely languish near present levels. He predicts that copper will sell for less than 90¢ a lb., in constant dollars, through the rest of the century and that nickel and lead prices will stagnate into the 1990s. The price of molybdenum, he predicts, will remain weak through 1987.

A significant increase in volume also seems far off. Metals experts almost all agree that demand will hold steady, or at best grow modestly, over the next decade. Cleveland-based Hanna Mining Co. is forecasting that North American consumption of iron-ore pellets will average no more than 74 million tons a year through 1990—a far cry from the 109 million tons consumed in the peak year of 1979. Demand for copper, nickel, lead, and zinc is seen increasing by only 1% to 2% for the next 10 years.

A host of factors is curbing growth. New materials, such as plastics and optic fibers, are replacing metals in many product lines. Katrak estimates that, by 2000, technological advances will enable manufacturers to use only two-thirds as much copper per unit of output as they do today. Lead is being banished from gasoline, its second-biggest market, while longer-lasting, lighter batteries are slowing consumption in its primary market. More and more metals recycling is occurring almost everywhere.



In the few markets where demand continues to grow respectably, supplies keep growing as fast or faster. According to Katrak, world molybdenum consumption may increase 3.5% a year through 1990. But so many new molybdenum mines have opened up during the past five years that annual capacity is now 69% greater than the 166 million lb. expected to be consumed next year.

For many struggling producers of North America, the telling factor is the decline in the grade of their ore. "The high-grade, easily accessible deposits have been mined out" in the U.S., says John W. Goth, Amax's senior executive vice-president. Most of the richest deposits now are in developing countries. That is a major reason why the giant Corporacion Nacional del Cobre de Chile (CODELCO) is now the world's foremost producer of copper (below).

Similarly, Cia. Vale do Rio Doce, the Brazilian state-owned mining company, will be the world's premier iron-ore producer when its giant Carajás mine comes on stream next year. Not only does Carajás contain 20 billion tons of the world's richest iron ore, but Brazilian labor costs are 78% lower than those at U.S. mines. By 1988, output could hit 35 million tons a year—nearly as much as the entire U.S. produced last year.

'UNCONSCIONABLE' LOAN. It is unlikely that Carajás ore will flood the U.S., since domestic steelmakers have a huge investment in North American iron-ore mines and processing facilities. But Japanese and European steelmakers have signed long-term contracts that should allow them to buy Carajás ore for even

If Chile is the Saudi Arabia of copper, Corporacion Nacional del Cobre de Chile (CODELCO) is the Petromin of Chile. Formed as the successor to five mining companies nationalized in 1971, this state-owned giant is blessed with more than 25% of the world's known copper reserves. Its gargantuan Chuquicamata mining and processing complex yields ores with 1.65% copper—2½ times what a typical U.S. deposit contains. At 44¢ per lb., CODELCO's production costs are the world's lowest. Not surprisingly, it accounted for 16% of all copper mined by non-Communist countries last year.

While sheer size gives CODELCO operational advantages, its rock-bottom labor costs are what make competitors weep. Although its 26,000 workers earn only a tenth of what U.S. copper companies pay, their wages are much higher than average for Chile, where 25% of the work force is idle.

In 1983, while the North American mining industry was deep in the red, CODELCO netted a respectable $220.6 million on sales of $1.8 billion. This year, in spite of severely depressed copper prices, it is expected to earn $140 million. Profits would be even higher were it not for a government decree that diverts 10% of copper revenues to the Chilean armed forces.

As U.S. copper producers see it, CODELCO's success comes mainly at their expense. Last year the company shipped a record 330,000 tons to the U.S.—46% of copper imports and 15% of all the copper used by U.S. manufacturers. Clearly, the strong dollar was a factor. But U.S. companies say CODELCO's refusal to scale back despite bulging world inventories is the prime reason world copper prices are so low. While U.S. mines are typically operating at 40% of capacity, CODELCO continues to run flat out. Douglas J. Bourne, chairman of Duval Corp., Pennzoil Co.'s mining subsidiary, charges that this is a deliberate attempt to drive U.S. companies out of the business.

RADICAL BREAK? CODELCO officials respond that their operation is the chief prop under a teetering economy. Chile depends on CODELCO for 46% of its foreign exchange. The government's 1983 interest payments on $20 billion in debts consumed all of the $678.5 million the company handed over to the state in taxes that year. Chile's military strongman, Augusto Pinochet, is likely to impose additional unpopular austerity measures to maintain debt payments, so the pressure will remain on CODELCO to keep production and exports high. The company is authorized to spend $1.4 billion by 1988 to expand its mines. Outsiders estimate that by 1990 it could be mining 40% more copper than the 1.1 million tons it now produces a year.

Simon D. Strauss, a former Asarco Inc. vice-chairman who is now a consultant, concedes that the Chilean government has monumental problems. But he believes that both CODELCO and Chile would be better off in the long run if they cut copper production to raise prices. That would ultimately bring in more foreign revenue, he says, while slowing the depletion of Chile's most important resource.

Chilean officials point out that for such a strategy to work, CODELCO would have to move in concert with other Third World producers, who are also spewing out copper at an accelerating rate. Given the developing world's plight, such cooperation is questionable. And that sort of planning would mark a radical break with Santiago's 11-year reliance on the free market. Some CODELCO executives even argue that copper's reign as a key metal is limited, so Chile should sell all it can before the market shrinks.

By John O'Brien in Santiago and Patrick Houston in Toronto

CHART BY BRIAN MCDONALD

less than this year's Brazilian price of $17 per dry metric ton, and that will pressure U.S. producers to make even more drastic cost cuts. Says Robert McInnes, president of Cleveland's Pickands Mather & Co.: "Importation of subsidized or low-cost foreign ore is, without question, one of the gravest threats our industry faces." Equally ominous, the cheap Carajás ore will cut the production costs of some foreign-made steel, which already claims more than 20% of the U.S. market.

The Carajás mine project particularly galls U.S. executives because its $5.1 billion price tag was underwritten with a $500 million loan from the World Bank. "The world did not need Carajás," snaps Hanna Chairman Robert F. Anderson. Adds S.K. Scovil, chairman of Cleveland-Cliffs Iron Co.: "It was unconscionable [that] they made that loan."

Given so many adverse forces, it seems only a matter of time before the North American metals mining industry suffers a major casualty. Analysts contend that Phelps Dodge Corp., the second-largest U.S. copper producer, is especially vulnerable because it relies on copper for almost all its revenues. The

THERE'S NOT MUCH JOY IN LEADVILLE

For more than a century, Leadville, Colo., has mirrored the ups and downs of the mining industry. The town, then called Oro City, was devastated in 1865 when its gold mines played out. Twenty-eight years later, it was racked by the great silver crash, which turned local kings into paupers overnight. Now molybdenum has dealt Leadville a cruel blow.

Four years ago, Amax Inc.'s Climax mine employed 3,000 and had a payroll of more than $80 million. Then demand for molybdenum plummeted. Amax closed the mine, and Leadville's unemployment rate leaped to 40%. Although Climax has since reopened with some 800 employees, the company has made it plain that the mine will never again employ thousands.

So residents of historic Leadville are now courting tourists and small businesses. This, the town hopes, will open up 2,500 jobs in 5 to 10 years. If it does, Leadville could provide a prototype for other withering mining towns.

BAWDY HOUSES. Leadville has a wealth of Old West lore. Molly Brown got rich on its gold; Oscar Wilde outdrank the miners at a local silver mine. Once known as "the wickedest town in the West" because of the bawdy houses that lined Stillborn Alley, it still boasts unspoiled gingerbread cottages and Victorian commercial buildings.

After Amax shut down Climax, Leadville hired a full-timer to head its Chamber of Commerce, launched a series of summer events that included gold panning and a 100-mi. ultramarathon along the Continental Divide, and invested $40,000 in a multimedia presentation ballyhooing its assets. By yearend the town will have spent $100,000 marketing itself, and its merchants have approved a $900,000 bond to upgrade the sidewalks and lighting.

As a result, says Elaine Kochevar, executive director of the Chamber of Commerce, tourism jumped 75% last summer, and revenues from the local sales tax rose nearly 25%. She expects more of the same this winter. With an $850,000 grant from the state, Leadville's ski area, Ski Cooper, has expanded. This year it will offer lift tickets at $12 a day—half the price at nearby Vail. Visitors are invariably reminded that a three-bedroom house in Leadville—just two hours from Denver—typically costs $45,000, a fraction of the price at other Colorado ski resorts.



THE TOWN—BETRAYED BY GOLD, SILVER, AND MOLYBDENUM—IS TURNING TO TOURISM

BARRY STAVER

Big investors have taken notice. Dallas' Trace Investment Inc. plans to purchase six buildings, including the 1885 Vendome Hotel, where President Benjamin Harrison once trod a lobby floor inlaid with silver dollars. The company will pay about $1.5 million for all six buildings and intends to spend $10 million restoring and converting them to modern hotels or condominiums.

Revving up tourism may prove easier, however, than attracting new businesses. One reason: Two-mile-high Leadville, situated just below the timberline, seems desolate to many outsiders. Winters are so long that the locals quip that Leadville has only two seasons—this winter and last.

The days are gone in Leadville when the Guggenheims could build a fortune starting with one small smelter, or a David May could launch a nationwide department-store chain. "We're not going to land a Sperry Rand," admits Kochevar. Still, she adds, small manufacturers and distributors could be drawn to Leadville, with its ready labor and easy access to a railroad, airport, and interstate highway.

MELTDOWN. Eight new enterprises have started up in the past two years. To draw still more, the town has formed the Leadville Improvement Group with $50,000 in state assistance. This office is now applying for a $250,000 grant from the U.S. Housing & Urban Development Dept. To be matched by local banks, the money would finance low-cost loans to new businesses.

Compared with some previous schemes for reviving Leadville, the current plan looks eminently workable. Following the depression of 1893, for example, the town built a three-acre ice palace, complete with ballroom. It did a booming business—until a warm spell began melting its ice blocks.

By Sandra Atchison in Denver

company has lost $187 million since 1982, and "unless the world copper price improves very sharply throughout the rest of the decade, it is difficult to see how the company can survive," says William G. Siedenburg, an analyst with Smith Barney, Harris Upham & Co.

GETTING TOUGH. The day of reckoning also may be nearing for Kennecott, the copper mining giant acquired by Standard Oil Co. (Ohio) three years ago for $1.8 billion. Sohio has been mulling over a proposed $1 billion modernization for Kennecott's huge Bingham Canyon mine in Utah but has not approved the expenditure. That mine "is not something you'd lightly turn your back on," says Sohio Chairman Alton W. Whitehouse Jr. "But we just aren't going to take [Kennecott's] losses indefinitely."

As Big Oil backs out of metals mining, the independents are struggling to survive. While some are closing down high-cost operations, others can't even find the money to meet the steep severance and shutdown costs without eating into the cash they need to pay their debts. Corporate staffs are being cut. Falconbridge Ltd., a Canadian nickel producer, has slashed white-collar employment so much that top management now occupies one floor instead of three in its Toronto headquarters. Chairman William James even shares a secretary.

Mining companies are also getting tough with their unions. The most dramatic example is Phelps Dodge, which in July, 1983, accepted a strike at its Arizona mines and smelters rather than settle for the terms other copper producers agreed to. The company has replaced the strikers with nonunion workers and now awaits court rulings on decertification votes. In October, Pennzoil's Duval subsidiary unilaterally imposed a new labor contract on workers at its Sierrita (Ariz.) mine, cutting wages 15%, dropping cost-of-living adjustments, and increasing work time for all employees by two shifts a month.

These cost-cutting measures have resulted in impressive productivity gains. The cost of producing copper in the U. S. has dropped 25% in the past three years. Inco has lowered its breakeven point for nickel 12% this year alone, to $2.30 a lb., and Chairman Baird's goal is to get down to $2 next year.

NO FAT. More gains are needed. "We've reduced costs, but not at the same precipitous rates as metals prices have declined," says Kennecott President G. Frank Joklik. But making further headway will be tough. "The mining companies don't have any more fat to shave off," says Canadian consultant Felske.

Because they see diversification as a way out of their troubles, some base-metals mining companies are rushing into gold—so many, in fact, that North American gold production is expected to jump 50% by 1989. "The only thing worth developing now is a good-grade precious metals deposit," says Alfred Powis, chairman of Noranda. His company is spending $230 million to develop its Hemlo stake in Northern Ontario, a gold vein that eventually could add $38 million to the company's annual profits.

Other companies are looking further afield. Newmont Mining Corp. intends to add a "fourth leg" to its copper, gold, and energy businesses, says Chairman Plato Malozemoff. Hanna is on the diversification trail too, but it will be cautious: It has been burned by bad moves in the past. Some 85% of its $28.8 million loss last year resulted from energy businesses it acquired in the late 1970s.

Amax, which had eight separate metals divisions, is restructuring all its mining operations to make them more market-responsive. The company also wants to expand into more specialized products such as molybdenum chemicals, ceramics, and plastic composites. "That's the only way," says Chester O. Ensign Jr., who heads the company's strategic planning and development group, "to make sure Amax doesn't perish."

Consultants agree such changes are necessary. "Metals companies have got to become more market-driven," says Frank Schwab Jr., president of Fenvessy & Schwab Inc., a management consulting firm in New York. He also urges companies to get more involved in commodities trading to help offset the volatility of their business. Finally, Schwab advises his North American clients to enter joint ventures, especially with foreign partners. "Somehow," he says, "our companies have to develop a workable program to finance the development of ore reserves outside the U. S."

Here and there, mining companies are beginning to embrace such strategies. But even insiders acknowledge that the industry as a whole is changing too slowly, because of what some see as an anomaly in the thinking of many metals mining executives: While they are rarely averse to the risks of developing new ore deposits, that same spirit usually does not extend into the marketing and financial aspects of their business. "The industry is dominated by guys who bring things to the surface," says consultant Felske. "They have to become more sophisticated in the commercial side of the business."

REDEMPTION? Some believe that redemption may be found in high technology. The Colorado School of Mines has launched what could become a $25 million research effort to adapt automated factory techniques to mining. In October, Inco created a separate equipment company to develop machinery for continuously mining and transporting ore, now done in batches. But the potential of such innovations is limited. Concludes Noranda Chairman Powis: "There's not going to be one technology that will change the economics of this industry."

The chance of getting much government help is dim. Mining companies lack political clout because their constituency is relatively small and they have been unable to put together a unified lobby. Moreover, a growing chorus of voices argues that a shortfall in U. S. metals production is not necessarily a problem. After all, notes John A. Cordes, head of the Mineral Economics Dept. at the Colorado School of Mines, "countries like Japan and West Germany have very, very strong economies with very low levels of metals self-sufficiency."

The U. S. is rapidly heading in their direction. Indeed, if another broad-based recession were to hit the U. S. in 1985 or 1986, it would probably sound the death knell for an industry that is already permanently bedridden.

By Patrick Houston in Toronto, Zachary Schiller in Cleveland, Sandra D. Atchison in Denver, Mark Crawford in Washington, James R. Norman in Houston, and Jeffrey Ryser in São Paulo

THE SAD STATE OF METALS MINING

Composite figures for 10 leading independent metals mining companies: Amax, Asarco, Cleveland-Cliffs, Cominco, Falconbridge, Hanna, Inco, Newmont, Noranda, and Phelps Dodge

	1979	1980	1981	1982	1983
	Millions of dollars				
NET EARNINGS	$1,770	$1,872	$539	$ -963	$ -778
TOTAL DEBT	5,086	5,814	6,773	7,876	7,744
	Percent				
DEBT AS A PERCENT OF CAPITALIZATION	34%	34%	36%	42%	
RETURN ON EQUITY	18	16	5	-8	

DATA: COMPANY FINANCIAL REPORTS



Alaska Environmental Lobby, Inc.

204 N. Franklin Street, Suite 3 Juneau, Alaska 99801 907-586-2345

State Financing For the Red Dog Lead Zinc Mine
(Delong Mountain Transportation System)

The Alaska Environmental Lobby, a coalition of 19 groups within the State, has followed and testified on legislation involving the Red Dog mine for the last three years. The issue is important to us for four reasons. First, we are interested in all legislation affecting natural resource conservation and development. Because of its size alone, the Red Dog project deserves special attention. Second, the mine and transportation corridor are in an undeveloped part of the state, and we want the development to be sensible and environmentally responsible. Third, the proposed state subisidies to this project are huge. In effect, the state is going into the mining business without public debate or approval. Fourth, the state is delegating enormous power to a state authority, the Alaska Industrial Development Authority (AIDA). The history of the Alaska Power Authority shows that the state should be much more cautious with giving power to AIDA.

The Red Dog Mine. The world's largest producer of lead and zinc, Cominco, has entered into a partnership with NANA Regional Native Corporation to develop a mine in Northwest Alaska, about 90 miles from Kotzebue. It will be on NANA Corporation land. At full production, it could be the world's largest zinc mine. The ore body is extremely rich and easy to remove. Hank Giergerich, the president of Cominco Alaska, has stated that once the mine is developed, the operating costs will be lower than 90% of the world's zinc mines.

Development Costs. The promoters of this impressive mine say that they need financial aid from the state of Alaska before they can develop the project. Strange as it sounds, they say that Cominco, a large healthy multinational corporation, cannot raise the needed funds from private sources. They go on to say that help from the state will make the difference between stop and go.

It is certain that the development costs for the mine will be high. The site is in a roadless area, and the most direct route to tidewater is 55 miles. There is no port facility at tidewater, and shallows will prevent ocean freighters from getting close to shore. The most direct route to tidewater requires Congressional approval. The alternatives are longer and more expensive.

ALASKA CENTER FOR THE ENVIRONMENT • ALASKA CHAPTER, SIERRA CLUB • JUNEAU GROUP, SIERRA CLUB • SITKA GROUP, SIERRA CLUB
KNIK GROUP, SIERRA CLUB • DENALI GROUP, SIERRA CLUB • ANCHORAGE AUDUBON SOCIETY • ARCTIC AUDUBON SOCIETY
DENALI CITIZENS' COUNCIL • ALASKA FRIENDS OF THE EARTH • JUNEAU AUDUBON SOCIETY • KACHEMAK BAY CONSERVATION SOCIETY
KENAI PENINSULA AUDUBON SOCIETY • KODIAK AUDUBON SOCIETY • LYNN CANAL CONSERVATION • ALASKA WILDERNESS GUIDES ASSOCIATION
SITKA CONSERVATION SOCIETY • NORTHERN ALASKA ENVIRONMENTAL CENTER • SOUTHEAST ALASKA CONSERVATION COUNCIL

The crucial question is whether the high development costs of the mine will be paid off in the long run by the profits from the mine. The profits will vary tremendously with changes in the world price of lead and zinc. These prices are very hard to predict. The prices for lead and zinc went into a slump at the last recession, and so far they have not recovered.

State Participation. The state is being asked to build a road and port facility for the use of the Red Dog mine, as well as other mines which may or may not be developed in the same area. If the state built the port and road, it would help Cominco, because Cominco would not have to raise and repay so much money to get the project started. The project would be financed with revenue bonds issued by the state. Cominco and any other mines would pay tolls for the use of the road. According to current Department of Commerce projections, the tolls would pay only part of the costs of the road and port facility.

The difference between the tolls that Cominco pays and the repayments on the bonds that the state makes would be a subsidy of the mining road and port. The magnitude of the subsidy would depend on the tolls negotiated with Cominco. The lower the tolls, the higher the subsidy. Interest rates for bonds also are a factor. If bond interest rates were high at the time of the bond sale, the state would have to pay more. The bond sale will be before construction, but tolls will be collected only after construction, or possibly later. The longer the interval without toll payments from Cominco, the greater the state contribution to the project.

The Economic Development Fund. Last year the Legislature created the "Economic Development Fund" within the Alaska Industrial Development Authority. This was the result of a late night last minute maneuver on the House side that also authorized a revenue bond sale for the Knik Arm Crossing. The economic development fund would provide the difference between low toll payments and high bond payments. The current plan for subisidy would have the state dedicate $18 million dollars and a bond portfolio worth $112 million to the fund. This amounts to a blank check for the Red Dog project with an upper limit of $140 million, if precise restrictions on not placed on the use of the fund.

The Bond Issue. The state plans a sale of $175 million dollars to build the road and port facility. This is a revenue bond sale, and so does not require voter approval, as would state guaranteed "general obligation bonds", such as school bonds. The revenue bond issue will be backed up by the tolls on the road and port, and the $140 million in the economic development fund mentioned above. To further reassure investors in the bonds, the authorization of the bond issue will also have "moral obligation" language, which instructs AIDA to notify the legislature and the Governor if the economic development fund is depleted and there is danger that the bondholders will not be paid. Thus the backing of the state is not guaranteed, but it is suggested.

Legislation has been introduced on both sides of the Capital to set up the bond issue and economic development fund. They are HB 369, HB 370, SB 279 and SB 280. Draft legislation, which may be amended to HB105, Anchorage Airport Bonds, does the same thing, but with fewer restrictions.

Hasty Decisions. Incredibly, this legislation is being considered before the state has an accurate view of the profitability of the mine. They do not know if the road and port subsidy is really needed to help the mine, or if Cominco is just trying to mine the state for extra dollars. If a subsidy is needed, they do not know the magnitude of it. A detailed finance plan is being prepared by Stanford Research Institute under contract to the State of Alaska. But it will not be ready in final form until August. Draft versions may be ready before the Legislature adjourns. Only after the finance plan is ready will the state have an idea of how much of the $18 million in cash and $112 million in bonds is really needed to get the mine started.

RED DOG

RECOMENDATIONS OF THE ALASKA ENVIRONMENTAL LOBBY

1.) The State should not subsidize mining ventures. Mining is a complicated and speculative business. The estimation and assumption of risks in mining development should be left to the private sector. If the world's largest producer of lead and zinc can't find investors to develop the Red Dog mine, the state should not try to second guess the market.

2.) If Legislators are determined to subsidize mining ventures, they should have an overall plan for subsidizing mining ventures. Is Red Dog the best mine to subsidize? Will the next mine to come along receive such generous treatment?

3.) The State is being hurried into a blind commitment to Red Dog. The legislature should wait until the Stanford Research Institute financial plan is completed, and until affected agencies have a chance to respond to questions from Legislators about the subsidy plan.

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

7TH FLOOR FRONTIER BLDG.
3601 C STREET, SUITE 722
ANCHORAGE, ALASKA 99503
PHONE: (907) 562-2728

RECEIVED JAN 2 8 1985

RESOLUTION OF INTENT

WHEREAS, the State of Alaska encourages the diversification of the Alaska economic base through the development of mineral resources; and

WHEREAS, the State of Alaska supports economic development in Alaska and the expansion of regional job opportunities; and

WHEREAS, the State of Alaska recognizes that the lack of transportation facilities in Northwest Alaska poses an economic barrier to the attainment of economic development; and

WHEREAS, the Alaska Department of Commerce and Economic Development is the principal state department responsible for facilitating economic development in all regions of the state; and

WHEREAS, Cominco, Alaska, a division of Cominco, American is considering the development of the Red Dog mineral deposit in the DeLong Mountains area; and

WHEREAS, other mineral resources have been identified in the area near the Red Dog mineral deposits; and

WHEREAS, the Alaska Department of Commerce and Economic Development, in a report entitled Red Dog Project Analysis, identified substantial regional benefits in the event that the DeLong Mountains transportation project is developed; and

WHEREAS, the projected cost of the development of the Red Dog mineral site, excluding the cost of developing transportation facilities, is estimated to be $290 million (in 1985 dollars); and

WHEREAS, the projected cost of the transportation facilities is estimated to be $152 million (in 1985 dollars); and

WHEREAS, the lack of available transportation facilities near the mineral deposit may substantially delay private development of the Red Dog mineral deposit; and

WHEREAS, it is contrary to the best interests of the state for there to be a substantial delay in the development of the DeLong Mountains mineral resources and, in particular, in the development of the Red Dog mineral deposit; and

WHEREAS, the transportation facilities which, among other public purposes, would be used in conjunction with the development of the Red Dog mineral deposit are collectively referred to as the Delong Mountains transportation project; and

WHEREAS, the Alaska Industrial Development Authority (AIDA), a public corporation of the State of Alaska has authority under Alaska Statutes Title 44, Chapter 88, to participate, either independently or in conjunction with a private developer, in the financing and development of public transportation facilities such as the DeLong Mountains transportation project;

NOW THEREFORE BE IT RESOLVED that Cominco, Alaska and the Alaska Department of Commerce and Economic Development, on behalf of the State of Alaska, agree to the following STATEMENTS OF INTENT:

1. The State of Alaska supports ongoing efforts by the Alaska Industrial Development Authority to examine the feasibility of AIDA financing of the DeLong Mountains regional transportation project.

2. The parties recognize and support AIDA's intent to promptly execute all necessary professional services contracts, including a contract with a firm nationally recognized in the field of financial planning, to assist in the preparation of the financial plan required pursuant to AS 44.88.173.

3. If AIDA participates in the financing of the DeLong Mountain transportation project, the parties agree that AIDA and Cominco, Alaska will enter into an agreement which will provide, inter alia, for the establishment of equitable user fees payable to AIDA in an amount sufficient to enable AIDA to repay amounts loaned by the state to AIDA; and for the refunding of certain state expenditures in the event that Cominco, Alaska decides not to proceed with the development of the Red Dog mineral deposit.

4. The State of Alaska states its intent to submit appropriate funding requests to the Alaska legislature in support of the DeLong Mountain transportation project.

5. The State of Alaska and Cominco, Alaska recognize that this Resolution of Intent does not limit or otherwise affect AIDA's Board of Directors' independent judgment with respect to AIDA's participation in the DeLong Mountain transportation project, nor does this Resolution of Intent limit or otherwise affect the independent judgment of the Alaska legislature upon its consideration of funding requests.

Date: Dec 18/1984

H. M. Giegerich, President
Cominco, Alaska

Date: Dec 17, 1984

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

I. BACKGROUND

To help understand the Alaska Industrial Development Authority's (AIDA) potential role in the DeLong Mountains transportation project, some history is useful. Prior to 1984, AIDA could not have participated in projects such as that contemplated for the DeLong Mountains, in that State law did not permit AIDA to own projects, except in cases of default. Rather, what AIDA could do then, and still does now, is to issue tax exempt industrial development bonds to assist private investors in the financing of a variety of projects. AIDA has been very successful in this role, having issued over $700 million worth of tax exempt revenue bonds during the past few years. However, despite this success AIDA still could only play a passive role, in that AIDA could neither initiate or own projects.

During the 1984 legislative session, both the Governor and the Legislature decided that a more active State participant was needed for certain economic development projects. Many proposed developments are likely to be of a joint public-private nature, because of resource ownership, access, and so forth, hence an active state representative is needed. This is especially true if it appears that the State will become involved financially. For instance, in many situations, new infrastructure facilities have to be constructed before development can proceed. Although these facilities are, by and large, the responsibility of developers as a group, they are not necessarily the responsibility of any single developer. And, if the cost of providing the required infrastructure facilities has to be borne by one developer, it may be that these costs, in addition to the developer's other costs, are simply too much for the proposed project to bear, so the development does not proceed. In such cases, it may be appropriate for a governmental entity to construct the necessary infrastructure facilities, and then charge fees to all users to pay for the facilities. Furthermore, if the State decides to participate financially in providing these infrastructure facilities, it is much easier to do so via a governmental entity as opposed to directly with a private developer.

Of course, State government should not get involved in a development project simply because it is difficult for the developer to pay for some costs. Rather, State involvement should be based upon the benefits of the project to all Alaskans. In light of the State's almost singular dependence upon the petroleum industry, development of new, non-petroleum based or dependent industries is of critical importance. Further, when evaluating a proposed new development, it is important to keep in mind the total impact of that project or development. Generally the project is being evaluated during its start-up phase, where costs are significant and revenues are, at best, just starting. Since the State is concerned with the future economic situation, as well as the present, the benefits to the State over the long term must be given adequate weight, rather than focusing strictly on short term return.

II. WHY IS AIDA INVOLVED

The question remains, why did the Governor and the Legislature decide AIDA should have the ability to actively become involved in infrastructure projects such as discussed above. Although there may be other reasons, at least some of the major factors were:

(1) AIDA is a known, existing entity that has an independent legal existence from the State, but is still controlled by the State.

(2) AIDA can (and does) issue debt that is separate and distinct from the State.

(3) AIDA has experience with complex projects.

(4) AIDA has extensive experience with financing and bonding, particularly tax exempt bonding.

As a result, in 1984 the Legislature passed Chapter 162, which broadened AIDA's ability to participate in economic development projects. As well as expanding AIDA's powers, Chapter 162 also established a new fund in AIDA, the Economic Development fund, that is legally and financially separate from the Authority's existing fund. It is through this new fund that AIDA can exercise its new powers to:

(1) own and operate certain types of projects;

(2) charge user fees for these projects;

(3) issue debt for these projects; and

(4) accept state loans or grants for these projects

III. AIDA AND THE DELONG MOUNTAINS TRANSPORTATION PROJECT

Because of AIDA's newly acquired abilities, the decision was made to involve the Authority in the DeLong Mountains transportation project. The transportation project itself consists of a port and a 55 mile road in the western DeLong Mountains area, near Kivalina. The cost of the port is estimated at $65 million, and the cost of the road is estimated at $85 million, for a total estimated cost of $150 million for the project, with all figures in 1985 dollars. Although this region is a heavily mineralized area, only one mine site is presently close to going into production. This is the Red Dog deposit, a zinc, lead and silver deposit being jointly developed by Cominco Alaska and the NANA Regional Corporation. Other major deposits are known, such as GCO Mineral's Lik deposit, but development of these are thought to be five years or more behind Red Dog.

What is being considered at this time is to have AIDA construct the transportation project, and then charge fees (or tolls) to all users. At first, it is expected that Cominco Alaska would be the only significant user, but eventually other users are expected.

At this time, AIDA's continued involvement and eventual completion of the project looks favorable, however, no final "go-no go" decision has yet been made. Prior to making a final decision, the Authority has to prepare a Finance Plan, as prescribed by AS 44.88.173.

The Finance Plan has to identify the operational and capital costs of the project, and identify where all revenues will come from to pay these costs. The Finance Plan will offer a variety of financing options, with at least one of the options being that approach which minimizes any cost to the State. In preparing a Finance Plan, AIDA has identified the following guidelines:

(1) attempt to minimize the total costs of the project;

(2) minimize any State General Funds required;

(3) make maximum use of tax-exempt financing;

(4) design a plan that has the optimum chance of completing the project as expeditiously as possible; and

(5) never allow the State or AIDA to be in the position of having a completed project without a user, unless the State and AIDA are reimbursed for their investments.

IV. WHAT HAS OCCURRED TO DATE

Since AIDA became involved with the transportation project in the summer of 1984, a number of activities have occurred.

(1) A Resolution of Intent has been executed between the Department of Commerce and Economic Development and Cominco Alaska (Appendix A).

(2) An RFP for the Finance Plan (required by 44.88.173) has been prepared and distributed (Appendix B). A draft report is due this session of the Legislature. The statute requires that a Finance Plan be prepared and presented to the Legislature, the Governor and the State Bond Committee before issuing bonds or otherwise incurring debt for the project. It also mandates, among other things, that if a project requires financial assistance from the State, the state financial assistance must be available before bonds are issued for the project.

(3) An RFP for civil engineering services to verify cost figures for the road and port has been prepared and distributed.

(4) The Authority has assembled a team of legal and financial experts to assist with the project.

(5) Much attention has been focused on how to finance the project. For AIDA to build the project, it will need to have $150 million to pay for construction. These funds can come from a variety of sources, with the most likely ones being tax exempt revenue bonds, state loans to AIDA, and possibly state grants. A number of differing financial scenarios have been considered, all of which have indicated the need for some initial state financial involvement, for instance loans to AIDA.

(6) Last year the Legislature appropriated $3.4 million to AIDA for the project. To date, it has been used for the following items:

(1) Finance Plan costs of between $250,000 - $300,000
(2) Engineering services of $50,000 - $100,000
(3) Miscellaneous AIDA expenses of approximately $10,000

The remainder is available for various aspects of the DeLong Mountains transportation project consistent with the appropriation and finance plan.

(7) An additional $18 million request for a state loan to AIDA has been included in the Governor's FY86 Budget Request. As noted above, all analysis to date indicates the need for state loans, and this would constitute the initial capitalization.

V. WHAT IS PLANNED FOR THE FUTURE

The goal of this project is to allow development and production of the mineral resources of the western DeLong Mountains, along with the new employment and new economic activity that would result. Since this is a new (non-petroleum dependent) industry that will provide economic benefits to Alaskan citizens and State government over a long period, AIDA is eager to proceed with the project, assuming a suitable financial arrangement can be achieved. Although, of course, no results from the Finance Plan RFP are available yet, both the Department of Commerce and Economic Development and AIDA have made some initial calculations with respect to financing and costs and revenues associated with the transportation project. At this stage, under a range of different assumptions and alternatives, it is inevitably the case that State financial assistance is required, at least initially, if the transportation project and mineral development are to occur in the near future. The details of how much assistance would be required, and under what terms, will be provided in the Finance Plan. AIDA is continuing to meet with Cominco Alaska and NANA to devise an approach that minimizes any required financial assistance from the State, but still allows the project to proceed in an expeditious manner.

In closing, one seeming inconsistency needs to be discussed. The transportation project is being acclaimed as being part of a new self-supporting economic development project that will bring jobs, tax revenues, and increased economic activity to Alaska, yet a major part of this, and other discussions on the project center on the need for State financial assistance. While it is true that the project definitely appears to need State assistance, at least initially, to fairly appraise the true impact and value of the project, one must consider both the broad geographic and duration of the project. This infrastructure project will facilitate development of not just Red Dog, but also other mineral resources in the area. Further its benefits are by no means short term, but rather should go on for decades. So although there appears to be an initial financial need, when viewed in this broader perspective, available information suggests that the State may receive its initial investment back many times over. Indeed, the State's ultimate decision regarding financial involvement should consider all of these broadly based factors, and then proceed only if, in this broad perspective, it is a "good deal" for the people of Alaska.

APPENDIX A

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

7TH FLOOR FRONTIER BLDG.
3601 C STREET, SUITE 722
ANCHORAGE, ALASKA 99503
PHONE: (907) 562-2726

RESOLUTION OF INTENT

WHEREAS, the State of Alaska encourages the diversification of the Alaska economic base through the development of mineral resources; and

WHEREAS, the State of Alaska supports economic development in Alaska and the expansion of regional job opportunities; and

WHEREAS, the State of Alaska recognizes that the lack of transportation facilities in Northwest Alaska poses an economic barrier to the attainment of economic development; and

WHEREAS, the Alaska Department of Commerce and Economic Development is the principal state department responsible for facilitating econom development in all regions of the state; and

WHEREAS, Cominco, Alaska, a division of Cominco, American is considering the development of the Red Dog mineral deposit in the DeLong Mountains area; and

WHEREAS, other mineral resources have been identified in the area near the Red Dog mineral deposits; and

WHEREAS, the Alaska Department of Commerce and Economic Development, in a report entitled Red Dog Project Analysis, identified substantial regional benefits in the event that the DeLong Mountains transportation project is developed; and

WHEREAS, the projected cost of the development of the Red Dog mineral site, excluding the cost of developing transportation facilities, is estimated to be $290 million (in 1985 dollars); and

WHEREAS, the projected cost of the transportation facilities is estimated to be $152 million (in 1985 dollars); and

WHEREAS, the lack of available transportation facilities near the mineral deposit may substantially delay private development of the Red Dog mineral deposit; and

WHEREAS, it is contrary to the best interests of the state for there to be a substantial delay in the development of the DeLong Mountains mineral resources and, in particular, in the development of the Red Dog mineral deposit; and

WHEREAS, the transportation facilities which, among other public purposes, would be used in conjunction with the development of the Red Dog mineral deposit are collectively referred to as the Delong Mountains transportation project; and

WHEREAS, the Alaska Industrial Development Authority (AIDA), a public corporation of the State of Alaska has authority under Alaska Statutes Title 44, Chapter 88, to participate, either independently or in conjunction with a private developer, in the financing and development of public transportation facilities such as the DeLong Mountains transportation project;

NOW THEREFORE BE IT RESOLVED that Cominco, Alaska and the Alaska Department of Commerce and Economic Development, on behalf of the State of Alaska, agree to the following STATEMENTS OF INTENT:

1. The State of Alaska supports ongoing efforts by the Alaska Industrial Development Authority to examine the feasibility of AIDA financing of the DeLong Mountains regional transportation project.

2. The parties recognize and support AIDA's intent to promptly execute all necessary professional services contracts, including a contract with a firm nationally recognized in the field of financial planning, to assist in the preparation of the financial plan required pursuant to AS 44.88.173.

3. If AIDA participates in the financing of the DeLong Mountain transportation project, the parties agree that AIDA and Cominco, Alaska will enter into an agreement which will provide, inter alia, for the establishment of equitable user fees payable to AIDA in an amount sufficient to enable AIDA to repay amounts loaned by the state to AIDA; and for the refunding of certain state expenditures in the event that Cominco, Alaska decides not to proceed with the development of the Red Dog mineral deposit.

4. The State of Alaska states its intent to submit appropriate funding requests to the Alaska legislature in support of the DeLong Mountain transportation project.

5. The State of Alaska and Cominco, Alaska recognize that this Resolution of Intent does not limit or otherwise affect AIDA's Board of Directors' independent judgment with respect to AIDA's participation in the DeLong Mountain transportation project, nor does this Resolution of Intent limit or otherwise affect the independent judgment of the Alaska legislature upon its consideration of funding requests.

Date: Dec 18/1984

H. M. Giegerich, President
Cominco, Alaska

Date: Dec 17, 1984

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

APPENDIX B

REQUEST FOR PROPOSAL FOR FINANCE PLAN

The Alaska Industrial Development Authority is inviting proposals to assist in preparation of a finance plan for a proposed transportation project in the DeLong Mountains area.

This RFP does not in any way obligate the Authority to reimburse recipients of this RFP for any costs incurred in the preparation of a proposal. The Authority reserves the right to reject all proposals. The Authority may request some or all respondents to clarify or supplement their proposals through additional written submission. All respondents will be notified in writing of the acceptance or rejection of their proposal.

I. Introduction and Explanation of Project

A. Alaska Industrial Development Authority:

The Authority was created by the Alaska Legislature in 1967. The purpose of the Authority, as stated in the Act, is to promote, develop and advance the general prosperity and economic welfare of the people of the State of Alaska, and to relieve problems of unemployment. In 1982, the Authority's enabling legislation was amended to add to its purpose the promotion, development and maintenance of an adequate supply of multi-family housing projects. Under legislation enacted in 1984, the Authority may acquire, manage and operate certain types of projects which the Authority considers necessary or appropriate to serve a public purpose. Under the newly enacted statutory authority, the Authority is presently reviewing the possibility of financing and constructing a transportation project in the DeLong Mountains area.

B. The Proposed Transportation Project

The proposed transportation project (sometimes also referred to herein as "the project") consists of two components; (1) a 55 mile segment of road, commencing near the Red Dog mine site and going to tidewater, and (2) a port, including shore facilities. The intent of the transportation project is to provide the necessary infrastructure to encourage mining development and regional port in the western DeLong Mountains area, in northwest Alaska.

The entire western DeLong Mountains is believed to be heavily mineralized. One mine site in particular has been extensively explored, and it is understood that this particular mine would be the initial user of the proposed transportation project. This mine would be based upon the Red Dog zinc, lead, and silver deposit. The Red Dog deposit is one of the richest in the world, having indicated reserves of 85 million tons of ore with an average grade of 17.1% zinc, 5.0% lead, and 2.4 ounces per ton silver. The mine would be developed as a joint project involving Cominco Alaska and the NANA Regional Corporation. The mine site itself would be developed by Cominco Alaska without any state involvement.

The transportation project would be owned and operated by AIDA. Users, such as Cominco Alaska would be charged a fee for use of this transportation system.

C. The Finance Plan

Before AIDA can proceed with a project which it intends to own and operate, it must first prepare a finance plan. The requirements of the finance plan are listed in AS 44.88.173, which is reproduced below. The purpose of this RFP is to fulfill the requirements of AS 44.88.173.

Sec. 44.88.173. Finance plan.

(a) Before approving a project financed under AS 44.88.172, the authority shall prepare a finance plan. The finance plan must include an estimate of the total cost of the project, and a description of the sources of money that will be used to finance the total cost of the project. The finance plan must also include an estimate of the operational costs of the completed project, as well as a description of the source of the money that is to be used to pay the operational costs.

(b) The authority shall give preference to a project that does not require financial assistance from the state. If the authority determines that a project requires state financial assistance, and if the authority further determines that it is desirable to finance the project, the authority shall recommend a method of financing that minimizes cost to the state. A finance plan required under (a) of this section must identify the method of financing that minimizes the cost to the state.

(c) The authority shall submit a finance plan prepared under this section to the state bond committee, the governor, and the legislature before issuing bonds or otherwise incurring debt for the project. If a project requires financial assistance from the state, the state financial assistance must be available before bonds are issued for the project. (¶ 8 ch 162 SLA 1984)

II. Terms & Conditions of Performance

A. Your proposal should be submitted with the understanding that it may form a material part of any subsequent contract. Your proposal should be complete as to all terms and conditions. After the contractor is selected the Authority may negotiate a contract with conditions considered in the best interest of the Authority. All terms and conditions must remain a firm offer for a period of not less than 60 days.

The proposal is due by February 15, 1985 (see Submission of Proposal section for details). The Authority expects to select a successful contractor by February 22, 1985. A complete first draft that is available and suitable for public distribution and comment must be completed by April 15, 1985.

Please note that the contract will not take effect until approved by the Commissioner of the Department of Administration pursuant to Alaska Statutes 36.98.040 (c).

B. Preparation of the finance plan requires the use of certain cost figures. In general estimates of these cost figures should be available from Cominco Alaska via the Authority. Some of these estimates will have been verified by the State Department of Transportation and Public Facilities, and/or by an independent contractor. It is not the intention of the Authority that a contractor employed as a result of this RFP prepare totally independent estimates of germane cost figures. Rather, a contractor should verify that cost estimates provided are reasonable, or make any modifications which the contractor believes are appropriate.

III. Scope of Services

A. Costs of the Project

1. Capital Costs: The contractor should provide an estimate of the capital costs of the project, broken down by major component.

2. Operational & Maintenance Costs: The contractor should provide an estimate of the Operational & Maintenance costs of the project, including an estimate of cost sensitivity to different use factors.

3. All estimates should be provided in 1985 dollars, and relevant cost escalators should be provided so that cost figures can also be estimated in future years dollars.

B. Revenues of the Project

1. The revenues of the project will be provided by fees charged to users of the project. All user fees should be in dollars per ton of ore shipped through the project, unless otherwise stated. Since no final user fee structure has been adopted by the Authority, alternative possibilities need to be examined. These alternatives must consider, at a minimum, the cases listed below.

   Some of the alternatives will require information specific to the proposed Red Dog mine. The contractor should assume that Cominco Alaska will, through the Authority, provide estimates of the capital costs and operational costs, including transportation costs, of the proposed mine, as well as estimates of ore production and the resultant concentrate tonnage that would be transported through the proposed road and port. A contractor may use these figures, or provide alternative figures.

2. The first set of alternatives assumes that the State will provide no financial assistance for the project. Since Cominco Alaska will be the initial user, baseline revenue projections should be based on Red Dog mine ore shipments. The contractor should provide estimates of different user fees, based upon: a range of price assumptions for zinc; a range of rates of return on investment to Cominco Alaska; a range of cost of capital to AIDA; other options deemed pertinent by the contractor.

3. The second set of assumptions assumes that the State is willing to make an unspecified amount of subsidy to the project, both to encourage its early completion and to account for its regional benefits. In this case, the contractor should select what it believes to be the "minimum rate of return on investment" required to induce a mining firm such as Cominco Alaska to make a major mining investment such as the Red Dog mine. More than one value may be selected for the "minimum rate of return", if the contractor believes a range of estimates would present a more accurate picture. Given this "minimum rate of return", the contractor is to estimate the amount of subsidy (if any) on the transportation project needed to cause the investment to be made. This should be estimated under a range of alternatives based upon differing assumptions for the: price of zinc; cost of capital for AIDA; other options deemed pertinent by the contractor. For all of the various alternatives estimated above, the contractor should indicate the cash flow to the project and the implied user fee structure of this cash flow. For any given level of subsidy, the contractor should indicate how the rate of return to the mine investor is affected depending upon whether this subsidy is used to offset the construction cost of the transportation project, or is reflected in deferred imposition of user fees on the project, or some combination thereof.

4. A proposal has been made to charge a certain user fee schedule to Cominco Alaska for its use of the proposed transportation project. This proposal will be made available to the successful contractor.

   Using the proposal and using the assumptions of the earlier alternatives with respect to costs and production, the contractor is to estimate: the implied rate of return to Cominco Alaska on its mine investment, and the amount of subsidy, if any, implied in the proposal. The contractor should state specifically what assumptions are being used for key variables (e.g. price of zinc) in this analysis, and further should discuss how sensitive the results are to changes in these key variables.

5. There are potential users of the transportation project other than Cominco Alaska for the Red Dog mine. The contractor should demonstrate how the above results would change if other users were to utilize the transportation system. Estimates of the production volume attributable to other users will be available from AIDA, however an independent estimate should also be made by the contractor.

C. Financing Options

1. The intent of the Finance Plan is to develop a financial plan that will provide adequate resources to enable a project to be undertaken and completed, while at the same time minimizing the costs both to the State and to the proposed project. As such, any proposed plan that will not realistically provide for enough resources to complete the proposed project is, by definition, not a Finance Plan.

2. The contractor should examine the question of debt financing for the project. At a minimum, the following questions should be answered:

- What forms of debt financing are available, and under what conditions?

- From a financial perspective, how much of the proposed project can be debt financed, and under what conditions?

- What types of security will be required for debt financing, and what are the possible interest rates for various types of financing?

3. If State financial assistance is required, it could come in a variety of forms. The contractor should consider different types of State assistance, such as a cash grant, low or deferred interest loans, appropriation of capital reserve funds, and so forth. The attributes of different types of assistance should be discussed, included specific advantages and disadvantages to the State, or to the financial feasibility of the project.

4. The contractor should consider these various financing options for both the construction phase, and the term financing. That is, one type of financing may be more appropriate during construction, whereas a different option may be better for term financing.

D. Presentation of Alternative Finance Plans

1. The contractor is to provide a series of alternative total Finance Plans. The term total Finance Plan refers to including financing during construction as well as term financing. At a minimum, the contractor must include as alternatives: (1) The Finance Plan involving the minimum cost to the State; (2) the option proposed by Cominco Alaska; and (3) an option that utilizes the maximum possible tax exempt bonding. Other options having particularly favorable attributes should also be included, up to a maximum of eight alternative Finance Plans.

2. The advantages and disadvantages of each plan should be discussed. At a minimum, each plan should include the total costs of the project; the costs, if any, to the State; the estimated rate of return to Cominco Alaska; the proposed cash flow and user fee structure; and explicit listing of key assumptions.

3. The models used to develop these alternatives must be available at no additional costs to the Authority. If requested by the Authority, the contractor will make these available in a computer ready manner that can be loaded on the Authority's equipment (see Appendix A).

E. Presentation of Results

An integral part of this study is satisfactory presentation of findings. These presentations would include at a minimum interim reports as requested by the Authority, an initial completed draft report, and a final report. In addition, the contractor must be available to make presentations to the Governor, other members of the administration and to various legislative committees during, and after, the course of the study.

F. **Fees**

A contractor should provide a fixed price bid for the entire contract. Also, an hourly charge should be provided for any work done at the request of the Authority after the completion of the project described in this R.F.P. The Authority has budgeted approximately $250,000 to $300,000 for this study.

IV. Method of Evaluation

An evaluation system will be utilized to review the proposals. The factors to be considered will consist of:

(i) a work plan which addresses the scope of services set forth in Section III of this RFP

(ii) proposed staff;

(iii) experience of respondent in performing an analysis of the feasibility of comparable capital facilities; and

(iv) availability of respondent to confer with staff of the Authority and to complete the feasibility study within the contemplated time frame.

In addition, the Authority may elect to conduct oral interviews with some or all of the respondents, and if oral interviews are conducted, the interviews will be considered in the award of the contract.

V. Submission of Proposals

Proposals may be submitted by providing 6 copies of your proposal to:

Bertram L. Wagnon, Executive Director
Alaska Industrial Development Authority
1577 "C" Street, Suite 304
Anchorage, Alaska 99501

Proposals must be received at the offices of the Alaska Industrial Development Authority, 1577 "C" Street, Suite 304, Anchorage, Alaska, 99501, no later than 3:00 p.m. on February 15, 1985. The proposer is solely responsible for the delivery of their proposal and proposals received after the above date and time will be rejected.

Each proposal should be clearly marked "Proposal to the Alaska Industrial Development Authority" on its outside cover. All proposals will remain sealed and unopened until after 3:00 p.m. on February 15, 1985.

APPENDIX A

TECHNICAL SPECIFICATIONS

COMPUTERS:	WANG VS 80	with a 308K-Byte Diskette Drive (S.S.,S.D.) and a Phoenix Disk Drive (75M Fixed Disk & 15M removable pack).
	WANG PC	5 1/4 inch, 360KB Diskett Drive, 256 KB or RAM and Asynchronous Serial Communications Port.
MODEMS:	RACAL VACIC	Full Duplex, 0 to 300 BPS, Asynchronous Full Duplex, 1200 BPS, Asynchronous or Synchronous Half Duplex, 2400 BPS, Synchronous
TELECOPIER:	XEROX 295	Group three digital facsimile, 9600 BPS with automatic fall-back to 7200/4800/2400 BPS based on line quality; transmission speed of 25 seconds average.

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

1577 "C" STREET • SUITE 304 □ ANCHORAGE, ALASKA 99501-5177 □ (907) 274-1651

March 19, 1985

Representative John Sund
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Sund:

As requested, AIDA has compiled four possible financing scenarios as well as a general outline of what Cominco's obligations should be if the State were to invest in this project. These are attached as Appendix A and B. It is perhaps helpful to note that virtually any financing scenario that may work requires at least $18 million in up front state assistance.

Based upon the requirement that the State take some affirmative action this session of the Legislature the most prudent course of action would seem to be:

(1) Appropriate $18 million to the Economic Development Fund for the DeLong Mountains Transportation project.

(2) Capitalize the AIDA Economic Development Fund with approximately $100 million of loans held now by the Department of Commerce & Economic Development.

(3) It will take approximately six months to transfer loans and audit them. No financing could be done during this period. When the Legislature reconvenes in January, they could reappropriate everything back to the General Fund or allow the project to go forward.

(4) Large project financings such as this involve an immense number of variables. Absolute certainty of the financing will occur only when the financing is completed. Neither AIDA, Cominco or anyone else can control these external factors. By taking step one and two the State will have:

    (1) Indicated to Cominco its intent to proceed with the project.

(2) Put Cominco on notice that now they must negotiate and execute appropriate guarantees and use agreements as they have indicated to the Legislature.

(3) Provide AIDA both time and perimeters to attempt to craft a financial transaction to provide the necessary funds for the road and port.

(4) Should the project fail to go forward, all funds would be available for reappropriation. Interest earnings on the $18 million as well as principal and interest on the loans would be retained in the Economic Development Fund and be subject to reappropriation.

Your requested review of the overall economics of the project as pertains to State benefits is being coordinated by Frank Homan and involves an "update" of the Red Dog Project Analysis, a comprehensive work compiled in the fall of 1984.

On Monday, February 25, 1985, the Alaska Industrial Development Authority Board selected SRI, International as the contractor to prepare the finance plan. A first draft was due by mid-April with the final product to be completed by late summer of 1985.

On March 18, 1985, Arthur Young filed a request for an administrative appeal of the award of the contract for the preparation of the finance plan. This appeal may preclude us from executing a timely contract with SRI and may make a draft written report this session of the Legislature doubtful. The Authority feels the capitalization of the Economic Development Fund with both the loans and $18 million is the minimum required under any financing scenario.

Sincerely,

Bertram L. Wagnon
Executive Director

BLW/rg
Enclosures

APPENDIX A

Case I

Summary: Entails large bonding at outset of project. Bonds are used for construction, state appropriations are required to pay interest for bonds during construction, then a large share of bonds are called after project begins operating.

ASSUMPTIONS AND CHARACTERISTICS

1. Construction draws are assumed to be (in thousands):

DATE	PORT DRAW	ROAD DRAWS	TOTAL	CUMULATIVE
1/1/86	$ 4,000	$ 1,000	$ 5,000	$ 5,000
1/1/87	3,000	5,000	8,000	13,000
1/1/88	14,000	57,000	71,000	84,000
1/1/89	50,000	33,000	83,000	167,000
1/1/90	4,000	3,000	7,000	174,000
TOTALS	75,000	99,000	174,000	174,000

2. Bonds: Assumes that $155 million in tax exempt bonds are issued on 1/1/86. Of this amount approximately $128 million goes to the construction fund, and $19 million is placed in a debt service reserve fund. As of 1/1/90, adequate funds are available in debt service fund to call $56 million in bonds, leaving $99 million outstanding. Bond interest rate is assumed to be 10.5%.

3. State Assistance: This case assumes that the following general fund appropriations are made to AIDA to pay bond interest during the construction period - also assumes that interest earned on these appropriations stays with AIDA for same purpose:

DATE	G.F. APPROPRIATION (000)
7/1/85	$30,000
7/1/86	$20,000
7/1/87	$20,000
7/1/88	$10,000
7/1/89	$10,000
TOTAL	$90,000

4. After Completion: There are assumed to be $99 million worth of bonds outstanding, with approximately $12 million of this in what is assumed to be a self-supporting capital reserve fund. This leaves approximately $87 million in debt that must be repaid by the revenues of the project. Debt service on this is

assumed to be: interest only 1990 - 1995: debt service $9.1 million; interest and principal 1995 - 2015: debt service $10.7 million. No provision has been made to repay the State contribution of $90 million, but this could happen from tolls collected above those needed to pay debt service, and after 2015.

5. Advantages: Bonds are issued up front, so this provides high likelihood there will be enough funds to construct project. Also, early issuance locks in long term interest rate, and protects against possible changes in federal laws involving tax exempt bonding. Also provides debt service in line with Cominco Alaska's estimate of their ability to pay.

6. Disadvantages: Involves large issuance of bonds and attendant bond issuance cost, plus large risk of interest rate loss if bond proceeds cannot be invested at bond debt service rate prior to use in construction. Unless it can be guaranteed that needed state appropriations will be forthcoming, this is not a legal approach, since AIDA cannot issue debt that requires state assistance, unless the state assistance is already in place. Requires state to appropriate $90 million for project with no specified repayment provisions. It may be that not all of the project is eligible for tax exempt bonding under federal law, and if so, this approach would probably not be feasible.

CASE IIa

Summary: Entails the state being the construction lender for the project. At completion, bonds are issued for a portion of the project cost, and those funds are used to repay state. Remainder of state construction financing is converted to long term loan, or grant.

ASSUMPTIONS AND CHARACTERISTICS

1. Construction draws are assumed to be (in thousands):

DATE	PORT DRAW	ROAD DRAWS	TOTAL	CUMULATIVE
1/1/86	$ 4,000	$ 1,000	$ 5,000	$ 5,000
1/1/87	3,000	5,000	8,000	13,000
1/1/88	14,000	57,000	71,000	84,000
1/1/89	50,000	33,000	83,000	167,000
1/1/90	4,000	3,000	7,000	174,000
TOTALS	75,000	99,000	174,000	174,000

2. Bonds: Assume tax exempt bonds for $84 million are issued at the completion of the project, with an interest rate of 10.5%. Of this amount $75 million would be used to pay back the state for construction financing, and $9 million would be used for a capital reserve fund.

3. State Assistance: State assistance would be in the form of interest free construction financing. The amount needed would be in accord with the construction draws.

4. After completion: After completion, $75 million of the state construction financing is paid back via a tax exempt bond sale. Debt service is assumed to be $9.6 million, with $8.6 million being required from the project, and the remainder from a self-supporting capital reserve fund. The remainder of the state construction financing, $99 million, would be converted to either long term loan or a grant. Repayment could come from tolls collected above that needed for debt service, or after bonds are paid (2015).

5. Advantages: Minimizes amount of external debt financing, and lowers total costs that are attributed to project, because there is no construction period interest to be paid. Maximizes probability that funds will be available for construction. May provide for lower interest rate for bonds, since project is less risky because it would be a completed, functioning project before bonding would occur. Provides relatively low debt service requirements on the bonds, so some "excess" funds may be available to pay back to the state.

6. Disadvantages: Requires major commitment by the state - e.g. $175 million over the five years. If bonds are not issued until, say, 1990, federal laws affecting tax exempt bonding may have changed. Also, there would be considerable uncertainty with respect to what interest rate might be in five years. Any repayment to the state would be over a long period of time.

CASE IIb

Summary: Entails the state being the construction lender for the project. Further it assumes that state will capitalize the Economic Development Fund (the Economic Development Fund is the own-and-operate element of AIDA) with existing state loans. At completion, bonds are issued for a portion of the project cost, and those funds are used to repay the state. Also, the cash flow from the loan capitalization is used to repay the state. The remainder of state construction financing is converted into a long term loan.

ASSUMPTIONS AND CHARACTERISTICS

1. Construction draws are assumed to be (in thousands):

DATE	PORT DRAW	ROAD DRAWS	TOTAL	CUMULATIVE
1/1/86	$ 4,000	$ 1,000	$ 5,000	$ 5,000
1/1/87	3,000	5,000	8,000	13,000
1/1/88	14,000	57,000	71,000	84,000
1/1/89	50,000	33,000	83,000	167,000
1/1/90	4,000	3,000	7,000	174,000
TOTALS	75,000	99,000	174,000	174,000

2. Bonds: Assume tax exempt bonds for $89 million are issued at completion of the project, with an interest rate of 10.5%. Of this amount, $80 million will be used to pay back the state for construction financing and $9 million will be used for a capital reserve fund.

3. State Assistance: This would be in two forms, first as interest free construction financing, and as capitalization of the Economic Development Fund. The construction financing would be in accord with construction draws. The capitalization is estimated to be approximately $100 million par value of existing state loans now held in the treasury.

4. After Completion: At completion, the state would have advanced an estimated $1/4 million to the project. Of this amount, $80 million would be paid back from the bond issue, approximately $55 million would be paid back from the cash flow of the loan portfolio capitalization, and the remaining $39 million would be converted to a long term loan. The total estimated debt service is $10.2 million, with $9.2 million being required from the project, and the remainder from a self-supporting capital reserve fund. This loan would be repaid with interest off the remaining capitalization and tolls in excess of the debt service, and after bonds are paid off.

5. Advantages: Minimizes amount of external debt financing, and lowers total costs that are attributed to project, because there is no construction period interest to be paid. Maximizes probability that funds will be available for construction. May provide for lower interest rate for bonds, since project is less risky because it would be a completed, functioning project before bonding would occur. Provides relatively low debt service requirements on the bonds, so some "excess" funds may be available to pay back to the state. Allows the state to be repaid most of its construction financing immediately upon initial operation of the project. Allows for good possibility that state will be repaid remaining $39 million within foreseeable future. Should make it easier to sell bonds, because cash flow from remaining capitalization can be used to increase coverage of debt service.

6. Disadvantages: Requires major commitment by the state - e.g. $175 million over the five years. Requires further up front commitment of $100 million in existing state loans. If bonds are not issued until, say, 1990, federal laws affecting tax exempt bonding may have changed. Also, there would be considerable uncertainty with respect to what interest rates might be in five years.

CASE III

Summary: This case uses a combination of funding sources. The funding sources involve state loan appropriations during construction, state capitalization of the Economic Development Fund (the Economic Development Fund is the own-and-operate element of AIDA) with existing state loans held by treasury, and issuance of tax exempt bonds for a major share of the project cost toward the end of the construction period. After completion the project would be financed with a combination of state debt and bond debt.

ASSUMPTIONS AND CHARACTERISTICS

1. Construction draws are assumed to be (in thousands):

DATE	PORT DRAW	ROAD DRAWS	TOTAL	CUMULATIVE
1/1/86	$ 4,000	$ 1,000	$ 5,000	$ 5,000
1/1/87	3,000	5,000	8,000	13,000
1/1/88	14,000	57,000	71,000	84,000
1/1/89	50,000	33,000	83,000	167,000
1/1/90	4,000	3,000	7,000	174,000
TOTALS	75,000	99,000	174,000	174,000

2. Bonds: Assumes that $110 million in tax exempt bonds would be issued to provide funds for construction during the fourth year. Of this, approximately $13 million is for a capital reserve fund, $75 million is for construction costs, and the remainder is for interest during construction and issuance cost. Bond interest rate is assumed to be 10.5%.

3. State Assistance: This would come in two forms. The first would be interest free loan appropriations (including interest earned on the appropriations) according to the following schedule:

DATE	G.F. APPROPRIATION (000)
7/1/85	$18,000
7/1/86	$15,000
7/1/87	$15,000
7/1/88	$15,000
TOTAL	$63,000

The other state assistance would be the capitalization of the Economic Development Fund with existing state loans. The required amount is estimated to be approximately $100 million in par value of loans, however any increases above this amount would lead to more rapid repayment of the state loan appropriations.

4. After Completion: At this point, the project will have $110 million of bond debt and $63 million of state debt, with an estimated $7 million available in a construction/debt service fund available to reduce bonded debt. After this reduction, total bond debt service is estimated at $11.8 million, with $10.5 million required from the project and the remainder from a self-supporting capital reserve fund. The state debt would be repaid from interest off of the remaining capitalization and tolls in excess of the debt service, and after bonds are paid off.

5. Advantages: Allows general fund assistance to be spread over a number of years, and is less in total than many options. Since bonding isn't done until near the end of the project, there is less bond interest during construction, and furthermore the project may appear to be more certain and hence get a lower interest rate. Assuming fourth year appropriation is made concurrent or before the bonding, then state law is satisfied in that AIDA has not incurred debt with state support being in place. Treats state appropriations of $63 million as loan, rather than grant. Should make it easier to sell bonds, because cash flow from remaining capitalization can be used to increase coverage of debt service.

6. Disadvantages: Requires significant commitment by the state, $63 million in general fund loan appropriations and a capitalization of at least $100 million in existing state loans. If bonds are not issued until, say, 1988, federal laws affecting tax exempt bonding may have changed. Also, there would be considerable uncertainty with respect to what interest rates may be in three years. This particular approach is very sensitive to cash flow projections, and further may require writing construction contracts that are subject to future appropriations.

Case IV

Summary: Entails large bonding at outset of project. Also assumes that state will capitalize the Economic Development Fund (the Economic Development Fund is the own-and-operate element of AIDA) with existing state loans. Bonds are used for construction, state appropriations are required to pay interest for bonds during construction. After completion, some bonds are called, and income from capitalization plus project revenues are used to pay for bonds that remain outstanding.

ASSUMPTIONS AND CHARACTERISTICS

1. Construction draws are assumed to be (in thousands):

DATE	PORT DRAW	ROAD DRAWS	TOTAL	CUMULATIVE
1/1/86	$ 4,000	$ 1,000	$ 5,000	$ 5,000
1/1/87	3,000	5,000	8,000	13,000
1/1/88	14,000	57,000	71,000	84,000
1/1/89	50,000	33,000	83,000	167,000
1/1/90	4,000	3,000	7,000	174,000
TOTALS	75,000	99,000	174,000	174,000

2. Bonds: Assumes that $155 million in tax exempt bonds are issued on 1/1/86, with approximately $128 million going into the construction fund. As of 1/1/90 adequate funds are available in the debt service fund to call $12 million in bonds, leaving $143 million outstanding. Bond interest rate is assumed to be 10.5%.

3. State Assistance: This would be in two forms, first as a $30 million appropriation on 7/1/85, and second as capitalization of the Economic Development Fund. The capitalization is estimated to be at least $100 million par value of existing state loans now held in the treasury.

4. After completion: There are assumed to be $143 million worth of bonds outstanding, with approximately $18 million of this in what is assumed to be a self-supporting capital reserve fund. This leaves approximately $125 million worth of debt that must be repaid from available sources. The annual debt service on this $125 million is estimated to be $14.3 million. Assuming the project tolls will generate $10.3 million, then the other $4.0 million is assumed to be derived from the interest from the remaining loans of the original $100 million capitalization of the Economic Development Fund. No provision has been made to repay the state contribution, but this could happen from excess revenues.

5. Advantages: Bonds are issued up front, so this provides high likelihood there will be enough funds to construct project. Also, early issuance locks in long term interest rate, and protects against possible changes in federal laws involving tax exempt bonding. Also provides debt service in line with Cominco Alaska's estimate of their ability to pay. Requires only $30 million worth of general fund cash appropriations, which is the least of all suggested options, to date.

6. Disadvantages: Involves large issuance of bonds and attendant bond issuance cost, plus large risk of interest rate loss if bond proceeds cannot be invested at bond debt service prior to use in construction. Assumes that all of the project is eligible for tax exempt financing, and this is not a certainty. This approach is quite sensitive to the construction draw schedule.

APPENDIX B

GENERAL GUIDELINES OF STATE/COMINCO RELATIONSHIP

SHOULD STATE INVEST IN THE PROJECT

(1) The State of Alaska thru AIDA will own and operate the port and road.

(2) Cominco will enter into an agreement with AIDA for payment of a user fee for operations and maintenance expense, as well as a toll fee for use of the facility.

(3) Additional users will be accommodated upon payment of appropriate fees.

(4) Satisfactory guarantees of total repayment of state expenditures by Cominco in the event the mine does not commence operation and accordingly completion guarantees by AIDA will be required.

(5) NANA will provide the necessary leases and rights-of-way for the land required.

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

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

April 15, 1985

The Honorable Arliss Sturgulewski
Chairman
Resources Committee
Alaska Senate
Pouch V
Juneau, AK 99811

Dear Senator Sturgulewski:

This letter is in response to the requests contained in your April 1 letter on state loans that may be used in financing the DeLong Mountain Transportation project. The responses are in as much detail as is available at this time.

1. It has been suggested that $142 million in state loans held by the Department of Revenue be transferred to AIDA bonds. I would like to know the make up of those loans. What is the amount of each category (such as veterans, commercial fishing, small business, tourism, fisheries enhancement, child care and historical districts), the interest rates by category and the maturity dates? What is the amount of money by category that returns to a revolving loan fund pool and what amount returns to the general fund? If any revolving loan funds are transferred to AIDA, how does that affect the future ability of those revolving funds to meet the public demand for loans?

   The following amounts of loans are held in the general fund and serviced by the Department of Commerce and Economic Development as of February 28, 1985:

Type	Amount ($ 000)	Average Interest Rate 1/	Average Maturity
Veterans	82,291.4	6.92%	2003
Small Business	18,573.5	8.49	1993
Commercial Fish	29,809.3	7.81	1991
Tourism	2,575.2	8.07	1996
Child Care	18.0	5.83	1989
Historical District	123.7	6.67	1993
Fisheries Enhancement	6,804.2	7.96	N/A
Total	140,195.3	7.39	

1/ Net of .5% service fee on loans serviced by Commerce and an estimated .125% Commerce service fee on loans serviced by banks. The bank services fees are also netted out.

These loans would be transferred to AIDA with the exception of an estimated $19,873,000 of commercial fish loans which are secured by permits. Only the state is authorized to hold permits as collateral.

To make up for this deficiency, AIDA would take up to $19,873,000 in loans held by the Department of Commerce and Economic Development. Commerce had $48,402,500 of commercial fish loans as of January 31, 1985 of which an estimated $16,118,000 were not backed by permits and would be taken by AIDA.

All of the payments on the general fund loans, both principal and interest, return to the general fund. Transfer of these loans to AIDA will reduce the amount of general funds available for appropriation in FY 86 and future years. It will not affect the ability of the revolving loan funds to meet loan demand.

Even with AIDA taking some Commerce loans, the Department's ability to meet loan demand should not be impaired. The estimated $16,118,000 in Commerce's commercial fish loans taken by AIDA would be replaced with a roughly equivalent amount, the $19,873,000 in estimated general fund commercial fish loans secured by permits, by transferring these loans from the general fund to Commerce.

2. What is the expected cash flow (principal and interest) by year from July 1, 1985 that would return to the state over the term of the loans if they remained in the Department of Revenue?

See attached table for scheduled cash flow. Actual cash flow may be accelerated due to loan prepayments, resulting in a reduction of total interest from that scheduled.

3. What is the expected financial shortfall in state revenue in FY 86 as a result of transferring these loans to AIDA? Has any adjustment been made to the Administration's budget for FY 86 to reflect this income reduction?

In our effort to minimize the impact on the FY 86 general fund revenues, the administration believes that no net adjustment will be required to the FY 86 budget by the appropriation of the loans to AIDA. The administration proposes to utilize the $17.8 million cash flow from loans held by the Department of Revenue as a substitute for the appropriation of $18 million in general funds now contained in the Governor's loan budget for this project. This will offset the reduction in general funds available for appropriation arising from the appropriation of the loans. This reduction would be $17.8 million for FY 86 based on the scheduled payments shown in the attached table. This would be composed of approximately $10 million in interest and $7.8 million in principal repayments.

The administration would propose that the cash needed to support the project could be obtained in part by giving AIDA the authority to use $12 million already appropriated to that agency. This would be combined with approximately $3 million of funds available from last year's appropriation for this project.

It should be noted that the amount of cash flow from these loans included in the Executive Budget 1986 as amounts available for appropriation is $31.3 million, composed of $13.3 million interest and $18 million principal repayments. The budget estimate is higher than the scheduled payments for two reasons. One is that prepayments on loans result in greater amounts of principal receipts than scheduled. The other is that this response to your questions has been done in much greater detail than the budget estimates.

A fiscal note for $17.8 million, reflecting the scheduled reduction in FY 86 revenue, will be submitted for the appropriation of the $142 million in loans. The difference between the scheduled payments and the budget estimate, $13.5 million, will be a downward adjustment to the next revenue estimates which will be made in June. This adjustment has not been incorporated in the Administration's FY 86 budget. The Administration does not believe this adjustment materially affects the March revenue forecast.

4. What is the total amount of interest that is expected to be returned to the state from the $142 million over the life of the loans calculated as of July 1, 1985?

   Approximately $71.6 million in interest would be received by the state from July 1, 1985 through 2011 from the loans. The loan balances are estimated to total $135.9 million on July 1, 1985. The amount received by the general fund would be somewhat reduced by service fees retained by Commerce.

5. What is the total amount of interest that the state would expect from the $142 million in loans plus the $18 million in general fund expenditure if this $160 million were not transferred to AIDA?

   Over the period of years to 2015, assuming compounding and an average rate of interest of 10%, total interest would come to $1,984.3 million. The present value of this interest would be $113.7 million at a 10% discount rate.

   Implicit in the question is an assumption that the cash flow from the loans and the $18 million will not be spent if it is not appropriated to AIDA. If it is spent, the state would of course receive no interest on the $18 million and only the $71.6 million on the loans.

6. Will the transfer of the $142 million in loans to AIDA result in increased requests this year or in future years for the various state loan programs since the principal and interest will not flow back to the general fund or a revolving fund as expected?

   Transfer of the $142 million will not generally affect revolving fund cash flow and will not require increased requests for Commerce loan programs in the future. See question #1.

Sincerely,

Mary A. Nordale
Commissioner

MAN/gb
85-57

Enclosure

cc: Hon. Loren Lounsbury, Commissioner DCED
Bert Wagnon, Executive Director, AIDA

General Fund Loans to be Appropriated to AIDA
Estimated Cash Flow (Principal and Interest)
($ 000)

Fiscal Year	Veterans	Small Business	Commercial Fish	Tourism	Child Care	Historical District	Fisheries Enhancement	Total
1986	9,247	2,855	6,105	308	5	22	N/A	18,542
1987	9,034	2,783	5,786	308	4	22		17,937
1988	8,784	2,613	5,409	308	3	22		17,139
1989	8,554	2,404	4,243	308	2	18		15,529
1990	8,379	2,279	3,870	282	1	14		14,825
1991	8,343	2,134	3,233	243		14		13,967
1992	8,042	1,946	2,037	229		14		12,268
1993	7,409	1,551	837	221		14		10,032
1994	6,955	907	214	212		7		8,295
1995	6,851	344	34	208				7,437
1996	6,814	59		201				7,074
1997	6,532			186				6,718
1998	6,174			85				6,259
1999	6,038							6,038
2000	5,998							5,998
2001	5,899							5,899
2002	5,096							5,096
2003	4,254							4,254
2004	4,035							4,035
2005	3,925							3,925
2006	3,865							3,865
2007	3,182							3,182
2008	1,709							1,709
2009	521							521
2010	98							98
2011	20							20
Total	145,758	19,875	31,768	3,099	15	147	6,804 (principal only)	207,466

1. This table represents the cash flow to the Department of Commerce and Economic Development. Cash flow to the general fund would be further reduced by .5% service fee on loans serviced by Commerce and .125% service fee to Commerce on loans serviced by banks.
2. Cash flow has not been adjusted for delinquency or default. Except for commercial fish non-permit loans, the state expects complete recovery on defaults. Thus, delinquency and default merely produce lags in receipts.

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

1577 "C" STREET • SUITE 304 ☐ ANCHORAGE, ALASKA 99501-5177 ☐ (907) 274-1651

April 9, 1985

The Honorable Arliss Sturgulewski
Chairman, Senate Resources Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

In response to your letter of April 1, 1985, I am providing the following requested information. Please note that our responses are based upon the estimated net cash flows shown in Attachment I. After adjusting for loans that have paid down or will not be transferred for legal reasons, we estimate that approximately $136 million in loans will be transferred.

It is not possible to provide an unambiguous answer to the first three questions until two things happen. First, we need the results of the Finance Plan project, now being worked on, and second we need to have an agreement reached between AIDA and Cominco with regard to user fees. The best figures that we have at present with respect to revenue generated by the project are those tolls which Cominco has offered to pay. Please be aware that our use of these figures should in no way be taken as evidence that AIDA has agreed to these charges. In any case, utilizing the attached cash flows, and our most current assumptions regarding costs and financing, we estimate that the cash flow of the portfolio would not be directly used after 1995. At that time, the cash flow would be used for coverage for the bonds, and eventually could flow back to the general fund. Any tolls collected above those needed to pay debt service on bonds and provide for coverage on the bonds could also flow back to the general fund.

1. If the $160 million ($142 million in loans plus the $18 million from the general fund) are transferred to the AIDA Economic Development Fund, what is the mechanism for these funds to flow back to the general fund over time?

   At this time, the actual repayment mechanism has not yet been determined. It could be set up as a loan from the Department of Commerce and Economic Development to AIDA, with terms ranging from a fixed amount per year, or "any amount above that required for debt service". Regardless of the mechanism, we recommend that a coverage test be utilized, and only income above that required for the coverage requirement be remitted to the State.

2. Considering that the $160 million will be used to back the sale of AIDA bonds but that toll fees charged to Cominco, LTD. (and perhaps others) as well as interest earned from the fund will be used to retire the bonds, what is the expected balance in the Economic Development Fund at the end of 20 years?

   As noted above, using our most current cost and financing assumptions, we assume all cash flow after 1995 will be available for reinvestment in the Economic Development Fund for purposes of providing coverage for the bonds. Since this also assumes that the only toll fees are from Cominco and that these fees are just enough to pay debt service, the cash flow from the loan portfolio after 1995 and its reinvestment will be the only source of funds to be deposited in the Economic Development Fund. Although these are the best assumptions available today, we believe they are conservative assumptions, especially with regard to other future users. In any case, if we assume the cash flow can be reinvested at a 10% earnings rate, then by 2005 the balance will be $106,433,000.

   These figures are based upon our latest estimates of relevant factors for what presently appears to be the best financing approach. This approach, which was discussed in an earlier memo, aggregates funds from the general fund appropriation, cash flow from the loan portfolio, and proceeds from a tax exempt bond sale. This total collection of funds is then used to pay for construction costs and for interest on the bonds until revenues from the project are sufficient to pay for the bonds.

3. Can you provide us with a projected Economic Development Fund balance by year from July 1, 1985 until the retirement of all of the $175 million in bonds issued for this project?

   Under our latest assumptions, only $135 million in debt will be issued. This reduced amount is possible because cash flows from the loan portfolio appear to be greater than originally estimated. Once again, using all of the assumptions mentioned above, the projected balance of the Economic Development Fund is given in Attachment II.

4. What effect will the additional management requirements of $142 million in loans have on AIDA's personnel requirements?

   We would not anticipate immediately transferring the loan servicing from Commerce to AIDA, but rather using a phase-in process. At the outset, we would request Commerce to continue servicing the portfolio for us. We expect that our servicing costs would be similar to those experienced by the Department of Commerce and Economic Development.

5. Can you provide us with a breakdown of the expenditures made to date and those anticipated from the $3 million appropriation in last years budget for this project?

   To date we have made the following commitments for expenditure: RSA with DOTPF for various engineering and technical assistance $50,000; RSA with Department of Law for specialized legal counsel $50,000; contract with

SRI International for Finance Plan $267,000; contract with R & M Engineering for cost verification and other engineering services $75,000; and other miscellaneous expenditures $15,000. Planned uses for the remainder are associated with getting the projects ready for construction bids, for instance, preparation of final detailed design, preparation of bid packages, and so forth.

6. What is the total amount that could be expected to accrue to the Economic Development Fund in both principal and interest over time if you added together the $18 million from the general fund, the $142 million principal in loans, the interest on the $18 million while in the fund, the interest generated from the $142 million in loans and the interest earned on the earnings of the fund?

   It appears in this question that you simply want us to do a straight forward calculation of a future value of a known income stream. If so, then of course the only real unknown is the assumed rate of return on the reinvestments. For these calculations we will assume it is 10%, and again we will use the cash flow shown in Attachment I. The results, by year, are given in Attachment III. Although the numbers on Attachment III get rather large, I think it is important to put these values in perspective, since what is really being shown on that table is the effects of compound interest. A more relevant number is the net present value of the appropriations being proposed. Assuming that $18 million is appropriated on July 1, 1985, that the loan portfolio can provide the net cash flow shown in Attachment III, and that 10% is the discount rate, then the net present value of these appropriations as of July 1, 1985 is $117.3 million.

Although no direct question was asked regarding the philosophy behind AIDA's involvement in this project, I believe it to be of paramount importance. We approach this project as an investment, both in needed infrastructure and diversification. We believe that, after some initial state assistance, the project will start generating income for the general fund. Eventually, the project should pay for itself many times over, and quite possibly be a major source of state revenue when other sources have dwindled.

Please let me know if you have further questions.

Sincerely,

Bertram L. Wagnon
Executive Director

BLW:ec

Enclosures

cc: Mary Nordale, Commissioner, Department of Revenue
Loren Lounsbury, Commissioner,
Department of Commerce & Economic Development

ATTACHMENT I

Estimated cash flows from Department of Revenue loan portfolio (000)

Year	VETS	Small Bus/Rev	Small (a) Bus/Bank (Estimate, .594)	Comm Fish	Tourism/ Rev.	Tourism/ (b) Bank (Estimate, 1.185)	Child Care	Historic District	Gross (c) Total	Net (d) Total (.95)
86	9247	1791	1064	6105	141	167	5	22	18,542	17,615
87	9034	1746	1037	5786	141	167	4	22	17,937	17,040
88	8784	1639	974	5409	141	167	3	22	17,139	16,282
89	8554	1508	896	4243	141	167	2	18	15,529	14,753
90	8379	1430	849	3870	129	153	1	14	14,825	14,084
91	8343	1339	795	3233	111	132		14	13,967	13,269
92	8042	1221	725	2037	105	124		14	12,268	11,655
93	7409	973	578	837	101	120		14	10,032	9,530
94	6955	569	338	214	97	115		7	8,295	7,880
95	6851	216	128	34	95	113			7,437	7,065
96	6814	37	22		92	109			7,074	6,720
97	6532				85	101			6,718	6,382
98	6174				39	46			6,259	6,042
99	6038								6,038	5,736
2000	5998								5,998	5,698
01	5899								5,899	5,604
02	5096								5,096	4,841
03	4254								4,254	4,041
04	4035								4,035	3,833
05	3925								3,925	3,729
06	3865								3,865	3,672
07	3182								3,182	3,023
08	1709								1,709	1,624
09	521								521	495
10	98								98	93
11	20								20	19

Notes

(a) Cash flow figures available only for Dept. of Commerce serviced loans, of $10,473.7 principal balance. Estimate of cash flow of bank serviced loans of $6,221.3 balance assumed to be proportional to relative principal balances, i.e. 6,221.3 / 10,473.7 = .594

(b) Cash flow figures available only for Dept. of Commerce serviced loans, of $1,097.4 principal balance. Estimate of cash flow of bank serviced loans of $1,300.0 balance assumed to be proportional to relative principal balances, i.e. 1,300.0 / 1,097.4 = 1.185

(c) No cash flow figures are included for Fishery Enhancement loans since they were not available. It is expected that any significant cash flows would be well into the future and hence not available during the critical early years.

(d) Net figures are adjusted to take into account estimated delinquency and defaults as well as servicing costs, assuming net figures are 95% of gross figures.

ATTACHMENT II

Balance in Econonmic Development Fund in response to Question 3. Assumes that funds can be reinvested at a 10% rate of return.

Fiscal Year	Cash Flow from Loans (000)	Fund Balance (000)
1995	7,060	7,060
96	6,720	14,486
97	6,382	22,317
98	6,042	30,590
99	5,736	39,385
2000	5,698	49,022
01	5,604	59,528
02	4,841	70,322
03	4,041	81,395
04	3,833	93,367
05	3,729	106,433
06	3,672	120,749
07	3,023	135,846
08	1,624	151,055
09	495	166,656
10	93	183,414
11	19	201,775
12		221,952
13		244,147
14		268,562
15		295,418

ATTACHMENT III

Calculation of a hypothetical fund balance, based upon cash flows of Attachment I, $18 million on July 1, 1985, and assumed reinvestment rate of 10%.

Fiscal Year	Cash Flow from Loans (000)	Fund Balance (000)
1986	17,615	37,415
87	17,040	58,197
88	16,282	80,298
89	14,753	103,081
90	14,084	127,473
91	13,269	153,489
92	11,655	180,493
93	9,410	207,952
94	7,880	236,628
95	7,065	267,355
96	6,720	300,811
97	6,382	337,274
98	6,042	377,043
99	5,736	420,484
2000	5,698	468,230
01	5,604	520,657
02	4,841	577,564
03	4,041	639,361
04	3,833	707,130
05	3,729	781,572
06	3,672	863,401
07	3,023	952,764
08	1,624	1,049,665
09	495	1,155,126
10	93	1,270,732
11	19	1,397,824
12		1,537,607
13		1,691,367
14		1,860,504
15		2,046,555

2. Considering that the $160 million will be used to back the sale of AIDA bonds but that toll fees charged to Cominco, LTD. (and perhaps others) as well as interest earned from the fund will be used to retire the bonds, what is the expected balance in the Economic Development Fund at the end of 20 years?

   As noted above, using our most current cost and financing assumptions, we assume all cash flow after 1995 will be available for reinvestment in the Economic Development Fund for purposes of providing coverage for the bonds. Since this also assumes that the only toll fees are from Cominco and that these fees are just enough to pay debt service, the cash flow from the loan portfolio after 1995 and its reinvestment will be the only source of funds to be deposited in the Economic Development Fund. Although these are the best assumptions available today, we believe they are conservative assumptions, especially with regard to other future users. In any case, if we assume the cash flow can be reinvested at a 10% earnings rate, then by 2005 the balance will be $106,433,000.

   These figures are based upon our latest estimates of relevant factors for what presently appears to be the best financing approach. This approach, which was discussed in an earlier memo, aggregates funds from the general fund appropriation, cash flow from the loan portfolio, and proceeds from a tax exempt bond sale. This total collection of funds is then used to pay for construction costs and for interest on the bonds until revenues from the project are sufficient to pay for the bonds.

3. Can you provide us with a projected Economic Development Fund balance by year from July 1, 1985 until the retirement of all of the $175 million in bonds issued for this project?

   Under our latest assumptions, only $135 million in debt will be issued. This reduced amount is possible because cash flows from the loan portfolio appear to be greater than originally estimated. Once again, using all of the assumptions mentioned above, the projected balance of the Economic Development Fund is given in Attachment II.

4. What effect will the additional management requirements of $142 million in loans have on AIDA's personnel requirements?

   We would not anticipate immediately transferring the loan servicing from Commerce to AIDA, but rather using a phase-in process. At the outset, we would request Commerce to continue servicing the portfolio for us. We expect that our servicing costs would be similar to those experienced by the Department of Commerce and Economic Development.

5. Can you provide us with a breakdown of the expenditures made to date and those anticipated from the $3 million appropriation in last years budget for this project?

   To date we have made the following commitments for expenditure: RSA with DOTPF for various engineering and technical assistance $50,000; RSA with Department of Law for specialized legal counsel $50,000; contract with

Case IV

Summary: Entails large bonding at outset of project. Also assumes that state will capitalize the Economic Development Fund (the Economic Development Fund is the own-and-operate element of AIDA) with existing state loans. Bonds are used for construction, state appropriations are required to pay interest for bonds during construction. After completion, some bonds are called, and income from capitalization plus project revenues are used to pay for bonds that remain outstanding.

ASSUMPTIONS AND CHARACTERISTICS

1. Construction draws are assumed to be (in thousands):

DATE	PORT DRAW	ROAD DRAWS	TOTAL	CUMULATIVE
1/1/86	$ 4,000	$ 1,000	$ 5,000	$ 5,000
1/1/87	3,000	5,000	8,000	13,000
1/1/88	14,000	57,000	71,000	84,000
1/1/89	50,000	33,000	83,000	167,000
1/1/90	4,000	3,000	7,000	174,000
TOTALS	75,000	99,000	174,000	174,000

2. Bonds: Assumes that $155 million in tax exempt bonds are issued on 1/1/86, with approximately $128 million going into the construction fund. As of 1/1/90 adequate funds are available in the debt service fund to call $12 million in bonds, leaving $143 million outstanding. Bond interest rate is assumed to be 10.5%.

3. State Assistance: This would be in two forms, first as a $30 million appropriation on 7/1/85, and second as capitalization of the Economic Development Fund. The capitalization is estimated to be at least $100 million par value of existing state loans now held in the treasury.

4. After completion: There are assumed to be $143 million worth of bonds outstanding, with approximately $18 million of this in what is assumed to be a self-supporting capital reserve fund. This leaves approximately $125 million worth of debt that must be repaid from available sources. The annual debt service on this $125 million is estimated to be $14.3 million. Assuming the project tolls will generate $10.3 million, then the other $4.0 million is assumed to be derived from the interest from the remaining loans of the original $100 million capitalization of the Economic Development Fund. No provision has been made to repay the state contribution, but this could happen from excess revenues.

Number 170 — Mr. Elder answered that they were not all bad loans, just that there is a high delinquency rate.

Number 180 — Representative Frank noted a sentence that says no provision has been made to repay the state's contribution but that it might be paid out of excess revenues. He asked how this fits with Cominco's pledge to repay the state.

Number 200 — Mr. Elder answered that perhaps it does not fit, and said that he anticipates that the finance plan will reflect all the income that the state will receive.

Number 230 — Chairman Sund asked what is the cash flow of the existing loans.

Number 235 — Mr. Elder estimated that it is the neighborhood of $15 to $20 million annually. He added that the assets and the cash flow will collateralize the bonds, as well as the user fees. However, cash from user fees will not happen until the mine is in production. The cash flow would be used to meet annual obligations on the debt service in the meantime.

Number 257 — Chairman Sund asked Mr. Elder what the legislature has to do in order to implement the plan that he is discussing.

Number 265 — Mr. Elder answered that the legislature would have to appropriate $18 million to AIDA, to appropriate the outstanding principal amounts of the loans held by the Department of Revenue to AIDA, and to give AIDA the authority to issue bonds in an amount not to exceed $175 million.

Number 280 — Chairman Sund asked if these bonds would go against the state's bonding capacity.

Number 283 — Mr. Elder answered no, they would be the obligation of AIDA.

Number 292 — Representative Frank asked Mr. Elder why $18 million appropriation plus $141 million in loans is needed in order to proceed on schedule.

Number 298 — Mr. Elder answered that they want to proceed with construction in calendar year 1986.

MEMORANDUM State of Alaska

TO: The Honorable John Sund
Chairman
House Special Loans Committee

DATE: March 26, 1985

FILE NO: 85I-170

TELEPHONE NO: 465-3568

FROM: Jack Fargnoli, Senior Analyst
Division of Strategic Planning
Office of Management and Budget

JLF

SUBJECT: Red Dog Mine - Royalty Payment Distribution Likely Under ANCSA 7(i)

This memorandum summarizes information that the Office of Management and Budget (OMB) presented yesterday before the Senate Resources Committee, regarding the effects of Section 7(i) of the Alaska Native Claims Settlement Act (ANCSA) on the distribution of potential Red Dog Mine royalty payments among Alaska Native corporations.

The attached table, "RED DOG MINE ROYALTY PAYMENTS - PROBABLE DISTRIBUTION UNDER ANCSA 7(i)", shows the percentage of total royalty payments from Cominco to NANA that each Native corporation would be likely to receive after redistribution under the allocation provisions of ANCSA 7(i). Section 7(i), as you are aware, requires that any royalty payments to NANA from Cominco due to Red Dog Mine operations would have to be shared with all other regional Native corporations. While the actual dollar amounts likely to be involved in such a distribution are uncertain, as discussed below, OMB feels that the percentage distribution shown in the table is highly probable.

As indicated yesterday in testimony before the Senate Resources Committee, OMB has chosen not to estimate possible ANCSA 7(i) dollar flows for the Red Dog Mine project at this point, because the magnitude of such dollar flows will largely be determined by the extent of any financial participation in the project by the State of Alaska.

That notwithstanding, one level of possible dollar amounts is shown in the attached table, solely to present a reference point for the order of magnitude of royalty payments that could result from Red Dog operations. The amounts shown, which are pre-tax amounts, are based on an estimate provided by Cominco on March 6, 1985, and reflect Cominco's estimate that an average of approximately $30 million per year (1985 dollars) for thirty years will be paid in royalties to NANA, and then subsequently be redistributed to NANA and the other regional Native corporations under ANCSA 7(i). The estimate of $30 million per year in royalty payments itself rests on Cominco's assumption in this scenario that the State would provide $150 million in revenue bonding for the road and port

infrastructure, with Cominco repaying the State approximately $260 million (nominal dollars) through user fees over a 30-year period.

If additional information is needed on this or any other topic, please don't hesitate to contact me or Alan Shelly at 465-3568.

cb/85I-170

Attachment

cc: **Laurie Herman**
Executive Assistant
Office of the Governor

Terry Elder
Deputy Commissioner
Department of Commerce and Economic Development

RED DOG MINE ROYALTY PAYMENTS,
PROBABLE DISTRIBUTION UNDER ANCSA 7(i)

Regional Native Corporation	Probable Share (Percent)	Possible Avg.* Annual Amount (1985 Dollars x 1,000)
Ahtna	1.4%	$ 300.0
Aleut	4.4	923.3
Arctic Slope	5.0	1,050.0
Bering Straits	8.5	1,786.7
Bristol Bay	7.3	1,533.3
Calista	18.0	3,780.0
Chugach	2.6	546.7
Cook Inlet	8.4	1,766.7
Doyon	12.2	2,566.7
Koniag	4.5	946.7
NANA	6.5	1,366.7**
Sealaska	21.1	4,433.3
TOTAL:	99.9%	$21,000.0/yr.(avg.)

* Cominco estimate as of 3/6/85. Amounts shown are before taxes (mining license tax, corporate income tax). Assumes $150 million in revenue bonding by State for infrastructure, and repayment of approximately $260 million (nominal dollars) by Cominco through user fees over 30 years.

** In addition to Cominco estimate of $9 million (1985 dollars) that NANA would receive annually (avg.) as its allowable 30% of gross royalty payments, assuming State participation and Cominco repayment as above.

Source: Office of Management and Budget

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2500

OFFICE OF THE COMMISSIONER

April 8, 1985

The Honorable Arliss Sturgulewski
Chairman
Senate Committee on Resources
Pouch V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

Re: $142 Million AIDA Transfer

In response to your letter of April 1, 1985, I am providing you with the following requested information.

1. Will the transfer of the $142 million in loans to AIDA affect the personnel requirements of your loan servicing division? In other words, would you anticipate a reduction in staffing?

   There are several factors that are pertinent, assuming the appropriation to AIDA does take place and is effective July 1, 1985.

   (a) AIDA will not service the transferred loans.

   (b) The Division of Accounting and Collections would continue to service the loans after July 1 under contract with AIDA until such time as AIDA and/or the division decide that transfer of servicing to a private bank is appropriate.

   (c) The earliest such a servicing transfer could occur is mid-year FY '86 due to the complexity of the transfer, keeping in mind the transfer may not occur at all if AIDA and the division feel it is not appropriate.

   (d) If the FY '86 budget cuts are as severe as the first draft cut appears, the division may request that AIDA transfer the servicing. If this were to occur, the division would reduce staff after the servicing transfer so that the combined reduction in staff (due to budget cuts and the transfer) would be about 35% - proportionate to the number of loans transferred. Such staff reductions would <u>not</u> free up excess general funds because the

transferred loans would be those that currently generate 100% of our "other funds" (service fees) in the divisions' operating budgets (Division of Acccounting and Collections and the Division of Investments). Therefore, while the appropriation of these loans could result in a reduction in staff, it would not be in "General Fund" funded staff, and the staff reduction would come only after the transfer of servicing, not on the effective date of the appropriation.

2. If these loans were transferred to AIDA, do you anticipate that the loan repayment or servicing policies would change?

   No, both organizations expect repayment on a timely basis.

3. What would be the effect on the borrowers if these loans were transferred to another agency?

   While servicing remains under the Division of Accounting and Collections, the effects would be minimal: prior to the effective date of the appropriation, new loan numbers may be required to allow for accurate accounting to the new investor; this would entail a letter and a new supply of payment cards being sent to the borrower. The effort required of division staff to close out one investor and begin servicing a new investor will be substantial; borrowers may notice a slight decline in the quality and timeliness of service as the division copes with the changes.

   If the servicing itself were transferred to a private bank at some point, the following changes would occur:

   (a) Borrowers would receive another new loan number, another set of payment cards, and a series of letters explaining each step of the servicing transfer;

   (b) Service quality and timeliness may vary.

All impacts to borrowers could be summed up as short-term inconveniences which would occur for six months or so during the transition to a new servicer.

4. How would the loss of future income from these loans (both principal and interest) affect the ability of your loan divisions to provide for the public demand for loans in the various categories? Would you anticipate increased funding requests to the Legislature to meet the public need?

There would be virtually no effect on the loan fund balances.

The cash flow from these loans is remitted to the General Fund (through Division of Treasury) on a monthly basis, net of service fees, late fees, NSF fees and application/assumption fees which are retained by the fund. In the case of veterans and commercial fish, these fees then are appropriated by the Legislature to fund operating efforts in the Division of Accounting and Collections and the Division of Investments.

We would not anticipate increased funding requests in the loans budget to meet public loan demand.

5. Does the loss of income from these loans affect your FY '86 budget loan requests if all principal and interest are transferred on the $142 million as of July 1, 1985?

No, the loss of income to the loan funds will be negligible (See #4).

The operating budgets of the Division of Accounting and Collections and the Division of Investments could be impacted mid-year due to loss of service fees if the servicing is transferred prior to year-end FY '86.

Please let me know if you have further questions.

Sincerely,

Loren H. Lounsbury

Loren H. Lounsbury
Commissioner

LHL/mst1748m
040385c

cc: Mary Nordale, Commissioner, Department of Revenue
Bert Wagnon, Executive Director, AIDA

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2500

OFFICE OF THE COMMISSIONER

March 26, 1985

Honorable Arliss Sturgulewski
Chairman, Senate Resource Committee
Pouch V
Juneau, Alaska 98111

Dear Senator Sturgulewski:

Red Dog is, by universal acclaim, one of the world's premier ore deposits and will help satisfy an expected shortfall in world zinc supply far into the 21st century. It is estimated that over a 20-year period, the Red Dog Mine will provide in direct revenues to the State over $210 million in net present value in the form of taxes and avoided transfer payments. Additionally, the mine will create 400 direct jobs in the northwest Alaska region which experiences very high levels of unemployment, as well as some 200 jobs state-wide in service and supply sectors of the economy. Regional benefits of the project will include significantly reduced transportation costs and the mine could provide an economic base for the formation of a regional borough.

Investment by the State of Alaska in the construction of a regional port and access road, not only to the Red Dog Mine site, but also the richly mineralized Noatak region is both an opportunity for the State to diversify its economy and, backed up by sound financial analysis, is an appropriate responsibility of the government.

The State of Alaska shares the concerns expressed by the Legislature with regard to protecting State interests since it is, in fact, the State of Alaska that will be the owner of the road and the port.

Both the Administration and the Legislature are in complete agreement with regard to assurances and guarantees to be provided by Cominco and NANA. Such guarantees have already been outlined to the Legislature and consist of the following:

- Cominco will guarantee to pay toll fees that will repay State investment.

- Cominco will guarantee to pay the operation and maintenance costs of the road and port facilities.

- Cominco also will guarantee minimum toll payments and other payments necessary to repay the State's investment if the mine is delayed or if production is suspended after operation commences.

- To the extent that the price of zinc should rise above a level presently contemplated to yield a reasonable profit, the State believes that it should be able to have its investment liquidated at an accelerated rate. This is a provision common to many loan agreements involving sizeable investments.

Additionally, NANA will guarantee to provide necessary land to accommodate reasonable expansion requirements for future users at the port site.

The State intends to hold Cominco and NANA to these guarantees, plus any other appropriate commitments, that may be identified by the contractor, Stanford Research Institute, who will produce the comprehensive financial plan.

With the ironclad assurances and guarantees in place, the Legislature, this session, has the opportunity not only to move the Red Dog Mine project forward in a timely manner but to assure potential consumers of Alaska's exports that the State is serious about developing its natural resources.

Sincerely,

Loren H. Lounsbury
Commissioner

LHL/sa0673s
31685d

cc: Ben Harding, Special Staff Assistant
Office of the Governor
Mary Nordale, Commissioner
Department of Revenue

MEMORANDUM State of Alaska

TO: The Honorable John Sund
Chairman
House Special Loans Committee

DATE: March 26, 1985

FILE NO: 85I-170

TELEPHONE NO: 465-3568

FROM: Jack Fargnoli, Senior Analyst
Division of Strategic Planning
Office of Management and Budget

SUBJECT: Red Dog Mine - Royalty Payment Distribution Likely Under ANCSA 7(i)

This memorandum summarizes information that the Office of Management and Budget (OMB) presented yesterday before the Senate Resources Committee, regarding the effects of Section 7(i) of the Alaska Native Claims Settlement Act (ANCSA) on the distribution of potential Red Dog Mine royalty payments among Alaska Native corporations.

The attached table, "RED DOG MINE ROYALTY PAYMENTS - PROBABLE DISTRIBUTION UNDER ANCSA 7(i)", shows the percentage of total royalty payments from Cominco to NANA that each Native corporation would be likely to receive after redistribution under the allocation provisions of ANCSA 7(i). Section 7(i), as you are aware, requires that any royalty payments to NANA from Cominco due to Red Dog Mine operations would have to be shared with all other regional Native corporations. While the actual dollar amounts likely to be involved in such a distribution are uncertain, as discussed below, OMB feels that the percentage distribution shown in the table is highly probable.

As indicated yesterday in testimony before the Senate Resources Committee, OMB has chosen not to estimate possible ANCSA 7(i) dollar flows for the Red Dog Mine project at this point, because the magnitude of such dollar flows will largely be determined by the extent of any financial participation in the project by the State of Alaska.

That notwithstanding, one level of possible dollar amounts is shown in the attached table, solely to present a reference point for the order of magnitude of royalty payments that could result from Red Dog operations. The amounts shown, which are pre-tax amounts, are based on an estimate provided by Cominco on March 6, 1985, and reflect Cominco's estimate that an average of approximately $30 million per year (1985 dollars) for thirty years will be paid in royalties to NANA, and then subsequently be redistributed to NANA and the other regional Native corporations under ANCSA 7(i). The estimate of $30 million per year in royalty payments itself rests on Cominco's assumption in this scenario that the State would provide $150 million in revenue bonding for the road and port

infrastructure, with Cominco repaying the State approximately $260 million (nominal dollars) through user fees over a 30-year period.

If additional information is needed on this or any other topic, please don't hesitate to contact me or Alan Shelly at 465-3568.

cb/85I-170

Attachment

cc: Laurie Herman
Executive Assistant
Office of the Governor

Terry Elder
Deputy Commissioner
Department of Commerce and Economic Development

RED DOG MINE ROYALTY PAYMENTS,
PROBABLE DISTRIBUTION UNDER ANCSA 7(i)

Regional Native Corporation	Probable Share (Percent)	Possible Avg.* Annual Amount (1985 Dollars x 1,000)
Ahtna	1.4%	$ 300.0
Aleut	4.4	923.3
Arctic Slope	5.0	1,050.0
Bering Straits	8.5	1,786.7
Bristol Bay	7.3	1,533.3
Calista	18.0	3,780.0
Chugach	2.6	546.7
Cook Inlet	8.4	1,766.7
Doyon	12.2	2,566.7
Koniag	4.5	946.7
NANA	6.5	1,366.7**
Sealaska	21.1	4,433.3
TOTAL:	99.9%	$21,000.0/yr.(avg.)

* Cominco estimate as of 3/6/85. Amounts shown are before taxes (mining license tax, corporate income tax). Assumes $150 million in revenue bonding by State for infrastructure, and repayment of approximately $260 million (nominal dollars) by Cominco through user fees over 30 years.

** In addition to Cominco estimate of $9 million (1985 dollars) that NANA would receive annually (avg.) as its allowable 30% of gross royalty payments, assuming State participation and Cominco repayment as above.

Source: Office of Management and Budget

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

1577 "C" STREET • SUITE 304 ☐ ANCHORAGE, ALASKA 99501-5177 ☐ (907) 274-1651

March 22, 1985

Senator Arliss Sturgulewski
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

You have expressed concern regarding a situation where the Legislature appropriates a considerable amount of resources to AIDA to help finance the DeLong Mountains Transportation project without the Legislature having full knowledge of the total financial picture of the project. Of course, the intent of the Finance Plan contract now underway is to enable the Authority to be able to provide this "full picture" to the Legislature, the Governor and other interested parties. However, since we are requesting an appropriation now, even though the Plan is not yet completed, it is incumbent upon AIDA to provide assurances to the Legislature that no improper or imprudent use will be made of these resources.

Should the Legislature decide to appropriate funds to allow this project to go forward, the State's investment could be protected by restricting the expenditure of such funds by AIDA until both a guaranty agreement and a detailed use agreement are completed and executed.

As envisioned by AIDA, Cominco will be required to enter into a guaranty agreement with AIDA covering such items as total repayment in the event the mine is not operated, guaranteed minimal toll charges, payments in event production is suspended after operation commences, commitment to pay operating and maintenance expenses of the transportation project, as well as appropriate financial provisions to enforce such guarantees. Although we (AIDA) are discussing these matters at present with Cominco and NANA, we will not complete any agreements until we have the results of the Finance Plan.

This would be followed by a detailed "use agreement" between AIDA and Cominco, which would cover all facets of the project in detail. It is anticipated that the use agreement will be a very complex document and take approximately three to four months to finalize.

Because of the time involved to complete both of these agreements, AIDA would not expect any significant expenditure of funds until after the Legislature reconvened in January 1986. If at that time, the Legislature decided to not proceed with state involvement in the project, the Legislature could simply notify AIDA and, with the Governor's concurrence, reappropriate the funds to other uses.

I hope this adequately answers your quite valid concerns. Please remember that all along we have maintained that we only want to pursue this project if it is a 'good deal' for the State.

Sincerely,

Bertram L. Wagnon
Executive Director

BLW/rg

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF

POUCH V
JUNEAU, ALASKA, 99811
(907) 465-4907

Senate
Committee on Resources

M E M O R A N D U M

March 24, 1985

TO: All Members
Senate Resources Committee

FROM: Staff
Senate Resources Committee

RE: Red Dog Project Analysis

Attached are supplemental materials that update the Red Dog Project Analysis done by the various state departments in February, 1984.

1. Section III: Report of the Office of Mineral Development;

2. Section IV: Report of the Division of Finance and Economics, DCED;

3. Section V: Report of the Office of Management and Budget;

4. Section V: Report of the Department of Revenue;

5. Section VI: Report of the Department of Community and Regional Affairs.

You have also received last week a report from Bert Wagnon of AIDA on the outline of several financial plans.

fh:bh

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SA
JUNEAU, ALASKA 99811

Summary of Changes to Tax Revenue Forecast

Red Dog Project Analysis - Section V

Prepared By:
Alaska Department of Revenue
March 21, 1985

I. Special Industrial Incentive Investment Tax Credit

The Alaska Legislature passed CCSHB 258 late in the 1984 sesssion instituting a tax credit for new mining and gas processing operations. This legislation was not considered in developing the estimate of taxes to be paid by Cominco. Provisions and limitations of this legislation applicable to Cominco are:

a. The credit is granted to mining operations which begin production after December 31, 1984;

b. Investments in property which are entitled to the federal investment tax credit qualify for the incentive credit;

c. To qualify for the credit, the investment must be made by December 31, 1994;

d. The credit may be applied against the taxpayer's Alaska mining license tax and corporate net income tax liabilities.

e. The credit may not exceed 60 percent of the total tax liability for these two tax types in any given year.

f. Unused credits may be carried forward by federal tax law. However, unused credits may not be carried forward to tax years after December 31, 1999.

g. The credit is in place of the regular investment tax credit granted by AS 43.20.036(b).

h. The amount of investment subject to credit is limited to the first $250 million placed in service in the state; and is further limited to:

1) 100% of the 1st $50 million investment
2) 80% of the 2nd 50 million investment
3) 70% of the 3rd 50 million investment
4) 60% of the 4th 50 million investment
5) 40% of the 5th 50 million investment

i. The amount of credit which may be applied against the tax liability is the amount of credit allowed against federal taxes for the same investment. Currently, the Internal Revenue Code allows a regular credit of 10% of the qualified investment with mandatory reduction in the asset's depreciable basis of one-half of the credit, or an optional 8% rate with no basis adjustment.

j. Exhibit I recalculates the estimated tax liability of Cominco on an annual basis giving the effect of the special incentive credit. This schedule updates the schedule at V-66 of the Red Dog Project Analysis, February 1984 report for the "probable" metal price forecast scenario.

II. Update on Tax Consequence to NANA Development Corporation

a. NANA will be subject to the corporate income tax and the mining license tax on its royalty income from Red Dog.

b. The computation of NANA's mining license tax liability in the February 1984 Red Dog Project Analysis at page V-68 did not consider the depletion deduction. Exhibit II recalculates NANA's total tax exposure given the effect of a 15% depletion deduction from the net proceeds royalties.

c. NANA will not be entitled to a credit under the special incentive investment tax credit provisions of AS 43.20.042.

III. Mining License Tax Regulations

a. Status

The Department of Revenue has drafted proposed mining license tax regulations. Public hearings have been held in Fairbanks, Anchorage and Juneau. Also, a teleconference was held with Nome. The deadline for written comments and testimony concerning the regulations is March 31, 1985.

b. Intent

The current draft of the regulations attempts to interpret the statute and provide rules for its administration. The regulations should have no effect upon the estimate of Cominco or NANA's mining tax liabilities as portrayed in the original report. The draft provides:

1) clarification of who must apply for a mining license and file mining tax returns

2) instructions for obtaining the three and one-half year exemption certificate

3) methods for determining income when mined resources are exported from the state or commingled with non-mining products to form a salable product

4) an explanation of the types of expenses deductible from mining income.

RED DOG MINE

EXHIBIT I

COMINCO'S ESTIMATED ANNUAL TAX PAYMENT
UPDATED TO REFLECT
INCENTIVE INVESTMENT TAX CREDIT

	1989	1990	1991	1992	1993	1994 2008	20 Year TOTALS
MLT "Probable"	Exempt	Exempt	Exempt	$2.13	$5.25	$ 78.75	$ 86.13
CIT "Probable"	$ 4.83	$ 4.83	$ 4.83	4.83	4.83	72.45	96.60
Total Tax Liability	4.83	4.83	4.83	6.96	10.08	151.20	182.73
*Incentive Investment Tax Credit (limited to 60% of tax liability)	(2.90)	(2.90)	(2.90)	(4.20)	(1.76)	-0-	(14.66)
Net Income Tax Liability	$ 1.93	$ 1.93	$ 1.93	$ 2.76	$ 8.32	$151.20	$168.07
MFT "Probable"	.13	.13	.13	.13	.13	2.25	2.90
Total Cominco Estimated Tax Liability	$ 2.06	$ 2.06	$ 2.06	$ 2.89	$ 8.45	$153.45	$170.97

MLT = Mining License Tax
CIT = Corporate Income Tax
MFT = Motor Fuel Tax

*Estimated Investment Qualifying for Credit	$186.0	million
Available Credit: $50 million x 100% x 10%	5.0	million
50 million x 80% x 10%	4.0	million
50 million x 70% x 10%	3.5	million
36 million x 60% x 10%	2.16	million
Total Available	$14.66	million

Please note: Many of the figures used herein were provided to Revenue and the Red Dog Project Committee by Cominco. They are not the result of any independent audit activity of this Department.

Prepared by:
Alaska Department of Revenue
Audit Division
March 21, 1985

Exhibit II

NANA AVERAGE ANNUAL STATE TAX LIABILITY
BASED ON ROYALTIES RECEIVED
UPDATED TO MARCH 21, 1985
(Millions of 1983 Dollars)

	Average Annual Royalties	Average Annual CIT Due* (Begins In 1988	Average Annual Net Proceeds Royalties***	Average Annual MLT Due** (Begins In Mid-1991)	CIT and MLT Combined After 1991: Annual Taxes Due State During 1988-91	CIT and MLT Combined After 1991: Average Annual Taxes Due State After 1991
"Low"	$15.24	$1.43	$29.72	$2.08	$1.43	$3.51
"Probable"	25.11	2.36	41.28	2.89	2.36	5.25
"High"	33.78	3.18	50.05	3.50	3.18	6.68

CIT=Corporate Income Tax
MLT=Mining License Tax

*Payable on all royalties received over the life of the mine.
**Payable on all net proceeds royalties due (in addition to CIT).
***Net of 15% depletion

Prepared by:
Alaska Department of Revenue
Audit Division
March 21, 1985

Please note: Many of the figures used herein were provided to Revenue and the Red Dog Project Committee by Cominco. They are not the result of any independent audit activity of this Department.

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

☐ *POUCH B*
JUNEAU, ALASKA 99811
PHONE: (907) 465-4700

☐ *949 E. 36TH AVENUE, SUITE 400*
ANCHORAGE, ALASKA 99508
PHONE: (907) 563-1073

Summary of update of Section VI of the Red Dog Report

3/22/85

After a review of Section VI of the Red Dog report of February 1984, and materials provided to the Department in the interim, the Department finds that there is no basis for any substantial change in the conclusions presented at the time of that report.

With regard to the possible detachment of the mine site lands from the North Slope Borough, NANA continues to seriously investigate the feasibility and means of accomplishing this detachment. NANA continues to base the viability of a possible NANA Borough upon the availability of the mine to provide a substantial portion of the new borough's tax base. NANA has performed a feasibility study to this effect which the Department has reviewed. The prospects for detachment remain uncertain.

With regard to the socioeconomic impact assessment of the development on the NANA region, no critical changes have been introduced by way of newly proposed development scenerios or changes in development parameters. A postponement of mine development of several years will not radically alter the region's baseline context (existing population, income, employment levels, etc) as it would be impacted by the mine development. Therefore, the Department stands by its assessment as providing a reasonable estimate of development impacts.

A question has been raised regarding the lack of quantitative measures of certain "costs" of development as compared to the more detailed presentation of the "benefits" of the development. Specifically, the Department's assessment did not attempt to quantify the costs of potentially increased service demands for social, medical and public safety programs which might result from disruptions of lifestyle due to a sudden increase in the region's cash economy.

In general, the Department stands by its decision not to try to provide a dollar value on these potential costs. There is simply no practical basis for establishing such a number. No one can predict with any certitude the response of these particular residents in this particular situation. While there is likely to be some increase in certain social service demands as a result of new affluence, we would assert that the net social service demand in the region is most likely to be reduced as a result of the proposed development, particularly in the long run.

Regarding medical services, it is assumed that the State would experience some reduction in costs as a consequence of the mine's development. The Department of Health and Social Services is working with the NANA region to localize medical services by contracting for service provision with a local entity. A provision of these contracts requires the contracting entity to phase in a user-fee system which could greatly reduce the facility operating costs for the State. Employment increases in the region should have the effect of increasing the number of fee-paying users of the region's medical services.

Regarding public safety, a "worst case" service demand increase might require an additional Village Public Safety Officer in each outlying community and several additional full or part-time police officers in Kotzebue. This case would represent an increase in costs of some $150,000 annually ($100,000 State, $50,000 municipal). It is not expected that new public safety facilities would be required directly as a result of the mine development.

With regard to the utility service demands on Kotzebue, the point is made that the impacts which would arise as a result of the developement represent less than 15% of the impacts which Kotzebue will experience through natural population increases even if the mine is not developed. This 15% value is unlikely, in itself, to trigger the necessity of a major capital project such as a new school, fire hall or power generating station. This assessment is based upon the commitment expressed by NANA/Cominco that the mine development is to be operated as an enclaved development.

MEMORANDUM

State of Alaska

TO: John Sims

DATE: March 22, 1985

FILE NO:

TELEPHONE NO:

FROM: Paul Engelman Paul

SUBJECT: Red Dog Mine Update
Section IV

The changes in the tax return rate and the additional information supplied by the Department of Revenue have changed the original report as follows:

1. Page IV-1 - The present value of the taxes has been reduced to $169.49 million resulting in a decrease in estimated total benefits to the State of $210.65 million when zinc is priced at 60¢ per pound.

2. Page IV-2 - Table I should be revised as follows:

TABLE I

Returns* to the State from
Red Dog Mine Development
(Millions of Dollars)

	Price of Zinc		
	55¢	60¢	65¢
Taxes	129.7	169.49	216.32
Transfers	41.16	41.16	41.16
Total	170.94	210.65	257.48

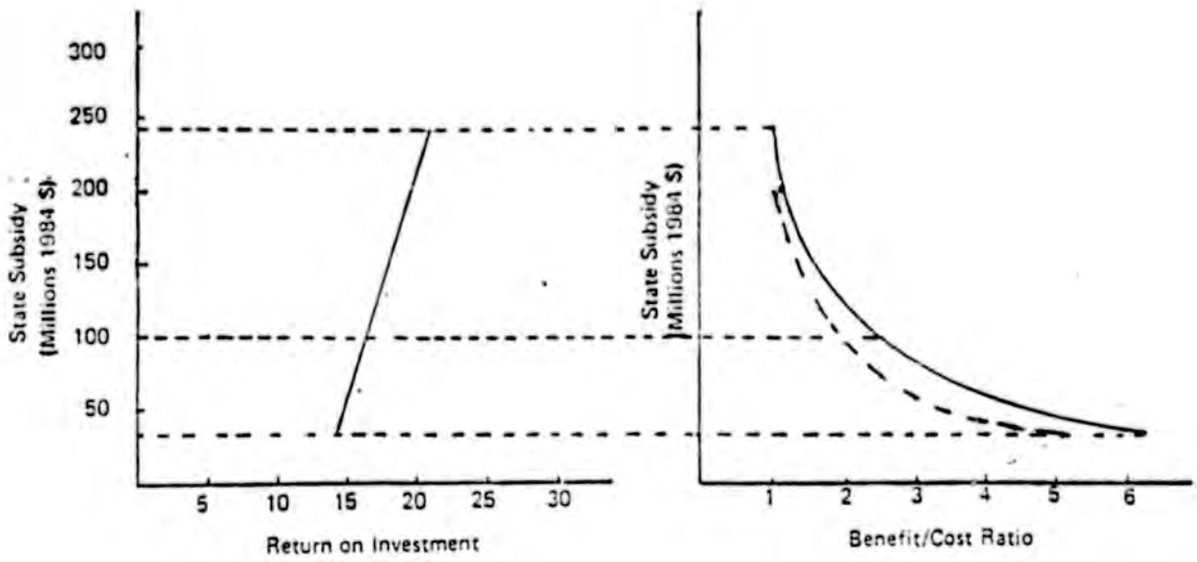
*All returns are given in terms of their present value. Only direct returns to State Government are considered.

3. Page IV-2 - The State's benefit ratio from Cominco for the $40.1 million investment is reduced to 5.3:1 since the benefits have been reduced to $210.65 million.

4. Page IV-3 - The State's theoretical maximum subsidy is reduced from $245 million at 60¢ per pound to $210.45 million

5. Page IV-5 - Charts I and II should be modified as follows:

CHART I CHART II



---------- adjusted for new tax regulations.

[* Assumes a real price of zinc of 60¢ per pound.]

6. Page IV-6 - The discussion on the required subsidy at different price levels for zinc isn't changed. However the reduction in tax liability should raise the rate of return Cominco receives at every price level since the tax reduction reduces their costs. While it is difficult to determine the exact amount the tax reduction will effect their rate of return, it appears to be about a 1.0% increase when zinc is 60¢ per pound. Charts I and II have not been adjusted to reflect this. The effect would be to shift the line in Chart I to the right indicating a greater rate of return at every level of subsidy.

PE/wfs0004p
32285b

MEMORANDUM State of Alaska

TO: John Sims, Director
Office of Mineral Development
Department of Commerce and
Economic Development

DATE: March 15, 1985

FILE NO: 85F-201

THROUGH: Gordon S. Harrison, Associate Director
Office of Management and Budget

TELEPHONE NO: 465-3568

FROM: Alan Shelly, Senior Analyst
Division of Strategic Planning
Office of Management and Budget

SUBJECT: Update of OMB Portion (Part V) of Red Dog Project Analysis

We have been asked to review several aspects of the Red Dog analysis in light of information currently available. These aspects are economic impacts, ANCSA Section 7(i) distributions, and potential local tax revenues.

Our findings are:

1. Based on figures provided by Cominco and the Office of Mineral Development, there are only slight changes in the plans for the project from what was contemplated in the 1983 study. The start of production is now anticipated for 1989, not 1988, and the initial production estimate is now 1.5 million tons of ore per year, instead of the 1.1 million tons expected in 1983. Neither change should significantly affect the income and employment situation with respect either to the construction or full (not initial) production periods. Since these are the periods emphasized in our part of the 1983 study (pages V-37 through V-62), that analysis remains valid, subject to the limitations and constraints described in the original report.

   Also, since no major changes are suggested in the construction scenario, the limited analysis of shipping costs (pages V-59 to V-60) remains in force.

2. We have examined the figures reported in the Office of Mineral Development's "Supplement to Red Dog Project Analysis Section III-C" for ANCSA Section 7(i) distributions. While much more information from Cominco would be necessary to evaluate the profit figures contained there, we can verify that the percentage distributions to the various Native Corporations appear to be approximately correct.

02-001A(Rev. 10/79)

Speediset ® Moore Business Forms, Inc.

403833

3. We are unable to provide an estimate of possible local tax revenues, since in addition to the suggested nine or ten mill rate, we should need detailed information on the type and value of the various items of plant and equipment at the Red Dog site. Moreover, the legal limit on the rate of local taxation depends on the amount of State taxes, if any. Thus, we should need to know the assumptions made on State behavior.

AS/dmc

Office of Management and Budget
Office of the Governor
State of Alaska

Final Report on the Red Dog Mine Project
February 21, 1984

SUMMARY

This summary presents the major findings of the Office of Management and Budget's final report on the Red Dog Mine project. The report was prepared for the Interagency Task Force on State Participation in Infrastructure Development, which was assembled for this project. The report's findings, based on assumptions described in the full report, are shown below.

Task 1 - Cominco Corporate Profile

- Cominco Ltd. is an established and sound company with good overall prospects, and is backed by a large and reputable parent corporation.
- The company appears able to provide a solid corporate base for support and development of the Red Dog Mine project.

Task 2 - NANA Corporate Profile

- NANA Regional Corporation appears to be solvent and strongly oriented towards projects which offer long-term employment benefits to its shareholders (principally joint business ventures in Northwestern Alaska).
- The corporation's participation in the Red Dog Mine project appears consistent with its corporate purposes and past activities.

Task 3 - Direct And Indirect Economic Impacts

- No guarantee exists that the project sponsors' projected employment goals or local hire goals will be achieved.
- The project appears likely to create 350-400 permanent jobs at the mine site, constituting approximately $11-$13 million per year (1983 dollars) in total direct income.
- NANA region residents may obtain an estimated 220-250 (50%-75%) of the mine jobs, constituting approximately $7-$8 million per year (1983 dollars) in direct income for regional residents.

Task 3 (Continued)

- The project may generate an estimated 225 additional jobs within the state due to indirect and secondary employment effects, constituting an estimated $5.7 million per year (1983 dollars) in additional income.

- NANA region residents may obtain an estimated 100-110 (47%) of these additional jobs, constituting approximately $2.7 million per year (1983 dollars) in additional income for regional residents.

- The project's indirect and secondary employment effects may cause approximately 50 previously unemployed persons to be hired within the NANA region, plus an additional 30-60 such persons elsewhere in the state (chiefly in the Anchorage area).

- No basis is available at present for estimating the number of job-seeking in-migrants which the project might attract into the state, though the project sponsors will attempt to minimize such effects through employment advertising.

- Local population increases due to the project itself probably will be moderate, totaling an estimated 280 new residents (including dependents) across the state, exclusive of in-migration. These increases could have significant local consequences within the NANA region, however (e.g., an estimated 70-75 new residents in Kotzebue, exclusive of in-migrants).

Task 4 - Fiscal Impacts

- The total amount of tax revenues that the State is likely to receive from the Red Dog Mine project has been estimated to be approximately $9-$16 million per year during the years 1988-1991, and approximately $12-$20 million per year after 1991 (1983 dollars). This estimate is reasonably made, and is consistent with current Alaska tax statutes. It is necessarily speculative, however, due to the profits-based nature of the main taxes involved, the current absence of mining license tax regulations in Alaska, and the possibility that the project sponsors' actual tax liability may be based on unitary taxation principles in the future.

- An interest-free loan to Cominco of $135 million (with a 10-year deferment of payments, to be followed by a 20-year repayment period), for construction of the mine access road and port facility, could represent a direct net cost to the State of approximately $100-$120 million (1983 dollars).

Task 4 (Continued)

- Increases in State and local program costs due to project-caused population increases could be moderate, though not insignificant at the local level. Such costs would depend largely on the extent to which the project induced speculative in-migration into the state and into the NANA region.

Task 5 - Cominco/NANA Contractual Agreement

- The agreement appears to contain no provisions which would alter this report's assessment of the economic and fiscal impacts of the project.

Task 6 - Effects On State Bonding Capacity

- Industrial development bond (revenue bond) financing of the project infrastructure, including the access road and the port facility, would not in itself adversely affect the State's bonding capacity.

Summary of Substantive Changes in Section III
of the Red Dog Report

1. The U.S. Bureau of Mines reports that Red Dog holds 29% of total U.S. reserves of zinc. Cominco reports that Red Dog holds over one-third of U.S. reserves when only economically recoverable reserves are considered.

2. Cominco has revised its initial start-up production rate from 1.1 million tons per year to 1.5 million tons per year. Figures for concentrate production, daily mill tonnage production, a daily number of truckloads of concentrate shipped to the port facilities and other related figures have been changed to reflect the revised initial production rate.

3. The development time schedule has changed by one year. Assuming construction begins in 1986, start-up is scheduled for 1989.

4. The Environmental Impact Studies are complete and the final EIS was issued in September 1984.

5. NANA has signed an administrative land exchange with the Department of the Interior for the access route through the Krusenstern National Monument and is awaiting congressional approval.

6. Cominco, through sales of stock, sold 18 percent of its interest in the Pine Point Mine to retain a 51 percent ownership, and completely sold its 17 percent interest in the Tara Mine in Ireland.

7. All reserve tonnages, grades, and production figures for Cominco mines and smelters have been updated to 1984.

8. World zinc consumption recovered from 1982 recessionary levels and zinc consumption in automobiles for rust proofing and die casting is increasing, a positive trend in the long term outlook for zinc demand and prices. Short term price movements included rising

prices in the first half of 1984 due to strong demand. U.S. producer prices fell in the second half of 1984 and early 1985 while London Metal Exchange prices (in pounds sterling) reached record highs, indicating the U.S. price was being driven down by the record strength of the dollar.

9. Cominco projects a zinc demand growth rate of 1.7% (compared with the U.S. Bureau of Mines 2.5% projection and foresees a loss of world mine production capacity due to reserve exhaustion of over 500,000 tons of zinc metal by 1990. The demand increase and capacity loss will create the market window for Red Dog.

10. GCO Minerals announced the discovery of an extension of the nearby Lik deposit. The discovery is expected to substantially increase the reserves of the deposit and make it increasingly likely that this deposit will be developed at some future date.

Office of Mineral Development
March 19, 1985

SHORT TERM ZINC, LEAD, AND SILVER PRICES
Supplement to Red Dog Project Analysis
Section III-C

Fluctuations in the prices of zinc, lead and silver between December 1983 and March 1985 are discussed below.

Zinc

Zinc prices, responding to strong demand in late 1983, advanced from 49 cents per pound to a high of 53 cents per pound in March 1984. Zinc consumption in the second half of 1983 was strong, demand forecasts for 1984 were strong, producer stocks were down, and net exports to socialist countries were expected to increase. Zinc consumption in the automotive industry began to climb in 1983 and 1984 as technological advances in die casting and the need for improved rust proofing reversed the trend for substitution by plastic and aluminum.

From mid 1984 to the present, the U.S. zinc producer price fell from a high of 53 cents per pound to February 1985 lows of 43 cents per pound. Reasons cited for the fall of U.S. producer prices include increasing smelter stocks of refined zinc, lower than expected bid prices to the U.S. Mint for use in zinc pennies, and pressure from consumers for discounted prices.

However, since the last quarter of 1984, while U.S. producer prices have fallen from 49 cents to 43 cents, London Metal Exchange (LME) prices have risen from £600 per ton to over £800 per ton suggesting that recent low U.S. prices may have been strongly influenced by the record strength of the dollar against the British pound.

As this report was written, both Cominco and Kidd Creek have announced 2 cent price increases to 45 cents per pound. There is also downward pressure on the dollar which may have the effect of raising U.S. producer prices in the short term. In the near term, Cominco President W. G. Wilson has indicated that a period of lower prices, the result of cyclical economic recession, could occur between now and 1989 when production from Red Dog begins. Wilson feels a period of lower prices may "shake-out" marginal high cost producers, further opening the market for a Red Dog appearance in 1989 or 1990.

Lead

Lead prices over the last fourteen months have ranged from a fairly stable U.S. producer price range of 24-28 cents during the first half of 1984, rising to a high range of between 28 and 34 cents during the third quarter of 1984, and dropping slowly to the present February low of 18-22 cents.

The strongest influence on lead prices during this period was the threat of supply shortages by several real and threatened production stoppages. Strikes of U.S., Australian, and German producers,

coupled with threatened Peruvian and Mexican strikes, created buying pressure from consumers. LME lead stocks were drawn down from 170,000 tons in February 1984 to a low of 40,000 tons in November 1984 as consumers bought to establish inventories in the event of long producer disruptions.

As a result of large consumer inventories stockpiled by late summer. the seasonal buying of lead by battery makers was absent in the fall. And coupled with the resolution of U.S. producer strikes, the price has since fallen to its present low.

As with zinc prices, the LME lead price in British pounds rose while U.S. dollar producer prices fell during the last quarter of 1984 and early 1985, generally reflecting the weakening of sterling against the dollar. Strengthening of the pound against the dollar could bring the U.S. producer price back up in the short term. Also, the effect of cold winters in both North America and Europe may keep lead stocks low as the winter's demand for replacement batteries should have been high.

Silver

Silver prices fell from $9 in January 1984 to its present price between $5-$6. Though silver has significant industrial uses, its price is closely tied with the gold price and its recent decline parallels that of gold. The strengthening of European currencies against the dollar is predicted to strengthen gold and silver prices.

No change is foreseen for the 20 year zinc, lead and silver price forecasts included in Section III-C of Red Dog Project Analysis, February 1984. Price changes based on strikes, inventory fluctuations, exchange rates, and the short term vagaries of commodity pricing are not indicative of long term trends.

Office of Mineral Development
Department of Commerce and
Economic Development
March 6, 1985

MEMORANDUM State of Alaska

TO: Hon. Richard Lyon, Commissioner
Dept. of Commerce & Economic Develop.
Chairman, AK Industrial Dev. Authority
AND
Bert Wagnon, Exec. Dir., AIDA

DATE: September 13, 1984
FILE NO: 366-127-85
TELEPHONE NO: 465-3600

FROM: Norman C. Gorsuch
Attorney General

By: Jonathan B. Rubini
Assistant Attorney General
Governmental Affairs-Juneau

SUBJECT: DeLong Mountain transportation project appropriation

This memorandum identifies alternative methods for the Alaska Industrial Development Authority ("AIDA") to expend the funds appropriated under sec. 319, ch. 171, SLA 1984, p. 53, line 8. That appropriation provides that the sum of $3.4 million is appropriated from the general fund to AIDA for the purpose of "Geotechnical Studies, Routing, Engineering, Design and Acquisition -- DeLong Mountain Regional Port."

We first observe the unique nature of the appropriation and the resultant uncertainty regarding the manner in which the appropriation may be implemented.

The adoption of ch. 162 (HCS CSSB 347(SA) am H), enables AIDA to "own and operate" projects. Whereas AIDA was once only a secondary financing conduit, the expanded statutory powers will necessarily transform the characteristics of AIDA, requiring that the board and staff assume a far more substantial role in the development of projects which AIDA directly finances. The immediate appropriation presents the question of whether AIDA merely responds to "construction ready" proposals, or whether AIDA may initiate or may assist a project proponent to develop whatever preliminary analyses are necessary to assess with the requisite specificity the economic feasibility of a project. If nothing else, the appropriation of $3.4 million to AIDA for the purpose of developing preliminary project information on the DeLong Mountain port and road suggests the legislature's intent that AIDA assume an active, not responsive, role in exercising the "own and operate" powers with respect to the DeLong Mountain transportation project.

AIDA's role in the development of preliminary project information for the DeLong Mountain transportation project is particularly unsettled. While construction of the port and road serves regional purposes, development of the DeLong Mountain transportation project is inextricably linked to the development of the Red Dog mineral deposits. The mineral development is presently under review by Cominco, Alaska, a private corporation

which has executed an agreement with the NANA Regional Corporation (NANA) to obtain access to the deposit. Cominco, Alaska is currently expending substantial funds assessing the feasibility of the Red Dog project, and a final production decision is anticipated in 1985. At present, the state's overall role in the Red Dog project is under review, with the possibility that the state -- perhaps through AIDA -- will extend financial assistance toward development of the port and road. AIDA's potential role is further complicated by the fact that the newly-enacted statutory mechanism under which AIDA may participate does not, as yet, provide specific guidance to many of the questions presented. Simply put, many of the questions relating to both the expenditure of the appropriated funds for preliminary project development and the application of other state law are not presently addressed in statute.

Our analysis and recommendations must thus be viewed more as pragmatic proposals to work as well as possible within the existing statutory scheme than as a substitute for specific statutory guidance. If AIDA assumes a continuing role in the development and financing of the DeLong Mountain transportation project, we think it well advised to seek more explicit guidance from the legislature, in particular with respect to the question of the applicability of other state law.

I. DOES EXPENDITURE OF THE FUNDS SATISFY THE "PUBLIC PURPOSE" REQUIREMENT?

Article IX, section 6, of the Alaska Constitution provides that an appropriation of public money may only be made for a public purpose. While all validly enacted appropriations are presumed to satisfy this standard, an executive branch recipient of an appropriation of public funds is responsible for assuring that the public purpose limitation is satisfied.

The appropriation at issue is extended directly to AIDA, yet it is equally clear that expenditure of the funds will indirectly extend a substantial benefit to two private, for-profit corporations, Cominco, Alaska and NANA. Whether or not Cominco, Alaska receives a benefit is not, in our view, the dispositive factor, however. The test instead is whether the expenditure will directly enhance the general welfare of the community. E.g., Wright v. City of Palmer, 468 P.2d 326 (Alaska 1970); Suber v. Alaska State Bond Committee, 414 P.2d 546 (Alaska 1966); Lien v. City of Ketchikan, 383 P.2d 721 (Alaska 1963). In undertaking this inquiry, substantial deference must be extended to

the legislature's finding -- as evidenced by the adoption of the appropriation -- that the expenditure of public funds to assist in the development of preliminary site information for the DeLong Mountain Transportation Project serves a valid public purpose. AIDA, as would a court upon review of the appropriation, must therefore find that the legislative public purpose finding was arbitrary or without any reasonable basis in fact before concluding that the expenditure constitutes an impermissible expenditure of public funds. Cf. Wright v. City of Palmer, 468 P.2d 326 (Alaska 1970); DeArmond v. Alaska State Development Corporation, 376 P.2d 717 (Alaska 1962).

The Red Dog Project Analysis, a comprehensive report prepared through the coordinated efforts of several state agencies, offers a detailed analysis of anticipated public benefits which result from the development of the Red Dog project. Even if the appropriation had been directly extended to Cominco, Alaska, 1/ it is our view that the legislature's decision to assist in the development of preliminary information on the development of the support transportation network for the Red Dog project would have been amply supported by the detailed analysis in the Red Dog Report. 2/ That the appropriation was, in fact, extended directly to a public entity provides further assurance that the public purpose limitation is satisfied. Clearly, AIDA must accumulate adequate information before it may reach an informed decision regarding participation in a project as substantial as the DeLong Mountain transportation project. Development of an adequate information base necessarily requires the expenditure of public funds, if only through the commitment of staff resources. Indeed, the information to be developed through expenditure of the appropriation will assist a broad array of state officials, including the legislature, in consideration of the more substantial question of whether more extensive state financial involvement in support of the Red Dog project is appropriate.

1/ Traditionally, appropriations in Alaska have rarely, if ever, been extended directly to a private, for-profit corporation. Appropriations to private, nonprofit corporations are common though, and in one instance, such an appropriation was expressly approved. Lien v. City of Ketchikan, 383 P.2d 721 (Alaska 1963).

2/ Each appropriation must be assessed on a case-by-case basis. We thus express no opinion at this time on whether the expenditure of additional public funds in support of the Red Dog project or any other comparable project raises more substantial "public purpose" concerns.

II. MAY AIDA EXPEND GENERAL ASSETS TO DEVELOP PRELIMINARY PROJECT INFORMATION?

The newly-enacted provisions substantially expand AIDA's "own and operate" powers, in part in an attempt to facilitate coordinated public and private participation in the development of major capital projects. To reiterate, a problem raised by the immediate appropriation is that AIDA's role in the preparatory stages of the "own and operate" process is not defined by statute.

There are two express limitations on AIDA's exercise of its "own and operate" powers through use of assets in the economic development fund (AS 44.88.172) (hereafter "fund"). First, AIDA may not agree to finance a project under AS 44.88.172 without developing a finance plan which includes an estimate of the total cost of the project, a description of financing sources, an estimate of operational cost, and a description of the source of funds to pay operational costs. AS 44.88.173. Second, AIDA may not agree to finance a project which costs in excess of $10 million with assets of the fund without the approval of the local Regional Resource Advisory Council. AS 44.88.175.

It is our view that the prerequisites of a finance plan and of local approval do not apply where AIDA uses general assets to develop or assist in the development of preliminary project information. By the express terms of the statute, local approval is required only where a project which costs in excess of $10 million is to be financed or developed through use of the assets of the fund. At the same time, AIDA may not use assets of the fund without first developing a finance plan. As the DeLong Mountain transportation project illustrates, development of a finance plan demands a substantial degree of preparatory work. For example, the cost of the road connecting the port and the mineral deposits cannot be ascertained with the required level of specificity until seismic studies have been completed, the route of the road determined, and design work completed. Development of this type of preliminary information through use of general assets of AIDA is authorized by AS 44.88.085(11), which empowers AIDA "to enter into contracts or agreements with respect to the exercise of any of its powers, and do all things necessary or convenient to carry out its corporate purposes and exercise the powers granted in AS 44.88.010 -- 44.88.220." 3/

3/ The use of general assets assumes, of course, that the underlying appropriation of the general assets authorizes expenditure of the funds for such purpose.

III. WHAT PROCEDURES ARE AVAILABLE TO AIDA TO EXPEND THE APPROPRIATION?

Prior appropriations to AIDA supplied funds to undertake general financing programs or to meet general administrative expenses. The present appropriation represents the initial instance of a project-specific appropriation. While the appropriation prescribes the purposes for which the funds may be expended, AIDA enjoys broad discretion in identifying who may perform the work funded by the appropriation. 4/

Before addressing alternative ways to utilize the appropriated funds, we first observe that AIDA may elect to not spend the funds. An appropriation authorizes the expenditure of funds; it does not, except in rare instances, require that the authority to spend be exercised. See Ellis v. City of Valdez, ___ P.2d ___, Op. No. 2844 (Alaska, July 6, 1984). Importantly, the appropriation is for a capital project, and does not lapse in accordance with AS 37.25.020. As a consequence, AIDA may elect to reserve the funds for expenditure in a subsequent fiscal year, presumably at a time when some of the legal and procedural uncertainties have been resolved.

Assuming that AIDA elects to authorize expenditure of the appropriated funds, we believe that the preferred method is to seek authority to directly negotiate a professional services contract with Cominco, Alaska. We discuss below alternative options as we note the basis for this recommendation.

In the typical instance where a state agency, such as AIDA, seeks private assistance to undertake a function, a competitive procurement is required. In large part, the stated purpose for the $3.4 million appropriation is to obtain information available upon performance of functions which constitute "professional services." The procedures to contract for a professional service are prescribed in AS 36.98.010 -- 36.98.080, and we have previously advised that the provisions of AS 36.98 apply to AIDA. Cf. 1982 Inf. Op. Att'y Gen. (Oct. 13; 366-211-83). Under a

---

4/ We assume for purposes of this discussion that AIDA employees are not available to perform the functions. In addition, for the reasons which justify a sole-source negotiation discussed in text, we do not address whether other state employees, most notably employees of the Department of Transportation and Public Facilities, would be available under the terms of a reciprocal service agreement ("RSA").

competitive award of a contract for professional services, the statutes require that the agency provide public notice of the contract through circulation of a request for proposals ("RFP"), and that the agency award the contract upon an evaluation of the submitted proposals.

The problem in this instance is the established role of Cominco, Alaska in the development of the Red Dog project. Cominco, Alaska has the exclusive right to develop the mineral deposits under the agreement with the NANA Corporation, the owner of much of the land involved in the entire development. Access to NANA land for purposes of developing the preliminary information may well be restricted to Cominco, Alaska employees or their authorized agents. In addition, Cominco, Alaska has expended a substantial amount of funds toward development of information which relates to the preliminary information to be developed through expenditure of the appropriation. In this context, we question whether a general solicitation would provide a fair and competitive opportunity for other firms.

The law recognizes an exemption from the requirement of a competitive solicitation for precisely this type of situation. AS 36.98.030(d) provides that the commissioner of administration may authorize the contracting entity to negotiate directly with an identified provider if "there is a single source of the expertise or knowledge required or that one person or firm can clearly perform the required tasks more satisfactorily because of the person's or firm's prior work." AS 36.98.030(d). We believe that Cominco, Alaska's contractual relationship with NANA, as well as the extent of Cominco, Alaska's existing involvement in the Red Dog project, supply the requisite basis to seek sole source authorization.

In the event that AIDA seeks approval to negotiate directly with Cominco, Alaska, we offer several brief comments with respect to the scope of the proposed contract. We understand that several of the functions authorized under the appropriation -- such as seismic studies -- are currently being performed by Cominco, Alaska. As a general rule, the "public purpose" doctrine precludes use of public funds to reimburse a recipient for work that has been completed. AIDA may, however, properly purchase the information generated, providing that the cost of the information bears a fair market value. More generally, we recommend that any professional service contract executed between AIDA and Cominco, Alaska be tied to AIDA's statutory obligation to develop a finance plan if it is to participate in the financing of the DeLong Mountain transportation project. Both the information specifically identified in the appropriation and the addi-

tional information previously compiled by Cominco, Alaska are essential to the development of a sufficient finance plan.

In short, we suggest that AIDA use the available funds to obtain Cominco, Alaska's acknowledged expertise and assistance in developing a finance plan, in addition to the acquisition of specific information.

A related alternative to a sole-source professional services contract with Cominco, Alaska would be for AIDA to make the funds available to Cominco, Alaska as a grant. While the distinction between a grant and a professional services contract is more illusory than real, we believe a contract allows for more effective oversight of the expenditure. Ultimately, AIDA is accountable for the manner in which the funds are expended, and effective control is thus desirable, if not essential. A more substantive concern is that the appropriation was not structured as a grant, and AIDA, indeed, does not have specific statutory authority to provide grants. Though the general corporate powers of AIDA may well be sufficiently broad to imply authority to provide grants, a more explicit authority is available to contract for the services. Finally, a grant would place in question legal rights to documents produced through expenditure of state funds. Were AIDA to ultimately "own and operate" the port and road, ownership of the material may prove important.

IV. CONCLUSION

In sum, we conclude that the fairest and preferable method to expend the available funds is to request approval from the Department of Administration to negotiate directly with Cominco, Alaska for assistance in development of the finance plan required under AS 44.88.173. Specifically, the contract should minimally require that Cominco, Alaska develop and present to AIDA information relating to the Delong Mountain port and road in sufficient detail to enable AIDA to determine the cost of development. Any geotechnical studies, engineering, or design work developed under the contract would be the property of AIDA, and would be available for use in the event that AIDA ultimately determines to participate in the financing of the project.

JBR/pjg

cc: AIDA board members

Red Dog Project Analysis

February 1984

Lead Agency

Office of Mineral Development
Department of Commerce and Economic Development

Contributing Agencies

Department of Commerce and Economic Development
Department of Community and Regional Affairs
Department of Transportation and Public Facilities
Department of Natural Resources
Office of the Governor

II. Executive Summary

- This section of the report was prepared by the Office of Mineral Development. The contributing agencies have reviewed the Executive Summary for consistency.

A. Summary of Findings

Project Feasibility

- The enormous tonnage and high combined grade of zinc, lead and silver make Red Dog the worlds largest, undeveloped zinc/lead deposit.

- Development costs will be high. However, the deposit can be mined as an open pit with a very low ratio of waste material to ore. Therefore, actual mining costs will be low compared with the majority of world zinc/lead mines. This will give the Red Dog mine competitive advantage and result in reducing the possibility of temporary mine shutdowns in times of world economic recession.

- For the foreseeable future, 70%-80% of mine revenues will be from the sale of zinc concentrates. Zinc is the fourth most widely used industrial metal, and compared with the other base metals (copper and lead), zinc has the greatest potential for growth in terms of world demand and the least potential for being over-produced.

- Without State investment, an average long term zinc price of 63¢ per pound is estimated to provide Cominco a 15% return on investment. A return on investment of 15% is cited for comparison purposes only and should not be interpreted as a decision threshold for Cominco. A 2.5% change in the return on investment is estimated for each 5¢ change in the long-term average zinc price.

- In the long term, much of Red Dog's concentrate production can be refined at Cominco's smelter and refiner in Trail, British Columbia, and will replace concentrates from other depleting Cominco zinc mines. In the near and long term, concentrates from Red Dog will be attractive to Japanese and European processors because of the reliability of the supplier, the longevity of the mine, and the political stability of the United States. The development of Red Dog and other base metal deposits may eventually make the construction of an in-State smelter and refiner feasible.

Permitting and Access

- Conditions at Red Dog will allow the operators to meet the most stringent environmental regulations and environmental permitting should not pose any problems.

- Gaining an access right-of-way from a Chukchi Sea port, across the Krusenstern National Monument to the mine site, poses the single greatest hurdle to mine development.

NANA

- The NANA Regional Corporation is solvent and is strongly oriented towards projects which offer long-term employment benefits to its shareholders, principally in the form of joint ventures within the region.

Cominco

- Cominco is a sound corporation, has good overall prospects, is backed by a large, reputable parent corporation, and appears able to provide a solid corporate base for support and development of the Red Dog mine project.

- Cominco is presently the free worlds largest producer of zinc and lead and has been successfully mining, processing and marketing zinc and lead for over 70 years.

- Cominco has developed and successfully operates four major mines in the North American arctic. Three of these are zinc/lead mines and have been developed within the last 20 years. The senior management for the Red Dog project will include many of the same personnel responsible for building and operating these arctic mines.

State Impacts

- The project will create between 350 and 400 direct, permanent jobs within the State with an annual gross payroll of between $11.2 and $12.9 million. Additionally, approximately 225 secondary and indirect jobs will be created. Construction employment will total 143 full time equivalent jobs between 1986 and 1988 with an annual gross payroll of $8.8 million during those years.

- Revenues to the State from the mine will be derived from the mining license tax and the corporate income tax. As both taxes are based on net profits, annual State revenues range from $9 to $20 million in current dollars subject to how repayment of infrastructure costs are treated. The net present value of revenues to the State over 30 years, including estimated reductions in

transfer payments, is from $200 million to $300 million based on a zinc price range between 55¢ and 65¢ per pound. Additionally, earnings derived by NANA from the mine will provide revenue to the State. At present, there is no personal income tax so no revenues from employee income can be projected.

- No estimates have been made for the potential demands on State programs from the migration of out-of-state job seekers attracted by the project. Because of the NANA/Cominco agreement requiring preferential local hire, the remoteness of the project, and the lessening of national unemployment, the problem of out-of-state job seekers may not be significant.

- Recent dramatic decreases in the total of state transfer payments to the NANA region have been tentatively linked with permanent fund distributions. This indicates that income derived from mine wages may also have a positive effect on reducing regional transfer payments by the State.

- If State ownership and future control of the transportation corridor and infrastructure facilities are not considered and assuming a 60¢ lb. zinc price an examination of project finances estimates that a direct State subsidy of $40.1 million towards project development costs would assure a 15% rate on investment. This would provide a six-fold net present return on the State's subsidy in the form of tax revenues and transfer payment reductions totaling $270 million. If the State were to completely finance construction of the road and port for an estimated cost of $135 million, the cost/benefit ratio would be reduced to 2:1.

- Industrial development bond financing of the project infrastructure would not adversely affect the State's bonding capacity.

Regional Impacts

- Red Dog will provide approximately 260 full-time jobs for regional residents at mine start-up in 1988, increasing to 400 in 1993. The total regional payroll will total approximately $7.0 million initially and will increase constantly as local employees move into professional and technical positions. Additionally, some 75 secondary jobs will be created after start-up and would mostly be filled by regional residents. At present, 88% of the regional economy is supported by Federal and State revenues, and the existing 1200 full-time equivalent jobs in the region are heavily dependent upon Federal, State and local government employment.

- If the local hire objectives are met, the net effect of the mine on increasing the regional population will not be significant. Some increase in the population of Kotzebue is expected as regional residents relocate to be closer to their jobs. Kotzebue's population increase attributable to the mine represents about 6% of the total increase in Kotzebue's population over the next 20 years. With the possible exception of the water system, existing municipal facilities should not be significantly stressed by population growth attributable to development of the mine.

- Because Red Dog is an enclaved development, no substantial additional demands will be placed upon the region's service delivery. However, an increase in regional affluence is likely to require some increased social service delivery, at least temporarily. Service delivery in Kotzebue will be impacted to some degree if mine workers commute regularly through the city. That impact will depend on the frequency and duration of transient visits.

- The NANA/Cominco agreement requires Cominco, contingent upon the availability of skilled labor, to preferentially hire regional

residents, state residents and out-of-state residents in that order. While there is no guarantee of the percentage of local hire, NANA has stated it will assume the responsibility to train regional residents for these jobs.

- The region could benefit from the use of the project's port facilities and backhaul capabilities. Savings on freight costs are estimated by Cominco to be between $1 million and $3 million annually assuming port user fees are not assessed to incoming regional freight.

- NANA is presently seeking to detach Red Dog and other mineral deposits in the area from the North Slope Borough. Successful detachment is seen as a factor in the decision to proceed with the Red Dog project (due to uncertain future taxation policies of the North Slope Borough), and in the creation of a Northwest Alaska Borough.

Infrastructure Costs

- Cominco's route selection and road design are based on sound engineering criteria and the cost estimate of $80 to $90 million for the preferred road through the Krusenstern National Monument is realistic for this stage of the evaluation.

- Cominco's estimates for port costs of $50 to $60 million, based on the proposed, ballasted-tanker design, appear reasonable.

B. Recommendations

Red Dog will become one of the premier zinc/lead mines in the world. While the mine would eventually be developed without assistance, there are several reasons why the State may want to consider participating in the funding of all or part of the costs of building a road and regional port.

- There is little risk that the project will not generate sufficient revenues to amortize infrastructure costs at a modest interest rate.

- In addition to being able to repay any State funding, the project will generate over 400 year-round, permanent jobs; provide direct tax revenues to the State and local governments; and may significantly reduce the amount of regional transfer payments.

- The port facility, tidelands, uplands and right-of-way will service the region as well as the mine, and both the road and the port may stimulate future development of additional mineral deposits in the Noatak area. The road could eventually become part of an integrated transportation system that could link other more distant mineral developments such as the Northern Alaska Coal Field.

- The development of Red Dog will signal Alaska's firm intention to become a world supplier of mineral resources. This will have the effect of establishing Alaska's credibility with international consumers and attracting investment capital for other resource development projects.

If the State is to participate in the funding of the road and port facilities, the following recommendations are suggested.

- Any major State investment in the road and port facilities which will initially service the Red Dog mine should be conditional upon

firm agreements with NANA and Cominco which will provide for State interests in the facilities and right-of-way, as well as further guarantee the use of the road and the port to other potential users. This requires that State tidelands, privately owned uplands and the right-of-way be available for expanded development and use, in a reciprocal use agreement among affected landowners and users.

- The maintenance and operating costs of the road and the port should be borne by the users.

- If State funding were to take the form of a loan or appropriation, repayment of the funds should be required and should be spread over a period of 20 years or longer to begin with mine production. Whether repayment is to be made in the form of annual installments, tied to a tonnage user fee or some combination of both, the interest rate attached to the repayment should reflect the State's willingness to share in the project risk and should recognize the total benefits the project will provide, including State interests in the road and port.

- Any agreement between the State and NANA/Cominco should include an equitable mechanism to accommodate other future users into a fee schedule which would incorporate a pro rated share of debt amortization as well as operating and maintenance costs.

Jay Livey

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

1577 "C" STREET • SUITE 304 ANCHORAGE, ALASKA 99501-5177 (907) 274-1651

August 17, 1984

Mr. Jay Livey
House Research Agency
Pouch Y, State Capitol
Juneau, AK 99811

Dear Jay:

As requested by Leslie Longenbaugh, enclosed is updated information on the Authority for your use. Since we are a self-sustaining entity, we do not require funding appropriations for our continued operation.

If any additional information is needed, please give me a call.

Sincerely,

Zane Jones
Loan Officer

ZJ:ec

Enclosures

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY (AIDA)

AIDA is a public corporation and an instrumentality of the Department of Commerce and Economic Development, with a legal existence separate from and independent of the State.

AS 44.88.010 - AS 44.88.220: enacted in 1967; amended in 1975, 1976, 1977, 1980, 1981, 1982 and 1983.

Purpose

AIDA's statutory purpose is to "promote, develop and advance the general prosperity and economic welfare of the people of Alaska; to relieve problems of unemployment; to create additional employment by providing various means of facilitating the financing of industrial, manufacturing, and business enterprises;" and "to promote, develop and maintain an adequate supply of decent, safe and sanitary multi-family housing projects during times of shortages of such projects, by providing various means of financing and facilitating the financing of multi-family housing projects in the state."

Method

AIDA sponsors six different financing programs, five for business and one for multi-family housing; the programs are used according to the size of the project and the limits of the federal tax code.

Economic Development Umbrella Bond Program. AIDA issues tax-exempt industrial development bonds to finance Alaskan projects of $1 million or less. (The tax-exempt status of the bonds is permitted by Section 103 of the Internal Revenue Code.) AIDA groups qualifying projects together for the bond sales, pledging its full faith and credit for repayment of the bonds. The Authority uses the proceeds of the bond sales to purchase up to 90 percent of each loan (originating lenders must retain 10 percent of the loan). The lower interest rates available through this program often make the difference in a project's fiscal viability.

Consolidated Umbrella Bond Program. The legislature in 1982 amended AIDA's statutes to include financing for projects valued at more than $1 million in a manner similar to that used for the Economic Development Umbrella Bond Program: after grouping several project loans together, AIDA sells tax-exempt bonds. However, for the sale of these bonds, commonly called Consolidated Bonds, AIDA uses the proceeds of bond issues to purchase up to 80 percent of project loans, leaving the remaining 20 percent for the originating lender. AIDA reviews each applicant project carefully to determine its financial viability before purchasing part of the loan. Like the bonds sold for the smaller-project umbrella program, Consolidated Bonds are backed by both the financed project and AIDA's full faith and credit.

Federally Guaranteed Program. Funds within AIDA's Small Enterprise Loan Account may be used to purchase the federally-guaranteed portion of a loan made by a private financial institution (the federal agency that has guaranteed almost all of these loans to date is the Small Business Administration). The loans may be used to finance working capital, inventory, construction, etc.

Revenue Bond Program. Through this program, the Authority acts as a conduit in the sale and issuance of bonds without participating financially or pledging its full faith and credit as security for the bonds. The bonds are sold primarily to financial institutions where they are privately held, and to bond buying houses or investment bankers for resale. Due to market fluctuations and the type of bonds sold, all sales to date have been negotiated. The bonds are secured by the project, special reserves, bank letters of credit, lease and/or revenue assignments, personal guarantees, or liens on other assets.

Multi-Family Housing Loan Account. The legislature in 1982 authorized AIDA to finance multi-family housing. To obtain financing through this program, a borrower applies to a private lending institution for a loan to construct a multi-family dwelling of 5 or more units. AIDA issues tax-exempt bonds, backed by its full faith and credit, to purchase up to 90% of the mortgage; the originating lender retains 10% of the loan. By statute, bonds for such projects must be sold before January 1, 1987.

Taxable Bond Program. As of August, 1984, the Authority is in process of implementing a taxable bond loan program. This program is designed to assist in financing projects that at one time were eligible for tax-exempt bond financing, but have been deleted from eligibility by federal law. It is anticipated that the mechanics and fees of this program will be very similar to the economic development and consolidated tax-exempt programs, but will carry a higher interest rate.

Eligibility

- In general, AIDA may finance any project it approves as long as the project conforms to the Internal Revenue Service guidelines for the use of proceeds of tax-exempt bond sales. Each of the six programs outlined above has eligibility requirements that are too extensive for this brief space.

- For a multi-family housing loan, a borrower must make at least 20% of the financed units available to persons of lower or moderate income.

Terms

Economic Development Umbrella Bond Program

Maximum Amount:	75% of the appraised value of the project
Collateral:	Variable - must be first lien
Interest Rate:	Variable; based on the cost of funds
Fees:	$100 pre-application fee; plus 1.0% of AIDA participation amount for each loan

Consolidated Umbrella Bond Program

Maximum Amount:	75% of the appraised value of the project
Collateral:	Variable - must be first lien
Interest Rate:	Variable; based on the cost of funds
Fees:	$100 pre-application fee; plus 1.0% of AIDA participation amount for each loan

Federally Guaranteed Program

Maximum Amount:	$500,000 is the maximum amount of AIDA's participation in one project
Interest Rate:	Variable; based on the Moody AA Corporate Index;

Revenue Bond Program

Maximum Amount:	Variable
Interest Rate:	Variable; based on the cost of funds
Fees:	$100 pre-application fee; plus 1.0% for the first $1 million, 1/2% for the next $4 million, 1/4% for the next $10 million, and 1/10% for any remaining amount

Multi-Family Housing Loan Account

Maximum Amount:	75% of the appraised value of the project
Collateral:	First lien, minimum
Maximum Term:	30 years, or 75% of the estimated economic life of the project, whichever is less
Interest Rate:	11% (subject to change)
Fees:	2.0% of the amount of AIDA's participation in the loan

Lending Activity, FY 81-82

Fiscal Year	# of Loans Approved	$ Amount of Loans Approved
FY 83	378	$253,329,707
FY 84	338	$208,885,747

Authority Members

The five members of the Authority include: the Commissioners of the Departments of Revenue and Commerce and Economic Development; one other head of a principal executive branch department, appointed by the governor; and two public members appointed by the governor and approved by the legislature for staggered two-year terms.

Jeffrey Hassler

Michael Harper

Mary Nordale (Effective September 1984)
Commissioner, Department of Revenue

Richard Lyon
Commissioner, Department of Commerce and Economic Development

Jim Robison
Commissioner, Department of Labor

Administrative Staff

Bert Wagnon, Executive Director
274-1651

Offices: 1577 "C" Street
Suite 304
Anchorage

Mailing
Address: 1577 "C" Street
Suite 304
Anchorage, Alaska 99501-5177

Alaska State Legislature
House

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

April 17, 1985

Representative John Sund
Pouch V
Juneau, Alaska 99811

Dear John:

On April 10 I wrote to you about the fact that I had not received a reply from Cominco to questions I had asked for on February 12.

Cominco did reply to my Anchorage address. I have it in hand now and it is enclosed for your information.

Yours truly,

Marco

Marco A. Pignalberi
State Representative

MAP:mk
Enclosure
cc: Senator Tim Kelly
Senator Rick Halford
Senator Fred Zharoff
Senator Arliss Sturgulewski

Cominco Alaska/5000 [illegible] Anchorage, Alaska 99502/Tel. [illegible] Telex [illegible]

APR 15 1985

Cominco Alaska

H M Giegerich
President & General Manager

Representative Marco A. Pignalberi
6712 Lunar Drive
Anchorage, Alaska 99504

March 8, 1985

Dear Representative Pignalberi:

I would like to apologize for taking so long to supply the information that you requested during our meeting in Juneau on February 12. My only excuse is press of work and lack of time. I have spent most of the intervening period on airplanes.

We certainly appreciated the opportunity to meet with you and the Anchorage caucus, to discuss our Red Dog Project. I consider that the exchange of views was very worthwhile, and I think that we were able to better appreciate your thoughts and concerns.

During the discussions, I gave you some estimated figures in regard to Cominco's return on investment under different financing alternatives, and I indicated that these would be confirmed. I am now pleased to do this, and will compare these with my estimates, which have turned out to be both optimistic and pessemistic.

The first alternative assumes that Cominco puts up the entire $400 million investment. Using current metal prices, the return on investment (R. O. I.) would be 7.8% (My estimate was 6.0%). With Cominco's forecast prices, the R.O.I. increases to 13% (My estimate was 10%).

If the State finances the $150 million cost of the transportation system, and this financing is repaid as proposed by Cominco, the R. O. I., using current metal prices, increases to 9.6%, and to 16% (My estimate was 18%) with Cominco's forecast prices.

You also requested information in regard to the State's return on its investment. Assuming a State investment of

$150 million, to be repaid by a toll fee of $260 million over 30 years, this is a return on investment (on a discounted cash flow basis) of 4.3%. Adding in the estimated direct taxes to the State of $360 million during the same 30 year period (for a total of $620 million) the R.O.I. is increased to 12.8%. And it should be stressed that these taxes are a direct result of income generated by Red Dog and will be achieved only if Red Dog is put into production.

One further item should be considered. In early 1984, at Governor Sheffield's request, a study of the Red Dog Project was carried out by a Task Force from the key State agencies, including CED, CRA, Revenue, DOT/PF and DNR. One portion of this report studied the economic effect of Red Dog on the State, and identified a significant reduction in transfer payments from the State to the NANA region, amounting to about $1.5 million per year, or more than $40 million over 30 years.

This reduction in State expenditures can also be directly attributed to Red Dog. When this is added to the previous $620 million, the R.O.I. on the State investment of $150 million becomes 13.7%. So it can be seen that the Red Dog transportation system is truly an economic investment for the State.

If there is any other information on Red Dog, or Cominco, that would be of assistance to you, please do not hesitate to contact me.

Yours truly,

H. M. Giegerich
President and General Manager

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date

REQUEST
Bill/Resolution No: HB 369
Title: Appropriations to AIDA Economic Development Fund
Sponsor: Pignalberi
Requestor: House Transportation
Date of Request: April 15, 1985

FISCAL DETAIL
Agency Affected: General Fund
Program Category Affected:

BRU, Program of Subprogram(s) Affected:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
CASH FLOW	-	(17,800)	(17,300)	(16,500)	(14,900)	(14,300)

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	(17,800)	(17,300)	(16,500)	(14,900)	(14,300)
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker MB
Division: Treasury
Phone: 465-2350
Date: April 15, 1985

Approved by Commissioner: Mary A. Sandalle
Date: 4/16/85
Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

HB 369
Fiscal Note Analysis

The cash flow figures shown in the fiscal note reflect the reduction in general funds available for appropriation arising from HB 369. These figures are based on the scheduled loan payments shown in the attached Table I after netting out service fees as calculated in Table II. Table II also provides a breakdown of the reduction into interest and principal.

Due to loan prepayments, actual receipts may be greater than scheduled in early years and less than scheduled in later years. This is the main reason why the FY 86 budget actually contains $31.3 million estimated loan cash flow, made up of $13.3 million interest and $18 million principal. The difference between the budget estimate and scheduled cash flow for FY 86, which is $13.5 million, will be a downward adjustment to the next revenue estimates in June.

Table I

General Fund Loans to be Appropriated to AIDA
Estimated Cash Flow (Principal and Interest)
($ 000)

Fiscal Year	Veterans	Small Business	Commercial Fish	Tourism	Child Care	Historical District	Fisheries Enhancement	Total
1986	9,247	2,855	6,105	308	5	22	N/A	18,542
1987	9,034	2,783	5,786	308	4	22		17,937
1988	8,784	2,613	5,409	308	3	22		17,139
1989	8,554	2,404	4,243	308	2	18		15,529
1990	8,379	2,279	3,870	282	1	14		14,825
1991	8,343	2,134	3,233	243		14		13,967
1992	8,042	1,946	2,037	229		14		12,268
1993	7,409	1,551	837	221		14		10,032
1994	6,955	907	214	212		7		8,295
1995	6,851	344	34	208				7,437
1996	6,814	59		201				7,074
1997	6,532			186				6,718
1998	6,174			85				6,259
1999	6,038							6,038
2000	5,998							5,998
2001	5,899							5,899
2002	5,096							5,096
2003	4,254							4,254
2004	4,035							4,035
2005	3,925							3,925
2006	3,865							3,865
2007	3,182							3,182
2008	1,709							1,709
2009	521							521
2010	98							98
2011	20							20
Total	145,758	19,875	31,768	3,099	15	147	6,804 (principal only)	207,466

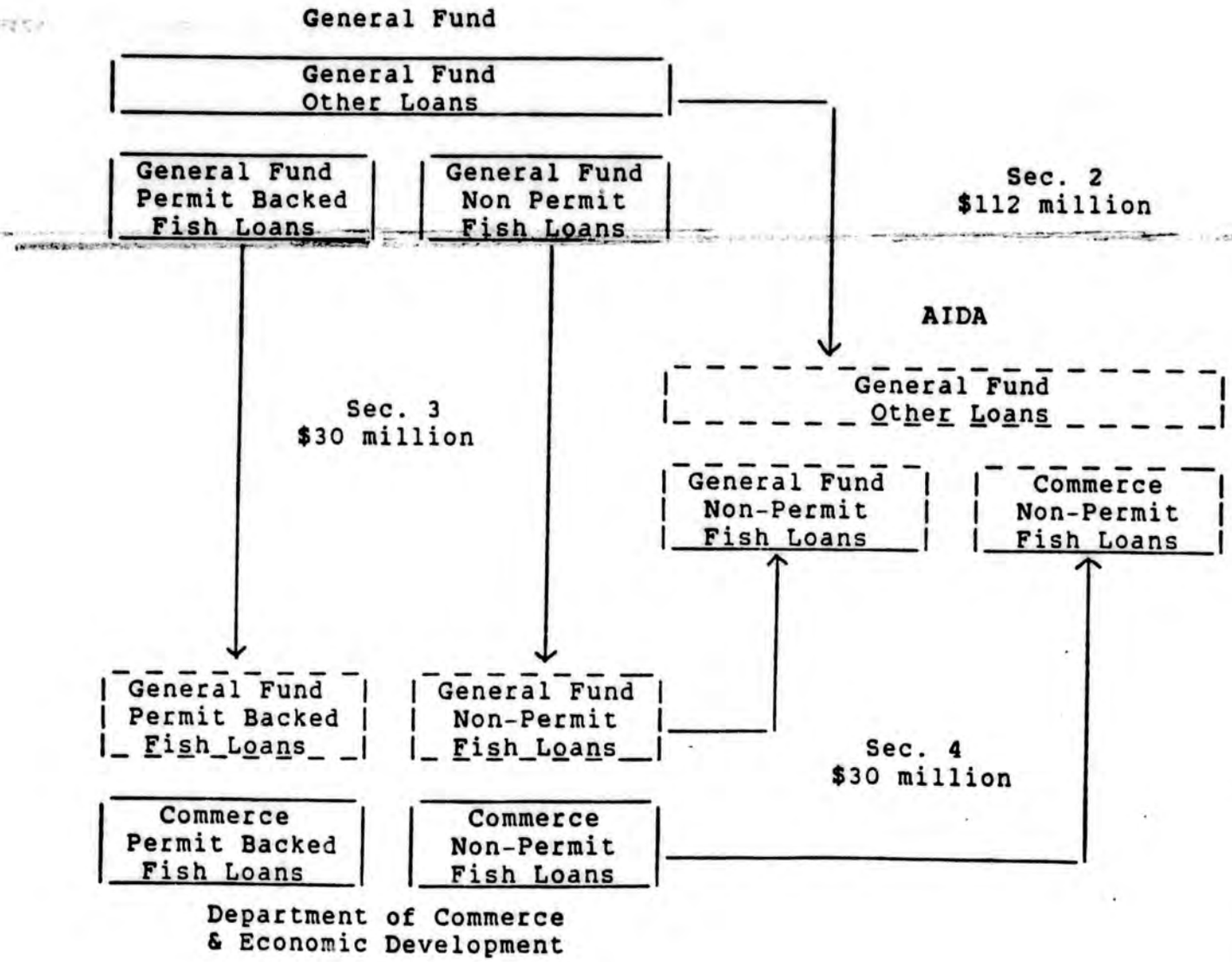
1. This table represents the cash flow to the Department of Commerce and Economic Development. Cash flow to the general fund would be further reduced by .5% service fee on loans serviced by Commerce and .125% service fee to Commerce on loans serviced by banks.
2. Cash flow has not been adjusted for delinquency or default. Except for commercial fish non-permit loans, the state expects complete recovery on defaults. Thus, delinquency and default merely produce lags in receipts.

Table II

Scheduled Cash Flow From State Loans
Held by General Fund
($ Millions)

	FY 86	FY 87	FY 88	FY 89	FY 90
Balance at Start of Year	135.9	128.7	120.9	113.3	106.8
Interest @ 7.89%					
Service Fee to Commerce @ .5%	.7	.6	.6	.6	.5
General Fund Revenue @ 7.39%	10.0	9.5	8.9	8.4	7.9
Total	10.7	10.1	9.5	9.0	8.4
Principal Repayment	7.8	7.8	7.6	6.5	6.4
Balance at End of Year	128.1	120.9	113.3	106.8	100.4

DeLong Mountains Transportation Project
Loan Appropriations
Administration Proposal



NANA REGIONAL CORPORATION, INC.
4706 HARDING DRIVE ANCHORAGE, ALASKA 99503
TELEPHONE (907) 248-3030

March 29, 1985

Mr. John Hartle
Office of Representative John Sund
Alaska State House of Representatives
Pouch V
Juneau, Alaska 99811

Dear John:

As requested I am enclosing a copy of the sections of the agreement between NANA and Cominco pertaining to employment and training.

The agreement requires Cominco to hire employees according to a defined order of preference which begins with Natives of the NANA region and ends with individuals who have resided in Alaska for less than two years or, non-residents. This order of preference is set forth at section 10.1.2 of the enclosed. You will also note this local hire and order of preference provision applies to employment by contractors of Cominco performing work within the State. Finally, I would direct your attention to section 10.2 which requires the development and implementation of a "Training and Employment Plan" for the project.

We believe these provisions of the agreement between NANA and Cominco will result in the most comprehensive major project local hire program ever implemented in Alaska. If you have further questions about this or desire additional information, please let us know.

Sincerely,

Don Argetsinger
Vice President

Enclosures

ARTICLE X

EMPLOYMENT

10.1 Employment Goals and Policy.

10.1.1. Beginning in calendar year 1982, as many as possible of the employees required by Operator or any contractor or subcontractor in connection with any activities under this Agreement to be undertaken in Alaska shall be Natives of the NANA Region, including employees for Exploration Work, development and production activities and supervisory and managerial positions. It is the goal of NANA and Cominco that by not later than twelve years after commencement of production from the first Mine on the Red Dog Property, to the extent feasible, one hundred percent (100%) of such employees shall be Natives of the NANA Region. To that end, whenever employees are hired for jobs relating to any activities to be undertaken in Alaska under this Agreement, such employment shall be offered first to available Natives of the NANA Region who are qualified for the job or, if none are qualified and except as otherwise provided in Section 10.1.3, to those who meet job-related standards of fitness and ability which indicate that with a reasonable amount of on-the-job training as outlined

in the Employment Plan the person could satisfactorily perform the job.

10.1.2 If Natives of the NANA Region are unavailable as provided above, then Operator shall, to the extent permitted by law, give preference to qualified job applicants in the following order of priority:

(a) individuals who have been residents of the NANA Region for at least two years;

(b) individuals who have been residents of Northwest Alaska for at least two years;

(c) individuals who have been residents of Alaska for at least two years;

(d) any other job applicant.

10.1.3. If there are no Natives of the NANA Region qualified and available for nonrecurring jobs with a duration of two months or less after inquiry to NANA in the manner prescribed by the Employment Plan for the names of such available and qualified Natives, the Operator may hire persons qualified for such jobs without regard to the requirements of Section 10.1.1 and 10.1.2 for reasons of essential and/or expeditious performance. It is recognized that emergency situations may arise where it is necessary for Operator to bring in specialists from outside of the NANA Region and the State of Alaska without regard to the requirements of this Article X if a breakdown of equipment, metallurgical and/or water treatment process problem, structural failure or some similarly serious problem occurs. This emergency power will be detailed in the Employment Plan. Operator need not provide training for jobs described in this Section 10.1.3, unless otherwise required by the Employment Plan.

10.2 Training and Employment Plan.

In furtherance of the goals and policies described in Section 10.1, NANA and Operator shall with due diligence, working in

conjunction with the Management Committee, develop a mutually satisfactory plan for the training and employment of Natives of the NANA Region (the "Employment Plan"). NANA and Operator will attempt to secure State and/or Federal funding to cover as much as possible of the cost of the Employment Plan. The Employment Plan shall, among other things, provide that:

(a) A personnel officer (the "Personnel Officer") be appointed and be responsible for implementing, supervising and managing the Employment Plan. Until the Personnel Officer is appointed NANA will perform the functions of the Personnel Officer as requested by Operator. If no Personnel Officer is appointed within thirty (30) days after the Production Decision, NANA shall thereafter be reimbursed by Operator for any salary and other expenses it incurs in performing the functions of the Personnel Officer requested by the Operator, the amount of any such reimbursement to be a cost of the Project. The Personnel Officer shall be someone selected by NANA; provided, that Operator may submit nominees for NANA's consideration and shall have the right to veto any selection made by NANA and to terminate the employment of any Personnel Officer for cause. Operator shall give NANA a written explanation of the basis for any such veto or termination;

(b) NANA shall be responsible for providing Operator, any contractors or subcontractors, and the Personnel Officer, on a continuing basis, with the names of any Natives in the NANA Region eligible for preference employment pursuant to Section 10.1.1, their employment status, preferred type of employment, training, experience, education and availability;

S. 79

(c) The type and scope of training will take into account the type and number of jobs expected to be available, the estimated number of available Natives of the NANA Region eligible for training and employment hereunder, the qualification level of such persons and the experience requirements of various job categories.

10.3 Wages and Benefits.

There shall be no discrimination in the amount or rate of wages and fringe benefits paid to employees on the basis of race, color, religion, sex, national origin, age, physical or mental handicaps, or status as a disabled veteran.

10.4 Unions.

If Operator should have a collective bargaining relationship with one or more unions representing employees employed in connection with the Project, it shall not enter into any agreement which prevents the full compliance with this Article X. Non-Operator shall be notified of and be afforded the opportunity to have a representative attend and observe any negotiations Operator may have with a union, it being agreed that Operator will control any such negotiations.

10.5 Compliance with Applicable Laws.

Nothing in this Agreement shall require NANA or Cominco, or any contractors or subcontractors, to violate Title VII of the Civil Rights Act of 1964, as amended, Executive Order 11246, as amended, the National Labor Relations Act, ANCSA, or any other law or regulation relating to employment.

10.6 Scholarships.

Operator shall provide up to Thirty Thousand Dollars ($30,000) each calendar year for a scholarship program for the Natives of the NANA Region. The scope and focus of the program, giving due consideration to the need to develop mining and geological expertise in the NANA Region, and the method of awarding scholarships shall be

determined by the Management Committee; provided, that Operator may assist NANA in selecting recipients of scholarships and the recipients selected will be agreeable to both NANA and Operator if the Operator chooses to participate in the selection process; provided further, that it is the intent of the parties to award scholarships pursuant to this provision to students who meet the eligibility requirements of the program and both parties will make a good faith effort to fulfill this intent.

MEMORANDUM OF UNDERSTANDING

BETWEEN THE ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY
AND
COMINCO, LTD.

FOR THE DELONG MOUNTAINS TRANSPORTATION SYSTEM

The Alaska Industrial Development Authority's (AIDA) Negotiation Committee and the Cominco Negotiation Committee (Cominco) agree in principle to the following terms and conditions for the purposes of establishing a contractual relationship to secure project financing on the DeLong Mountains Transportation System ("The System") and outlining the terms under which Cominco shall be entitled to use The System:

1. All parties agree to adopt the SRI methodology for calculating the Minimum Annual Assessment and the Rate of Return. The Minimum Annual Assessment and the Rate of Return will be calculated over a fifty (50) year period.

   The parties agree to a Minimum Annual Assessment which results in an annual return on the State's total investment of 6 1/2%.

   This agreement is contingent upon the results produced by the SRI model being substantially arithmetically correct.

2. AIDA agrees that no interest will be imputed on its equity infusion prior to the date that The System is placed in service. Furthermore, AIDA agrees, that subject to U.S. Treasury laws and regulations and bond covenants related thereto, to apply its equity first to the project for purposes of calculating the Minimum Annual Assessment.

3. Cominco's first quarterly installment payment on the Minimum Annual Assessment is due three months after the date the facility is placed in service for transportation and storing Red Dog concentrates. However, in any event, the first quarterly payment may not be due before January 1, 1990 nor later than July 1, 1990.

4. Maintenance and Operating, and Sustaining Capital Costs will be carried as separate line items and not be considered in calculating the Minimum Annual Assessment or the State's Rate of Return.

5. Cominco agrees that all the facilities being financed with AIDA bond proceeds and equity are multi-user facilities and accommodation of third party users may be necessary provided that capacity is available.

6. The parties agree that expenditures before July 1, 1985 for project development tasks attributed to The System, will be reimbursed in payments over a five-year period in equal quarterly installments coinciding with receipt of the first quarterly payment from Cominco with interest thereon at 6 1/2% from the earlier of the placed-in-service date or July 1, 1990.

Started neg for 10 years.

7. AIDA and Cominco will approach financial institutions jointly to obtain acceptable credit enhancement on the bonds and on the first 10 Minimum Annual Assessments. AIDA agrees to pay .5% of the par amount outstanding of the bond issue or that amount allocable to the credit enhancement for the bonds whichever is greater.

Cominco will be responsible for the reimbursement agreement with respect to the Minimum Annual Assessment enhancement.

8. During the 50 years that Cominco is paying the Minimum Annual Assessment, the parties agree that Cominco's total toll fee, when calculated on a unit basis, will not exceed that of other users shipping comparable products.

9. Toll fees from future users will accrue 100% to the State except as noted in item 12.

10. Prior to the in service date, should Cominco cease to develop the Red Dog Mine after costs have been incurred by AIDA for the project, Cominco Ltd. will pay the Authority for those costs together with interest from the date the costs were incurred.

11. Using a five-year moving average beginning in the year in which annual payments are due (1990), AIDA will receive 5% of the price increase above 50¢ per pound (in 1985 $ using the GNP deflator) times the number of pounds of zinc contained in the zinc concentrate shipped. The price will be the average of the European and U.S. Producers price as reported in Metals Week in U.S. cents per pound.

The payment received as a result of the Zinc Price Escalator described above may not exceed 50% of the Minimum Annual Assessment. The Zinc Price Escalator will be in effect until the retirement of outstanding bonds or 35 years whichever is earlier.

12. Cominco will sign a take-or-pay Minimum Annual Assessment contract covering a fifty year period. For that portion of the fifty year period following the retirement of all outstanding bonds issued to construct the project or 35 years from bond issuance whichever is earlier, the Minimum Annual Assessment may be reduced in the event of certain force majeure events that prevent Cominco from shipping the agreed to amount of concentrate during any 12 month period.

Force Majeure events include strikes, boycotts, labor disputes, embargoes, acts of God, acts of public enemy, acts of superior governmental authority, riots, rebellions, and sabotage.

If, after the bonds have been retired or 35 years from bond issuance whichever is earlier, AIDA has obtained at least 6 1/2% Rate of Return from user fees including all fees from Cominco but excluding M & O and 50% of the fees from third parties, then Cominco is required to pay the Minimum Annual Assessment pro rated by the tonnage produced in that year relative to the original mill capacity. If AIDA has received less than the 6 1/2% Rate of Return as calculated above, then Cominco will pay a Minimum Annual Assessment in any one year equal to the amount necessary to provide AIDA with a 6 1/2% Rate of Return amortized over the balance of the fifty year agreement and allowing for 50% of the user fees paid by third parties in that year.

The Minimum Annual Assessment will give Cominco the right to access the public transportation system to ship the projected tonnage related to original mill throughput ("Allowable Base") plus an additional 10% in any 12 month period. The Allowable Base will be cumulative during the 50 year period of this agreement so that shipments in one year that are less than the Allowable Base may be made up in subsequent years in order to achieve the cumulative Allowable Base. The additional 10% of shipments will be annual and will not be cumulative. Should Cominco desire to ship an amount of concentrate in excess of the cumulative Allowable Base plus the allowed overage, Cominco will pay a tonnage fee on the excess at the same rate that it pays on the allowable tonnage.

Fees paid on such excess tonnage referred to in the above paragraph and by the zinc price escalator will be deemed to have retired the outstanding bonds at the end of the amortization period.

Bertram L. Wagnon, Chairman
Alaska Industrial Development Authority
Negotiating Team

Nov. 20, 1985
Date

Bob Stone, Chairman
Cominco, Ltd.
Negotiating Team

Date

RED DOG MINING LEASE

THIS RED DOG MINING LEASE (hereinafter referred to as the "Lease") is made and entered into as of the 11th day of October, 1982, by and between NANA REGIONAL CORPORATION, INC., a corporation organized pursuant to the laws of the State of Alaska (hereinafter "Lessor") and COMINCO AMERICAN INCORPORATED, a corporation organized pursuant to the laws of the State of Washington (hereinafter "Lessee"):

W I T N E S S E T H :

WHEREAS, Lessor and Lessee have entered into that certain Development and Operating Agreement dated as of October 11, 1982 (hereinafter referred to as the "Agreement") which calls for the execution of this Lease among other provisions;

NOW, THEREFORE, in consideration of the mutual agreements and covenants contained herein, the execution of the Agreement, the payments of rents for the lands controlled by this Lease as required by the Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Lessor and the Lessee hereby agree and covenant as follows:

1. Definitions.

Except as otherwise specifically set forth in this Lease, the terms defined in the Agreement which are used in this Lease shall have the meanings assigned to them in the Agreement.

2. Grant and Description of Leased Premises.

2.01 Grant. Subject to the terms, conditions, exceptions and reservations contained herein or in the Agreement, the Lessor hereby grants, leases and demises (to the extent the Lessor has or hereafter acquires the right to do so) to the Lessee, its successor and assigns, the exclusive right to the surface and subsurface of the land described in Exhibit A, attached hereto and made a part hereof, (hereinafter

S. B

"Subject Lands") and any and all Minerals located on, in or under the Subject Lands, for the purpose of exploring, prospecting, developing, working, using, mining, milling, and substantially equivalent processes, removing, tranporting, storing, selling, disposing of, managing, and controlling any and all Minerals located on, in, or under the Subject Lands.

2.02 Exceptions and Reservations. The Lessor expressly excepts and reserves the following from the grant set forth in Section 2.01 above, except to the extent the Agreement grants to or makes available to Lessee any of the reserved substances identified in this Section:

(a) All Oil, Gas, and Oil and Gas Associated Substances;

(b) Sand, gravel, and stone;

(c) Geothermal Resources.

2.03 Conditions on Effectiveness. The effectiveness of this Lease and of the grant made hereunder (a) with respect to any land initially covered by this Lease, shall be conditioned upon the occurrence of each and all of the events described in Section 2.3 of the Agreement; and (b) with respect to any land subsequently added to this Lease, shall be conditioned upon the occurrence of each and all of the events described in Article III of the Agreement. This Lease as it relates to any land shall not be recorded until it has become effective as to such land pursuant to the provisions of this Section 2.03.

3. Purposes.

Subject to the terms, conditions, exceptions, and reservations herein contained, the purposes of this Lease are to enable the Lessee:

(a) To explore for, mine, mill, beneficiate, concentrate, extract, leach, mix, convert, or otherwise obtain and dispose of all minerals and materials covered by this Lease and the Agreement and located on, in, or under the Subject Lands described in Exhibit A

B. JJ

attached hereto and all products derived therefrom by or for the Lessee;

(b) To develop, reclaim and rehabilitate the Subject Lands in conformance with applicable laws and regulations (including those relating to environmental and ecological standards) and the provisions of this Lease and the Agreement;

(c) To explore the Subject Lands by such means and methods as to the Lessee may appear reasonably necessary or advisable, including without limitation, aerial, surface and subsurface examination and testing by geophysical, geochemical and geological surveys; taking samples of earth, rock and ores for purposes of assay and other testing; drilling; sinking of shafts and driving of adits, tunnels and drifts;

(d) To mine the Subject Lands by such methods and in such manner as the Lessee shall elect, including, but not limited to, stripping, shaft, underground mining, open-cut, open-pit, pit and dredge, block caving, solution, and other methods now or heretofore known or hereafter developed;

(e) In connection with the operations of the Lessee under this Lease and the Agreement, to place and use excavations, openings, shafts, ditches, and drains on or below the surface of the Subject Lands, and to construct, erect, install, maintain, repair, use, replace, or remove roads, buildings, structures, machinery, equipment, and facilities of any nature whatever, both on or below the surface of the Subject Lands, appropriate to the purposes hereof, including, but not limited to, access roads, mine plant, mill, and/or other similar processing plants, water, power, fuel, and communications facilities, trackage, pipelines, roads, airport, railroad and other means of transportation, storage facilities, stockpiles, waste piles, tailings, settling ponds, dams, sump pits, flues and sluices, loadings and shipment facilities, support, ancillary and infrastucture facilities,

B. 75

including personnel accommodations, and offices for conduct of the operations hereunder; and

(f) To take any and all other actions which are necessary to enable the Lessee to conduct its operations under this Lease and the Agreement.

4. Agreement.

This Lease is entered into pursuant to and supplemented by the Agreement and all terms and provisions of the Agreement (and modifications thereof) are hereby incorporated in this Lease and made a part hereof to the same extent as if said terms and provisions were fully set forth herein.

5. Term.

This Lease shall remain in full force and effect only so long as the Agreement is also in full force and effect. Any termination of the Agreement shall automatically constitute a termination of this Lease. The consequences of the breach of any provision of this Lease shall be determined in accordance with Article XX of the Agreement.

6. Stockpiling.

Lessee shall have the right at any time during the term of this Lease to stockpile any ores, concentrates or other products mined or produced from the Subject Lands, either on the Subject Lands or at other locations subject to the provisions of the Agreement. The rights and liens of Lessor, if any, in and to any such ores, concentrates or other products stockpiled on land other than that subject to this Lease shall not be divested by the removal thereof from the Subject Lands but shall be the same in all respects as though such ores, concentrates or other products had been stockpiled on the Subject Lands.

8.79

7. Protection From Liens.

7.01 Obligations of Lessee. The Lessee shall keep the Subject Lands and every part thereof free and clear of liens for labor done or work performed upon the Subject Lands or materials furnished for the exploration, development, or operation thereof under this Lease and the Agreement. It is understood that Lessee may encumber its interest under this Lease for purposes of financing the Project. The Lessee shall at all times keep conspicuously posted on the land notices that the Lessee is in possession of the Subject Lands and that all work on the Subject Lands is being done by the Lessee and that the Lessor is not responsible for labor, material, or supplies furnished to or used on or in connection with the activities on the Subject Lands, or for claims under the Workmen's Compensation Act. Any such lien upon the Subject Lands shall not constitute a default if the Lessee in good faith disputes the validity or amount of the claim, in which event the existence of the lien shall constitute a default only if the claim is not paid within a reasonable time after the validity and amount of the claim has been finally adjudicated.

7.02 Obligations of Lessor. Subject to the terms, conditions, exceptions and reservations contained herein and the rights reserved and excepted by the Lessor hereunder, the Lessor agrees not to encumber the Subject Lands in any way whatsoever that will interfere with the rights of the Lessee granted pursuant to this Lease or the Agreement.

8. Access.

Subject to the terms and conditions of the Agreement, Lessor agrees to provide Lessee with access or easements to the Subject Land over other lands owned or controlled by Lessor for the undertakings contemplated by the Agreement.

9. Assignment.

No party to this Lease shall assign its rights and obligations under this Lease without assigning a like interest in the Agreement.

8. 25

A party may assign rights under this Lease only in the manner and to the extent that the Agreement may by its terms be assigned.

10. Relinquishment and Release of Lands.

At any time during the term of this Lease, Lessee shall have the right to relinquish its right to any part of the Subject Lands. Such relinquishment shall be effective upon the delivery of written notice of such surrender to Lessor. Such relinquishment shall terminate all rights and obligations under this Lease (except those arising prior to any such relinquishment, including reclamation obligations) of either party. Any lands so relinquished shall no longer be Subject Lands for the purpose of this Lease. Lessor shall have the right of access to such relinquished lands across any of the Subject Lands so long as such access does not unreasonably interfere with Lessee's use of the remaining Subject Lands.

Upon the relinquishment of any of Lessee's rights in the lands subject to this Lease and upon the termination of this Lease, Lessee shall provide Lessor with a written document in recordable form satisfactory to Lessor evidencing the relinquishment of any such rights.

11. Notices and Delivery.

11.01 Written Notices. Except as otherwise specified herein, all notices contemplated by this Lease shall be in writing.

11.02 Delivery by Mail. Any notice or other document shall be deemed sufficiently delivered if mailed by United States certified or registered mail, return receipt requested, postage prepaid, and addressed as follows:

(a) If to the Lessor:

NANA Regional Corporation, Inc.
4706 Harding Drive
Anchorage, Alaska 99503
Attn: Vice President, Operations

8.25

with a copy to:

NANA Regional Corporation, Inc.
Box 49
Kotzebue, Alaska 99752
Attn: President

(b) If to the Lessee:

Cominco American Incorporated
West 818 Riverside Avenue
P. O. Box 3087
Spokane, Wasington 99220
Attn: Corporate Secretary

with a copy to:

Cominco Alaska
5660 "B" Street
Anchorage, Alaska 99502
Attn: President

Delivery by mail shall be deemed effective and complete and the notice or other document to have been received by the addressee seven (7) days after the date of mailing thereof.

11.03 Delivery by Personal Service. Any notice or other document may be delivered by personally serving said notice or other document upon the designated agent of the party at the Anchorage address for Lessor and the Spokane address for Lessee. In the event of delivery by personal service, delivery shall be deemed effective and complete on the date of said personal service. The party serving said notice or other document shall also mail a courtesy copy thereof to the party so served at the address indicated in Section 11.02 above that is different than the address at which personal service was made.

11.04 Change of Address. The address to which a party desires that notices and other documents be delivered may be changed at any time by giving notice thereof to the other party in the manner contemplated above.

12. Use of Lands.

12.01 Non-Interference with Rights. The rights reserved to the Lessor under this Lease shall not be utilized by the Lessor to unreasonably interfere with the rights of the Lessee under this

Lease or the Agreement; and the rights granted to the Lessee under this Lease shall not be utilized by the Lessee to unreasonably interfere with the rights reserved to the Lessor under this Lease or the Agreement.

13. Representations and Warranties.

13.01 General. Each party to this Lease represents and warrants that it is a corporation duly incorporated and validly existing in accordance with the laws of the state of its incorporation, that it is in good standing and qualified to do business in the State of Alaska, and that it is empowered, authorized and entitled to enter into this Lease and any and all transactions contemplated hereunder without being in breach of any agreement or other arrangement to which it is a party.

13.02 Land Title. Lessor makes no warranties of title, either expressed or implied, to the Subject Lands except that it has the right to receive title to the Subject Lands pursuant to ANCSA, that it has filed applications to receive title to the Subject Lands pursuant to ANCSA and that it will continue to use its best efforts to receive Conveyance of the Subject Lands.

13.03 Survival of Representations and Warranties. The representations and warranties aforesaid shall survive so long as this Lease remains in full force and effect and after termination thereof in respect of any claims arising prior to termination.

14. Status of Parties.

Nothing herein is intended nor shall ever be construed to create a joint venture, mining partnership or any other type of association between the parties, nor shall either party have the right to act in behalf of or bind the other for any liability, cost, expense or undertaking.

15. General Provisions.

15.01 Modification of Lease. This Lease may only be modified by a document in writing executed by the Lessor and the Lessee.

15.02 Waiver. The failure of any party to this Lease to insist upon the strict performance of any provision of this Lease or to exercise any right, power, or remedy consequent upon a breach thereof shall not constitute a waiver by said party of any such provision, breach, or subsequent breach of the same or any other provision.

15.03 Severability. If any provision of this Lease or any application thereof shall be invalid or unenforceable, the remainder of this Lease and any application of such provision shall not be affected thereby.

15.04 Law Governing. This Lease shall be construed and interpreted in accordance with, and governed and enforced in all respects by, the laws of the State of Alaska.

15.05 Section Headings. The descriptive section headings throughout this Lease are for convenience and reference only, and the words contained therein shall not be held to expand, modify, amplify or aid in the interpretation, construction or meaning of this Lease.

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the date first hereinabove set forth.

LESSOR:

NANA REGIONAL CORPORATION, INC.

Witness

By
Title: Vice President

COMINCO AMERICAN INCORPORATED

Witness

By
Title: Vice President, Exploration

EXHIBIT A TO THE
RED DOG MINING LEASE
Dated October 11, 1982

Kateel River Meridian, State of Alaska, to-wit:

Township 30 North, Range 18 West, Sections 4, 5, 6, 7, 8 and 9.

Township 30 North, Range 19 West, Sections 1, 2, 11, 12, 13, and 14.

Township 31 North, Range 18 West, Sections 7, 8, 9, 10, 11, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 26, 27, 28, 29, 30, 31, 32 and 33.

Milt Barker

(4) fisheries enhancement loans acquired or made under AS 16.10;

(5) child care loans acquired or made under AS 44.33; and

(6) historical district loans acquired or made under AS 45.98.

* Sec. 3. All right, title, and interest in commercial fishing loans acquired or made under AS 16.10.300 - 16.10.370 ~~that are secured by limited entry permits,~~ and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated from the general fund to the commercial fishing revolving loan fund (AS 16.10.340) for the purposes of AS 16.10.300 - 16.10.370. However, if the amount in unpaid principal of the loans exceeds $30,000,000 as of July 1, 1985, only loans and instruments of security totaling $30,000,000 in unpaid principal are transferred and appropriated under this section.

* Sec. 4. All right, title, and interest in commercial fishing loans that are not secured by limited entry permits, ~~in an amount equal to the principal balance of loans appropriated under sec. 3 of this Act,~~ and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, are transferred and appropriated from the commercial fishing revolving loan fund (AS 16.10.340) to the economic development fund (AS 44.88.172) of the Alaska Industrial Development Authority for the DeLong Mountain transportation project.

* Sec. 5. The appropriation made by sec. 3 of this Act is for capitalization of a loan fund and does not lapse in accordance with AS 37.25.010.

* Sec. 6. The appropriations made by secs. 1, 2 and 4 of this Act are for a capital project and are subject to AS 37.25.020.

* Sec. 7. This Act takes effect July 1, 1985.

Introduced: 4/12/85
Referred: Transportation, House
Special Committee on State Loans
and Finance

IN THE HOUSE BY PIGNALBERI

HOUSE BILL NO. 369

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the economic development fund of the Alaska Industrial Development Authority, transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan fund; and providing for an effective date."

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

* Section 1. The sum of $18,000,000 is appropriated from the general fund to the economic development fund (AS 44.88.172) of the Alaska Industrial Development Authority for the DeLong Mountain transportation project.

* Sec. 2. (a) All right, title, and interest in loans of the type described in (b) of this section, and all right, title, and interest in all mortgages, notes, and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated to the economic development fund (AS 44.88.172) of the Alaska Industrial Development Authority for the DeLong Mountain transportation project. However, if the amount in unpaid principal of the loans exceeds $112,000,000 as of July 1, 1985, only loans and instruments of security totaling $112,000,000 in unpaid principal are transferred and appropriated under this section.

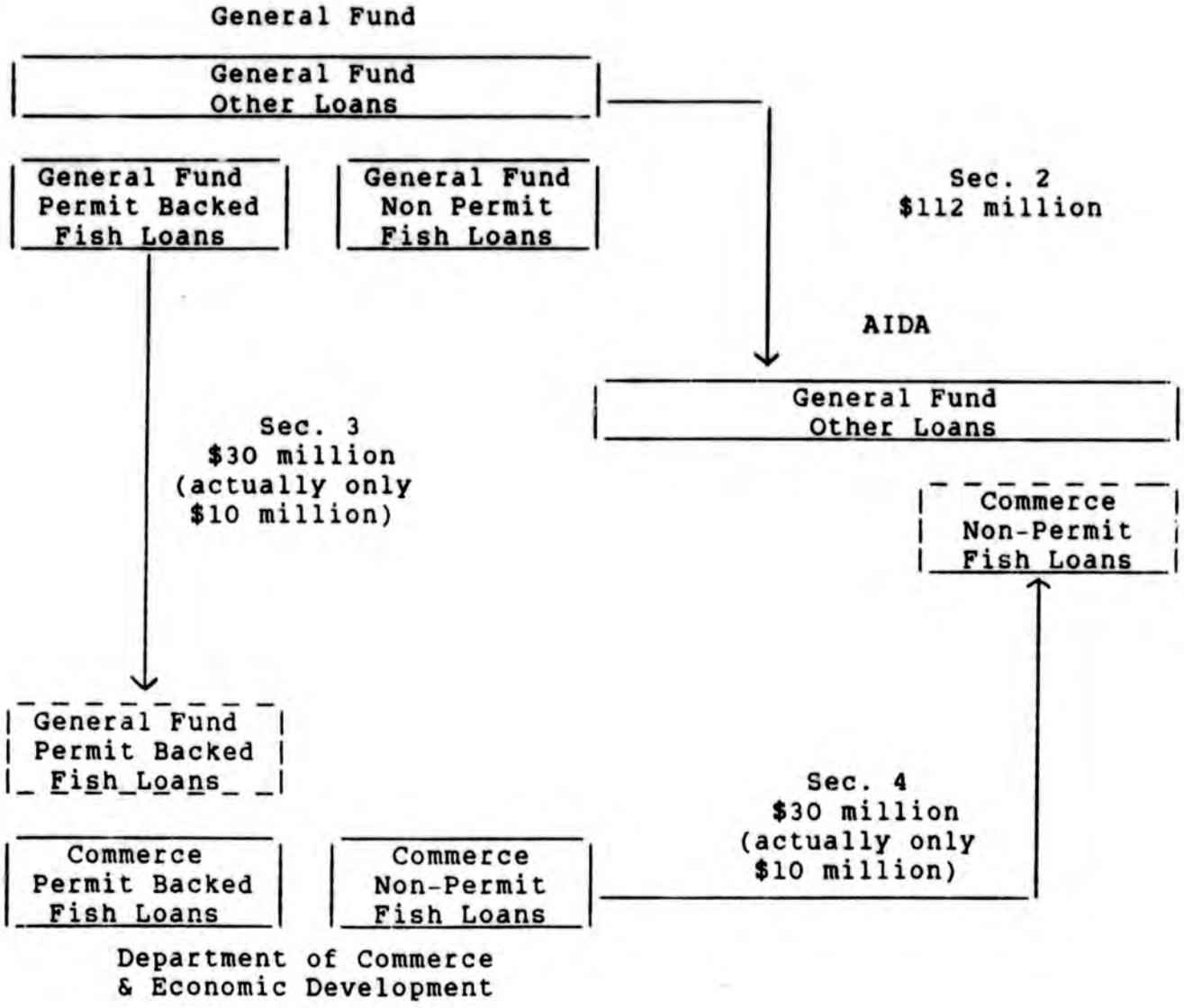
(b) This section transfers and appropriates

(1) veterans loans acquired or made under AS 26.15;

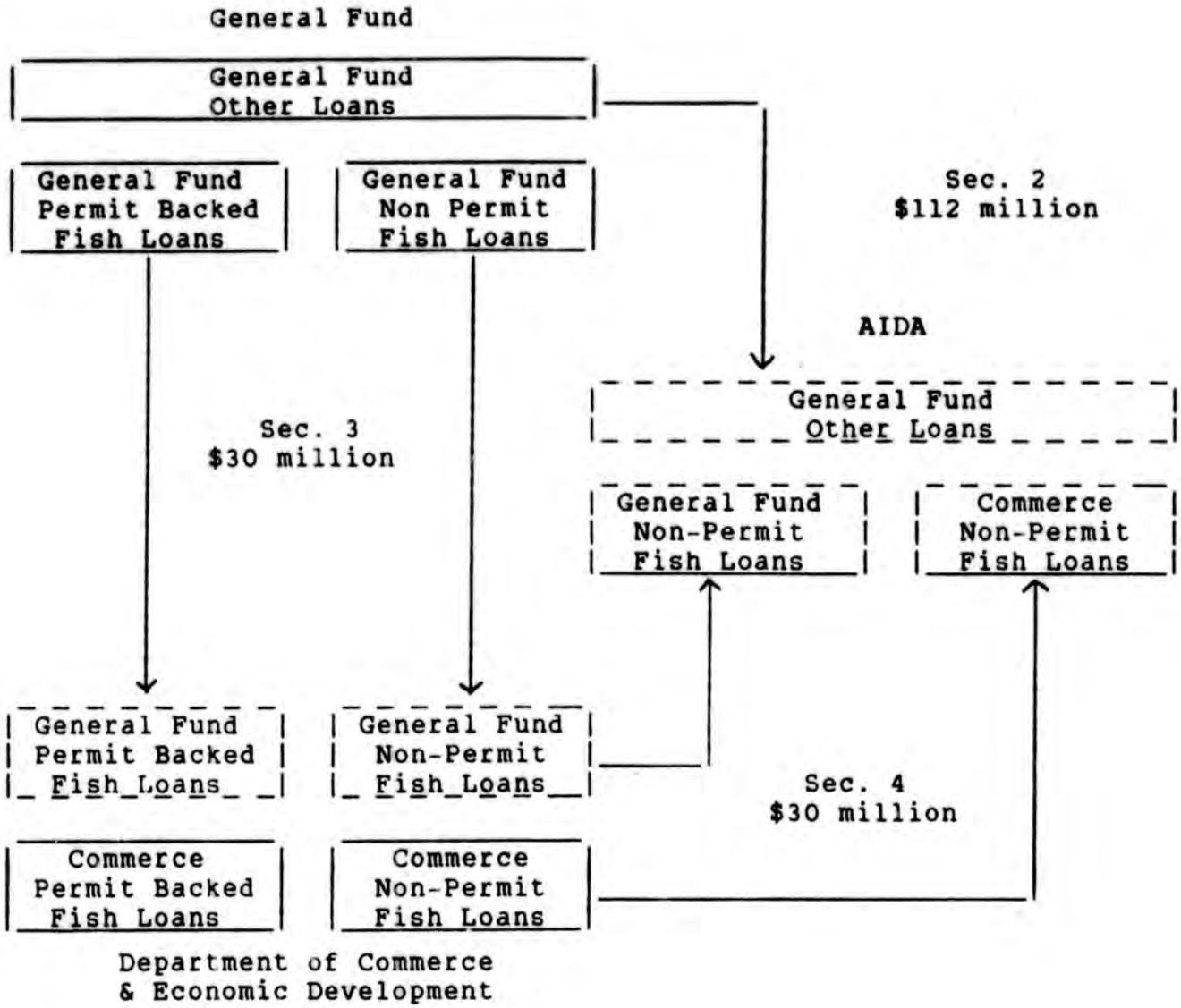
(2) small business loans acquired or made under AS 45.95;

(3) tourism loans acquired or made under AS 45.90;

DeLong Mountains Transportation Project
Loan Appropriations
HB 369 / SB 279



DeLong Mountains Transportation Project
Loan Appropriations
Administration Proposal



This PRELIMINARY OFFICIAL STATEMENT and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may an offer to buy be accepted, prior to the time the OFFICIAL STATEMENT is delivered in final form. Under no circumstances shall this PRELIMINARY OFFICIAL STATEMENT constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 3, 1985

NOT A NEW ISSUE

Moody's Rating:
Standard & Poor's Rating:

In the opinion of Bond Counsel interest on the Bonds is exempt from Federal income taxes under existing statutes, rulings and court decisions, except that no opinion is expressed as to the exemption from such taxes of interest on any Bond for any period during which such Bond is held by a person who, within the meaning of Section 103(b) of the Internal Revenue Code of 1954, as amended, is a substantial user of facilities with respect to which the proceeds of the Bonds were used, or a related person.

$11,800,000

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

Economic Development Bonds, Series 332 through 334 Series 336 through 345 Series 347 through 351

Date of Issue: December 20, 1984
Date of Conversion to Fixed Interest Rates: May 1, 1985

Due: April 1, as shown below

The Bonds, which were sold by private placement, were issued, together with Series 335 and Series 346 Bonds, by the Alaska Industrial Development Authority (the "Authority") on December 20, 1984, as $13,120,000 Floating Demand/Fixed Rate Economic Development Bonds, Series 332 through 351, bearing a floating interest rate and subject to conversion at any time to fixed interest rates at the option of the Authority. The Authority has determined to exercise its option to convert the Bonds to Bonds bearing fixed interest rates effective May 1, 1985. The present holder of the Bonds intends to tender the Bonds for payment on the date of conversion, and the Authority will remarket the Bonds by the sale thereof to the Underwriters.

The Bonds are fully registered bonds without coupons and are in denominations of $5,000 or integral multiples thereof. Principal of and premium, if any, on the Bonds are payable at the principal corporate trust office of the Trustee, Seattle-First National Bank, in Seattle, Washington, or its successor. Upon conversion of the Bonds to Bonds bearing a fixed interest rate, the Bonds will bear interest from May 1, 1985, payable October 1, 1985, and semiannually thereafter on April 1 and October 1 by check or draft mailed to the registered owners of record as of the 15th day of the month next preceding the interest payment date.

The Bonds are subject to certain mandatory and optional provisions for redemption prior to maturity as described herein under the caption "Redemption Provisions."

The Bonds were issued by the Authority to finance the purchase of participations in qualified economic development loans in the State of Alaska, as more fully described herein. The Authority is a public instrumentality of the State of Alaska in the Department of Commerce and Economic Development but with a separate and independent legal existence.

The Bonds constitute general obligations of the Authority, and the full faith and credit of the Authority are pledged to the payment of the principal of, redemption premium, if any, and interest on the Bonds. The Bonds are further secured by the Economic Development Bond Capital Reserve Fund and the monies, properties, assets and revenues described herein. See "Security for the Bonds" herein and the subsections thereunder.

The Authority does not have the power to levy taxes for any purpose. The Bonds do not constitute an indebtedness or liability of the State of Alaska and do not directly, indirectly or contingently obligate the State to apply money from, or levy or pledge, any form of taxation whatever to the payment of the Bonds.

$3,505,000* Serial Bonds

Maturity April 1	Amount*	Rate	Price or Yield	Maturity April 1	Amount*	Rate	Price or Yield
1986	$245,000	%	%	1991	$415,000	%	%
1987	285,000			1992	460,000		
1988	320,000			1993	500,000		
1989	350,000			1994	555,000		
1990	375,000						

$3,105,000* % Term Bonds due April 1, 1999—Price %
$4,490,000* % Term Bonds due April 1, 2004—Price %
$ 700,000* % Term Bonds due April 1, 2009—Price %

(Accrued Interest, if any, to be added)

The Bonds are offered without regard to Series when, as and if received by the Underwriters and subject to the approving legal opinion of Wohlforth & Flint, Bond Counsel, of Anchorage, Alaska, as to validity and the exemption of interest thereon from Federal income taxation. Certain legal matters will be passed upon for the Underwriters by Preston, Thorgrimson, Ellis & Holman of Seattle, Washington.

It is expected the Bonds in definitive form will be available for delivery in New York, New York on or about May 1, 1985.

Prudential-Bache Securities **Goldman, Sachs & Co.**

Dated: April , 1985

* Combined for all Series (see Appendix A for detailed amortization schedules for each Series).

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

1577 "C" Street—Suite 304

Anchorage, Alaska 99501-5177

DIRECTORS

Loren H. Lounsbury	Chairman
Michael G. Harper	Vice Chairman
Jeffrey Hassler	Member
Mary A. Nordale	Member
Jim Robison	Member
Bertram L. Wagnon	Executive Director

BOND COUNSEL

Wohlforth & Flint
900 West Fifth Avenue—Suite 600
Anchorage, Alaska 99501

FINANCIAL ADVISOR

Bear, Stearns & Co.
333 Market Street
San Francisco, California 94105

CERTIFIED PUBLIC ACCOUNTANTS

Peat, Marwick, Mitchell & Co.
601 West Fifth Avenue—Suite 700
Anchorage, Alaska 99501

No dealer, broker, salesman or other person has been authorized by the Alaska Industrial Development Authority or the Underwriters to give any information or make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Alaska Industrial Development Authority Economic Development Bonds, Series 332 through 334, Series 336 through 345 and Series 347 through 351, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the securities offered hereby shall under any circumstances create an implication that there has been no change in the affairs of the Authority since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKERT PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED, AND IF DISCONTINUED THEN RECOMMENCED, AT ANY TIME.

TABLE OF CONTENTS

	Page
Summary Statement	iv
Introduction	1
The Bonds	2
Redemption Provisions	2
Disposition of Funds Received from Sale of Bonds	3
Disposition of Proceeds from Issuance of Floating Rate Bonds	4
Security for the Bonds	4
General	4
Pledge Under Each Bond Resolution	4
Capital Reserve Fund	4
General Assets of the Authority	5
Financial Covenants of the Authority	6
Covenant of the State	6
The Authority	6
Powers	6
Authority Members	7
Authority Staff	8
Umbrella Bond Program	8
Sustaining Revenue Bond Program	9
Federally Guaranteed Loan Participation Program	9
Additional Programs	9
Operating Results and Financial Position	10
Loan Program Regulations	10
Summary of Certain Provisions of Each Bond Resolution and of the Economic Development Bond Capital Reserve Fund Resolution	16
Bond Resolution	16
Economic Development Bond Capital Reserve Fund Resolution	25
Absence of Material Litigation	27
Financial Statements	28
Bond Ratings	28
Legal Opinion	28
Tax Exemption	28
Underwriting	29
Execution of Official Statement	29
Appendix A—Bond Amortization Schedules by Series	A-1
Participations Financed	A-2
Appendix B—Estimated Aggregate Debt Service and Coverage Schedule	B-1
Appendix C—Alaska Industrial Development Authority Financial Statements	C-1

SUMMARY STATEMENT

The following summary is subject in all respects to the more complete information contained in the Official Statement and the Appendices thereto.

The Authority

The Alaska Industrial Development Authority was created by the Legislature of the State of Alaska in 1967 (AS 44.88, as amended). The purposes of the Authority include the promotion, development and advancement of the general prosperity and economic welfare of the people of the State, the relieving of unemployment problems, and the promotion and development of multi-family housing projects.

The Bonds

The Bonds described in this Official Statement are Economic Development Bonds issued under the Authority's general obligation Umbrella Bond Program. Economic Development Bonds are issued to provide funding for industrial and commercial projects in amounts not exceeding $1 million pursuant to Section 103(b)(6)(A) of the Internal Revenue Code of 1954, as amended, and rulings and regulations thereunder. The Umbrella Bond Program also includes (a) Consolidated Bonds issued for multi-family housing projects and, in amounts between $1 million and $10 million, for industrial and commercial projects and (b) Variable Demand/Fixed Rate Bonds, which are special limited obligations of the Authority secured by a direct pay letter of credit and which will become general obligations of the Authority upon their conversion to fixed-rate bonds.

Loan Participations

The Authority provides project financing under the Umbrella Bond Program by using bond proceeds to purchase participations in qualified loans originated by Alaska commercial lending institutions. (The Authority does not engage in direct lending activities.) The Authority purchases participations of up to 90% of loans in which the Authority's participation is $1 million or less, and up to 80% of loans in which the Authority's participation is in excess of $1 million. The loan originators service both the originator and Authority portions of the loans. If more than 2% of the outstanding principal balance of Authority participations in the loans originated by an institution are 90 days or more delinquent, that institution is ineligible for future participation in programs of the Authority until such loan delinquencies are reduced to less than the 2% limit.

Security for the Bonds

The Bonds constitute general obligations of the Authority, and the full faith and credit of the Authority are pledged to the payment of the principal of, redemption premium, if any, and interest on the Bonds. In addition, the revenues to be derived from the loan participations financed with the proceeds of each Series of Ecomomic Development Bonds are also pledged to the payment of debt service on the respective Series of Bonds. All Economic Development Bonds have an equal claim on the Capital Reserve Fund. (Consolidated Bonds have the support of a separate capital reserve fund and, upon conversion to fixed-rate bonds, Variable Demand/Fixed Rate Bonds will also have the support of a separate capital reserve fund.)

The Authority does not have the power to levy taxes for any purpose. The Bonds do not constitute an indebtedness or liability of the State of Alaska and do not directly, indirectly or contingently obligate the State to apply money from, or levy or pledge, any form of taxation whatever to the payment of the Bonds.

Capital Reserve Fund

The Capital Reserve Fund is funded from available monies of the Authority other than bond proceeds and maintained in an amount equal to the average annual debt service on all of the Authority's outstanding Economic Development Bonds. The Capital Reserve Fund is pledged to the payment of debt service on all outstanding Economic Development Bonds to the extent that other monies of the Authority are not available therefor.

Moral Obligation

AS 44.88 requires the Chairman of the Authority to annually certify to the Governor and to the State Legislature the amount, if any, required to restore the Capital Reserve Fund to its required level. The Legislature may, but is not required to, appropriate monies to make up any such deficiency in the Capital Reserve Fund.

Financial Covenants

The Authority has covenanted that it will not make any loans, incur any General Obligation Indebtedness, or expend any money except for reasonable and necessary operating costs or the payment of principal of and interest on any General Obligation Indebtedness, the effect of which would (a) reduce its estimated Net Income (as defined in the Bond Resolution) at any time to less than 150% of maximum annual debt service requirements on its General Obligation Indebtedness, or (b) cause its unrestricted surplus to be less than $100 million. As of June 30, 1984, the unrestricted surplus of the Authority was $258.9 million, and the 1984 Net Income coverage of maximum annual debt service was 3.36 times.

Financial Information

As of June 30, 1984, the Authority's general assets included $101.5 million of investments in U.S. Government securities and commercial paper and $327.6 million of loans including (1) $105.6 million of loans appropriated to the Authority by the State, (2) $60.2 million of federally guaranteed loans, and (3) $161.8 million of loan participations financed or to be financed from bond sales of the Authority. A portion of the general assets of the Authority are restricted. Loan participations and loans were 95.34% current as of June 30, 1984.

Net earnings of the Authority totaled $25.3 million for the year ended June 30, 1984, and $22.6 million for the year ended June 30, 1983.

Total assets of the Authority were $435.3 million as of June 30, 1984, and $350.3 million as of June 30, 1983. Total equity of the Authority was $274.8 million as of June 30, 1984, and $248.9 million as of June 30, 1983.

Total liabilities of the Authority were $160.5 million (including $155.4 million general obligation debt) as of June 30, 1984, and $101.5 million (including $98.1 million general obligation debt) as of June 30, 1983.

Outstanding Bonds

As of December 31, 1984, there were $131,360,000 Economic Development Bonds (including the $13,120,000 Floating Demand/Fixed Rate Economic Development Bonds, Series 332 through 351), $60,170,000 Consolidated Bonds and $12,200,000 Variable Demand/Fixed Rate Bonds of the Authority outstanding.

Additional Bonds

Additional General Obligation Indebtedness may be issued by the Authority provided certain coverage and other requirements are met, including a requirement that estimated annual Net Income over the term of all General Obligation Indebtedness equals not less than 150% of the annual debt service on such Indebtedness. See "Financial Covenants of the Authority" herein.

$11,800,000

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY ECONOMIC DEVELOPMENT BONDS

Series 332 through 334
Series 336 through 345
Series 347 through 351

INTRODUCTION

This Official Statement, including the cover page, Summary Statement and Appendices hereto, was prepared to provide information relating to the Alaska Industrial Development Authority (the "Authority") and the Authority's $11,800,000 Economic Development Bonds, Series 332 through 334, Series 336 through 345 and Series 347 through 351 (the "Bonds").

The Bonds were issued on December 20, 1984, as part of $13,120,000 Floating Demand/Fixed Rate Economic Development Bonds, Series 332 through 351 (the "Floating Rate Bonds") bearing a floating interest rate and subject to conversion at any time to fixed interest rates at the option of the Authority. The Authority has determined to exercise its option to convert the Floating Rate Bonds to Bonds bearing fixed interest rates effective May 1, 1985 (the "Conversion Date"). The present holder of the Floating Rate Bonds intends to tender them for payment on the Conversion Date, and the Authority will remarket the Bonds by the sale thereof to the Underwriters except that the $710,000 Series 335, $580,000 Series 346, and $30,000 of the $675,000 Series 338 Floating Rate Bonds will be redeemed and retired prior to the delivery of the Bonds to the Underwriters.

The Bonds were issued as Economic Development Bonds under the Authority's Umbrella Bond Program pursuant to Title 44, Chapter 88, Alaska Statutes, as amended (the "Act") and 20 respective Bond Resolutions, each adopted by the Authority on December 19, 1984 (the "Bond Resolutions"), to provide funds for the purchase by the Authority of participations (the "Participations") in 20 eligible economic development loans (the "Loans") made by Alaska financial institutions (the "Originators") to various borrowers.

Descriptions of the Bonds, the security for the Bonds, the Authority, the programs of the Authority, the Bond Resolutions, the Economic Development Bond Capital Reserve Fund Resolution, and other elements bearing upon the security and legality of the Bonds and their tax exemption under the Internal Revenue Code of 1954, as amended (the "Code"), are contained in this Official Statement. Some terms used herein are defined in the Bond Resolutions (see "Summary of Certain Provisions of Each Bond Resolution and the Economic Development Bond Capital Reserve Fund Resolution"). This Official Statement contains financial information taken or derived from the audited financial statements and other unaudited financial reports of the Authority. All of the financial information taken or derived from the financial statements and reports of the Authority and all of the summaries of resolutions, statutes, agreements and other documents contained herein are made subject to, and are qualified in their entirety by reference to, such financial statements and reports, resolutions, statutes, agreements and documents, copies of which are available for inspection at the office of the Authority, 1577 "C" Street, Suite 304, Anchorage, Alaska 99501; the office of Prudential-Bache Securities Inc., 1111 Third Avenue, Suite 2750, Seattle, Washington 98101; the office of Goldman, Sachs & Co., 85 Broad Street, New York, New York 10004, and the office of Bear, Stearns & Co., 333 Market Street, San Francisco, California 94105.

The information within this Official Statement has been compiled from official and other sources considered reliable and, while not guaranteed as to accuracy, is believed by the Authority to be correct. Any statements herein involving estimates, forecasts or projections are to be construed as such rather than as statements of fact.

THE BONDS

The Bonds are fully registered bonds without coupons, are in denominations of $5,000 each, or integral multiples thereof, are dated as of the date shown on the cover hereof, and mature April 1 of the years and in the amounts set forth on the cover hereof. The Bonds are subject to certain mandatory and optional redemption provisions prior to maturity including the mandatory sinking fund redemption of Bonds of the 1999, 2004, and 2009 Term Bond maturities (see "Redemption Provisions").

The Bonds bear interest from May 1, 1985, payable October 1, 1985, and semiannually thereafter on each April 1 and October 1 by check or draft mailed to the registered owners of the Bonds of record as of the 15th day of the month next preceding the interest payment date. The principal of and premium, if any, on the Bonds is payable at the principal corporate trust office of the Trustee, Seattle-First National Bank, in Seattle, Washington, or its successor.

Redemption Provisions

1. *Mandatory Redemption.* (a) The Bonds of each Series are subject to mandatory redemption on April 1, 1986, in inverse order of maturity and by lot within a maturity, at par plus accrued interest to the date of redemption, from unexpended Bond proceeds remaining on February 1, 1986, in the Loan Participation Fund created by the Bond Resolution for such Series of Bonds. All the Loan Participations financed with proceeds from the December 20, 1984 sale of the Bonds, have been fully funded except that the Loan Participation financed by the sale of the $675,000 Series 338 Floating Rate Bonds was reduced and funded at $645,000. To compensate for this reduction, $30,000 Series 338 Floating Rate Bonds are to be redeemed from the proceeds thereof prior to the conversion of the Floating Rate Bonds to fixed interest rates. Therefore, there will be no unexpended Bond proceeds requiring the implementation of this mandatory redemption provision.

(b) Until conversion to Bonds bearing fixed interest rates and in the year immediately following conversion, the Bonds of each Series are subject to mandatory redemption each October 1 beginning October 1, 1985, at par, plus accrued interest to the date of redemption, in an amount sufficient to ensure that the yield on each Participation acquired with Bond proceeds will not exceed the yield on the respective Bonds by more than the allowable spread under Income Tax Regulation 1.103-13(b)(5), as it is then in effect. However, the Authority expects it will not be necessary to employ this redemption provision at any time after the Conversion Date and that no Bonds will be redeemed on October 1, 1985, or thereafter in order to ensure compliance with the arbitrage restrictions during the floating rate period.

2. *Sinking Fund Redemption.* Of the combined total of $3,105,000 Bonds due April 1, 1999, $2,345,000 Bonds are subject to mandatory redemption in part, by lot, at par plus accrued interest to the date of redemption, from Sinking Fund payments required to be made on April 1 of the years and in the amounts shown in the following schedule:

Year	Amount
1995	$495,000
1996	550,000
1997	615,000
1998	685,000

The remaining $760,000 Bonds of the 1999 maturity will mature April 1, 1999.

Of the combined total of $4,490,000 Bonds due April 1, 2004, $3,390,000 Bonds are subject to mandatory redemption in part, by lot, at par plus accrued interest to the date of redemption, from Sinking Fund payments required to be made on April 1 of the years and in the amounts shown in the following schedule:

Year	Amount
2000	$715,000
2001	800,000
2002	885,000
2003	990,000

The remaining $1,100,000 Bonds of the 2004 maturity will mature April 1, 2004.

Of the combined total of $700,000 Bonds due April 1, 2009, $530,000 Bonds are subject to mandatory redemption in part, by lot, at par plus accrued interest to the date of redemption, from Sinking Fund payments required to be made on April 1 of the years and in the amounts shown in the following schedule:

Year	Amount
2005	$110,000
2006	125,000
2007	140,000
2008	155,000

The remaining $170,000 Bonds of the 2009 maturity will mature April 1, 2009.

3. *Optional Redemption.* On and after April 1, 1994, the Bonds of each Series are subject to redemption, at the option of the Authority, as a whole on any date or in part on any interest payment date, in inverse order of maturity and by lot within a maturity, at the prices (expressed as a percentage of par value) set forth in the following schedule, plus accrued interest to the date of redemption:

Redemption Period	Redemption Price
April 1, 1994 through March 31, 1995	102 %
April 1, 1995 through March 31, 1996	101
April 1, 1996 and thereafter	100

In the event of an optional redemption, the Authority may direct each Series and amount thereof to be redeemed.

4. *Special Optional Redemption.* The Bonds of each Series are subject to redemption, at the option of the Authority, as a whole on any date or in part on any interest payment date, in inverse order of maturity and by lot within a maturity, at par plus accrued interest to the date of redemption, from amounts recovered or received by the Authority as a prepayment of any Loan Participation financed with the proceeds of such Series of Bonds. The Authority may accept Loan prepayments on such terms and conditions as it determines. In each Bond Resolution, the Authority covenants that it will require any prepayments to be in amounts sufficient to redeem a like principal amount of Bonds of such Series at the applicable redemption price. The Authority has also covenanted in each Bond Resolution that prior to the exercise of its election to redeem Bonds, it will use its best efforts to apply monies derived from prepayments to the purchase of investment securities or new loan participations which pay principal and interest sufficient to pay scheduled principal and interest on the applicable Series of Bonds as the same become due.

Notice of Redemption. Thirty days' notice of redemption of any Bond, all or a portion of which is to be redeemed, will be mailed to the registered owner thereof at the owner's last address appearing on the registry books of the Authority kept by the Trustee.

Disposition of Funds Received from Sale of Bonds

The funds received by the Authority from the sale of the Bonds to the Underwriters will be used by the Authority to pay the principal of the tendered Floating Rate Bonds.

Disposition of Proceeds from Issuance of Floating Rate Bonds

Upon the issuance of the Floating Rate Bonds, the proceeds of the Bonds of each Series were deposited by the Authority with the Trustee and deposited by the Trustee in the Loan Participation Accounts within the Loan Participation Fund, except that accrued interest on the Bonds was deposited in the Principal and Interest Account within the Debt Service Fund maintained under each Bond Resolution. Amounts deposited in the Loan Participation Accounts may be expended only (a) to purchase the Participations for which the Bonds were issued or to reimburse the Authority for its prior purchase of such Participations, (b) to pay costs of issuance of the Bonds not otherwise provided for, (c) to pay the principal or redemption price of and interest on the Bonds when due to the extent that amounts in any other Fund or Account are insufficient or unavailable therefor. The amount, if any, remaining in any Loan Participation Account on February 1, 1986, will be transferred to the Redemption Account of the Debt Service Fund.

SECURITY FOR THE BONDS

General

The Bonds constitute general obligations of the Authority, and the full faith and credit of the Authority are pledged to the payment of the principal of, redemption premium, if any, and interest on the Bonds. Each Series of Bonds is further secured by a pledge of certain monies, properties, assets and revenues as described below. The Authority does not have the power to levy taxes for any purpose. The Bonds do not constitute an indebtedness or liability of the State of Alaska (the "State"), and the Bonds do not directly, indirectly or contingently obligate the State to apply money from, or levy or pledge, any form of taxation whatever to the payment of the Bonds. All Economic Development Bonds have an equal claim to monies on deposit in the Capital Reserve Fund (see "Capital Reserve Fund").

Pledge Under Each Bond Resolution

Pursuant to each Bond Resolution, the revenues, including amounts representing payments of principal, to be derived from the Participations financed with the proceeds of each Series of Bonds and all monies and investments in the funds and accounts established thereunder are pledged to pay the principal of, redemption premium, if any, and interest on such Bonds, subject only to the provisions of the Bond Resolution permitting the application or release thereof for or to the purposes and on the terms and conditions therein set forth.

Each Bond Resolution also pledges and assigns the Participations financed thereunder to the Trustee, reserving to the Authority, except in the event of default, the right to administer and enforce the provisions of the documents evidencing the Participations in its own discretion and to enter into amendments with respect thereto, including releases of security and removal of covenants and conditions contained therein.

The Act provides that any pledge made in respect of the Bonds shall be valid and binding from the time when the pledge is made, that the money or property so pledged and received by the Authority shall immediately be subject to the lien of such pledge without any physical delivery or further act and that the lien of any such pledge shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether the parties have notice.

Capital Reserve Fund

On April 13, 1981, the Authority adopted the Economic Development Bond Capital Reserve Fund Resolution under which it covenants and agrees with the holders of Economic Development Bonds to establish and maintain the Capital Reserve Fund in an amount at least equal to the Capital Reserve Fund Requirement (an amount equal to average annual debt service on Economic Development Bonds). The monies on deposit in the Capital Reserve Fund are pledged to the payment of all outstanding Economic Development Bonds of the Authority and may only be used by the Authority for the payment of principal, redemption premium, if any, and interest on Economic Development Bonds, but only when and to the extent that other monies are not available therefor pursuant to the bond resolution under which the Economic Development Bonds were issued. It has never been

necessary for the Authority to use funds in the Capital Reserve Fund for this purpose. Any amounts on deposit in the Capital Reserve Fund in excess of the Capital Reserve Fund Requirement will be transferred to the Authority and commingled with other Authority revenues. The calculation of the present Capital Reserve Fund Requirement of $13,360,390 included the effect of an estimated floating interest rate of 15% on the Floating Rate Bonds. Upon the establishment of fixed interest rates on the Bonds, the Capital Reserve Fund Requirement will be $

The Act requires the Chairman of the Authority, at least annually and no later than January 2 of each year, to certify in writing to the Governor and to the State Legislature the amount, if any, required to restore the Capital Reserve Fund to the Capital Reserve Fund Requirement. The Legislature may, but is not obligated to, appropriate to the Authority the amount certified by the Chairman of the Authority. The Authority is required to deposit any monies so appropriated in the Capital Reserve Fund.

In 1982, the State Constitution was amended to impose a limit on the amount of appropriations from the State Treasury in any fiscal year. This amendment may limit the amounts available in future fiscal years for appropriation by the State Legislature to cure any deficiency in the Capital Reserve Fund and other capital reserve funds of the Authority.

General Assets of the Authority

As of June 30, 1984, the Authority's general assets included $101.5 million of investments in United States government obligations and commercial paper and $327.6 million of loans including (1) $105.6 million of loans appropriated to the Authority by the State, (2) $60.2 million of federally guaranteed loans, and (3) $161.8 million of participations in loans financed or to be financed from the proceeds of the Authority's general obligation bonds. As of June 30, 1984, the unrestricted surplus of the Authority was $258.9 million.

In 1980, the State appropriated the sum of $183 million to the Authority to initiate its programs, and in 1981 the State appropriated an additional $8 million for future capital reserve fund purposes. The 1980 appropriation included cash in the amount of $15 million, $166 million principal amount of outstanding loans acquired by the State in connection with State loan programs, and certain other assets. The Authority was authorized to select the specific loans to be included in the appropriation (the "Appropriated Loans") from a total pool of approximately $350 million principal amount of loans.

The Appropriated Loans selected by the Authority included Small Business Loans, Tourism Loans and Commercial Fishing Vessel Loans. *Small Business Loans* have a term of up to 25 years. Approximately 90% are secured by real property, the balance by equipment. The maximum loan in each case did not exceed the lower of 75% of cost or appraised value. *Tourism Loans* have a maximum term of 20 years. The majority were made for hotels and motels within the State. Two loans were made for large tour vessels. Tourism loans required at least a 20% participation by the originating lender. *Commercial Fishing Vessel Loans* have a maximum term of 15 years. All such loans are secured by fishing vessels. The maximum loan in each case did not exceed the lower of 75% of cost or appraised value, and each owner was required to carry insurance on the vessel equal to 110% of the amount of the loan.

Amounts to be received by the Authority from the Appropriated Loans have not been pledged to the payment of any general obligation indebtedness (including the Bonds). As general assets of the Authority, such amounts (if not spent for other purposes) will be available for the payment of the Bonds in the event amounts on deposit under the applicable Bond Resolution and in the Capital Reserve Fund are insufficient for such purpose.

The Authority has created a loan loss reserve (which is not pledged to the Bonds) for the Appropriated Loans which had a balance as of June 30, 1984, of $2,567,000. In the year ended June 30, 1984, $728,332 was charged against the reserve for loan write-downs and charge-offs, but the reserve was restored by a like charge to current earnings.

Financial Covenants of the Authority

Each Bond Resolution (Part II, Section 713) contains the following financial covenants:

(A) The Authority shall not create or permit to be created any pledge, assignment, lien, encumbrance or charge on the Appropriated Loans whether in favor of the Bonds, any Series of Bonds or for any other purpose. The Authority may pay Costs of Issuance of any Series of Bonds and Operating Costs and any charges, and may make deposits into any funds or accounts of the Authority, from Appropriated Loan Receipts or from any source of funds.

(B) The Authority shall not incur any General Obligation Indebtedness unless the Net Income, as estimated in a Certificate of an Authorized Officer delivered at the time of the incurring of the General Obligation Indebtedness, over the term of all General Obligation Indebtedness equals not less than 150% of the General Obligation Annual Debt Service Requirements in each year in which General Obligation Indebtedness is outstanding. Such estimate shall be made after deducting an amount equal to an aggregate of all annual payments thereafter due on all Non-Current Assets. (As defined in the Bond Resolutions, Net Income includes (a) all revenues, including principal and interest receipts, derived from loan participations acquired with the proceeds of (i) Economic Development Bonds and other bonds which are tax exempt under Section 103(b)(6)(A) of the Code and are issued pursuant to a bond resolution with substantially the same general terms and conditions as are contained in the Economic Development Bond Resolutions, (ii) Consolidated Bonds and (iii) Variable Demand/Fixed Rate Bonds, (b) all Appropriated Loan Receipts, and (c) all other revenues or receipts of the Authority, but excluding any proceeds of money borrowed by the Authority, any revenues or receipts specifically pledged or assigned to the payment of any bonds or other indebtedness other than the Bonds or any Series of Bonds, and any amounts appropriated and paid to the Authority by the State, less Service Fees and all Operating Costs of the Authority.)

(C) The Authority shall not make any loans, incur any indebtedness, or expend any money, except for reasonable and necessary Operating Costs or the payment of principal and interest on any General Obligation Indebtedness, the effect of which would (i) reduce its estimated Net Income, estimated in the manner provided in clause (B), at any time to less than 150% of the General Obligation Annual Debt Service Requirements in any year in which General Obligation Indebtedness is Outstanding, or (ii) cause its unrestricted surplus to amount to less than $100,000,000.

Covenant of the State

Pursuant to the Act, the State has pledged and agreed with the holders of any bonds and notes issued under the Act that the State will not limit or alter the rights vested in the Authority until such obligations, together with the interest thereon, are fully met and discharged, provided nothing shall preclude such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such bonds and notes.

THE AUTHORITY

The Authority was created by the State Legislature in 1967 to promote, develop and advance the general prosperity and economic welfare of the people of the State, and to relieve problems of unemployment. In 1982, the Authority's enabling legislation was amended to add to its purpose the promotion, development and maintenance of an adequate supply of multi-family housing projects.

Powers

Under the Act the Authority has the power to adopt regulations; to acquire an interest in a project; to lease projects; to issue bonds; to sell and otherwise convey interests in its properties; to accept gifts, grants and loans; to deposit and invest funds; to enter into contracts; to purchase and insure loans; to make loans; to acquire, manage and operate projects; to assist private lenders to make

loans; to facilitate the expansion of a secondary market for the resale of insured loans in Alaska held by financial institutions or by the Alaska Commercial Fishing and Agricultural Bank; and to participate with the Alaska State Housing Authority or municipalities in the financing of multi-family housing projects.

Pursuant to legislation enacted in 1984, the Authority is authorized to acquire, manage and operate projects which the Authority considers necessary or appropriate to serve a public purpose. The 1984 legislation prohibits the use of capital reserve funds to secure bonds of the Authority issued to finance such a project if a majority of the project is to be used, leased, or occupied by the State. In the case of a project acquired, managed or operated by the Authority and which is financed or developed through the use of the assets of the Economic Development Fund established pursuant to AS 44.88.172, the Authority may not pledge or use other assets of the Authority to assist in the financing, development or operation of the project.

Authority Members

The powers of the Authority are vested in its five directors: two members of the general public appointed by the Governor and three ex officio members. The ex officio members are the Commissioner of Commerce and Economic Development, the Commissioner of Revenue, and one other member of the Governor's Cabinet appointed at his discretion. The Commissioner of the State Department of Labor is the Cabinet member selected by the Governor as his discretionary appointee. The current directors of the Authority are:

LOREN H. LOUNSBURY, Chairman, Commissioner of the State Department of Commerce and Economic Development. Mr. Lounsbury was appointed Commissioner in January 1985. Prior to entering government service he was President of Lounsbury and Associates, Inc., a family-owned survey and engineering firm. A 40-year resident of Alaska, he has held leadership positions in both community and professional organizations in Alaska, including that of Honorary Consul, Republic of Korea in Anchorage. Mr. Lounsbury holds a Bachelor of Science degree in civil engineering from Oregon State University.

MICHAEL G. HARPER, Vice Chairman. Mr. Harper currently is Vice President of United Bank Alaska. Previously, he held the positions of Administrative Assistant to the Governor, Deputy Commissioner for the State Department of Community and Regional Affairs and Executive Director of the Rural Alaska Community Action Program. Mr. Harper was appointed as an Authority director in August 1981 and was subsequently reappointed for a term expiring on July 1, 1985.

JEFFREY HASSLER. Mr. Hassler is Executive Vice President of Carr-Gottstein Properties, Inc. and has been affiliated with the company for 15 years. His responsibilities have encompassed all phases of real estate development, from feasibility studies and construction to permanent financing, leasing and property management. Mr. Hassler holds a Bachelors degree in Business Administration and has been an Alaska resident since 1952. He was appointed a director of the Authority in July 1984 for a term expiring July 1, 1986.

MARY A. NORDALE, Commissioner of the State Department of Revenue. Ms. Nordale was appointed Commissioner in September 1984. She is a lifelong resident of Alaska. She holds degrees from Gonzaga and George Washington Universities and was admitted to the Alaska Bar in 1969. Her prior experience includes: Assistant U.S. Attorney (1968-1969), Assistant District Attorney (1969-1970), Branch Counsel for Small Business Administration (1970-1972) and private practice (1972-1984). She is a member of the Alaska, Tanana Valley, Federal and American Bar Associations as well as the District of Columbia Bar.

JIM ROBISON, Commissioner of the State Department of Labor. Mr. Robison was appointed Commissioner in December 1982, was appointed a director of the Authority in April 1984 and was subsequently reappointed to a term expiring July 1, 1986. A 38-year resident of Alaska, he has been engaged in all phases of the construction industry and has served in numerous positions with various labor organizations. Immediately prior to his appointment as Commissioner, Mr. Robison served as

Business Manager and Secretary/Treasurer of the Alaska State District Council of Laborers and then as President of the Alaska State AFL-CIO.

Authority Staff

The Authority's programs are managed by an administrative staff consisting of an Executive Director, three Deputy Directors, two loan officers and eleven other employees.

BERTRAM L. WAGNON is the Authority's Executive Director. Mr. Wagnon was appointed Executive Director in May 1982. Prior to his appointment as Executive Director, Mr. Wagnon served as Assistant Deputy Commissioner of the State Department of Transportation and Public Facilities and as Deputy Commissioner of the State Department of Commerce and Economic Development. Before entering State service, Mr. Wagnon was with an investment banking firm. He holds a degree in Business Administration from the University of Alaska.

Umbrella Bond Program

Under the Act and the regulations of the Authority, the Authority administers the Umbrella Bond Program to purchase participations of up to $10,000,000 in project loans. There are three types of bonds issued under the Umbrella Bond Program: Economic Development Bonds, Consolidated Bonds and Variable Demand/Fixed Rate Bonds. Economic Development Bonds (for issues of $1,000,000 or less for commercial and industrial facilities) are issued pursuant to Section 103(b)(6)(A) of the Code. Consolidated Bonds are issued pursuant to Section 103(b)(4) (residential rental housing and other exempt activities or facilities), Section 103(b)(5) (industrial parks) or Section 103(b)(6)(D) (commercial and industrial facilities) of the Code. Variable Demand/Fixed Rate Bonds may be issued pursuant to any of the above Sections of the Code.

Under the Umbrella Bond Program, the Authority issues commitments to Originators to provide monies to purchase not in excess of 90% interests in permanent loans (80% with respect to loan participations in excess of $1,000,000) for which such institutions have provided interim financing on a taxable basis. Upon completion of a project and satisfaction of all terms of the commitment, the Authority will acquire its participation in the loan for the project. Each Originator has entered into a Loan Participation and Servicing Agreement with the Authority (collectively, the "Agreements") pursuant to which the Originators have agreed to originate and service eligible loans made to borrowers. An Originator may subsequently sell or assign up to 90% of its interest in a loan, but only to regulated financial institutions and qualified pension trusts. A list of the Participations acquired by the Authority with the proceeds of each Series of the Bonds is set forth in Appendix A.

Approximately $53 million principal amount of the Authority's participations in loans made under the Umbrella Bond Program may be prepaid at any time without penalty after 30 days' notice. It is anticipated that some of these loans (and therefore the Authority's participations therein) will be prepaid and that the Authority will reinvest the proceeds of such prepayments by the acquisition of new participations or other permitted investments. The yield on such new participations or permitted investments will be limited by the provisions of Section 103 of the Code.

The Authority maintains a multi-family housing loan security fund which contained approximately $18.3 million of assets as of June 30, 1984. These funds are available to replenish any losses of the Authority on loans or to establish capital reserve funds to secure bonds issued in connection with the financing of multi-family housing projects.

As of December 31, 1984, there were $131,360,0000 Economic Development Bonds (including the $13,120,000 Floating Rate Bonds), $60,170,000 Consolidated Bonds and $12,200,000 Variable Demand/Fixed Rate Bonds outstanding. Economic Development Bonds and Consolidated Bonds are general obligations of the Authority additionally secured by separate capital reserve funds. The amounts required to be on deposit in the Economic Development Bond Capital Reserve Fund ($ upon the conversion of the Floating Rate Bonds to Bonds bearing fixed interest rates) and the Consolidated

Bond Capital Reserve Fund ($6,382,364 as of December 31, 1984) are available as a source of payment of only Economic Development Bonds and Consolidated Bonds, respectively.

The outstanding $12,200,000 Variable Demand/Fixed Rate Bonds are secured by a letter of credit issued by Lloyds Bank International Limited. The Authority's obligation to repay Lloyds Bank for any drawings under its letter of credit will constitute general obligation indebtedness of the Authority. Owners of the Variable Demand/Fixed Rate Bonds may tender their bonds for payment upon seven days' notice. The Authority has reserved the right to convert the Variable Demand/Fixed Rate Bonds to fixed interest rates. After such conversion such fixed rate bonds will be general obligations of the Authority and will be entitled to the benefit of a separate capital reserve fund.

Self-Sustaining Revenue Bond Program

Under the Act and the regulations of the Authority, the Authority administers a "self-sustaining" Revenue Bond Program intended to provide financing to those borrowers not using credit assistance by the Authority. As of December 31, 1984, the Authority had funded 220 projects aggregating $464 million under the Revenue Bond Program for businesses located in various parts of the State. These financings were made possible by the original enabling legislation as well as legislative amendments adopted in 1977 expanding the Authority's purposes to include commercial projects, air and water transportation facilities, pollution control facilities and facilities to furnish gas and electricity.

Bonds issued under the Revenue Bond Program have been and are expected to continue to be secured solely by the revenues to be derived from the project so financed or the private business for which the project is financed. No revenue bonds issued by the Authority do or will enjoy any claim on the capital reserve funds for the Economic Development Bond, Consolidated Bond and Variable Demand/Fixed Rate Bond programs. However, separate capital reserve funds and insurance funds may be established to secure such bond issues and, in the event of deficiencies therein, the Authority may be required to certify the amount of such deficiencies to the Governor and the State Legislature.

Federally Guaranteed Loan Participation Program

The Authority conducts a program of purchasing the guaranteed portion of loans guaranteed by the Small Business Administration and other independent agencies of the Federal government. As of June 30, 1984, the Authority had issued commitments for the purchase of participations in federally guaranteed loans aggregating $100.7 million and had funded $76.9 million of its participation commitments.

Additional Programs

Under the Act, the Authority is also empowered to:

(a) make loans to business enterprises for projects not qualifying for tax-exemption;

(b) establish a loan insurance program;

(c) purchase loans from the Alaska State Housing Authority or municipalities in the State in furtherance of the multi-family housing programs developed by the Alaska State Housing Authority or the municipalities; and

(d) acquire, manage and operate projects which the Authority considers necessary or appropriate to serve a public purpose.

Of these programs only the taxable bond program described in (a) above and certain projects described in (d) above may be financed by the issuance of general obligation bonds of the Authority, subject to the limitations on total outstanding general obligation indebtedness set forth in each Bond Resolution.

Operating Results and Financial Position

The following comparative table sets forth selected information relating to the operating results and financial position of the Authority for the following years ended June 30 (in millions):

	1984	1983	1982	1981
Net Earnings	$ 25.3	$ 22.6	$ 21.0	$ 16.5
Total Assets, as of June 30	$435.3	$350.3	$307.4	$217.6
Liabilities, as of June 30:				
General Obligation Debt	$155.4	$ 98.1	$ 78.4	$ 18.8
Other	5.1	3.4	2.7	1.5
Total Liabilities	$160.5	$101.5	$ 81.1	$ 20.3
Total Equity	$274.8	$248.9	$226.2	$197.2

See the audited Financial Statements with Accountants' Report Thereon attached hereto as Appendix C for further information about the financial condition of the Authority as of June 30, 1984.

The following table sets forth the loan delinquency experience for loans funded from the proceeds of Umbrella Bond Program bond issues.

LOAN DELINQUENCY EXPERIENCE OF UMBRELLA BOND PROGRAM LOANS
(as of December 31, 1984)

	Number of Days Delinquent			
	30	60	90	Total
Percent of Total Number of Loans Delinquent	1.32%	1.32%	1.06%	3.70%
Percent of Total Par Value of Loans Delinquent	0.62%	1.90%	0.46%	2.97%
Total Par Value of Loans Delinquent (millions)	$1.17	$3.56	$0.86	$5.59

The following table sets forth the loan delinquency experience of the Authority's Appropriated Loans portfolio.

LOAN DELINQUENCY EXPERIENCE OF STATE-APPROPRIATED LOANS
(as of December 31, 1984)

	Number of Days Delinquent			
	30	60	90	Total
Percent of Total Number of Loans Delinquent	2.52%	1.78%	5.49%	9.79%
Percent of Total Par Value of Loans Delinquent	1.80%	1.31%	4.72%	7.84%
Total Par Value of Loans Delinquent (millions)	$1.76	$1.28	$4.62	$7.66

The following table sets forth the loan delinquency experience for federally guaranteed loans funded by the Authority.

LOAN DELINQUENCY EXPERIENCE OF FEDERALLY GUARANTEED LOANS
(as of December 31, 1984)

	Number of Days Delinquent			
	30	60	90	Total
Percent of Total Number of Loans Delinquent	8.26%	1.18%	0.29%	9.73%
Percent of Total Par Value of Loans Delinquent	8.25%	1.13%	0.17%	9.55%
Total Par Value of Loans Delinquent (millions)	$5.61	$0.77	$0.11	$6.49

Loan Program Regulations

The Authority's Umbrella Bond Program is administered pursuant to regulations promulgated by the Authority. The Authority's regulations and procedures described herein are derived from the provisions of the Act and regulations of the Authority adopted under the Administrative Procedure Act of Alaska. These regulations and procedures are in all respects subject to amendment or change by the Alaska State Legislature or the Authority and are not covenants with bondholders.

Procedures

A business enterprise which wishes to receive a loan under the Umbrella Bond Program may apply for financing to any Originator. The Originator will then perform an initial review of the proposed use of funds, borrower eligibility and borrower creditworthiness. Thereafter the Originator will submit to the Authority on behalf of the borrower a preliminary application which contains sufficient information to allow the Authority to determine on a preliminary basis whether the proposed project and the applicant are eligible for consideration and whether interest on the Authority's Umbrella Bond Program bonds issued to fund the purchase of a participation in the loan will be tax-exempt under Section 103 of the Code. The preliminary application must be accompanied by a non-refundable $100 fee.

Upon review of a preliminary application by the Executive Director, Bond Counsel and the administrative staff of the Authority, a summary of the application is transmitted to the Authority's Board of Directors for consideration along with the Executive Director's recommendation. If the Authority determines to purchase a participation upon successful completion of the application process and acquisition or construction of the project by the applicant, the Authority adopts a resolution indicating its intent to issue bonds.

After adoption of such a resolution by the Authority, the Originator and borrower may submit an application for Authority participation in the loan. The Authority may require the following in an application:

1. Letter of transmittal.

2. Loan summary.

3. Signed loan application.

4. Current credit report.

5. Current financial statement.

6. Copies of the applicant's Federal income tax returns or audited financial statements for each of the past three years.

7. Copies of earnest money receipt and agreement, option to purchase, contract to purchase or invoice for purchase of (a) land, (b) land and improvements or (c) tangible personal property.

8. Leases for land or improvements related to the project.

9. Plans and specifications for construction of the project and a detailed project description for real or tangible personal property which is to be acquired rather than constructed.

10. Construction cost estimate.

11. For a real estate loan, a narrative appraisal report in a format consistent with standards established by the American Institute of Real Estate Appraisers or the Society of Real Estate Appraisers or, for a tangible personal property loan, an appraisal prepared by an appraiser who is acceptable to the Authority.

12. Copies of leases or binding commitments to lease or renew leases between the applicant and project tenants, including, where appropriate, a list of tenants with lease rates, terms and options.

13. Soil tests.

14. Proof of a business license.

15. Job certification forms.

16. Any other information required by the Authority.

The Authority may also require a financial feasibility study satisfactory to the Authority and, as applicable, require a statement from the borrower that the borrower is in compliance with the capital expenditure restrictions of Section 103(b)(6)(D) of the Code.

The Authority purchases participations in loans originated by Alaska commercial lending institutions (see "Umbrella Bond Program"). The Authority does not engage in direct lending activities. The Originator services both the Originator and the Authority portion of each loan. If more than 2% of the outstanding principal balance of Authority participations originated by any Originator are 90 days or more delinquent, such Originator is ineligible for future participation in Authority programs until the delinquencies on the Loan Participations it originated are reduced to less than the 2% limit. Authority loan participations are funded net of each borrower's share of pro rata costs of issuance and bond discount.

Industrial and Commercial Loan Criteria

Real Property Loans. Loan participation commitments for projects involving the purchase or improvement of interests in real property will be issued in accordance with the following criteria established by the Act and the Authority's regulations:

1. The Authority may loan, through its purchase of a participation in a loan from an Originator, up to $10,000,000 ($1,000,000 for Economic Development Bond issues) to applicants who are principal users or related persons in connection with a facility, provided that the Authority's Umbrella Bond Program bonds issued for that purpose qualify in all respects as tax-exempt obligations under Section 103 of the Code.

2. The loan shall be secured by a mortgage which shall constitute a first lien, subject to permitted encumbrances, on real estate in fee simple or on a leasehold estate.

3. The maximum loan-to-value ratio for the purchase of an existing project is 75% of the lesser of the appraised value or sale price of the project. The maximum loan-to-value ratio for the construction of a new project is the lesser of 75% of the appraised value or 100% of the certified costs approved by the Authority.

4. The rate of interest on the Authority's participation in a loan will be determined after sale of the Authority's Umbrella Bond Program bonds but may not exceed the interest rate paid by the Authority on the Umbrella Bond Program bonds by more than the percentage permitted under Section 103 of the Code and regulations promulgated thereunder. The rate of interest on the Originator's participation in a loan is established by the Originator but may not exceed a market rate.

5. The maximum term of any loan is the lesser of 25 years or 75% of the Authority's estimate of the economic life of the project.

6. The Originator of a loan under the Authority's Umbrella Bond Program must retain at least a 10% (20% for loans involving Authority loan participations in excess of $1,000,000) interest in the loan amount but may subsequently sell or assign up to 90% of its interest, but only to regulated financial institutions and qualified pension trusts. The Authority's participation will be adjusted to the next lower $5,000 increment.

7. Prior to closing, the Authority will require documentation:

(a) by a qualified appraiser that all construction was completed in conformance with the plans and specifications upon which the appraiser relied in formulating the appraisal;

(b) by the appropriate person or persons that the buildings and structures may be legally occupied and that the occupancy of buildings and structures conforms to all requirements of Federal, State and municipal law; and

(c) by a registered architect or professional engineer, if there is no appropriate person available for the purposes described in (b) above or, in any event, if required by the

Authority, that the property offered as security is structurally sound and that any buildings or structures conform to applicable building standards.

8. The terms and conditions of any leasehold estate securing a project are subject to approval by the Authority. The term of any lease must extend at least 10 years beyond the term of the loan, but leases for a shorter term, with options to renew, will be considered by the Authority on a case-by-case basis.

9. Secondary financing by an applicant will be permitted by the Authority on a project to be financed by the Authority on a case-by-case basis when the applicant is able to demonstrate that additional debt can be serviced from the cash flow generated by the real property offered as security for the loan.

10. The Authority may require personal guarantees from partners, joint venturers and substantial corporate stockholders (including those of a parent corporation if the applicant is a subsidiary corporation).

11. The Authority may require prepayment fees on its share in a loan in such amounts as it may determine.

12. Fire, extended coverage, vandalism and optional perils insurance is required for not less than 90% of the value of improvements to the real property, unless waived by the Authority. Natural hazard, including flood and earthquake, insurance may be required, and American Land Title Association type of title insurance coverage is also required.

Borrowers whose loans include funding from the proceeds of Consolidated Bonds issued subject to Section 103(b)(6)(D) of the Code have agreed to specifically limit their own future capital expenditures and those of other principal users and persons related to a principal user. In the event such capital expenditure limitations imposed by the Authority in the loan agreements or other documents are exceeded, the borrower is contingently liable to the Authority for any and all costs of the Authority incurred in the event of a violation of the capital expenditure limitations of Section 103(b)(6)(D) of the Code.

Tangible Personal Property Loans. Loan participation commitments for projects involving the acquisition or fabrication of tangible personal property, whether or not attached to real propery, will be issued in accordance with the following criteria established by the Act and the Authority's regulations.

1. The Authority may loan through its purchase of a participation in a loan from an Originator up to $10,000,000 ($1,000,000 for Economic Development Bond issues) to applicants who are principal users or related persons in connection with a facility, provided that the Authority's Umbrella Bond Program bonds issued for that purpose qualify in all respects as tax-exempt obligations under Section 103 of the Code.

2. The loan shall be secured by a security interest which shall constitute a first lien on the tangible personal property.

3. The maximum loan-to-value ratio is 75% of the lesser of the appraised value or purchase price of the project.

4. The rate of interest on the Authority's participation in a loan will be determined after sale of the Authority's Umbrella Bond Program bonds but may not exceed the interest rate paid by the Authority on the Umbrella Bond Program bonds by more than the percentage permitted under Section 103 of the Code and regulations promulgated thereunder. The rate of interest on the Originator's participation in a loan is established by the Originator but may not exceed a market rate.

5. The maximum term of any loan is the earlier of 15 years or 75% of the Authority's estimate of the economic life of the project.

6. The Originator of a loan under the Authority's Umbrella Bond Program must retain at least a 10% (20% for loans involving Authority loan participations in excess of $1,000,000) interest in the loan amount but may subsequently sell or assign up to 90% of its interest, but only to regulated financial institutions and qualified pension trusts. The Authority's participation will be adjusted to the next lower $5,000 increment.

7. The terms and conditions of any leasehold estate securing a project are subject to approval by the Authority.

8. The Authority may require personal guarantees from partners, joint venturers and substantial corporate stockholders (including those of a parent corporation if the applicant is a subsidiary corporation).

9. The Authority may require prepayment fees on its share in a loan in such amounts as it may determine.

10. Full-coverage insurance is required including, but not limited to, fire, theft, comprehensive, collision and liability in form and amount acceptable to the Authority.

Borrowers whose loans are funded from the proceeds of Consolidated Bonds issued subject to Section 103(b)(6)(D) of the Code have agreed to specifically limit their own future capital expenditures and those of other principal users and persons related to a principal user. In the event such capital expenditure limitations imposed by the Authority in the loan agreements are exceeded, the borrower is contingently liable to the Authority for any and all costs of the Authority incurred in the event of a violation of the capital expenditure limitations of Section 103(b)(6)(D) of the Code.

Housing Loan Criteria

Loan participation commitments for multi-family housing projects involving the purchase or improvement of interests in real property will be issued in accordance with the following criteria established by the Act and the Authority's regulations:

1. A project must contain no fewer than five housing units.

2. The principal amount of a non-federally insured or guaranteed loan may not exceed 75% of the appraised value of the project or 100% of the cost of construction of the project which has been certified by the borrower and Originator and approved by the Authority, whichever is less.

3. A loan, other than a loan referred to in paragraph 6 below, must be secured by a real property mortgage or deed of trust which is a first lien on real property in fee simple or on a leasehold estate. The Authority may, in its discretion, permit further encumbrances against the real property which do not in the Authority's opinion affect the security of the loan.

4. The term of a non-federally insured or guaranteed loan shall not exceed 25 years or 75% of the estimated economic life of the project, as determined by the Authority, whichever is less.

5. A loan shall be in the form and contain, among other things, the terms and provisions with respect to insurance, repairs, alterations, payment of taxes and assessments, default reserves, delinquency charges, default remedies, acceleration of maturity, secondary liens, assumability of the loan, and other matters, as the Authority determines.

6. The Authority may provide for secondary financing of a project in conjunction with a loan purchased by the Authority and secured by a first lien referred to in paragraph 3 above. The secondary loan may contain such terms as the Authority determines necessary to permit the bond financing of the first-lien loan participation including, without limitation, provisions for periodic advances of funds to meet the difference, as determined by the Authority, between principal and interest payments on bonds, the proceeds of which were expended to purchase the first-lien loan participation, and loan repayments net of fees. The secondary loan shall be subordinate to a loan participation purchased with the proceeds of bonds.

7. The loan documents shall contain such deed restrictions, tax-exempt compliance agreements, or other requirements as may be determined by the Authority to be necessary to cause the loan and the bonds issued to finance the purchase of a participation in the loan to comply with the applicable provisions of Section 103(b)(4)(A) of the Code and the regulations and rulings issued or proposed to be issued thereunder, as determined by the Authority.

8. Before funding a loan, the Originator shall obtain a statement in writing from:

(a) the appraiser that construction was substantially completed according to the plans and specifications relied on by the appraiser in making the fair-market-value appraisal required by the Authority;

(b) a registered architect or professional engineer that the property securing the loan is structurally sound or that the buildings or structures thereon conform to applicable building standards, or from an authorized official that the buildings may be occupied and that the occupancy, buildings and structures conform to all applicable requirements of Federal, State and municipal law; and

(c) other persons as directed by the Authority concerning matters which are reasonable and customary in commercial loan transactions.

9. Unless waived by the Authority, the borrower shall obtain fire, extended coverage, vandalism and optional perils insurance for not less than 100% of the value of the improvements on the real property. Natural hazard insurance coverage for flood and earthquake may be required by the Authority. American Land Title Association type of title insurance coverage is also required.

10. The Authority may require a guarantee for repayment of the loan from such persons as the Authority determines.

11. Pursuant to an agreement with the Municipality of Anchorage, multi-family housing projects constructed within Anchorage must comply with the conservation-of-energy and access-for-handicapped requirements of the Municipality.

Loan Commitment

A loan participation commitment is effective upon payment of a non-refundable commitment fee by the borrower. By its commitment the Authority agrees to purchase a participation in a loan to the borrower in an amount and on the terms and conditions described in the loan commitment.

A decision by the Authority's staff not to approve a loan participation application may be appealed by the Originator by filing a written notice of appeal with the Board of Directors of the Authority within 10 days of notification that the loan participation application has not been approved. The Board of Directors is required to issue its decision within 45 days after receipt of the notice of appeal based solely upon the loan application documents originally filed.

Loan Closing and Disbursement of Funds

The Authority issues its bonds in amounts sufficient to provide the necessary funds for the Authority's purchase of its interest in the permanent financing for each project being financed. Upon certification by the Originator and the borrower that all provisions of the loan commitment have been complied with, the loan participation will be scheduled for closing and disbursement of funds to the Originator.

Servicing of Loans

The Authority has entered into a loan servicing agreement with each Originator which:

(a) provides that all servicing be by a regulated financial institution within the State and that the Originator hold at least that portion of the loan minimally required to be held by the

Originator, as previously described herein under "Real Property Loans" and "Tangible Personal Property Loans";

(b) provides the methods whereby delinquent collections will be made and foreclosure or exercise of security rights will be undertaken by the Originator;

(c) provides for periodic reports to the Authority by the Originator; and

(d) requires the Originator to service the loan in accordance with acceptable practices of prudent lending including, but not limited to, the exercising of diligence in collecting amounts due under the Loan.

The Originator must provide a bond deemed sufficient by the Authority to protect the Authority against errors, omissions and fraud.

In the event of any material breach by an Originator of any agreement or covenant contained in the loan servicing agreement which remains uncorrected for 30 days, the Authority may at its option, require the Originator to repurchase the Authority's interest in any loan. Furthermore, the Act requires the Authority to discontinue purchasing participations from any Originator whenever more than 2% of the participations purchased from such Originator are 90 or more days delinquent.

General Provisions

A borrower requesting a loan will, upon receipt of a written request from the Authority, make its books and records available for inspection by the Authority at a reasonable time. As long as any bonds issued by the Authority to finance the purchase of a participation in a loan are outstanding, the Authority may, in its discretion, require an applicant whose financing of a project is approved, or who is the recipient of a loan, to permit and pay the costs of an audit or examination of its books and records by an independent firm of certified public accountants at a reasonable time to determine whether the borrower has complied with the provisions of the bonds.

SUMMARY OF CERTAIN PROVISIONS OF EACH BOND RESOLUTION AND OF THE ECONOMIC DEVELOPMENT BOND CAPITAL RESERVE FUND RESOLUTION

Each Series of the Bonds is issued pursuant to a separate Bond Resolution. The Bonds, together with all other Economic Development Bonds, are entitled to the benefits and security of the Economic Development Bond Capital Reserve Fund Resolution. Reference is made to each Bond Resolution and the Economic Development Bond Capital Reserve Fund Resolution for a full and complete statement of their provisions. The following is a brief summary of certain provisions contained in each Bond Resolution and the Economic Development Bond Capital Reserve Fund Resolution and should not be considered a full statement thereof.

BOND RESOLUTION

Definitions (Section 101)

"Appropriated Loans" means the loans appropriated to the Authority pursuant to Section 9 of Chapter 120, Session Laws of Alaska, 1980, as described in a certificate of an authorized officer on file with the Trustee.

"Appropriated Loan Receipts" shall mean the scheduled payments (representative of principal or interest or proceeds of insurance) called for by any Appropriated Loan and paid to the Authority from any source, including both timely and delinquent payments with late charges, and all amounts received by the Authority as a recovery of the principal amount, including any premium or penalty with respect thereto, on account of (i) the advance payment of amounts to become due pursuant to such Appropriated Loan, (ii) the sale, assignment, endorsement or other disposition thereof, or (iii) the acceleration of payment due thereunder or other remedial proceedings taken in the event of a default thereon, but shall not mean or include any payments with respect to such Appropriated Loans

received prior to April 1, 1981, any amount retained by the servicer, if there be one, as service fees, or payments of ground rents, taxes, assessments or mortgage, fire or other hazard insurance premiums or like payments.

"Bond" shall mean one of the bonds to be authenticated and delivered pursuant to the Bond Resolution.

"Capital Reserve Fund" shall mean the fund so entitled established in the Capital Reserve Fund Resolution.

"Capital Reserve Fund Requirement" shall have the meaning ascribed thereto in the Capital Reserve Fund Resolution.

"Capital Reserve Fund Resolution" shall mean the Economic Development Bond Capital Reserve Fund Resolution of the Authority adopted on April 13, 1981, as amended.

"Fiduciary" shall mean the Trustee and any Paying Agent, or any or all of them, as may be appropriate.

"Fiscal Year" shall mean a twelve-month period commencing on the first day of July of any year.

"General Obligation Annual Debt Service Requirements" shall mean the amounts required to be paid in each Fiscal Year as sinking fund installments, or as principal not required to be redeemed through the payment of said sinking fund installments, and interest payable, adjusted for capitalized interest or scheduled redemption through payment of said sinking fund installments on General Obligation Indebtedness, all in accordance with the terms of the General Obligation Indebtedness.

"General Obligation Indebtedness" shall mean all indebtedness, including, without limitation, the Bonds and all Series of Bonds, notes or other forms of indebtedness of the Authority payable from its income and receipts or assets generally, whether or not additionally secured in any manner, but shall not include liabilities or obligations in the nature of accounts payable incurred as Operating Costs of the Authority or amounts loaned by the State subordinate in all respects to General Obligation Indebtedness then outstanding or thereafter issued.

"Investment Securities" shall mean and include any of the following obligations, to the extent the same are at the time legal for investment of funds of the Authority:

(1) direct obligations of or obligations guaranteed by the United States of America;

(2) any bond, debenture, note, participation certificate or other similar obligation issued by any of the following agencies: Government National Mortgage Association, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Tennessee Valley Authority, United States Postal Service, Farmers' Home Administration and Export-Import Bank;

(3) any bond, debenture, note, participation certificate or other similar obligation issued by the Federal National Mortgage Association to the extent such obligations are guaranteed by the Government National Mortgage Association or issued by any other Federal agency and backed by the full faith and credit of the United States of America other than as provided in (1) hereof;

(4) any other obligation of the United States of America or any Federal agency which may then be purchased with funds belonging to the State or which are legal investments for savings banks in the State;

(5) Public Housing Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America or temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(6) direct and general obligations of or obligations guaranteed by the State of Alaska, to the payment of the principal of and interest on which the full faith and credit of the State is pledged;

(7) units of participation in any money market fund constituting an investment trust, the corpus of which is restricted to cash, direct obligations of or obligations guaranteed by the United States of America, or repurchase agreements with respect to such obligations; and

(8) deposits in interest-bearing time or demand deposits, or certificates of deposit, secured by obligations described in clauses (1), (2), (3), (4), (5), or (6) above.

"Net Income" means (a) all revenues, including principal and interest receipts, derived from loan participations acquired with the proceeds of (i) Economic Development Bonds and other bonds which are tax exempt under Section 103(b)(6)(A) of the Code and are issued pursuant to a bond resolution with substantially the same general terms and conditions as are contained in the Economic Development Bond Resolutions, (ii) Consolidated Bonds and (iii) Variable Demand/Fixed Rate Bonds; (b) all Appropriated Loan Receipts; and (c) all other revenues or receipts of the Authority, but excluding any proceeds of money borrowed by the Authority, any revenues or receipts specifically pledged or assigned to the payment of any bonds or other indebtedness other than the Bonds or any Series of Bonds, and any amounts appropriated and paid to the Authority by the State, less Service Fees and all Operating Costs.

"Non-Current Assets" shall mean loans and securities of the Authority, including, without limitation, Appropriated Loans, on which payments of principal or interest are 90 days or more delinquent.

"Operating Costs" shall mean, as of any date, all the Authority's expenses in carrying out and administering its powers, duties and functions under the Act, including service fees on any loan for which there is no servicer, and shall include, without limiting the generality of the foregoing, (a) salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus, and insurance premiums, (b) legal, accounting, management, consulting and banking services and expenses, (c) the fees and expenses of any trustee, depositary or paying agents, (d) costs of issuance not paid from proceeds of a Series of Bonds, (e) payments to pension, retirement, health and hospitalization funds, and (f) any other expenses required or permitted to be paid by the Authority under the Act.

"Pledged Receipts" shall mean (i) the scheduled payments (representative of principal or interest or proceeds of insurance or amounts withdrawn from the Recoveries of Principal Account with respect thereto) called for by any Loan Participation and paid to the Authority from any source, including both timely and delinquent payments with late charges, but shall not include or mean any amount retained by a Loan servicer as Service Fees, or payments of ground rents, taxes, assessments or mortgage, fire or other hazard insurance premiums or like payments, and (ii) all income earned or gain realized in excess of losses suffered on any investment or deposit of monies in Funds or Accounts established and maintained pursuant to the Bond Resolution, other than the Pledged Receipts Account.

"Project Security Contract" shall mean the participation certificate issued to the Authority and evidencing the interest of the Authority in an economic development loan.

"Recoveries of Principal" shall mean all amounts received by the Authority as a recovery of the principal amount disbursed by the Authority in connection with any Loan Participation, including any premium or penalty with respect thereto, on account of (i) the advance payment of amounts to become due pursuant to such Loan Participation, (ii) the sale, assignment, endorsement or other disposition thereof, or (iii) the acceleration of payments due thereunder or other remedial proceedings taken in the event of a default thereon.

"Revenues" shall mean the Pledged Receipts and Recoveries of Principal.

"Series of Bonds" shall mean Bonds and any other series of bonds which are tax exempt under the provisions of Section 103(b)(6)(A) of the Code and which are issued by the Authority pursuant to a

bond resolution with substantially the same general terms and conditions as to the bonds as are contained in the Economic Development Bond Resolutions.

"Service Fees" shall mean the reasonable or necessary expenses of servicing any economic development loan participations.

Bond Resolution to Constitute Contract (Section 202)

In consideration of the purchase and acceptance of the Bonds by those who shall hold the same from time to time, the provisions of the Bond Resolution shall constitute a contract with the holders of the Bonds. The pledges contained in the Bond Resolution and the covenants and agreements set forth therein shall be for the equal benefit, protection and security of the holders of any Bonds, without preference, priority or distinction of any Bonds over any other, except as expressly provided in the Bond Resolution.

Obligation of Bonds and Pledge Effected by the Resolution (Sections 204 and 501)

The Bonds are general obligations of the Authority, and the revenues, including amounts representing payments of principal, to be derived from the Participations financed with the proceeds of each Series of Bonds and all amounts in any Fund or Account, including investments thereof, established under the Bond Resolution are pledged to secure the payment of the principal or redemption price of and interest on the Bonds (including the sinking fund payments for the retirement thereof) in accordance with their terms and the provisions of the Bond Resolution, subject only to the provisions of the Bond Resolution permitting the application or release thereof for or to the purposes and on the terms and conditions therein set forth.

The Authority also pledges and assigns the Participations financed under the Bond Resolution to the Trustee, reserving to the Authority, except in the event of default, the right to administer and enforce the provisions of the documents evidencing the Participations in its own discretion and to enter into amendments with respect thereto, including releases of security and removal of covenants and conditions contained therein.

Application of Bond Proceeds and Other Amounts (Article IV)

The Bond Resolution establishes separate Loan Participation Accounts and Recoveries of Principal Accounts for each project within the Loan Participation Fund and the Revenue Fund, respectively. The monies deposited in a Loan Participation Account or a Recoveries of Principal Account may be used for the financing of Loan Participations but only if:

(1) the Authority is of the opinion and determines in accordance with the Act that the Revenues derived from the project to be financed thereby shall be sufficient (i) to pay the principal, as the same becomes due at maturity or upon redemption by application of sinking fund payments, of and interest on the Bonds issued to finance such project, (ii) to establish, increase and maintain any reserves deemed by the Authority to be advisable to secure the payment of the principal of and interest on such Bonds, (iii) unless the person entering into the Project Security Contract is obligated to pay for the maintenance and insurance of the project, to pay the cost of maintaining the project in good repair and keeping it properly insured and (iv) to pay such other costs or taxes on the project as may be required and that such person is found by the Authority to be financially responsible and presumptively able to comply with the terms and conditions of any Project Security Contract with respect to such project;

(2) one or more Project Security Contracts have been executed which, upon the use and application of any monies for such project as permitted in the Bond Resolution, shall evidence the rights of the Authority in a Loan; and

(3) there shall be filed in the records of the Authority an opinion of counsel satisfactory to the Trustee (who may be counsel to the Authority) to the effect that, in the opinion of such counsel, such Project Security Contracts have been duly and validly executed and delivered and

as of the date of delivery thereof constituted valid and binding agreements between the parties thereto enforceable in accordance with their terms, except as the same may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights, but such opinion may be subject to such exceptions and qualifications as an authorized officer shall determine to be reasonable and not to indicate a substantial impairment of the Authority's rights in the project and the Project Security Contracts;

(4) there shall be filed in the records of the Authority a certificate of an authorized officer stating that to the best of his information knowledge and belief:

(a) the costs of the project to be financed were not incurred prior to the approval of the project by the Authority, which may include preliminary approval in accordance with the practice of the Authority;

(b) there are no outstanding obligations described in Section 103 of the Code, the proceeds of which were used with respect to facilities of which the principal user is or will be the same person or two or more related persons and which are located in the same incorporated municipality as the project or the same Borough (but not in any incorporated municipality other than the Borough), or in the Unorganized Borough, or in any other of the project locations specified in Part I of the Bond Resolution and which would cause the aggregate face amount of the Bonds to be treated as exceeding $1,000,000 pursuant to Section 103(b)(6)(A) of the Code;

(c) the proceeds of the Bonds used by the Authority to finance a Loan Participation in respect of the project will be used in their entirety for the acquisition, construction, reconstruction or improvement of land or property of a character subject to depreciation for Federal income tax purposes;

(d) the proceeds of the Bonds used by the Authority to finance a Loan Participation in respect of the project will not be used in any manner which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 103(c) of the Code; and

(e) the average maturity of the Bonds does not exceed 120% of the average reasonably expected economic life of the project in accordance with Section 103(b)(14) of the Code, which shall be accompanied by (i) a certificate of the project occupant stating the average reasonably expected economic life of the project if a substantial portion of the project consists of personal property and (ii) a certificate of the financial advisor to the Authority stating the average maturity of the Bonds, the proceeds of which are expected to be used to finance said project.

Establishment of Funds and Accounts (Section 502)

Each Bond Resolution establishes the following Funds and Accounts, which are to be held in trust by the Trustee and the depositaries selected by the Trustee:

(1) Loan Participation Fund:
   (a) Loan Participation Account
(2) Revenue Fund:
   (a) Pledged Receipts Account
   (b) Recoveries of Principal Account
(3) Debt Service Fund:
   (a) Interest and Principal Account
   (b) Redemption Account
(4) Surplus Reserve Fund

Loan Participation Fund (Section 503)

Amounts in the Loan Participation Fund may be expended only (i) to pay the cost of financing Loan Participations, (ii) to pay the reasonable and necessary costs of issuance of the Bonds, (iii) to the extent that amounts in any other Fund or Account are insufficient or unavailable therefor, to pay the

principal or redemption price of and interest on the Bonds when due, but only if there shall have been filed with the Trustee a certificate of an authorized officer of the Authority stating (a) that the Revenues expected to be received thereafter by the Authority together with amounts expected to be made available therefor by the Authority will be sufficient to pay in full the principal or redemption price, if any, of and interest (and any arrears thereof) on all outstanding Bonds when and as the same shall become due, and (b) in reasonable detail, the basis for such certification, or (iv) applied to the redemption of Bonds. Any amount remaining in the Loan Participation Fund on February 1, 1986, shall be applied to redeem Bonds on April 1, 1986.

Revenue Fund (Section 504)

All Pledged Receipts and Recoveries of Principal are to be transmitted to the Trustee regularly or at least semiannually prior to the fifth day preceding any interest payment date and deposited into the Pledged Receipts Account and Recoveries of Principal Account, respectively. On or before the day preceding each interest payment date, the Trustee is required to make payments from the Pledged Receipts Account into the following Funds and Accounts in the following amounts and in the following sequence:

FIRST: Into the Interest and Principal Account, the amount necessary to increase the amount in such Account so that it equals the sum of (i) unpaid interest on the outstanding Bonds accrued and to accrue to such interest payment date and (ii) the principal installments accrued and to accrue to such interest payment date, assuming the accrual of principal installments on the same basis as interest accrues commencing one year prior to the next principal installment date, and with respect only to principal installments on outstanding Bonds due and payable on either of the two next succeeding interest payment dates.

SECOND: Into the Surplus Reserve Fund, the amount remaining.

Amounts on deposit in each Recoveries of Principal Account shall be applied to the redemption of Bonds or (i) invested in Investment Securities sufficient, in the opinion of the Authority, to provide for the payment of the principal of and interest on the Bonds as the same become due or (ii) expended to finance further loan participations, provided that the Authority has been furnished with a counsel's opinion or a ruling of the Internal Revenue Service to the effect that the financing of such further loan participations will not result in the inclusion of interest on any Bond in the gross income of the holder thereof for Federal income tax purposes. The Authority covenants that prior to applying amounts in any Recoveries of Principal Account to the redemption of Bonds, it will use its best efforts to apply such monies to the purchase of Investment Securities or to finance further loan participations.

Debt Service Fund (Section 505)

The Trustee is required to pay out of the Interest and Principal Account to the respective Paying Agents for any of the Bonds, on or before each interest payment date, the amounts required for the payment of interest on the outstanding Bonds due on such date and, on or before the redemption date, or date of purchase, the amounts required for the payment of accrued interest on Bonds redeemed or purchased for retirement (unless the payment of such accrued interest shall be otherwise provided for), and such amounts shall be applied by the Paying Agents to such payments.

The Trustee is required to pay out of the Interest and Principal Account to the respective Paying Agents, on the day preceding each principal installment date for any of the outstanding Bonds, the amounts required for the payment of principal due on such date, and such amounts shall be applied by the Paying Agents to such payments.

The amount accumulated in the Interest and Principal Account for each sinking fund payment may, and if so directed by the Authority shall, be applied (together with amounts accumulated in the Interest and Principal Account with respect to interest on the Bonds for which such sinking fund payment was established) by the Trustee prior to the forty-fifth day preceding the due date of such sinking fund payment as follows:

(1) to the purchase of Bonds for which such sinking fund payment was established, at prices (including any brokerage and other charges) not exceeding the applicable redemption price, plus unpaid interest accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine, or

(2) to the redemption, pursuant to the Bond Resolution, of such Bonds, if then redeemable by their terms, at their applicable redemption prices.

Surplus Reserve Fund (Section 506)

Amounts in the Surplus Reserve Fund shall be deposited or transferred by the Trustee to the Interest and Principal Account on the day preceding each interest payment date to provide the amount necessary to increase the amount therein so that it equals (a) the interest due on such date or (b) if such interest payment date is also a principal payment date, the interest and principal, in that order, due on such date. On the day following the day each principal payment is due, the Trustee, upon the direction of the Authority, shall pay to the Authority all amounts in the Surplus Reserve Fund free and clear of any lien or pledge created by or pursuant to the Bond Resolution for expenditure for any lawful purpose of the Authority consistent with Section 706 relating to Tax Covenants.

Deposits (Section 507)

Any amounts held under the Bond Resolution may be deposited in the commercial banking department of the Fiduciary or depositary holding such amounts which may honor checks and drafts thereon as if it were not such Fiduciary or depositary. All amounts so deposited are required to be continuously and fully secured either by lodging Investment Securities with the Trustee as collateral or in such other manner as may then be required by applicable Federal or State laws regarding the deposit of trust funds.

Investment of Certain Funds (Section 508)

Amounts held under the Bond Resolution may be invested in Investment Securities or deposited in interest-bearing time deposits, certificates of deposit or other similar banking arrangements with the Trustee, banks of the Federal Reserve System or banks the deposits of which are insured by the Federal Deposit Insurance Corporation.

Valuation of Investments (Section 509)

In computing the amount in any Fund or Account, obligations purchased as an investment of amounts therein are to be valued at par, if purchased at par, or at amortized value if purchased at other than par. Valuation is to be made at least 30 days before each interest payment date and on any particular date shall include the amount of interest then earned or accrued to such date.

Payment of Bonds (Section 701)

The Authority covenants that it will duly and punctually pay or cause to be paid the principal or redemption price, if any, of every Bond and the interest thereon, at the dates and places and in the manner mentioned in the Bonds according to the true intent and meaning thereof, and shall duly and punctually pay or cause to be paid all sinking fund payments, if any, becoming payable with respect to any Bonds.

Tax Covenants (Section 706)

The Authority covenants not to permit at any time or times any of the proceeds of the Bonds or other funds of the Authority to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 103(c)(2) of the Code and that it will not permit such proceeds or other funds to be used in a manner which would result in the exclusion of any Bond from the treatment afforded by Section 103(a) of the

Code, except in the case of Bonds held by a "substantial user" or "related person" within the meaning of Section 103(b) of the Code.

Loan Participations (Section 709)

The Authority from time to time shall, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, with the provisions of the Bond Resolution and with sound banking practices and principles, (i) use and apply the proceeds of the Bonds (to the extent not reasonably or otherwise required for other purposes of the Act) to finance Loan Participations, (ii) do all things necessary to receive and collect Pledged Receipts and, when applicable, Recoveries of Principal, sufficient to pay the principal or redemption price of and interest on the Bonds and (iii) diligently enforce and take all steps reasonably necessary to maintain any insurance on the Loan Participations and the projects related thereto and to enforce all terms, covenants and conditions of the Loan Participations. The Authority covenants not to sell or assign a Loan Participation other than for the purpose of foreclosure or realizing the benefits of insurance with respect thereto or the project relating thereto.

General Obligation Indebtedness (Section 712)

If the Authority authorizes any General Obligation Indebtedness other than the Bonds or a Series of Bonds, it will establish and maintain a capital reserve fund with terms and provisions the same as the terms and provisions contained in the Capital Reserve Fund Resolution.

Negative Covenants (Section 713)

(A) The Authority covenants not to create or permit to be created any pledge, assignment, lien, encumbrance or charge on the Appropriated Loans for any purpose. The Authority may pay costs of issuance of any Series of Bonds and Operating Costs and any charges, and may make deposits into any funds or accounts of the Authority, from Appropriated Loan Receipts or from any source of funds.

(B) The Authority covenants not to incur any General Obligation Indebtedness unless the Net Income as estimated in a certificate of an authorized officer delivered at the time of the incurring of the General Obligation Indebtedness over the term of all General Obligation Indebtedness equals not less than 150% of the General Obligation Annual Debt Service Requirements in each year in which General Obligation Indebtedness is outstanding. Such estimate shall be made after deducting an amount equal to an aggregate of all annual payments thereafter due on all Non-Current Assets.

(C) The Authority covenants not to make any loans, incur any indebtedness, or expend any money except for reasonable and necessary Operating Costs or the payment of principal and interest on any General Obligation Indebtedness the effect of which would (i) reduce its estimated Net Income, estimated in the manner provided in clause (B), at any time to less than 150% of the General Obligation Annual Debt Service Requirements in any year in which General Obligation Indebtedness is outstanding, or (ii) cause its unrestricted surplus to amount to less than $100,000,000.

Events of Default (Section 1001)

Each of the following events is an "Event of Default": (1) the Authority shall default in the payment of the principal or redemption price of any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise; (2) payment of any installment of interest on any of the Bonds shall not be made when the same shall become due; (3) the Authority shall file a petition in bankruptcy or seeking a composition of indebtedness under the Federal bankruptcy laws or under any other applicable law of the United States of America or of the State; (4) the Trustee has been notified by the trustee under the Capital Reserve Fund Resolution that an event of default specified in the Capital Reserve Fund Resolution has occurred; (5) the Authority shall fail or refuse to comply with the provisions of the Bond Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions contained therein, in any supplemental resolution, or in the Bonds, and such failure, refusal or default shall continue for a period of 45 days

after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the outstanding Bonds.

Remedies (Section 1002)

Upon the happening and continuance of any Event of Default specified in clauses (1) through (3) of Section 1001, the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in clauses (4) and (5) of Section 1001, the Trustee may proceed, and upon the written request of the holders of not less than 25% in principal amount of the outstanding Bonds is required to proceed, in its own name, subject to the Bond Resolution, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights: (a) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders (including the right to require the Authority to receive and collect revenues, including Pledged Receipts and Recoveries of Principal, adequate to carry out the covenants and agreements as to, and assignment of, the Loan Participations) and to require the Authority to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act; (b) by bringing suit upon the Bonds; (c) by action or suit in equity, to require the Authority to account as if it were the trustee of an express trust for the holders of the Bonds; (d) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds; (e) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the outstanding Bonds, by annulling such declaration and its consequences; or (f) in the event all Bonds are declared due and payable, by selling Loan Participations. Upon commencement of judicial proceedings by the Trustee to enforce the rights of the Bondholders under the Bond Resolution, the Trustee is entitled to cause the appointment of a receiver for the Authority.

Priority of Payments After Default (Section 1003)

If, upon the happening and continuance of any Event of Default, the funds held by the Trustee and Paying Agents are insufficient for the payment of principal or redemption price, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due) and any other amounts received or collected by the Trustee are to be applied as follows, after making provision for the payment of expenses to protect the interests of the holders of the Bonds and of charges, expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under the Bond Resolution:

1. Unless the principal of all of the Bonds shall have become or have been declared due and payable:

FIRST: To the payment to the persons entitled thereto of all installments of interest then due in the order of maturity, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably to the persons entitled thereto, without any discrimination or preference; and

SECOND: To the payment to the persons entitled thereto of the unpaid principal or redemption price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably to the persons entitled thereto, without any discrimination or preference.

2. If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

ECONOMIC DEVELOPMENT BOND CAPITAL RESERVE FUND RESOLUTION

Definitions (Section 101)

"Bonds" shall mean bonds of a Series which are tax exempt under the provisions of Section 103(b)(6)(A) of the Code issued by the Authority pursuant to a bond resolution or bond resolutions with substantially the same terms and conditions as are contained in the Bond Resolution.

"Bond Trustee" shall mean the trustee appointed under each resolution securing Bonds and its successor or successors and any other person substituted in its place under said resolution.

"Capital Reserve Fund" shall mean the Capital Reserve Fund established pursuant to Section 301.

"Capital Reserve Fund Requirement" shall mean, as of any particular date of calculation, the amount of money equal to the average of the amounts of money required to be paid in each future Fiscal Year until the last maturity date of outstanding Bonds for interest payable on Bonds and for the amortization of principal installments, including sinking fund payments.

"Capital Reserve Fund Trustee" shall mean the trustee appointed under the Capital Reserve Fund Resolution.

"Fiduciary" shall mean the Capital Reserve Fund Trustee, any Bond Trustee and any Paying Agent acting under any resolution securing a Series of Bonds.

"Fiscal Year" shall mean a twelve-month period commencing on the first day of July of any year.

"Interest and Principal Account" shall mean the Interest and Principal Account established pursuant to a resolution securing a Series of Bonds.

"Investment Securities" shall mean and include any of the following obligations, to the extent the same are at the time legal for investment of funds of the Authority under the Act:

(1) direct obligations of or obligations guaranteed by the United States of America;

(2) any bond, debenture, note, participation certificate or other similar obligation issued by any of the following agencies: Government National Mortgage Association, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Tennessee Valley Authority, United States Postal Service, Farmers' Home Administration and Export-Import Bank;

(3) any bond, debenture, note, participation certificate or other similar obligation issued by the Federal National Mortgage Association to the extent such obligations are guaranteed by the Government National Mortgage Association or issued by any other Federal agency and backed by the full faith and credit of the United States of America other than as provided in (1) hereof; and

(4) deposits in interest-bearing time or demand deposits, or certificates of deposit, secured by obligations described in clauses (1), (2), and (3).

"Series" shall mean all the Bonds of a series authenticated and delivered as a series of bonds under an authorizing bond resolution.

Resolution to Constitute Contract (Section 202)

In consideration of the purchase and acceptance of the Bonds by those who shall hold the same from time to time, the provisions of the Capital Reserve Fund Resolution shall constitute a contract between the Authority, the Capital Reserve Fund Trustee, the Bond Trustee and the holders from time to time of the Bonds. The pledges contained in the Capital Reserve Fund Resolution and the provisions, covenants and agreements therein set forth shall be for the equal benefit, protection and security of the holders of any and all of such Bonds, all of which shall be of equal rank without preference, priority or distinction of any of such Bonds over any other thereof, except as expressly provided in the Capital Reserve Fund Resolution.

Pledge Effected by Capital Reserve Fund Resolution (Section 301)

The amounts in the Capital Reserve Fund, including the investments thereof, are pledged to secure the payment of the principal or redemption price, if any, of and interest on all Bonds (including the sinking fund payments established by the resolutions securing the Bonds for the retirement thereof) in accordance with their terms and the provisions of said resolutions subject only to the provisions of the Capital Reserve Fund Resolution permitting the application or release thereof for or to the purposes and on the terms and conditions herein and therein set forth.

Operation of Capital Reserve Fund (Section 302)

(A) If on any interest payment date or redemption date for any Bonds the amount in the Interest and Principal Account or a redemption account established under a resolution securing the Bonds shall be less than the amount required for the payment of all principal installments or redemption price and interest on the outstanding Bonds due on such interest payment date, or redemption date, upon notification by the Bond Trustee acting under the resolution securing the Bonds, the Capital Reserve Fund Trustee shall transfer amounts from the Capital Reserve Fund to the Bond Trustee to the extent necessary to make good the deficiency.

(B) If on the first days of January, April, July or October of each year the amount in the Capital Reserve Fund is in excess of the Capital Reserve Fund Requirement, the Capital Reserve Fund Trustee shall transfer at the request of the Authority the amount of such excess to the Authority free and clear of any lien or pledge created by or pursuant to the Capital Reserve Fund Resolution for expenditure by the Authority for any lawful purpose.

(C) The Capital Reserve Fund Trustee shall sell, redeem or transfer Investment Securities to the extent necessary to make any required or permitted payment or transfer and, at the direction of the Authority, shall sell, redeem or transfer Investment Securities as necessary to comply with this section.

Investment of the Capital Reserve Fund (Section 303)

(A) Monies in the Capital Reserve Fund shall be invested in Investment Securities so that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which monies are needed by the Authority to be so expended. The Investment Securities purchased shall be held by the Capital Reserve Fund Trustee and shall be deemed at all times to be part of the Capital Reserve Fund, and the Capital Reserve Fund Trustee shall keep the Authority advised as to the details of all such investments. The Capital Reserve Fund Trustee shall sell at the best price obtainable, or present for redemption, any Investment Securities purchased by it as an investment whenever it shall be necessary in order to provide monies to meet any payment from the Capital Reserve Fund. The Authority may direct the Capital Reserve Fund Trustee to enter into financial transactions under which Investment Securities are sold under an agreement providing for their repurchase at a future date for a fixed price.

(B) In lieu of such investments the Capital Reserve Fund Trustee shall, at the written direction of an authorized officer of the Authority, deposit amounts or cause amounts to be deposited from the Capital Reserve Fund in interest-bearing time deposits, or certificates of deposit, or shall make other similar banking arrangements, with itself or a member bank or banks of the Federal Reserve System or banks the deposits of which are insured by the Federal Deposit Insurance Corporation. Each such interest-bearing time deposit or certificate of deposit or other similar banking arrangement shall permit the monies so placed to be available for use at the times at which monies are needed by the Authority to be expended. All monies in each such interest-bearing time deposit or certificate of deposit or other similar banking arrangement shall be continuously and fully secured by direct obligations of the United States of America or of the State or obligations the principal and interest of which are guaranteed by the State or the United States of America, of a market value equal at all times to the amount of the deposit, certificate or other similar banking arrangement.

(C) Investment Securities purchased as an investment of monies in the Capital Reserve Fund under the provisions of the Capital Reserve Fund Resolution shall be deemed at all times to be a part of the Capital Reserve Fund until transferred therefrom as permitted by this section.

Maintenance of Capital Reserve Fund (Section 305)

(A) The Authority shall at all times maintain the Capital Reserve Fund in an amount at least equal to the Capital Reserve Fund Requirement and do and perform or cause to be done and performed each and every act and thing with respect to the Capital Reserve Fund required to be done or performed by or on behalf of the Authority or the Capital Reserve Fund Trustee under the terms and provisions of the Capital Reserve Fund Resolution or by or on behalf of the Authority or each Bond Trustee under the terms and provisions of all resolutions securing Bonds or of the Act.

(B) In order to better secure the Bonds and to make such Bonds more marketable and to maintain in the Capital Reserve Fund an amount equal to the Capital Reserve Fund Requirement, and in furtherance of the provisions of the Act, the Authority shall cause its Chairman at least annually, no later than January 2 of each year, to make and deliver to the Governor and to the Legislature his certificate stating the amount, if any, required to restore the Capital Reserve Fund to the Capital Reserve Fund Requirement. All monies received by the Authority from the State in accordance with the provisions of the Act pursuant to any such certification shall be paid to the Capital Reserve Fund Trustee for deposit and credit to the Capital Reserve Fund.

Events of Default (Section 601)

Each of the following is an "Event of Default":

(1) the Authority shall fail or refuse to comply with the provisions of subsection (B) of Section 305; or

(2) the amounts certified pursuant to Section 305 shall not have been paid by the State for deposit in the Capital Reserve Fund within 90 days of the date of such certification; or

(3) the Authority shall fail or refuse to comply with the provisions of the Capital Reserve Fund Resolution, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained therein or in any supplemental resolution.

Remedies (Section 602)

Upon the happening and continuance of any Event of Default specified in Section 601, the Capital Reserve Fund Trustee may proceed and, upon the written request of the holders of not less than 25% in principal amount of the outstanding Bonds, shall proceed, in its own name, subject to the provisions of the Capital Reserve Fund Resolution, to protect and enforce the rights of the Bondholders by such of the following remedies as the Capital Reserve Fund Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, and to require the Authority to carry out any other covenants or agreements with Bondholders and to perform its duties under the Act; or

(2) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds.

ABSENCE OF MATERIAL LITIGATION

The Authority will furnish a certificate, dated the Conversion Date, of an authorized officer of the Authority to the effect that there are no proceedings or litigation of any nature pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Authority taken with respect to the

issuance or sale thereof or the right, power or authority of the Authority with respect to the pledge or application of any monies or securities provided for the payment of the Bonds or the existence or powers of the Authority.

Members of the First Session, Thirteenth Alaska State Legislature have commenced litigation in the Superior Court for the State of Alaska, Third Judicial District, in an action styled *Abood et al. vs. Gorsuch et al.* (Case No. 3 AN 83-5980-CIV) challenging the legality of the proceedings taken during that Session with respect to the confirmation by the Legislature of certain State Commissioners and other State officers appointed by the Governor who are named as defendants in the litigation. Among other things, the plaintiffs seek a declaratory judgment that each defendant is unlawfully holding or exercising a public office. Two of the Commissioners by virtue of their offices served as members of the five-member Board of Directors of the Authority on the date of the issuance of the Floating Rate Bonds. On October 22, 1984, the Superior Court issued an opinion granting the defendants' motion for summary judgment and dismissing the case. The plaintiffs filed notice of appeal of the Superior Court decision to the Supreme Court of Alaska on October 30, 1984. It is the opinion of the Attorney General of the State of Alaska and of Bond Counsel that the confirmation of all Commissioners will ultimately be validated in such judicial proceeding. It is further the opinion of the Attorney General and Bond Counsel that even if the plaintiffs ultimately prevail, actions taken by the Authority in connection with the authorization, issuance, sale or delivery of the Bonds would not be invalidated and that any claim to the contrary is without merit.

FINANCIAL STATEMENTS

The financial statements of the Authority have been examined by Peat, Marwick, Mitchell & Co., Anchorage, Alaska, independent certified public accountants, to the extent and for the periods indicated in their report. Such financial statements have been appended to this Official Statement as Appendix C and are included in reliance upon the report of such firm as experts in accounting and auditing.

BOND RATINGS

Moody's Investors Service, Inc. has assigned the Bonds a rating of . Standard & Poor's Corporation has assigned the Bonds a rating of . The ratings assigned by the rating agencies reflect only the respective views of the rating agencies, and an explanation of the significance of such ratings may be obtained only from the respective rating agencies. The rating agencies have the right to change, suspend or withdraw their ratings at any time, and any such action may have an adverse effect upon the market price of the Bonds.

LEGAL OPINION

The Bonds were issued subject to the opinion of Wohlforth & Flint, Bond Counsel, of Anchorage, Alaska, approving the legality of the issuance thereof. Legal matters incident to the conversion of the Bonds from Bonds bearing a floating interest rate to Bonds bearing fixed interest rates and the sale thereof to the Underwriters are subject to the approval of Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Preston, Thorgrimson, Ellis & Holman of Seattle, Washington.

TAX EXEMPTION

In the opinion of Bond Counsel, interest on the Bonds is exempt from Federal income taxes under existing statutes, rulings and court decisions, except that no opinion is expressed as to the exemption from such taxes of interest on any Bond for any period during which such Bond is held by a person who, within the meaning of Section 103(b) of the Code, is a substantial user of facilities with respect to which the proceeds of the Bonds were issued, or a related person.

UNDERWRITING

The Bonds are being purchased by Prudential-Bache Securities Inc. and Goldman, Sachs & Co. as representatives of the Underwriters. The Underwriters have agreed to purchase the Bonds at an aggregate purchase price of $, plus accrued interest. The Underwriters intend to offer the Bonds to the public at the offering prices set forth on the cover page of this Official Statement. The Underwriters may allow concessions from the public offering prices to certain dealers, who may reallow concessions to other dealers. After the initial public offering, the public offering price may be varied from time to time by the Underwriters.

EXECUTION OF OFFICIAL STATEMENT

The execution and delivery of this Official Statement have been authorized by the Authority. This Official Statement is submitted only in connection with the conversion of the interest rates on the Bonds from a floating rate to fixed rates and the sale of the Bonds and may not be reproduced or used in whole or in part for any other purpose.

ALASKA INDUSTRIAL DEVELOPMENT
AUTHORITY

/s/ BERTRAM L. WAGNON
Executive Director

BOND AMORTIZATION SCHEDULES BY SERIES
($000)

Year	Series 332	333	334	336	337	338	339	340	341	342	343	344	345	347	348	349	350	351	Maturity Total
1986	20	10	5	5	10	25	15	10	15	15	10	20	10	35	5	15	5	15	245
1987	20	10	5	10	10	55	15	10	15	15	15	20	10	35	5	15	5	15	285
1988	20	10	10	10	10	60	15	15	20	15	15	25	10	40	5	15	10	15	320
1989	20	10	10	10	15	65	20	15	20	20	15	25	10	45	5	20	10	15	350
1990	25	15	10	10	15	70	20	15	20	20	20	25	10	45	5	20	10	20	375
1991	30	15	10	10	15	80	20	20	25	20	20	30	10	50	10	20	10	20	415
1992	30	15	15	10	20	90	25	20	25	25	20	30	10	55	10	25	10	25	460
1993	35	15	15	10	20	95	25	20	30	25	25	35	15	60	10	25	15	25	500
1994	40	20	15	15	20	105	30	20	35	30	20	40	15	65	10	30	15	30	555
1995	40	25	15	15	25	—	30	25	35	30	30	45	20	75	10	30	15	30	495
1996	45	25	20	15	25	—	35	25	40	35	30	50	20	85	10	35	20	35	550
1997	50	30	20	20	30	—	40	30	45	35	35	55	20	90	15	40	20	40	615
1998	60	30	25	20	35	—	45	30	50	40	40	60	25	105	15	45	20	40	685
1999	65	35	25	25	40	—	50	35	55	45	45	65	25	115	15	50	25	45	760
2000	70	35	30	25	40	—	55	40	60	55	50	75	30	—	20	55	25	50	715
2001	80	45	30	30	45	—	60	45	70	60	55	85	35	—	20	55	30	55	800
2002	90	45	35	30	50	—	65	50	75	65	60	90	40	—	25	65	35	65	885
2003	100	50	40	35	55	—	75	55	85	70	65	100	50	—	25	75	40	70	990
2004	110	60	40	40	60	—	80	60	95	80	75	115	50	—	30	85	40	80	1,100
2005	—	60	50	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	110
2006	—	70	55	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	125
2007	—	80	60	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	140
2008	—	90	65	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	155
2009	—	100	70	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	170
	950	900	675	345	540	645	720	540	815	700	645	990	415	900	250	720	360	690	11,800

ESTIMATED AGGREGATE DEBT SERVICE AND COVERAGE SCHEDULE
CONSOLIDATED BONDS AND ECONOMIC DEVELOPMENT BONDS
ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

Year Ending June 30	Combined Debt Service Requirements (1)	Estimated Net Income: Outstanding Loan Rev's (2)	Est. New Loan Rev's (2)	Other Rev (3)	Interest Income (4)	Total Net Income	Est. Cov. (5)	Excess Revenues	Base Plus Cumulative Excess Rev's
1985	$ 26,102,605	$ 24,322,039	$ 669,158	$ 28,207,502	$ 8,959,422	$ 62,158,121	2.38	$36,055,516	$ 102,783,623
1986	25,470,758	24,983,625	1,484,060	27,547,689	11,413,251	65,428,625	2.57	39,957,867	138,839,139
1987	25,093,210	24,430,035	1,484,060	26,190,062	10,172,476	62,276,633	2.48	37,183,423	178,797,006
1988	24,265,366	23,696,125	1,484,060	25,087,961	11,943,786	62,211,932	2.56	37,946,566	215,980,429
1989	23,836,613	23,279,465	1,484,060	22,921,175	13,965,985	61,650,685	2.59	37,814,072	253,926,995
1990	23,704,805	23,173,605	1,484,060	21,523,784	16,045,759	62,227,208	2.63	38,522,403	291,741,067
1991	23,708,624	23,176,825	1,484,060	20,178,405	18,164,491	63,003,781	2.66	39,295,157	330,263,470
1992	23,420,659	22,809,265	1,484,060	18,265,527	20,325,724	62,884,576	2.69	39,463,917	369,558,627
1993	22,947,428	22,445,165	1,484,060	17,114,706	22,496,240	63,540,171	2.77	40,592,743	409,022,544
1994	22,762,694	22,261,575	1,484,060	14,834,361	24,728,841	63,308,837	2.78	40,546,143	449,615,287
1995	22,549,700	22,191,585	1,466,373	16,379,561	26,958,879	66,996,398	2.97	44,446,698	490,161,430
1996	22,542,983	22,231,435	1,466,373	8,220,046	29,403,447	61,321,301	2.72	38,778,318	534,608,128
1997	22,140,689	21,723,975	1,466,373	6,861,950	31,536,255	61,588,553	2.78	39,447,864	573,386,446
1998	21,239,449	20,911,455	1,466,373	6,099,324	33,705,887	62,183,039	2.93	40,943,590	612,834,310
1999	20,897,281	20,562,500	1,466,373	3,993,259	35,957,785	61,979,917	2.97	41,082,636	653,777,900
2000	20,115,793	19,901,894	1,296,320	2,485,431	38,217,329	61,900,974	3.08	41,785,181	694,860,536
2001	20,130,873	19,914,875	1,296,320	2,123,376	40,515,514	63,850,085	3.17	43,719,212	736,645,717
2002	19,626,418	19,374,465	1,296,320	2,000,324	42,920,071	65,591,180	3.34	45,964,762	780,364,929
2003	18,532,440	18,274,865	1,296,320	1,749,874	45,448,133	66,769,192	3.60	48,236,752	826,329,691
2004	18,052,786	17,699,441	1,296,320	1,091,845	48,101,154	68,188,760	3.78	50,135,974	874,566,443
2005	15,385,276	16,644,491	799,336	774,743	50,858,633	69,077,203	4.49	53,691,927	924,702,417
2006	15,343,951	16,020,535	184,392	613,242	53,811,689	70,629,858	4.60	55,285,907	978,394,344
2007	13,997,939	14,470,395	184,392	649,858	56,852,414	72,157,059	5.15	58,159,120	1,033,680,251
2008	9,298,515	9,735,277	184,392	472,246	60,051,165	70,443,080	7.58	61,144,565	1,091,839,371
2009	5,751,476	5,374,013	184,392	153,080	63,414,116	69,125,601	12.02	63,374,125	1,152,983,936
2010	1,637,788	192,974	99,161	0	66,899,693	67,191,828	41.03	65,554,040	1,216,358,061
	$508,556,119	$499,801,899	$29,475,228	$275,539,331	$882,868,139	$1,687,684,597			

(1) Includes (a) the $13,120,000 Floating Demand/Fixed Rate Economic Development Bonds, Series 332 through 351 at actual interest cost to March 1, 1985, and an estimated interest rate of 10% thereafter to the Conversion Date, and (b) the $11,800,000 Bonds at an estimated interest rate of 10% from the Conversion Date.

(2) Revenues are net of all fees and expenses. Schedule assumes that loans are funded on anticipated funding dates. Estimated New Loan Revenues are from Loan Participations funded by proceeds of the Floating Rate Bonds.

(3) Represents revenues from the loans appropriated by the State to the Authority, net of all fees. Principal and interest on loans delinquent more than 90 days are not included. Also includes revenue from certain loans and participations purchased by the Authority, primarily participations in loans guaranteed by the Small Business Administration.

(4) Includes income from investment of certain assets and excess net revenues of the Authority at actual present rates and at an assumed rate of 5.5% compounded annually for periods after present investments mature.

(5) Coverage reflects debt service requirements, including mandatory sinking fund requirements. There are currently outstanding $6,035,000 Economic Development Bonds which may be tendered for payment by the holders thereof commencing April 1, 1987 ($80,000 of which are subject to Mandatory Sinking Fund redemption on April 1, 1987). If all of such bonds were tendered for payment on April 1, 1987, the estimated coverage for the year ending June 30, 1987, would decline from 2.48 to 2.01. The reduction in annual debt service requirements thereafter would result in slightly higher coverage multiples for the years 1988 through 2007 than those shown above.

NOTE: Table does not include the outstanding $12,200,000 Variable Demand/Fixed Rate Bonds, 1984 Series A and B, nor the loan revenues and investment earnings associated therewith because those bonds will not become general obligations of the Authority until such time as they are converted to Fixed Rate Consolidated Bonds.

APPENDIX C

PEAT MARWICK

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
Alaska Mutual Bank Building
601 West 5th Avenue, Suite 700
Anchorage, Alaska 99501

The Board of Directors
Alaska Industrial Development Authority:

We have examined the balance sheets of Alaska Industrial Development Authority as of June 30, 1984 and 1983, and the related statements of earnings and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Alaska Industrial Development Authority at June 30, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

August 3, 1984

APPENDIX C



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
Alaska Mutual Bank Building
601 West 5th Avenue, Suite 700
Anchorage, Alaska 99501

The Board of Directors
Alaska Industrial Development Authority:

We have examined the balance sheets of Alaska Industrial Development Authority as of June 30, 1984 and 1983, and the related statements of earnings and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Alaska Industrial Development Authority at June 30, 1984 and 1983, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

August 3, 1984

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

Balance Sheets

June 30, 1984 and 1983

Assets	1984	1983
Cash	$ 33,271	$ 8,284
Investments, partially restricted (note 3)	101,489,304	88,162,708
Loans (note 4)	327,595,487	257,043,035
Less allowance for possible loan loss	2,567,000	2,567,000
Net loans	325,028,487	254,476,035
Accrued interest receivable	5,445,694	4,289,332
Unamortized bond issue costs	3,247,920	3,351,481
Other	56,120	9,661
	$ 435,300,796	$ 350,297,501
Liabilities and Equity		
Notes and bonds payable (note 6)	$ 155,431,775	$ 98,085,736
Accrued interest payable	4,422,171	3,072,556
Deposits from others	574,225	266,650
Other	95,051	32,573
	160,523,222	101,457,515
Equity:		
Contributed capital (note 1)	189,256,532	188,588,332
Retained earnings	85,521,042	60,251,654
Total equity	274,777,574	248,839,986
Commitments (note 9)		
	$ 435,300,796	$ 350,297,501

See accompanying notes to financial statements.

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

Statements of Earnings and Retained Earnings

Years ended June 30, 1984 and 1983

	1984	1983
Revenues:		
Interest, net of servicing fees	$ 41,278,732	$ 33,529,884
Fees (note 7)	1,510,262	1,218,261
Miscellaneous	86,623	26,582
Total revenues	42,875,617	34,774,727
Expenses:		
Interest	15,457,760	10,799,620
Salaries and employee benefits	760,911	677,957
Professional fees	134,023	122,605
Travel	39,089	38,657
Rent	121,850	100,527
Furniture and equipment	125,675	40,801
Amortized bond issue costs	136,191	139,676
Loan loss	728,332	149,157
Other	102,298	129,156
Total expenses	17,666,229	12,198,156
Net earnings	25,209,388	22,576,571
Retained earnings at beginning of year	60,251,654	37,675,083
Retained earnings at end of period	$ 85,521,042	$ 60,251,654

See accompanying notes to financial statements.

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

Statements of Changes in Financial Position

Years ended June 30, 1984 and 1983

	1984	1983
Sources of financial resources:		
Net income	$ 25,269,388	$ 22,576,571
Appropriations from State of Alaska	668,200	-
Repayments on loans	32,458,109	28,744,764
Issuance of notes and bonds payable	62,195,000	23,205,000
Increases in:		
Accrued interest payable	1,349,615	556,682
Deposits from others	307,575	251,850
Other liabilities	62,478	-
Decreases in:		
Cash	-	9,442
Accrued interest receivable	-	811,259
Unamortized bond issue costs	103,561	158,118
	$122,413,926	$ 76,313,686
Uses of financial resources:		
New loans disbursed	$103,010,561	$ 66,003,719
Payments on notes and bonds payable	4,848,961	3,510,000
Increases in:		
Cash	24,987	-
Investments	13,326,596	6,647,461
Accrued interest receivable	1,156,362	-
Other assets	46,459	6,924
Decreases in:		
Deferred revenue	-	25,867
Other liabilities	-	119,715
	$122,413,926	$ 76,313,686

See accompanying notes to financial statements.

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

Notes to Financial Statements

June 30, 1984 and 1983

(1) Historical

The Alaska Industrial Development Authority (Authority) is a public corporation of the State of Alaska, constituting a political subdivision within the Department of Commerce and Economic Development, but with separate and independent legal existence. The Authority's purpose is to promote, develop and advance the general welfare of the people of Alaska by providing permanent, long-term financing for industrial, manufacturing and other business enterprises.

Prior to July 1, 1980, the Authority's sole means of providing financing for business enterprises was through a tax-exempt stand-alone revenue bond program. Funds were provided to qualified applicants by issuance of the Authority's industrial development revenue bonds, which are secured solely by the revenue earned by the applicant's project and the financial credit of the individual applicant.

Since July 1, 1980, the legislature of the State of Alaska has appropriated the following to the Enterprise Development fund of the Authority:

(a) $23,668,200 cash.

(b) All rights, title and interest in loans, with remaining principal balances totaling approximately $166,000,000, held by the State Department of Revenue and State Department of Commerce and Economic Development.

(c) Assets and liabilities of the Alaska State Development Corporation, the Small Business Development Corporation and the Alaska Toll Bridge Authority, with fund balances of $2,554,055.

(Continued)

State of Alaska legislation has also enabled the Authority to significantly expand its financing programs as follows:

(a) A tax-exempt umbrella bond program, under which the Authority's bonds are sold on national markets, was established to provide loans of up to $10,000,000. The proceeds of the sales are used to purchase portions of loans made by financial institutions to their customers. The bonds may be secured by any or all of the following:

-- The full faith and credit of the Authority.
-- Principal and interest payments received on the loans.
-- Collateral held by the Authority on projects financed by the loans.
-- A Capital Reserve Fund to be established from the State appropriation.
-- A negative covenant on other commitment of assets.

(b) The tax-exempt stand-alone revenue bond program was also expanded to enable the Authority to issue bonds to provide funds for business enterprises other than those of a manufacturing or industrial nature. Such bonds are not secured by the full faith and credit of the Authority and are not recorded as obligations of the Authority.

(c) The Authority has annual authorization to finance projects totaling $400,000,000 under its bond programs.

(d) Uncommitted funds held in the Enterprise Development Fund may be used to purchase the guaranteed portion of business loans (usually 90% of the loan amount) guaranteed by the Small Business Administration, the National Marine Fisheries Service or the Farmers Home Administration.

(e) On June 24, 1982, legislation was signed into law by the Governor of Alaska providing authorization and funding of a multifamily housing loan program. Under this legislation, $21,000,000 in certificates of deposit were appropriated by the State to the Authority in July 1982 for a multifamily housing loan security fund to provide a loan loss reserve for certain multifamily housing loans. As the legislation excluded the assets of the fund from the general assets of the Authority, the fund and the earnings thereon are not recorded on the financial statements of the Authority.

In July of 1983, the Alaska legislature approved a bill which transferred $5,000,000 of certificates of deposit, held in the multifamily loan security fund, to other State uses and expanded the uses of the remaining funds enabling the Authority to utilize the assets of the fund for capital reserve fund purposes and to provide a loan loss reserve for all multifamily housing loans. The fund balance at June 30, 1984, was $18,345,200 after transferring $668,200 to the Authority for capital reserve purposes.

(Continued)

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Authority uses the accrual basis of accounting, under which revenues are recorded when earned, and expenditures are recorded when liabilities are incurred.

Investments

Investments are recorded at the acquisition cost which approximates market.

Income Taxes

The Internal Revenue Code provides that gross income for tax purposes does not include income accruing to a state or territory, or any political subdivision thereof, which is derived from the exercise of any essential governmental function or from any public utility. According to the Alaska Statutes, the Authority constitutes a political subdivision of Alaska and is therefore exempt from State and Federal taxes.

Tax-Exempt Stand-Alone Revenue Bonds

Tax-exempt stand-alone revenue bonds issued by the Authority are not general obligations of the Authority. They are payable solely out of the revenues derived from the financing of projects. They do not constitute indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or Statutes of the State of Alaska, and they do not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit.

The repayments of these bonds by the various entities on whose behalf they have been issued are made directly to the trustee for each bond issued and, therefore, are not recorded as revenues and expenses of the Authority.

Allowance for Loan Loss

Management regularly reviews the loan portfolio and determines provision for loss based upon experience and management's estimate of potential loss.

Retirement Plan

All employees of the Authority participated in the State of Alaska Public Employees' Retirement System. The State's policy is to fund pension costs accrued.

(Continued)

Bond Issue Costs

When advanced by the Authority, costs of bond issues, including underwriters' fees and commissions, legal fees, bond insurance and printing, are amortized over the life of the bond issue on the straight-line method and are recovered from the borrowers primarily as a part of the interest rate charged. Current practice is to require borrowers to pay for bond costs at the time of funding.

Furniture and Equipment

Purchases of furniture and equipment are expensed, as such items are the property of the State of Alaska.

(3) Investments

At June 30, 1984, all investments were in United States Government securities or commercial paper, yielding interest at 9.5% to 13.0% and maturing within one year, except $4,899 in United States Treasury Notes maturing in 1990.

At June 30, 1983, all investments were in certificates of deposit, United States Government securities or commercial paper, yielding interest at 8.5% to 15.0%, and maturing within six months, except United States Treasury notes maturing $115,307 in 1984 and $4,899 in 1990.

Certain invested funds are restricted by the terms of the Authority's bond resolution and are held and invested by the trustee. A summary of these investments follows:

Name	Restriction	Amount 1984	Amount 1983
Loan participation funds	Committed loans not closed at June 30	$ 3,210,000	$ 1,600,000
Capital reserve funds	Secure debt service payment - bonds	15,870,477	10,117,508
Debt service funds	Loan repayments and funds held for debt service - bonds	11,707,225	7,761,125
		$ 30,787,702	$ 19,478,633

(Continued)

The Capital Reserve Fund is maintained for the purpose of making principal and interest payments on the bonds payable if monies received by the Authority and available for the payment of bond principal and interest are insufficient to make the required debt service payments. The amounts held in the capital reserve funds are equal to the average of the amounts required to be paid for principal and interest in each future fiscal year until maturity of the outstanding bonds. On the first day of January, April, July and October of each year, the Authority must replenish the capital reserve funds to the required amounts or may withdraw any excess amounts.

(4) Loans

Loans outstanding at June 30, 1984 and 1983 are classified as follows:

Loan Type	1984 Number	1984 Amount	1983 Number	1983 Amount
Appropriated	699	$ 105,594,820	763	$ 120,348,684
Federally guaranteed	308	60,202,983	217	39,185,785
Bond sale	365	161,797,684	267	97,508,566
	1,372	$ 327,595,487	1,247	$ 257,043,035

An aging of loans as of June 30, 1984 and 1983 follows:

Loan Age	1984 Amount	1984 Percent	1983 Amount	1983 Percent
Current	$ 312,325,338	95.34	$ 242,381,031	94.38%
Past due:				
30-60 days	7,194,844	2.20	7,004,586	2.72
61-90 days	2,555,586	.78	1,680,004	.65
Over 90 days	5,519,719	1.68	5,977,414	2.25
	$ 327,595,487	100.00%	$ 257,043,035	100.00%

(5) Tax-Exempt Stand-Alone Revenue Bonds Issued

At June 30, 1984, the Authority had issued tax-exempt stand-alone revenue bonds totaling $392,138,180 for 176 projects in various parts of Alaska, including $105,432,875 issued for 65 projects during the year ended June 30, 1984.

(Continued)

(6) Notes and Bonds Payable

Notes and bonds payable at June 30, 1984 and 1983 consisted of the following:

	1984	1983
Economic development bonds:		
7-1/2% to 11-3/8%, issued April 1, 1981, maturing between 1982 and 2007	$ 15,725,000	$ 16,590,000
9-3/4% to 13-5/8%, issued October 15, 1981, maturing between 1983 and 2008	52,590,000	55,000,000
12.875%, issued August 15, 1982, maturing between 1984 and 2008	920,000	930,000
10% to 11.25%, issued October 1, 1982, maturing between 1983 and 2008	6,890,000	7,195,000
10% and 11.375%, issued December 1, 1982, maturing between 1984 and 2009	2,905,000	3,335,000
8.5% to 10.5%, issued November 1, 1983, maturing between 1984 and 2009	11,870,000	
7.75% to 10.75%, issued December 1, 1983, maturing between 1984 and 2009	16,395,000	
Consolidated bonds:		
13% and 13.5%, issued April 1, 1982, maturing between 1984 and 2008	2,945,000	2,975,000
9.5% and 10.125%, issued October 1, 1982, maturing between 1984 and 2008	4,420,000	4,465,000
10% and 11.375%, issued December 1, 1982, maturing between 1984 and 2008	6,920,000	7,080,000
6.5% to 10.25%, issued July 1, 1983, maturing between 1985 and 2010	14,445,000	
9.75% to 10.5%, issued November 1, 1983, maturing between 1984 and 2009	11,600,000	
9.25% to 10.75%, issued December 1, 1983, maturing between 1984 and 2009	7,700,000	
2% certificates of deposit originally issued by the Alaska State Development Corporation, due August 1, 1983	106,775	515,736
	$ 155,431,775	$ 98,085,736

The bonds payable are secured by the general assets of the Authority, including loans, loan proceeds and capital reserve funds of $15,870,477 established pursuant to terms of the bond resolutions (note 3).

(Continued)

The principal portions of the bonds payable mature as follows:

Year ending June 30	Total principal maturing
1985	$ 4,385,000
1986	4,285,000
1987	4,210,000
1988	3,805,000
1989	3,790,000
1990-1994	22,910,000
1995-2010	111,940,000
	$ 155,325,000

(7) Fees

At the time tax-exempt stand-alone revenue bonds are issued by the Authority to provide financing for a project of an applicant, the applicant shall pay a financing fee equal to 1% of the first $1,000,000 of the principal amount of the bonds issued, 1/2% of the next $4,000,000 of the principal amount of the bonds issued, 1/4% of the next $10,000,000 of the principal amount of the bonds issued, and 1/10% of the principal amount of the bonds issued in excess of $15,000,000.

The Authority charges borrowers under the tax-exempt umbrella bond program a nonrefundable commitment fee equal to 1% of the Authority's participation in the loan.

The commitment fee for a multifamily housing loan is 2% of the principal amount of the participation of the Authority in the loan and is nonrefundable.

The Authority also charges a preapplication fee of $100 to each applicant under the stand-alone revenue bond program, the umbrella bond program or the multifamily bond program.

Applicants pay the cost of issuing bonds, underwriters' discount, financial advisor fees, bond counsel fees and other costs of the Authority.

(Continued)

(8) Retirement Plan

The Authority participates in the State of Alaska Public Employees' Retirement System. Plan expense for the years ended June 30, 1984 and 1983 were $79,429 and $68,250, respectively.

Information as to accumulated plan benefits and net assets available for plan benefits is not available on an individual agency basis for each State agency which participates in the State of Alaska Public Employees' Retirement System.

(9) Commitments

At June 30, 1984 and 1983, the Authority had entered into loan commitment agreements for loans of $34,637,093 and $59,431,000, respectively.

NORTH SLOPE BOROUGH

OFFICE OF THE MAYOR

P.O. Box 69
Barrow, Alaska 99723

Phone: 907-852-2611

George N. Ahmaogak, Sr., Mayor

December 27, 1985

Representative John Sund
2504 Second Street
Ketchikan, Alaska 99901

Dear Representative Sund:

As you know, the State Department of Community and Regional Affairs filed a petition on November 22, 1985 to detach over 2.1 million acres from the North Slope Borough. This proposed action is contrary to the expressed wishes of the North Slope Borough voters. Further, no provision for compensation to the Borough for loss of tax base is included in the State's petition. Such compensation is required by law.

I am writing to remind you of the limited and rushed schedule of Local Boundary Commission public hearings on this matter. The LBC will hold the following hearings:

1. January 8, 1986
   Anchorage, 10:00 AM
   University Plaza Building
   349 E. 36th Avenue
   Suite 404

2. January 9, 1986
   10:00 AM Noatak School
   7:00 PM Kotzebue Senior Citizens' Center

3. January 10, 1986
   10:00 AM Point Hope High School Library
   7:00 PM Barrow High School Auditorium

4. January 11, 1986
   11:00 AM
   Fairbanks, Alaska

Since it is possible that the entire matter will wind up for action during the first 45 days of the Legislature, I would urge you to come to Barrow for the last meeting of the LBC on January 10. The LBC has already scheduled a decisional meeting the morning after the Barrow hearing in Fairbanks at 11:00 AM January 11, 1986. There are no scheduled flights from Barrow to Fairbanks between the evening Barrow hearing on January 10 and the decision meeting on January 11. Any of our residents who are interested would have to take an expensive charter flight to attend the Fairbanks meeting.

I would encourage you to attend the Barrow or another Local Boundary Commission hearings and experience the local input for yourself. Thank you for your time and consideration.

Sincerely,

George N. Ahmaogak, Sr.
Mayor

UNIVERSITY OF ALASKA, FAIRBANKS
Fairbanks, Alaska 99701

April 3, 1985

Honorable Michael Davis
State of Alaska House of Representatives
Pouch V
Juneau, Alaska 99811

Re: Red Dog Mine: Cominco/Nana Corp. - Financing
the 91 km Mine Road

Dear Rep. Davis:

The Red Dog mine has the potential for becoming a world class lead-zinc ore body. Cominco is a well respected multinational corporation with similar deposits in the high Arctic regions and in Spain. As a multinational corporation Cominco views the world as their oyster. Cominco, like any for-profit corporation, must make strategic decisions based upon what is best for the corporation.

Mining locations will be put into production and taken out of production based upon world economic conditions, i.e. the demand for various mineral commodities, technological shifts in their usage in manufacturing, the coming on stream of other lead-zinc producers by the governments of less developed countries and a host of other variables.

The citizens of Alaska and our legislators have been asked to assist in the development of the Red Dog mine and more specifically to build the 91 km access road from Kivalina to the mine site at an estimated cost of $150 million. Various financing schemes have been put forth. One such proposal would have the Alaska Development Authority make a loan of $150 million to Cominco at 4 per cent interest to be repaid by a royalty tonnage tariff.

Suggestion: The State of Alaska is seeking greater revenues for current and future State expenditures. It is clearly appropriate for the State to expect market returns on their investments. Various figures have appeared in the popular press for the total cost of the Red Dog mine development which seems to be approximately $400 million with Cominco putting up $250 million (62.5%) and ADA contributing $150 million (37.5%) of the capital outlay.

(1) Loan: As a viable business deal the State must consider the option of a 20-25 year loan at 1 to 2 percent above the prime interest rate with guaranteed annual payments without regard to tonnage shipped. This is necessary, since Cominco may decide for whatever reason not to operate the mine for a period of time.

(2) Loan with Equity Position: As a venture capitalist we know that Cominco has the $150 million required for the road, but they also have other investment opportunities. Why should Cominco not try for some low cost money through the ADA? No reason if they can get the 4 percent money so much the better.

But let us proceed with the scenario. We, the venture capitalist (State of Alaska) make a counter offer. The State of Alaska puts up the $150 million for 51 per cent voting control until $100 million of the loan is paid back and then take an equity position of 20 percent of the Red Dog Mine for their remaining $50 million loan.

Other considerations would be appropriate representation on the Corporate Board of Directors, oversight control in managerial decision making, but not operating decisions, etc.

Conclusion:

Alaska is unique, not like any other state. Alaska must be an equity participant in its economic development. It can no longer be a donor of monies to every good cause. Alaska must participate as a responsible corporate person for the benefit of all Alaskans.

Two viable options are available to the State: (1) Long-term loan at market rates of interest, repayable on a fixed schedule; (2) Loan with equity position at variable interest rates, generally for mining ventures the loan would command a premium of 1 to 2 percent above the prime rate.

I urge the State to support those economic development projects that are viable on their own merit. It is inappropriate for industrial development projects to be subsidized by state or federal monies.

I wish to thank you for this opportunity to express my personal opinion in this matter.

Sincerely,

Peter G. Biesiot, PhD.
Professor of Int'l. Business
School of Management
6th Floor Gruening
University of Alaska
Fairbanks, Alaska 99701
(907) 474-6533

cc: Tom Moyer

Rep. Davis
For your info
Jergie

APR 1985

UNIVERSITY OF ALASKA

FAIRBANKS, ALASKA 99701

April 27, 1985

Senator Frank R. Ferguson
Alaska State Senate
Pouch V
State Capitol
Juneau, Alaska 99811

Dear Senator Ferguson:

With 85,000,000 tons of proven lead-zinc reserves and a vast additional resource potential, Alaska's Red Dog Mine could become the largest lead-zinc mine in the world. At a rated annual capacity of 580,000 metric tons, this one mine would produce 8.9% of the total world production.

If the Red Dog Mine were in production, Alaska would rank as the fourth most important source of lead-zinc in the world. The State would only be outranked by the countries of Canada, U.S.S.R. and Australia. It would boost the total U.S. lead-zinc production ahead of Australia's and would reverse the long and continuous decline in U.S. metal production.

More importantly, it would establish Alaska as an important new world source of minerals and would provide a broad spectrum of economic benefits to our State and the nation.

Sincerely,

Leo Mark Anthony

Leo Mark Anthony
Professor of Mining Extension
School of Mineral Engineering

LMA/bg

PLEASE REPLY BY AIRMAIL

March 20, 1985

The Honorable John Sund
Representative
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Sund:

There has been a substantial amount of attention given lately to the proposed Red Dog project in Northwest Alaska. Although far from the villages and cities of Southeastern Alaska many people fail to realize the positive effects this project will have on our region.

Some of the more positive impacts of the Red Dog project will be in diversifying the economy and providing other Alaskan resource developers trade opportunities with Pacific Rim nations, as well as other nations around the world.

This project, once on-line, will also bring revenues to Southeast, in the form of royalty distributions under Section 7(i) of the Alaska Native Claims Settlement Act. The owners of the mineral deposit, NANA Corporation, according to an agreement signed with Cominco Alaska, developers and financiers of the project, will receive a percentage of the net proceeds derived from the sale of lead and zinc concentrates.

Over the first 30 years of the project NANA will receive, on the average, $30 million per year. According to Section 7(i), NANA will retain 30 percent, or $10 million, and the remaining 70 percent, $20 million, will be distributed to all of the regional corporations. Sealaska Corporation will receive over 20 percent of the $20 million, about $4 million per year and over $120 million over the first 30 years of the mine's life. This is indeed a substantial contribution to the economy of Southeastern Alaska.

Support for funding of a road and port which will be utilized by this mine is important this legislative session. I understand Cominco Alaska as agreed to a series of guarantees which eliminate the element of risk to the State of Alaska, if the State agrees to long-term financing for the road and port

costs. I believe this project is in the State and people's best interests and hope you will be able to support the necessary funding request.

Sincerely,

SEALASKA CORPORATION

Byron I. Mallott
President and Chief
Executive Officer

cc: Board of Directors, Sealaska Corporation

A

07049

POM TDA JUNEAU AK 15 05-02 850A ADT
PMS
REP JOHN SUND

JUNEAU

HECK NO TO RED DOG WITHOUT A CITIZEN VOTE.
JOHN MCMULLEN
800 F ST N-4
JUNEAU AK 99801

Table V-4

RED DOG COST MODEL
(Inflated U.S. Dollars)

Ownership: Cominco American
Capacity: 710,000 sdt/y of concentrates
Metal Prices: Base case

Start-up Date: 1989
Capital Investment: $270 million
Production Rate: Full capacity

Millions of Dollars (Except Prices)

	1979 to 1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
U.S. PRICES																													
Zinc - $/lb						.49	.50	.54	.59	.63	.68	.74	.78	.82	.87	.92	.97	1.02	1.08	1.13	1.20	1.26	1.33	1.41	1.48	1.56	1.66	1.74	1.84
Lead - $/lb						.23	.24	.26	.29	.32	.36	.40	.42	.44	.46	.49	.52	.55	.58	.61	.64	.68	.71	.75	.79	.94	.88	.93	.98
Silver - $/lb						7.53	7.87	8.22	8.64	9.07	9.52	10.00	10.50	11.02	11.57	12.15	12.76	13.40	14.07	14.77	15.51	16.28	17.10	17.95	18.85	19.79	20.78	21.82	22.91
SALES																													
Zinc concentrates						83.85	161.33	173.96	190.17	205.48	222.03	239.90	253.18	267.10	281.66	296.87	313.38	330.53	348.64	367.73	388.11	409.12	431.76	455.37	480.26	427.17	451.98	475.36	501.21
Lead concentrates						9.60	18.85	21.75	24.60	28.00	31.89	36.15	38.10	40.12	42.21	44.36	46.73	49.27	51.88	54.54	57.51	60.52	63.71	67.05	70.55	73.36	77.29	81.39	85.66
TOTAL SALES						93.45	180.18	195.71	214.78	233.48	253.93	276.05	291.28	307.22	323.87	341.23	360.10	379.80	400.52	422.26	445.62	469.64	495.47	522.42	550.81	500.53	529.27	556.75	586.87
OPERATING COSTS																													
Mine						3.20	6.19	7.34	7.78	8.26	8.76	9.30	9.83	10.40	11.01	11.65	12.32	13.04	13.79	14.59	15.44	16.33	17.28	18.29	19.35	20.47	21.66	22.92	24.25
Mill						5.60	10.77	12.73	13.46	14.23	15.04	15.91	16.80	17.75	18.74	19.80	20.91	22.08	23.33	24.64	26.02	27.49	29.03	30.67	32.39	34.21	36.14	38.17	40.32
Maintenance						4.95	9.61	11.39	12.09	12.83	13.62	14.46	15.30	16.19	17.13	18.13	19.19	20.31	21.49	22.74	24.07	25.47	26.95	28.52	30.19	31.95	33.81	35.78	37.87
Power generation						4.62	8.84	10.43	11.01	11.62	12.27	12.96	13.68	14.44	15.24	16.08	16.97	17.91	18.91	19.96	21.06	22.23	23.46	24.77	26.14	27.59	29.12	30.73	32.44
Mine and mill overhead						9.50	18.33	21.68	22.94	24.28	25.70	27.20	28.74	30.37	32.09	33.91	35.84	37.87	40.02	42.29	44.69	47.23	49.91	52.74	55.74	58.90	62.25	65.79	69.52
Additional costs for start-up						10.83	5.29	6.30	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
Contingency						2.36	4.53	5.34	5.63	5.94	6.27	6.61	6.98	7.36	7.77	8.19	8.64	9.12	9.62	10.15	10.71	11.30	11.92	12.57	13.27	14.00	14.77	15.58	16.43
TOTAL OPERATING COSTS						41.07	63.56	75.19	72.91	77.16	81.67	86.43	91.33	96.51	101.98	107.76	113.87	120.33	127.16	134.37	141.99	150.05	158.56	167.56	177.07	187.12	197.74	208.96	220.83
TRANSPORTATION COSTS																													
Concentrates to port						1.65	3.19	3.78	4.01	4.26	4.51	4.79	5.06	5.36	5.67	5.99	6.34	6.71	7.09	7.50	7.94	8.40	8.88	9.40	9.94	10.52	11.12	11.77	12.45
Road and port user fee						2.66	13.19	13.40	13.65	13.93	16.69	17.04	17.39	17.75	18.10	18.46	18.88	19.30	19.80	20.22	20.72	21.28	21.85	22.42	23.05	22.38	23.06	23.67	24.40
Barge to ship						6.03	4.58	4.39	4.46	4.57	4.69	4.80	4.93	5.05	5.18	5.30	5.44	5.57	5.71	5.86	6.00	6.15	6.31	6.46	6.62	5.87	6.02	6.17	6.32
Ocean shipping						8.70	15.63	15.41	15.91	16.55	17.23	17.94	18.60	19.32	20.12	20.96	21.82	22.74	23.68	24.67	25.71	26.79	27.73	28.70	29.72	28.26	29.28	30.34	31.45
Inland freight						5.64	13.59	13.68	13.90	14.24	14.60	14.96	15.34	15.72	16.11	16.51	16.93	17.35	17.78	18.23	18.69	19.15	19.63	20.12	20.63	18.01	18.56	19.02	19.50
TOTAL TRANSPORTATION COSTS						24.69	50.17	50.66	51.92	53.55	57.72	59.53	61.32	63.19	65.18	67.22	69.41	71.67	74.07	76.49	79.06	81.78	84.40	87.10	89.96	85.04	88.04	90.98	94.13
OTHER COSTS																													
Corporate overhead						3.74	7.21	7.83	8.59	9.34	10.16	11.04	11.65	12.29	12.95	13.65	14.40	15.19	16.02	16.89	17.82	18.79	19.82	20.90	22.03	20.02	21.17	22.27	23.47
NANA royalties						3.03	5.73	6.39	7.18	7.94	8.66	31.02	33.07	35.20	37.41	39.70	50.69	53.85	57.17	60.66	64.42	79.61	84.54	89.70	95.09	75.92	92.55	97.62	103.38
Mining license tax						-	-	-	.60	1.79	4.57	4.02	4.31	4.57	4.84	5.28	5.12	5.48	5.85	6.29	6.28	6.03	6.26	6.99	7.49	5.55	5.27	5.55	5.94
TOTAL OTHER COSTS						6.77	12.94	14.22	16.38	19.07	23.38	46.08	49.03	52.06	55.20	58.63	70.22	74.53	79.04	83.85	88.53	104.43	110.61	117.59	124.61	101.50	118.98	125.44	132.80
DEPRECIATION						74.49	36.29	36.50	36.79	37.63	6.94	7.82	8.04	8.97	9.94	8.55	9.09	9.21	9.38	8.86	15.22	15.47	18.60	14.81	14.79	10.70	11.29	11.90	11.86
DEPLETION						.00	9.87	10.89	19.97	24.80	41.26	40.61	43.32	45.94	48.68	51.55	52.03	55.48	59.08	62.73	64.41	63.17	66.07	72.39	77.16	62.37	61.13	64.49	68.64
TOTAL COSTS						147.01	172.82	187.48	197.98	212.22	210.97	240.46	253.04	266.67	280.97	293.71	314.62	331.22	348.73	366.29	389.21	414.90	438.25	459.44	483.58	446.72	477.19	501.77	528.25
NET INCOME BEFORE TAXES						-53.56	7.36	8.23	16.80	21.26	42.96	35.59	38.24	40.55	42.90	47.52	45.49	48.58	51.80	55.97	56.41	54.74	57.22	62.97	67.23	53.81	52.08	54.98	58.62
TAXES																													
State						.00	.27	.29	.54	.67	1.11	1.10	1.17	1.24	1.04	1.04	1.10	1.16	1.24	1.30	1.42	1.37	1.45	4.51	6.65	4.42	3.17	2.47	5.36
Federal						.00	1.48	1.63	3.00	3.72	6.19	6.09	6.50	6.89	15.85	18.78	17.28	18.94	20.02	21.89	19.76	20.12	20.35	22.86	23.75	17.10	14.54	16.33	18.36
TOTAL INCOME TAXES						.00	1.75	1.93	3.54	4.39	7.30	7.19	7.67	8.13	16.89	19.82	18.38	20.10	21.26	23.19	21.18	21.48	21.80	27.37	30.40	21.52	17.71	18.80	23.72
NET INCOME AFTER TAXES						-53.56	5.61	6.31	13.26	16.87	35.66	28.40	30.57	32.42	26.01	27.70	27.11	28.48	30.54	32.78	35.23	33.26	35.43	35.61	36.83	32.30	34.37	36.18	34.91
CASH FLOW						20.93	51.77	53.70	70.03	79.30	83.86	76.83	81.93	87.33	84.63	87.80	88.23	93.17	99.00	104.37	114.86	111.91	120.10	122.81	128.78	105.37	106.79	112.57	115.43
CAPITAL INVESTMENTS																													
Initial investment	18.35	13.50	42.57	60.55	115.80	18.88	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sustaining capital	-	-	-	-	-	-	1.00	1.05	2.01	13.47	13.94	5.38	2.16	5.86	6.95	2.63	8.10	2.73	6.74	4.35	34.44	9.34	18.38	2.97	4.23	14.00	12.50	24.60	3.90
Increase in working capital	-	-	-	-	-	43.00	20.09	9.69	-.63	4.23	4.34	2.62	4.65	4.92	5.19	5.46	4.92	6.06	6.40	6.75	7.19	6.37	7.92	8.30	8.81	9.45	8.65	10.35	10.91
TOTAL CAPITAL INVESTMENTS	18.35	13.50	42.57	60.55	115.80	61.88	21.09	10.74	1.38	17.70	18.28	8.00	6.81	10.78	12.14	8.09	13.02	8.79	13.14	11.10	41.63	15.71	26.30	11.27	13.04	23.45	21.15	34.95	14.81
NET CASH FLOW	-18.35	-13.50	-42.57	-60.55	-115.80	-40.96	30.68	42.96	68.65	61.61	65.58	68.83	75.12	76.55	72.49	79.71	75.20	84.37	85.85	93.27	73.22	96.20	93.80	111.53	115.74	81.91	85.64	77.62	100.52
INTERNAL RATE OF RETURN	16.5%																												

Source: SRI International

Table V-4

RED DOG COST MODEL
(Inflated U.S. Dollars)

Ownership: Cominco American
Capacity: 710,000 sdt/y of concentrates
Metal Prices: Base case

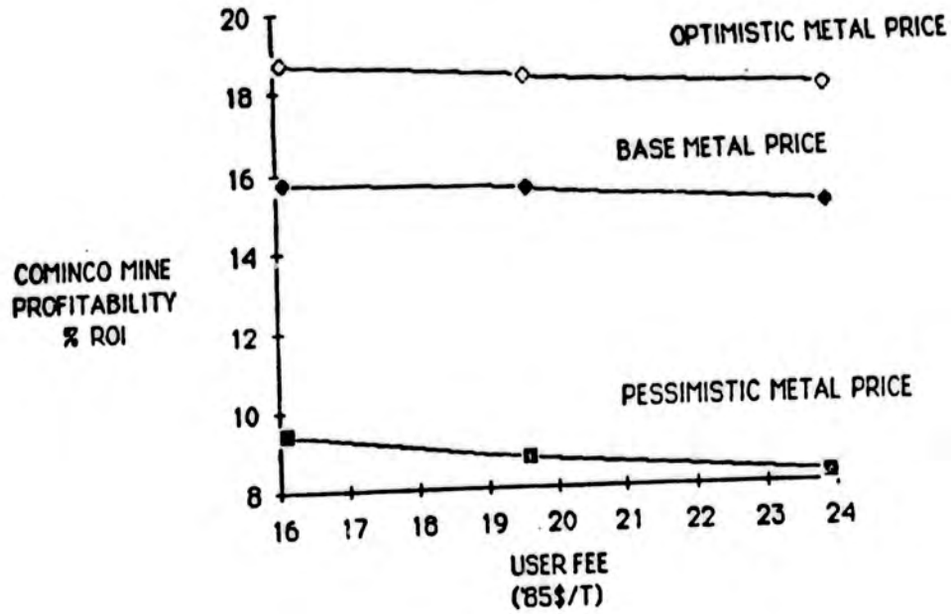
Start-up Date: 1989
Capital Investment: $270 million
Production Rate: Full capacity

	Millions of Dollars (Except Prices)																											
	1979 to 1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
U.S. PRICES																													
Zinc - $/lb						.49	.50	.54	.59	.63	.68	.74	.78	.82	.87	.92	.97	1.02	1.08	1.13	1.20	1.26	1.33	1.41	1.48	1.56	1.66	1.74	1.84
Lead - $/lb						.23	.24	.26	.29	.33	.36	.40	.42	.44	.46	.49	.52	.55	.58	.61	.64	.68	.71	.75	.79	.84	.88	.93	.98
Silver - $/lb						7.53	7.87	8.22	8.64	9.07	9.52	10.00	10.50	11.02	11.57	12.15	12.76	13.40	14.07	14.77	15.51	16.28	17.10	17.95	18.85	19.79	20.78	21.82	22.91
SALES																													
Zinc concentrates						83.85	161.33	173.96	190.17	205.48	222.03	239.90	253.18	267.10	281.66	296.87	313.38	330.53	348.64	367.73	388.11	409.12	431.76	455.37	480.26	427.17	451.98	475.36	501.21
Lead concentrates						9.60	18.85	21.75	24.60	28.00	31.89	36.15	38.10	40.12	42.21	44.36	46.73	49.27	51.88	54.54	57.51	60.52	63.71	67.05	70.55	73.36	77.29	81.39	85.66
TOTAL SALES						93.45	180.18	195.71	214.78	233.48	253.93	276.05	291.28	307.22	323.87	341.23	360.10	379.80	400.52	422.26	445.62	469.64	495.47	522.42	550.81	500.53	529.27	556.75	586.87
OPERATING COSTS																													
Mine						3.20	6.19	7.34	7.78	8.26	8.76	9.30	9.83	10.40	11.01	11.65	12.32	13.04	13.79	14.59	15.44	16.33	17.28	18.29	19.35	20.47	21.66	22.92	24.25
Mill						5.60	10.77	12.73	13.46	14.23	15.04	15.91	16.80	17.75	18.74	19.80	20.91	22.08	23.33	24.64	26.02	27.49	29.03	30.67	32.39	34.21	36.14	38.17	40.32
Maintenance						4.95	9.61	11.39	12.09	12.83	13.62	14.46	15.30	16.19	17.13	18.13	19.19	20.31	21.49	22.74	24.07	25.47	26.95	28.52	30.19	31.95	33.81	35.78	37.87
Power generation						4.62	8.84	10.43	11.01	11.62	12.27	12.96	13.68	14.44	15.24	16.08	16.97	17.91	18.91	19.96	21.06	22.23	23.46	24.77	26.14	27.59	29.12	30.73	32.44
Mine and mill overhead						9.50	18.33	21.68	22.94	24.28	25.70	27.20	28.74	30.37	32.09	33.91	35.84	37.87	40.02	42.29	44.69	47.23	49.91	52.74	55.74	58.90	62.25	65.79	69.52
Additional costs for start-up						10.83	5.29	6.30	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
Contingency						2.36	4.53	5.34	5.63	5.94	6.27	6.61	6.98	7.36	7.77	8.19	8.64	9.12	9.62	10.15	10.71	11.30	11.92	12.57	13.27	14.00	14.77	15.58	16.43
TOTAL OPERATING COSTS						41.07	63.56	75.19	72.91	77.16	81.67	86.43	91.33	96.51	101.98	107.76	113.87	120.33	127.16	134.37	141.99	150.05	158.56	167.56	177.07	187.12	197.74	208.96	220.83
TRANSPORTATION COSTS																													
Concentrates to port						1.65	3.19	3.78	4.01	4.26	4.51	4.79	5.06	5.36	5.67	5.99	6.34	6.71	7.09	7.50	7.94	8.40	8.88	9.40	9.94	10.52	11.12	11.77	12.45
Road and port user fee						2.66	13.19	13.40	13.65	13.93	16.69	17.04	17.39	17.75	18.10	18.46	18.88	19.30	19.80	20.22	20.72	21.28	21.85	22.42	23.05	22.38	23.06	23.67	24.40
Barge to ship						6.03	4.58	4.39	4.46	4.57	4.69	4.80	4.93	5.05	5.18	5.30	5.44	5.57	5.71	5.86	6.00	6.15	6.31	6.46	6.62	5.87	6.02	6.17	6.32
Ocean shipping						8.70	15.63	15.41	15.91	16.55	17.23	17.94	18.60	19.32	20.12	20.96	21.82	22.74	23.68	24.67	25.71	26.79	27.73	28.70	29.72	28.26	29.28	30.34	31.45
Inland freight						5.64	13.59	13.68	13.90	14.24	14.60	14.96	15.34	15.72	16.11	16.51	16.93	17.35	17.78	18.23	18.69	19.15	19.63	20.12	20.63	18.01	18.56	19.02	19.50
TOTAL TRANSPORTATION COSTS						24.69	50.17	50.66	51.92	53.55	57.72	59.53	61.32	63.19	65.18	67.22	69.41	71.67	74.07	76.49	79.06	81.78	84.40	87.10	89.96	85.04	88.04	90.98	94.13
OTHER COSTS																													
Corporate overhead						3.74	7.21	7.83	8.59	9.34	10.16	11.04	11.65	12.29	12.95	13.65	14.40	15.19	16.02	16.89	17.82	18.79	19.82	20.90	22.03	20.02	21.17	22.27	23.47
NANA royalties						3.03	5.73	6.39	7.18	7.94	8.66	31.02	33.07	35.20	37.41	39.70	50.69	53.85	57.17	60.66	64.42	79.61	84.54	89.70	95.09	75.92	92.55	97.62	103.38
Mining license tax						-	-	-	.60	1.79	4.57	4.02	4.31	4.57	4.84	5.28	5.12	5.48	5.85	6.29	6.28	6.03	6.26	6.99	7.49	5.55	5.27	5.55	5.94
TOTAL OTHER COSTS						6.77	12.94	14.22	16.38	19.07	23.38	46.08	49.03	52.06	55.20	58.63	70.22	74.53	79.04	83.85	88.53	104.43	110.61	117.59	124.61	101.50	118.98	125.44	132.80
DEPRECIATION						74.49	36.29	36.50	36.79	37.63	6.94	7.82	8.04	8.97	9.94	8.55	9.09	9.21	9.38	8.86	15.22	15.47	18.60	14.81	14.79	10.70	11.29	11.90	11.86
DEPLETION						.00	9.87	10.89	19.97	24.80	41.26	40.61	43.32	45.94	48.68	51.55	52.03	55.48	59.08	62.73	64.41	63.17	66.07	72.39	77.16	62.37	61.13	64.49	68.64
TOTAL COSTS						147.01	172.82	187.48	197.98	212.22	210.97	240.46	253.04	266.67	280.97	293.71	314.62	331.22	348.73	366.29	389.21	414.90	438.25	459.44	483.58	446.72	477.19	501.77	528.25
NET INCOME BEFORE TAXES						-53.56	7.36	8.23	16.80	21.26	42.96	35.59	38.24	40.55	42.90	47.52	45.49	48.58	51.80	55.97	56.41	54.74	57.22	62.97	67.23	53.81	52.08	54.98	58.62
TAXES																													
State						.00	.27	.29	.54	.67	1.11	1.10	1.17	1.24	1.04	1.04	1.10	1.16	1.24	1.30	1.42	1.37	1.45	4.51	6.65	4.42	3.17	2.47	5.36
Federal						.00	1.48	1.63	3.00	3.72	6.19	6.09	6.50	6.89	15.85	18.78	17.28	18.94	20.02	21.89	19.76	20.12	20.35	22.86	23.75	17.10	14.54	16.33	18.36
TOTAL INCOME TAXES						.00	1.75	1.93	3.54	4.39	7.30	7.19	7.67	8.13	16.89	19.82	18.38	20.10	21.26	23.19	21.18	21.48	21.80	27.37	30.40	21.52	17.71	18.80	23.72
NET INCOME AFTER TAXES						-53.56	5.61	6.31	13.26	16.87	35.66	28.40	30.57	32.42	26.01	27.70	27.11	28.48	30.54	32.78	35.23	33.26	35.43	35.61	36.83	32.30	34.37	36.18	34.92
CASH FLOW						20.93	51.77	53.70	70.03	79.30	83.86	76.83	81.93	87.33	84.63	87.80	88.23	93.17	99.00	104.37	114.86	111.91	120.10	122.81	128.78	105.37	106.79	112.57	115.42
CAPITAL INVESTMENTS																													
Initial investment	18.35	13.50	42.57	60.55	115.80	18.88	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sustaining capital	-	-	-	-	-	-	1.00	1.05	2.01	13.47	13.94	5.38	2.16	5.86	6.95	2.63	8.10	2.73	6.74	4.35	34.44	9.34	18.38	2.97	4.23	14.00	12.50	24.60	3.90
Increase in working capital	-	-	-	-	-	43.00	20.09	9.69	-.63	4.23	4.34	2.62	4.65	4.92	5.19	5.46	4.92	6.06	6.40	6.75	7.19	6.37	7.92	8.30	8.81	9.45	8.65	10.35	10.92
TOTAL CAPITAL INVESTMENTS	18.35	13.50	42.57	60.55	115.80	61.88	21.09	10.74	1.38	17.70	18.28	8.00	6.81	10.78	12.14	8.09	13.02	8.79	13.14	11.10	41.63	15.71	26.30	11.27	13.04	23.45	21.15	34.95	14.82
NET CASH FLOW	-18.35	-13.50	-42.57	-60.55	-115.80	-40.96	30.68	42.96	68.65	61.61	65.58	68.83	75.12	76.55	72.49	79.71	75.20	84.37	85.85	93.27	73.22	96.20	93.80	111.53	115.74	81.91	85.64	77.62	100.50
INTERNAL RATE OF RETURN	16.5%																												

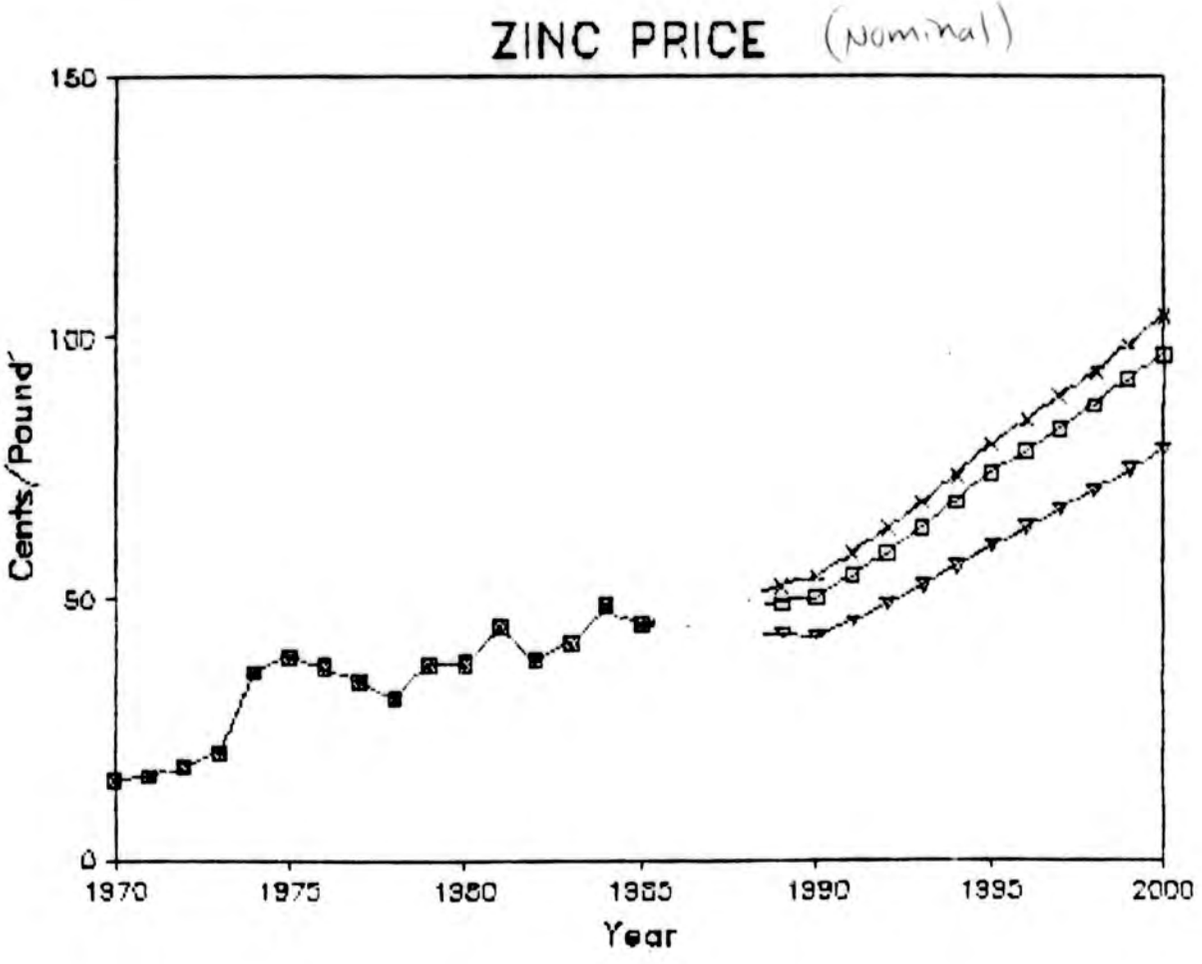
Source: SRI International

SRI
4/30/85

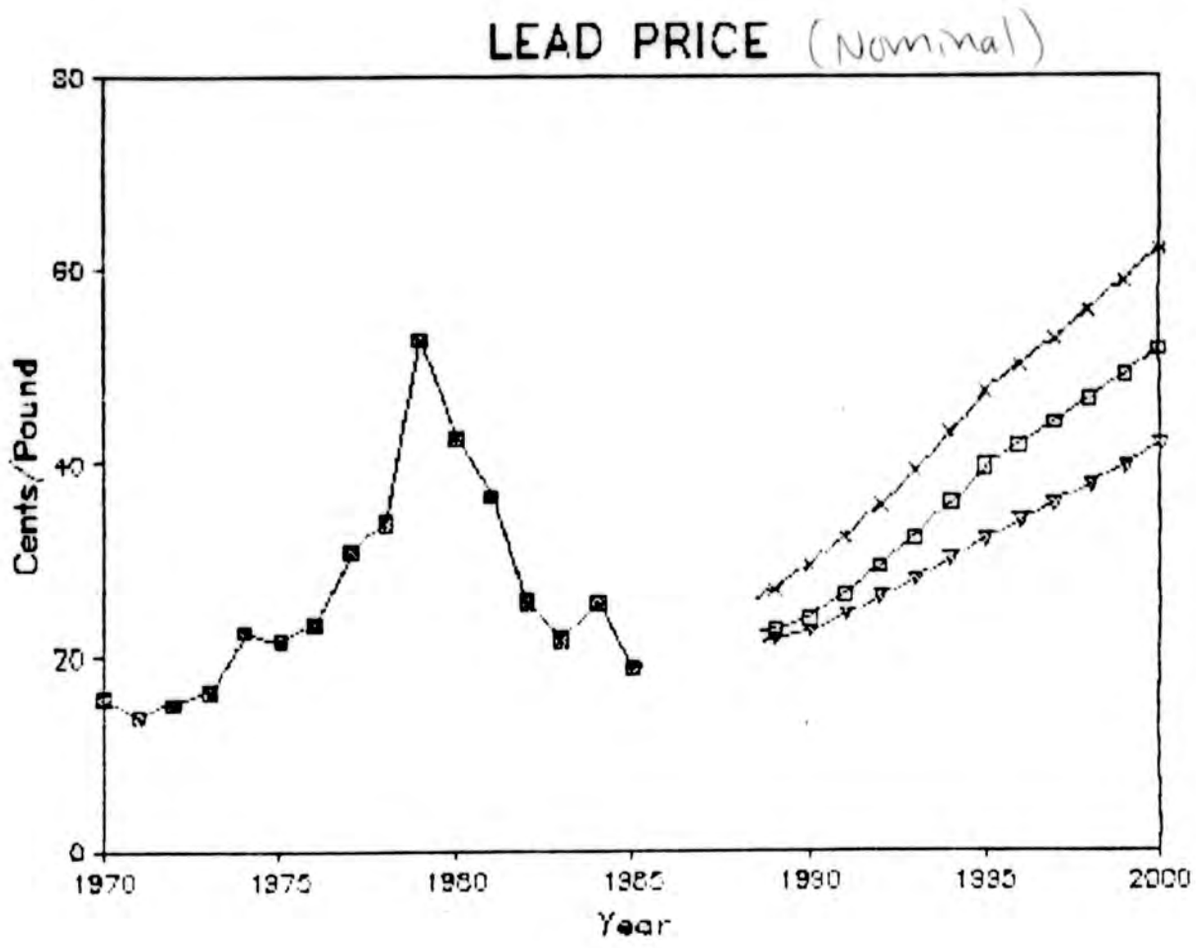
EXHIBIT 8.5: MINING PROFITABILITY VS. USER FEE



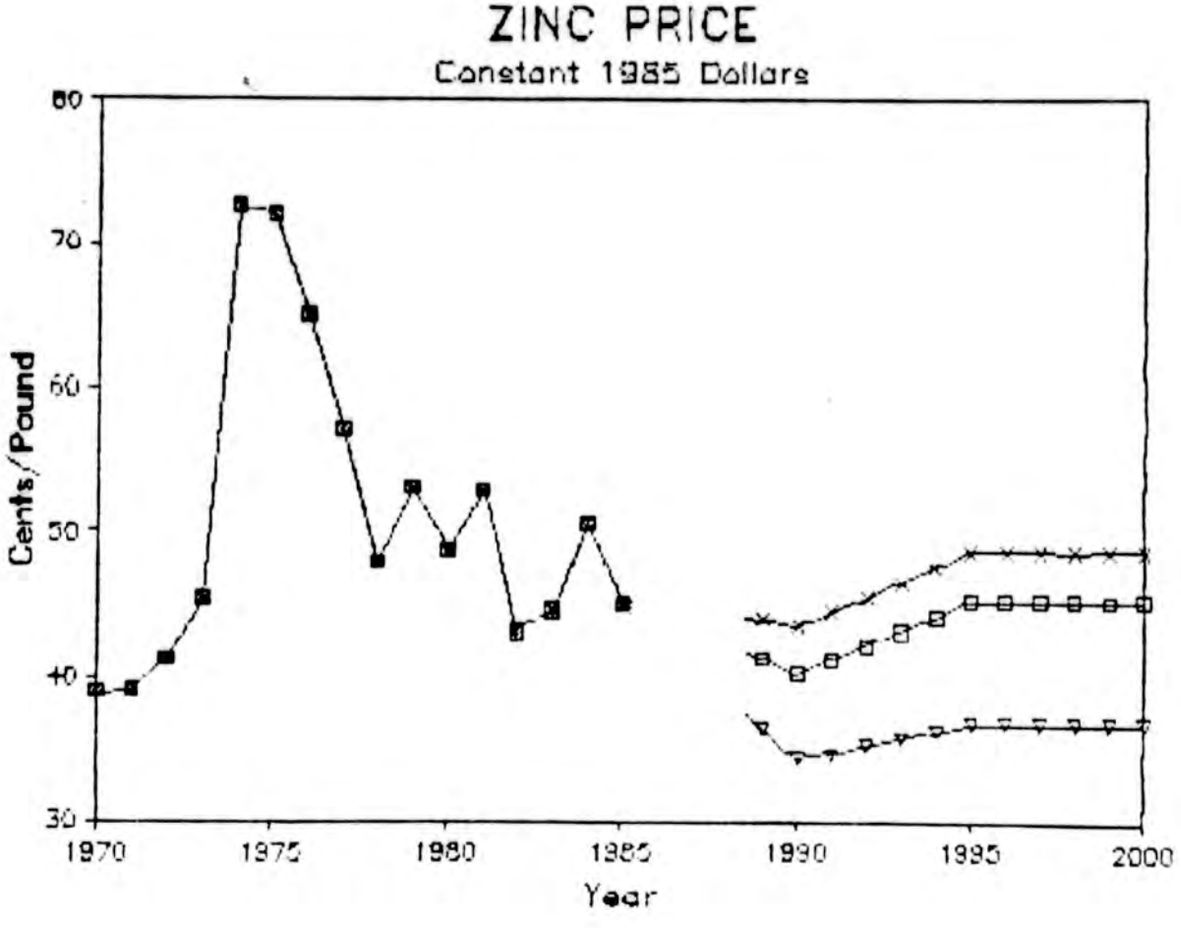
SRI
4/30/85


ZINC PRICE (Nominal)
150
100
50
0
Cents/Pound
1970
1975
1980
1985
1990
1995
2000
Year

SRI
4/30/85


LEAD PRICE (Nominal)
80
60
40
20
0
Cents/Pound
1970
1975
1980
1985
1990
1995
2000
Year

SRE
4/30/85


ZINC PRICE
Constant 1985 Dollars
Cents/Pound
60
70
60
50
40
30
1970
1975
1980
1985
1990
1995
2000
Year

SRI
4/30/85

LEAD PRICE

Constant 1985 Dollars

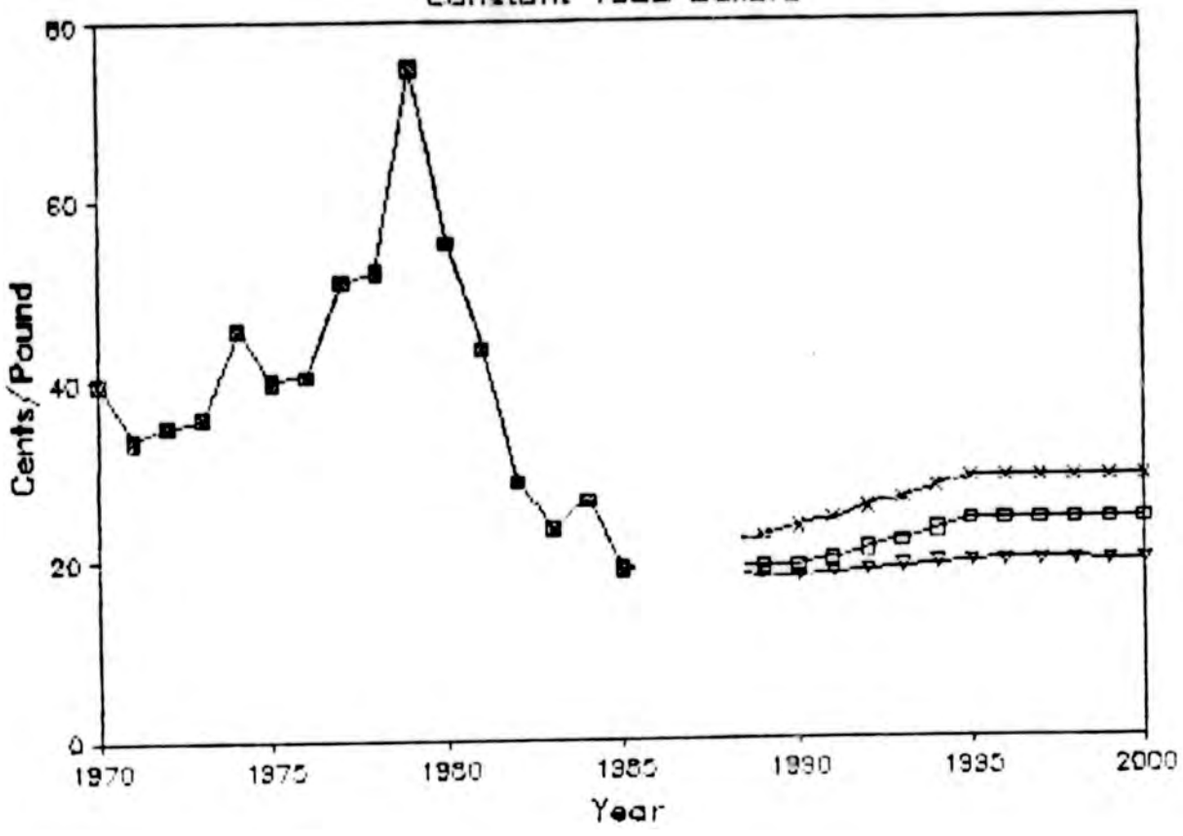
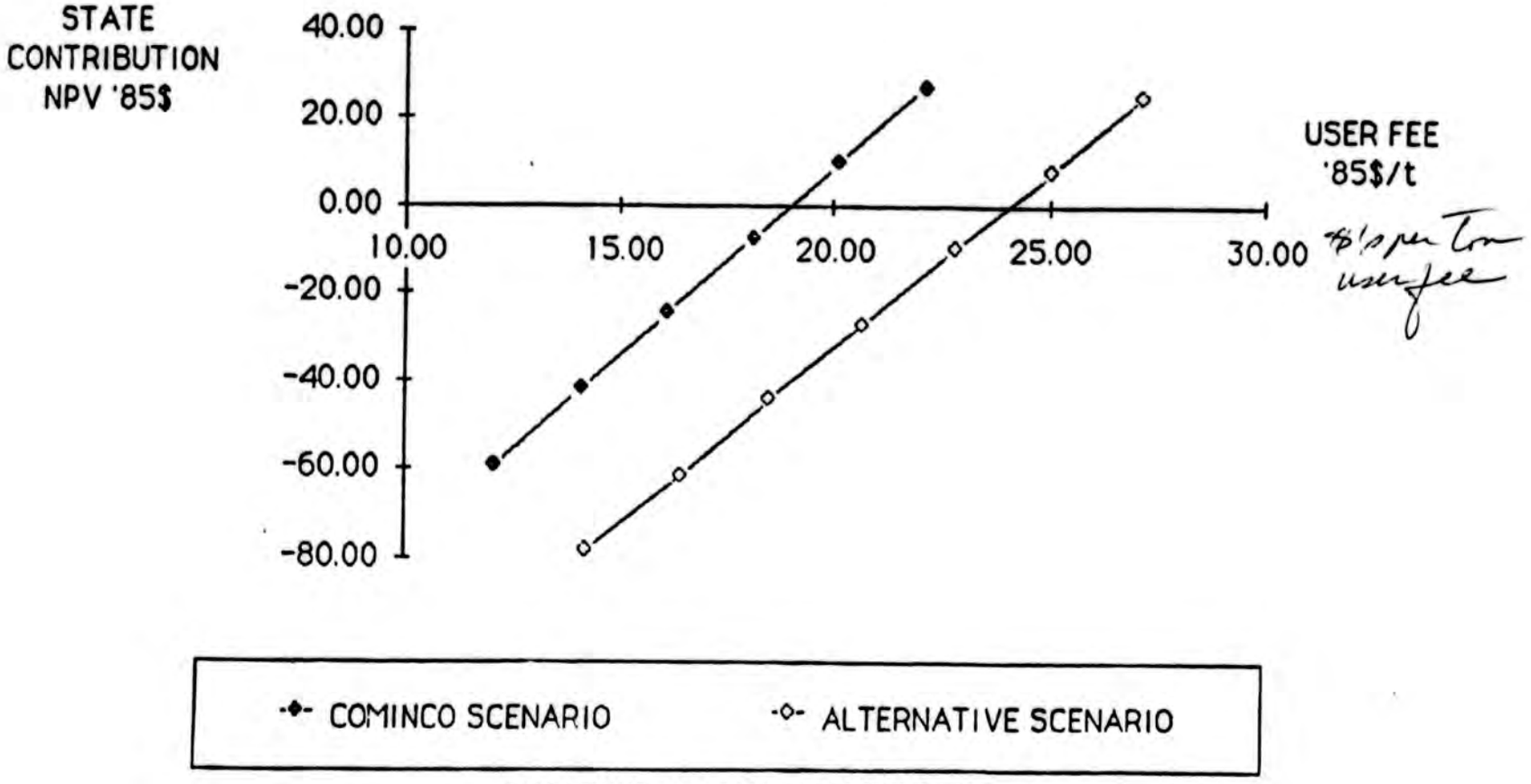


EXHIBIT 8.4: STATE CONTRIBUTION VS. USER FEES
(GENERAL CARGO RATE OF $50/T)



PROPOSED ANNUAL ASSESSMENT

SRI
4/30/85

Rep Sund

April 2, 1985

Chairman, Senate Resources Committee
Senator Arliss Sturgulewski
Pouch V
Juneau, AK 99811

Dear Senator Sturgulewski:

Greetings from Dillingham on this cold but sunny day. It is 14 below zero with steam rising from the waters of Bristol Bay.

I am not writing to tell you about our weather but to encourage you and the Senate, the House and the Administration to approve the Red Dog Mine request for funds through the Alaska Industrial Development Authority. This is a project that I believe will send a strong signal that our State has leaders that want to set Alaska on a course of resource diversification and development.

We are relying too heavily on one resource, oil, to meet our short and long term needs. Alaska, much like a developing nation, needs to support and assist diversification in order to move ahead in a manner consistent with the requirements, goals and objectives of our entire state community.

I believe that the people of the NANA Corporation have studied the impact of the mining activity in their area and they have seen that it is time to bring the stated goals of Alaskan resources development and their regional goals together. For the first time, I see an opportunity for our State government and a region of our State to work together to achieve common goals.

These goals are to diversify our economy, bridge the economic gaps between urban and rural Alaska, employ and train Alaskans for a major mining activity and allow a region of our State a chance to engage in a long term project that will not be a financial burden for Alaska in the future.

It would be a major economic development setback if an agreement cannot be struck before this session ends. A delay will send a signal out that will be difficult to override in terms of perception. We Alaskans will be perceived as anti-development on a major scale if the terms needed to proceed cannot be negotiated before the legislature adjourns.

Your request for additonal information on a financing statement is legitimate and should be honored as quickly as possible by the Administration. However, I have never seen a legislature give a blank check to any sitting Governor, nor should you on any project of this magnitude.

I urge you to proceed with dispatch to help our State move toward a future that sees us developing our natural resources in a prudent and equitable manner. This is the time to act and you are capable of dynamic action when you know what your are doing is right!

Thank you for listening.

Very sincerely,

Nels A. Anderson, Jr.

cc: Governor Sheffield
Resources Committee Members
Senator Ferguson Rep. Adams
Senator Sackett Rep. Fuller
Rep. Herrmann Rep. Duncan
Rep. Gruenstorf

Dillingham, Alaska 99576 • Phone (907) 842-2366

PRESENT VALUE DETERMINATION
RED DOG TAXES AND TRANSFERS
(millions $)

Year Project Begins	Assumed annual transfer amount (real $)	Present value of the transfers	Estimated annual taxes (real $)	Present value of the taxes	Total present value of taxes and transfers
1	2.1	2.04	2.06	2.00	4.04
2	2.1	1.98	2.06	1.94	3.92
3	2.1	1.92	2.06	1.89	3.81
4	2.1	1.87	2.89	2.57	4.43
5	2.1	1.81	8.84	7.63	9.44
6	2.1	1.76	10.23	8.57	10.33
7	2.1	1.71	10.23	8.32	10.03
8	2.1	1.66	10.23	8.08	9.73
9	2.1	1.61	10.23	7.84	9.45
10	2.1	1.56	10.23	7.61	9.17
11	2.1	1.52	10.23	7.39	8.91
12	2.1	1.47	10.23	7.18	8.65
13	2.1	1.43	10.23	6.97	8.40
14	2.1	1.39	10.23	6.76	8.15
15	2.1	1.35	10.23	6.57	7.91
16	2.1	1.31	10.23	6.37	7.68
17	2.1	1.27	10.23	6.19	7.46
18	2.1	1.23	10.23	6.01	7.24
19	2.1	1.20	10.23	5.83	7.03
20	2.1	1.16	10.23	5.66	6.83
21	2.1	1.13	10.23	5.50	6.63
22	2.1	1.10	10.23	5.34	6.43
23	2.1	1.06	10.23	5.18	6.25
24	2.1	1.03	10.23	5.03	6.07
25	2.1	1.00	10.23	4.89	5.89
26	2.1	0.97	10.23	4.74	5.72
27	2.1	0.95	10.23	4.61	5.55
28	2.1	0.92	10.23	4.47	5.39
29	2.1	0.89	10.23	4.34	5.23
30	2.1	0.87	10.23	4.21	5.08
Total		41.16		169.68	210.84

Present value based on long term real rate of return of 3%
since all dollar values are in real terms

Paul Engelman 03/27/85

Rep. Rick Mystrom

STATISTICS ON DCED LOAN PROGRAMS
(Thousands of Dollars)

January 31, 1985

	Veterans	Small Business	Commercial Fish	Tourism	Bulk Fuel	Child Care	Hist Dist	Mining	Alternate Energy	Resid. Energy	Fish Enhance	Power Dev.	Water Resource	Total
ommitments														
otal No. Loans Committed FY '72-85	7,718	1,338	2,657	59	148	42	9	65	2,691	2,173	97	3	5	17,005
otal Dollar Amount Committed FY '72-85	371,795.2	202,529.3	154,396.7	29,874.7	5,482.6	1,320.4	667.7	28,160.0	17,140.9	8,151.2	37,084.1	191,165.0	2,500.0	1,050,267.8
otal No. Loans Committed FY '85	-0-	-0-	110	-0-	28	6	-0-	2	183	159	9	3	-0-	500
otal Dollar Amount Committed FY '85	-0-	-0-	6,148.1	-0-	962.9	276.2	-0-	1,128.1	1,394.2	404.4	3,780.1	191,165.0	-0-	205,259.0
ppropriations														
Y '83	-0-	-0-	9,400.0	-0-	1,000.0	400.0	500.0	15,000.0	4,000.0	4,500.0	22,000.0 [1]	N/A	-0-	56,800.0
Y '84	-0-	-0-	9,091.0	-0-	-0-	869.5	500.0	-0-	2,400.0	3,123.4	6,500.0	N/A	-0-	22,483.9
Y '85	-0-	-0-	3,500.0	-0-	-0-	-0-	-0-	-0-	1,000.0	-0-	5,000.0	210,000.0	-0-	219,500.0
oans Outstanding														
wned by Fund														
umber of Loans Outstanding	135	268	999	5	49	25	3	48	1,944	1,571	81	3	1	5,132
rincipal Amount Outstanding	6,129.4	33,835.6	48,402.5	3,258.2	1,257.0	867.0	339.9	18,833.6	12,051.7	4,966.0	31,116.2	191,165.0	909.8	353,131.9
verage Loan Amount Outstanding	45.5	201.4	48.5	651.6	25.7	34.7	113.9	392.4	6.2	3.2	38.5	63,721.7	909.8	68.8
erviced for the Dept. of Revenue														
umber of Loans Outstanding	1,841	225	764	14	N/A	3	3	N/A	N/A	N/A	14	N/A	N/A	2,864
rincipal Amount Outstanding	83,241.0	18,587.5	30,215.1	2,578.9		16.9	124.3				6,604.2			141,367.9
verage Loan Amount Outstanding	45.2	82.6	39.5	184.2		5.6	41.4				471.7			49.4
ummary														
otal No. of Loans Outstanding	1,976	493	1,763	19	49	28	6	48	1,944	1,571	95	3	1	7,996
otal Principal Amount Outstanding	89,370.4	52,423.1	78,617.6	5,837.1	1,257.0	883.9	464.2	18,833.6	12,051.7	4,966.0	37,720.4	191,165.0	909.8	494,499.8
elinquency Rates (includes defaults)														
umber of Loans %	18.3%	32.8% [2]	14.9% [3]	10.5% [2]	20.4%	14.8%	-0-	47.9%	16.6%	15.8%	N/A	N/A	-0-	17.8%
utstanding Balance %	19.2%	34.1%	18.5%	3.5%	11.1%	13.9%	-0-	56.3%	15.8%	16.0%	N/A	N/A	-0-	24.0%

See Ch 114, Sec 5 and Ch 141, Sec 242 SLA 1982, and Ch 106 Sec 11 SLA 1983.

Adjusted for Bank Participation system inaccuracies

Adjusted for approved extension requests

repared by: Division of Accounting and Collections, 465-2555

2/25/85

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

1577 "C" STREET • SUITE 304 ☐ ANCHORAGE, ALASKA 99501-5177 ☐ (907) 274-1651

May 10, 1985

The Honorable John Sund
Chairman, House Special Loans Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Sund:

As you are aware, the Alaska Industrial Development Authority is actively involved in a proposal to build and operate a transportation system in the DeLong Mountains area. This transportation system, consisting of a 55 mile road and a port, would be used by Cominco Alaska, for its Red Dog Mine, and eventually by other users in this mineral rich area. Prior to incurring any debt on this project, AIDA has to prepare a Finance Plan that accounts for all costs, both operating and capital, and details revenue sources that are adequate to cover all of these costs.

Enclosed is a preliminary draft report, prepared by SRI International, that is being sent to you for your information and comments. When the final version of this report is prepared, it will form the basis of this Financial Plan.

I welcome any comments and suggestions you might have.

Sincerely,

Bertram L. Wagnon
Executive Director

BLW/RDL/rm
Enclosure

SRI International

ECONOMIC EVALUATION OF THE PROPOSED TRANSPORTATION SYSTEM FOR THE RED DOG DEPOSIT

A Preliminary Draft Report

May 3, 1985

Prepared for:

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY (AIDA)

Prepared by:

Mark Hollyer
Gerard M. Marsh
John W. Moberly
Ann J. Pacey
Claire Starry
Eugene Thiers
Jack E. Van Zandt

SRI International Project No. 8404

SRI International
333 Ravenswood Ave. • Menlo Park, CA 94025
415 326-6200 • TWX 910-373-2046 • Telex 334-486

I INTRODUCTION

This draft report summarizes the results of SRI International assistance to Alaska Industrial Development Authority (AIDA) in preparing alternative finance plans for the proposed transportation system for Cominco Alaska's Red Dog deposit. The deposit is about 90 miles north of Kotsebue and about 70 miles east-northeast of Kivalina, some 55 miles from the Chukchi Sea.

To assure that the legislative requirements of the State of Alaska (Alaska Statutes Section 44.88.173) are met, the various finance plans, and alternatives include estimates of project capital costs, possible sources of capital funds, anticipated project operating costs and the money sources to meet them, and our comments regarding implied levels of State financial assistance.

In undertaking the work SRI has adopted a multidisciplinary approach, with specialists assigned to the study team for the duration of the program. SRI has consulted multiple sources of information, which are listed in Attachment 1.

Unless otherwise noted, all prices and costs in this report are expressed in inflated dollars (i.e., the inflated dollar values that are likely to prevail in the future), as opposed to dollars expressed in terms of 1985 purchasing power. Such projections are based on assumptions about future levels of inflation, and escalation or deflation factors that apply to cost components like labor, supplies, or energy. Table I-1 summarizes SRI's principal assumptions regarding escalation factors and overall inflation.

Following this introduction is Chapter II, the Executive Summary. Chapter III reviews the information collected, and briefly describes the transportation project and the capital and operating costs associated with the required infrastructure. Chapter IV describes the transport model SRI has used for allocating cargo and user costs. Chapter V deals with the profitability of the Red Dog project (relative to other major zinc/lead suppliers in the Western World). The chapter reviews the capital, operating, and maintenance costs associated with the mine and mill facilities that are currently contemplated. Chapter V also briefly discusses relevant metal prices and describes the model SRI has created to examine Cominco Alaska's profitability under various operating assumptions.

A financial evaluation of Cominco's proposal and the State's investment in the proposed transportation system, including possible alternatives, are discussed in Chapter VI. The importance of such

Table I-1

MISCELLANEOUS ESCALATION FACTORS
(Compound Percent per Year)

	1985	1986	1987	1988	1989	1990	1991	1992-1995	Post-1995
Inflation	4.0	4.0	4.5	4.5	5.0	5.5	6.0	6.5	6.5
Construction/ equipment	1.5	1.5	1.5	1.5	1.5	1.0	1.0	1.0	0.0
Labor	2.0	2.0	2.0	2.0	2.0	1.0	1.0	1.0	0.5
Energy	-0.5	-0.5	-0.5	-0.5	-0.5	0.0	0.0	0.0	0.0
Materials/supplies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: SRI International

critical parameters as start-up date and construction and capital cost schedules are discussed. Chapter VI also describes the financial model SRI has used to evaluate different proposals and alternatives, and sets forth the principal results modeled. Chapter VII provides a brief discussion of results.

Special effort has been made to make this draft report a succinct document--one that is immediately useful to AIDA and the Alaskan Legislature and other state organizations. Accordingly, certain details pertaining to intermediate steps or methodology are omitted here. Also omitted are Appendix materials, such as tables and figures. These will be included, however, in SRI's final report.

II EXECUTIVE SUMMARY

In general, SRI has identified no serious discrepancies in the review of capital and operating and maintenance (O&M) cost data regarding the proposed road and port facilities that will serve Cominco Alaska's Red Dog operation. The data, which were largely submitted by Cominco Alaska but include those from multiple other sources as well, indicate that the capital investment required will be on the order of $158 million for the road and the port. This estimate, which we have called the "Cominco-Based Scenario," has been adjusted to reflect SRI's views on possible cost contingencies. If all these contingencies are considered, they would raise the total investment contemplated under the Cominco-Based Scenario by about 20%. We refer to this higher capital cost set of assumptions as the Alternative Scenario.

Both the Cominco-Based Scenario and the Alternative Scenario have been used to evaluate the State subsidy implied in Cominco Alaska's proposal outlined in its December 11, 1984, Memorandum of Understanding--representing an offer that has not been officially acknowledged. Our findings indicate that, under the Cominco-Based Scenario, the State would earn a return of about 2% to 3% on its investment in the transportation system and a return of about 1% to 2% under the Alternative Scenario. Assuming that the State's cost of money is about 10%, the implied level of State subsidy would range from about $80 million (in 1985 dollars) to about $95 million (in 1985 dollars). Furthermore, the State's financial exposure can increase significantly if the first shipment of concentrates is delayed after 1989. For example, a 1-year delay in shipments and user charges increases the implied subsidy from about $16 million (in 1985 dollars) under the Cominco-Based Scenario to $20 million (under the Alternative Scenario).

Surprisingly, Cominco's mine profitability (i.e., as a percent of return on investment--%ROI) appears to be relatively insensitive to the total amount of user charges for the transportation system. SRI examined the effect of significantly higher user charges on both the State's return on its transportation system investment and on Cominco Alaska's return on its mine investment. The results indicate a user charge that will allow the State to achieve breakeven on its investment and that will reduce Cominco's rate of return on its mine investment by less than two percentage points compared with its original proposal.

Comparisons with international producers of lead and zinc indicate that Red Dog's operating cash costs should be below the median of those for the western world at any point in the foreseeable future. Furthermore, Cominco, Ltd. will benefit from this mine development through continued high utilization of existing facilities.

We note that debt-financing by Cominco of its mine and mill facilities--as is usual within the industry--would increase the anticipated return on its investment in the Red Dog operation above what is shown by our analysis.

The proposed mine development will also generate handsome royalties for NANA, which owns the resource, as well as distribution to other regional corporations--more than $600 million (in 1985 dollars) under our base price metal forecasts.

We believe that the State, in view of the sizable total economic return expected from developing this mine, should facilitate this commercial development. However, we question the need for a substantial State subsidy in financing the proposed transportation system. We recommend that a reasonable rate of return on this investment be secured in future years through an appropriate schedule of user charges.

III REVIEW OF INFORMATION

Project Description

The proposed transportation system consists of two relatively distinct components:

1. A year-round, 30-foot wide roadway, some 55 miles in length, extending from the proposed Red Dog Mine site (800 to 1500 feet in elevation and 90 air miles north of Kotzebue), southwesterly to the port site on the Chukchi Sea, a few miles south of Ipiavik Lagoon.

2. A sea port facility, which is currently described as a "800 lineal foot, 20 foot (water) depth, 2-dolphin" plan, with support features, including: material-handling equipment; power generation and fuel storage; water and sanitary works; helipad; personnel accommodations; and a barge for "regional" use. Major associated features include a concentrate storage building, fuel tank farm, storage areas for regional supplies (solids) and containers, and a regional supplies (liquid) facility.

The proposed road portion of the transportation system is described in "Geotechnical Report, Alaska Red Dog Mine" (October 1984). For the port, the following preliminary plans were provided to SRI:

- Cominco Alaska Red Dog Project, Seaport Facilities, Scheme 3B, Drawing SKD-GA-09, Rev. B (2-23-85).

- Concentrate Storage Facilities at Seaport, Drawing SKD-GA-10, (2-26-85).

- Cominco Alaska Red Dog Project, Dock Facilities, Drawing SKD-GA-11, Rev. A (3-8-85).

In addition, physical conditions data were also obtained from reports by D&M and from telephone discussions with Arctec, Inc., and Brian J. Watt Associates.

The road is planned for construction over a 2-year period from mid-1986 to mid-1988. This schedule, which includes two winter seasons, allows for road embankments to be constructed on undisturbed tundra in its frozen state, and for necessary embankment repair or grade correction after periods of thaw. Construction of the port facility is also planned to commence in mid-1986; it will extend somewhat beyond mid-1988,

however--primarily because of the extensive mechanical-electrical installations required.

Capital Costs

Two key documents on construction costs and their expenditure rates over the planned construction periods were provided to SRI:

- Road and Port Cost Summaries; Memorandum (March 7, 1985) from T. J. Manning (Red Dog Project Office, Pasadena) to H. M. Giegerich (Cominco Alaska, Anchorage),
- Port and Road Cash Flow; prepared by RMP (3-15-85), referring to Job No. 6560.

The road's cost summary reflects RMP's audit of the PN&D cost estimates. The cost summary for the port reflects a revised port scope (i.e., the one used here) developed by RMP.

To supplement the limited backup detail provided, SRI held several in-depth telephone discussions with RMP's estimating department during our review of the cost estimates and schedules. These estimates were then partially reordered to take account of transport cost modeling and financial analyses of a public-based transportation system in Alaska, and the scheduled need for in-process construction capital. We refer to these estimates as the "Cominco-based" case.

Given that Cominco Alaska, RMP, PN&D, and others familiar with Alaskan construction cost factors have allotted considerable effort to developing detailed cost estimates, SRI believes its comment on aggregated costs are in order but notes that similar time for conducting detailed checks on economic assessments was unavailable.

Nevertheless, SRI and HLA suggest that if certain construction item costs were in fact higher than originally estimated, their overall cost effect should be considered in the financial analysis. For this purpose, SRI has developed an Alternative Case.

Our review has thus centered on identifying possible geotechnical and Arctic engineering concerns and constraints that might affect project costs. Those identified are discussed below.

Roadway Gradient and Curvature

The PN&D report specifies a maximum grade of 4% and addresses a one-lane road with passing turnouts every 2 miles and a sight distance design speed of 55 miles per hour. We understand, however, that curvature (vertical and horizontal) design criteria have subsequently been relaxed and maximum grades could reach 8% to 10%, altnough for

relatively short distances. For a public highway with similar traffic conditions, such grades and lesser alignment standards, particularly for winter driving in Alaska, may pose a severe safety hazard. For example, these road configurations may compound sight and stopping distance problems. Given the passing turnouts proposed and speeds to 55 miles per hour, this change in alignment criteria may prove to undesirably decrease the margin of operational safety. For the purpose of cost impact analyses in the Alternative Case, the embankment fill quantity has been increased by 50% (i.e., an additional $8.5 million).

Roadway Maintenance and Repair during Construction

Two freeze/thaw cycles will occur during the construction period. The severity and frequency of roadway depressions and/or surface cracking resulting from these conditions are unknown. Along the road's centerline, 15 test borings were drilled, with 9 more drilled at major stream crossings, and 51 at proposed roadway borrow sites. PN&D concludes that subsurface conditions of importance have probably been identified. However, to account for soil problems that may not have been identified and to account for higher than expected roadway reconstruction costs, the Alternative Case doubles the fill quantity provided in the "Cominco-based" case for these purposes for an additional $2.1 million.

Ice Forces on the Port's Causeway

As currently proposed, the causeway consists of a series of cellular sheet pile structures filled with quarry run material. Preliminary plans envision the sheet piles bottoming some 25 feet below mudline. (Bedrock is apparently about 40 feet below the mudline.) To our knowledge, uplift and horizontal ice forces on the proposed structure have not been definitively quantified. Concerns therefore include potential jacking of individual sheet piles because of ice bonding and uplift, or the possible failure of individual sheets or groups of sheets because of large local lateral ice forces, leading to progressive failure of the cell. Accordingly, the Alternative Case assumes that the $6.9 million estimate for the cellular causeway portion be increased by 25% (i.e., an additional $1.7 million) to allow for unexpected additional sheet pile lengths or other required design modifications.

Concentrate Storage Facility and Fuel Tank Farm

The D&M reports provide no conclusions or recommendations in regard to the proposed location of the concentrate ore pile and the fuel tank farm, which is supported on fill pads adjacent to an existing lagoon. No doubt, additional test borings and soils analysis will be conducted before final design decisions are made. In the meantime, however, related concerns about soils stability and settlement, and about lateral loads on the foundations of the concentrate storage building appear worthy of consideration in the Alternative Case. Accordingly, the Site Preparation and Pad Fill item for both the concentrate storage and fuel

storage facilities were used as the basis for the Alternative Case. Cost for these items were increased by 100% (i.e., an additional $2.1 million for the concentrate storage facility and $1.6 million for the fuel tank farm).

In summary, although it is problematical whether any or all of the above cost adjustments will in reality occur, their net effect would be to raise the Cominco-based estimates (for direct construction costs) by about 15% for the road and 10% for the port facility. These adjustments serve as the basis for the Alternative Case analysis discussed in subsequent sections.

Operating and Maintenance Costs

Road

The road from the Red Dog mine to the port site is assumed to carry substantially heavier trucks than most other roads in northern Alaska. Therefore, its operating and maintenance (O&M) costs are likely to be higher than comparable roads. From our discussions with the contacts cited in Attachment 1, the O&M items discussed below will be required. Annual costs (in 1985 dollars) associated with these activities are listed in Table VII.1 for the Cominco-based Case and the Alternative Case.

- General and Administrative--Three persons, plus support facilities, are estimated to be required to administer road O&M. They will be in offices at the mine site or the port. Information used to develop this estimate was obtained from discussions with the Alaskan Department of Transportation (ADOT) and the highway consultant cited in Attachment 1

- Maintenance--Maintenance estimates are based on two camps of crew and equipment--one at the mine and one at the port. Each camp will be responsible for servicing approximately 30 miles of road and will be staffed by 4 persons. Maintenance will be year-round, with the possible exception of a shut-down period during thaws. Typical activities include snowplowing and repair of the roadway and structures. The cost estimates for maintenance are based on per-mile costs to maintain the Dalton and Elliott Highways and similar roads in northern Alaska. All labor costs are based on prevailing local wage standards. (Our discussions with state and federal officials indicate that this facility should conform to the provisions of the Davis-Bacon Act.)

- Sustaining Equipment--Sustaining equipment includes snowplows, snowblowers, loaders, bulldozers, graders, trucks, and related equipment. These items will be replaced as needed throughout the life of the road. The costs for acquiring this equipment,

which were provided by Cominco, are consistent with estimates provided by ADOT.

- Sustaining Capital--Major repairs to the roadway and structures (e.g., replacement of bridge decking and culverts, and roadway reconstruction) are expected periodically, starting about 5 years after the road is opened. These activities are included in the sustaining capital category. Estimates for these activities were developed from discussions with highway engineers at ADOT and with LCMF, Ltd., a highway consulting organization. Some uncertainties remain about sustaining capital requirements (e.g., major damage to the road from recurring freeze/thaw conditions or from poor quality ground surface or greater sustaining capital costs).

- Right-of-Way--The road will cross land owned by the NANA Corporation and Krusenstern National Monument. Right-of-way costs have not been included in this analysis, because no data are available, but such costs are likely to be assessed.

Port

The methods used to maintain and operate the port serving the Red Dog mine will be like those at other ports with similar climatic conditions and/or cargo operations. From discussions with the contacts noted in Attachment 1, the O&M items listed below will be required. Annual costs (in 1985 dollars) associated with these activities for each of the two cases being analyzed are given in Table III.1.

- General and Administrative--We estimate that four persons, plus support facilities, will be required to administer operations at the port.

- Maintenance--Maintenance estimates are based on data provided by Cominco in its March 27, 1985, letter and have been corroborated by SRI in discussions with officials at similar ports. Cominco estimates are about 15% higher on a per ton basis, than maintenance for other ports but SRI believes these estimates are reasonable given that the port will be open only about 3 to 4 months per year.

- Replacement Parts--Cominco estimates, provided in Appendix 7 of the Red Dog Report, indicate replacement parts to keep the port operating will amount to $250,000 per year (1984 dollars). This figure appears to be reasonable.

Table III.1

ANNUALIZED OPERATING AND MAINTENANCE COSTS FOR ROAD AND PORT
(1985 dollars)

	Cominco-Based Case	Alternative Case
Road		
General and administration	15% of maintenance costs[a]	15% of maintenance costs[a]
O&M	$15,000 per mile[a]	$20,000 per mile[a]
Sustaining equipment	Varies each year[b]	Varies each year[b]
Sustaining capital	$8,500 per mile[c]	$11,300 per mile[c]
Right-of-way	Unknown	Unknown
Port		
General and administrative	15% of O&M costs[a]	15% of O&M costs[a]
O&M	$1.06 million per year[b]	$1.06 million per year[b]
Replacement parts	$250,000 per year[b]	$250,000 per year[b]
Fuel	150,000 gallons per year, at $1.10 per gallon (1985$)[d]	150,000 gallons per year, year, at $1.10 per gallon (1985$)[d]
Sustaining equipment	Varies each year	Varies each year[b]
Sustaining capital	0.5% of the value of port construction[e]	0.5% of the value of port construction[e]
Royalty on port land	Unknown	Unknown

---

[a] Based on estimates provided by ADOT and LCMF, Ltd.

[b] Cominco, Red Dog Report, Appendix 7.

[c] Costs incurred after about the fifth year of operation, based on information provided to SRI by ADOT.

[d] Letter from T. J. Manning of Cominco to John Moberly of SRI, March 27, 1985.

[e] SRI International, to start about the fifth year of operation.

NOTE: Dollar figures in this table are increased each year by the appropriate inflators throughout the period of analysis.

- Fuel--The cost of fuel to operate the port is based on use figures provided by Cominco in its March 27, 1985, letter. The fuel, Arctic No. 1 Diesel, currently costs $1.10 per gallon. This amount has been inflated by the price escalators in the Introduction.

- Sustaining Equipment--Sustaining equipment includes container chassis, tractors, forklifts, container loading equipment, cranes, trucks, and other items. These items are replaced as needed throughout the life of the port. The costs Cominco stipulated for acquisition of sustaining equipment are reasonable.

- Sustaining Capital--Major periodic rehabilitation and repairs to port facilities are expected (e.g., for ice and wind damage to loading equipment and for rehabilitation of the port structures). Such costs are likely to start about 5 years after the port is opened. These activities are included in the category of sustaining capital. The total cost of these activities is estimated to be about 0.5% of the cost of construction, adjusted for inflation.

- Royalty on Port Land--The port will be situated on land owned by the NANA Corporation. Although annual royalty costs for using the land are not included in this analysis because no data on them have been provided, they are likely to be assessed.

We have not included, in either the port or road costs, the cost of reclaiming the land. The Red Dog Environmental Impact Report indicates that if these facilities are no longer used at the end of the project, the developer will be required to return the area to its natural conditions.

IV THE SRI TRANSPORT MODEL

The SRI Transport Model consists of two parts: The first part evaluates land movement between the port and the Red Dog mine. The second part evaluates the cost of moving concentrate from the port to smelters at various locations around the world. The latter part of the model is not of direct interest to AIDA because the Authority will not be involved in its funding. However, the cost of transporting the concentrate will affect the profitability of the mine and, therefore, Cominco's ability to pay user fees levied by the State for the port and road facilities.

Road and Port Model

The land-side road and port model is a cost-allocation model that determines the annual charges necessary to meet all capital and O&M costs. Costs are allocated to users on the basis of tonnages moved. The sources of capital and O&M data and the inflation rates used to escalate costs throughout the period of construction and operation are given in Attachment 1.

The model has been used to evaluate two cases: The first is the Cominco case, where the capital and O&M costs are, to the extent feasible, those Cominco provided by in its Red Dog Report (the exceptions to those costs are noted). The second case is an alternative that reflects the adjustments SRI has made, as discussed in Chapter III.

Construction Costs

Road

All road construction costs have been allocated to Cominco because it appears unlikely that others in the region (whether other mines or local residents) will be using the road in the near term. The net present value of these costs has been determined, and an equal, annualized, payment has been calculated that allows payback of the construction costs and interest over the 30-year operation period, 1989 to 2018. The discount rate of 10.5% reflects the estimated cost of money to be raised through long-term, tax-exempt bond issues.

Port

Because the port may be used by local residents and others living in the small communities nearby, costs of port construction and operations

have been allocated between Cominco and regional users. The communities include Kivalina, Noatak, Kiana, and Kotzebue. Currently, cargoes destined for these communities are barged from Seattle and conveyed via lighter (a type of barge) to shore. The presence of the port for the Red Dog Mine may allow for more efficient transport and unloading of this cargo. Indeed, the Red Dog Mine Port Evaluation report (prepared by Cominco Engineering Services, Ltd., November 1983) contends that the port will reduce freight charges for regional cargo and may help to eliminate one of the greatest handicaps to growth in the region--high freight charges. SRI has found no data to support or refute this assumption. However, because the port may well be used for regional cargoes, such estimates have been incorporated in the analysis based on the Cominco report, which estimates that regional cargoes will total 32,700 to 34,900 tons per year (general cargoes and fuel).

Construction costs have been allocated to Cominco and regional users by identifying project elements that are dedicated to Cominco or region users and those elements that are common to both. Items that are specific to Cominco include the material-handling equipment, fuel storage, and concentrate storage. Items specific to regional users are the dry and wet storage areas, and a barge for local residents' use. All of the other construction costs have been allocated to Cominco or regional users on the basis of the percentage of tonnage moving through the port.

Annual construction costs have been calculated in the same manner as for the road.

Operating Costs

Most of the operating costs for the road and port have been estimated on an annual basis. Sustaining capital costs, however, have been taken from estimates provided by Cominco in its Red Dog Report, Appendix 7, and are not evenly spread throughout the period of operation. To spread these costs evenly over the life of the project, the net present value of purchases required has been calculated, and an equal, annualized payment that pays back the cost of the equipment and interest has been determined.

Operating costs, other than those for sustaining equipment, have first been estimated in 1985 dollars, and then have been escalated to reflect inflation. The costs for sustaining equipment, like those for construction or capital costs, have not been inflated. Rather, the method used to calculate the equal annual payments accounts for the effects of inflation on future purchases of equipment and the related interest costs.

Although the port and road will be in operation from 1988, and will be used for construction supplies for the mine before the export of

concentrate, the transport model does not allocate costs until 1989 (i.e., the first year of concentrate shipment). Any operating costs that are incurred in 1988 have been included in the mine cost model and have been assumed to be paid directly by Cominco. Depreciation of capital has been assumed not to begin until 1989.

All O&M costs have been allocated to regional and Cominco cargo on the basis of tonnage. Although the costs of handling and storing different types of cargo are likely to be different, we did not have sufficient information to determine these differences. In addition, from discussions with personnel at various ports and, given the operating conditions expected at the Red Dog port, the differences in overall operating and storage costs for the types of cargo are unlikely to be major.

Traffic

Cominco traffic will dominate port and road uses. Table IV.1 shows the amount of cargo, by type, during the peak use of the road and port--from 1993 to 2007. Concentrate will account for more than 95% of the cargo for the road and about 90% for the port.

About 700,000 short tons of concentrate will be moved each year. In addition, about 10,000 short tons tons of general cargo and about 25,000 short tons of fuel will be imported for use at the mine and port. Regional users have been estimated to move an additional 11,600 short tons of general cargo and 23,300 short tons of fuel through the port each year.

Cost Allocations

Table IV.2 gives the estimated cost allocations for Cominco and regional users for each of the two cases. The port costs could not be broken down by type of cargo because the information available was insufficient for doing so.

The port charges per ton of regional cargo are about 50% higher than for Cominco cargo because of the higher cost per ton of construction for the regional storage facilities (as a result of the small tonnage throughput and the resulting lack of economies of scale) and the barge that serves local residents' needs. Those facilities dedicated to Cominco will be used, on average, more intensively. Of course, no road charges are incurred for regional cargo.

Table IV.1

PEAK LEVEL TRAFFIC FOR THE RED DOG PORT AND ROAD
(Dry Short Tons)

Road	
Cominco	
Zinc concentrate	585,000
Lead concentrate	119,000
General cargo	10,000
Fuel	20,000
Port	
Cominco	
Zinc concentrate	585,000
Lead concentrate	119,000
General cargo	10,000
Fuel	24,380
Regional users	
General cargo	11,600
Fuel	23,300

Source: Cominco Engineering Services, Ltd., Red Dog Port Evaluation Study (November, 1983) and Red Dog Report (July, 1984).

Table IV.2

COST ALLOCATION FOR ROAD AND PORT
COMINCO AND REGIONAL USERS

Cominco Case	1990	2000	2010	2018
Cominco				
Road ($ in millions)	$11.19	$13.44	$16.19	$19.84
Road ($ per ton)	$15.07	$18.32	$25.26	$26.91
Port ($ in millions)	$10.01	$12.25	$15.64	$24.14
Port ($ per ton)	$13.40	$16.59	$24.24	$31.21
Regional				
Port ($ in millions)	$ 0.74	$ 0.91	$ 1.16	$ 1.50
Port ($ per ton)	$22.75	$26.08	$33.30	$42.88
Alternative Case				
Cominco				
Road ($ in millions)	$13.27	$16.26	$19.90	$24.75
Road ($ per ton)	$17.87	$22.15	$31.05	$33.58
Port ($ in millions)	$10.30	$12.61	$16.07	$20.65
Port ($ per ton)	$13.78	$17.07	$24.89	$32.00
Regional				
Port ($ in millions)	$ 0.68	$ 0.83	$ 1.06	$ 1.37
Port ($ per ton)	$20.85	$23.92	$30.49	$39.19

Source: SRI International

Ocean Transport Model

The second part of the transport of concentrate is from the port to various smelters. Because of the shallow depth of the water at the Red Dog port, lightering barges will be required to carry the concentrate to ocean-going vessels about 4 miles off shore. The ocean transport model, therefore, includes the costs of the barges and concentrate carriers, as well as port discharge costs and in-land haulage. There are four probable destination areas: Trail, British Columbia; Japan; Europe; and Eastern Canada.

The information sources used to develop the capital and operating costs for the barges ocean transport, discharge, and in-land transport costs are given in Attachment 1.

Barge Costs

Two self-propelled concentrate barges are expected to be used to carry the concentrate from the port to the concentrate ships. These barges will be dedicated to Cominco use because it is unlikely any other use will be found for them. The barges will be stored in British Columbia during the winter season. They will be used to bring containerized general cargo to the mine at the beginning of the shipping season in June and to return the containers at the end of the season. The useful life of the barges is expected to be 30 years.

Self-sustaining barges, which have greater maneuverability in the choppy waters in the Chukchi Sea, will be used instead of the more common tug and gage operations. Operations with tug and barge would have to be curtailed more often than those employing a self-sustaining barge.

We have assumed that foreign-flag barges will be used, given Cominco's stated intentions for doing so. There is, however, some concern that U.S.-flag barges may be required by the Jones Act. If so, U.S.-flag barges would cost about 33% to 50% more to purchase and operate. Barge cost estimates are given in Table IV.3.

Vessel Costs

We have developed vessel costs that are based on the use of foreign-flag ships of varying sizes and whose characteristics depend on the water depth at the port of destination and the amount of cargo being shipped and the estimated number of voyages. We have assumed tnat the ships will be chartered on a one-way basis for Europe and Eastern Canada, and on a two-way basis for Japan and Trail. Voyage costs include the time charter rate, bunker fuel, oil costs, and canal charges if any. No delivery charges for initially bringing the ships to Alaska have been included, but we have included the cost of the additional insurance required for operations north of the Arctic Circle. Vessel, port, and in-land haulage cost estimates are given in Table IV.4.

Port and Inland Haulage Costs

Port charges include discharge, storage, and docking fees. Sufficient port facilities currently exist in Eastern Canada and Europe. Japan's port limitations are related to draft because ports for smelters are located upriver where concentrate is unloaded. Therefore, cost estimates reflect actual charges that would be incurred today. Vancouver is an export port and has few facilities to handle large amounts of in-bound cargo. Vancouver Wharves has indicated that it would be willing to install unloading and storage equipment to handle Cominco concentrates

Table IV-3

ESTIMATED CAPITAL AND OPERATING COSTS FOR TWO SELF-PROPELLED BARGES

	1989	1990	1995	2000	2005	2010	2018
Capital cost(a)	$1,055,221	$1,055,221	$1,055,221	$1,055,221	$1,055,221	$1,055,221	$1,055,221
Operating Costs	450,204	472,714	603,316	770,002	982,739	1,254,252	1,853,101
Total Cost	$1,505,425	$1,527,935	$1,658,537	$1,825,223	$2,037,960	$2,309,473	$2,908,322
Cost for 2 barges	$3,010,850	$3,055,870	$3,317,075	$3,650,445	$4,075,920	$4,618,945	$5,816,643
Dollars per short wet ton	$14.48	$5.98	$6.16	$6.78	$7.57	$10.20	$12.85

(a) Based on a foreign-built barge whose cost is estimated at $7 million (1985 dollars).

Table IV-4

OCEAN TRANSPORTATION COSTS FOR ZINC CONCENTRATE IN 1985 US$

	#1 Vancouver (round trip)	#2 Vancouver (round trip)	Japan (round trip)	Europe (one-way)	Eastern Canada (one-way)
Volume (SDT)	330,000	330,000	120,000	110,000	25,000
One-way distance	2,600	2,600	3,000	10,975	9,335
Ship Data					
DWT, tonnes	37,500	60,000	26,500	60,000	26,750
Cargo capacity, tonnes	36,615	58,906	25,294	58,019	25,163
Draft, ft	35	43	34	43	34
Knots	12	13	14.5	13	14.5
Intermediate fuel consumption, tonnes per day	17	29	35	35	35
Marine diesel consumption, tonnes per day	2.0	2.5	2.0	3.0	2.0
Time charter rate per day, $	$5,130	$9,500	$4,000	$6,000	$4,000
Panama Canal toll	$0	$0	$0	$50,000	$25,000
Port Data					
Destination port water depth, ft	35	45	34	45	45
Loading rate per day, tons	20,000	20,000	20,000	20,000	20,000
Discharging rate per day, tons	10,000	10,000	5,000	10,000	10,000
Fuel oil cost per tonne, $	$185	$185	$185	$185	$185
Diesel oil cost per tonne, $	$275	$275	$275	$275	$275
Port charges, $	*	*	$20,000	$40,000	$15,000
Trip Data					
Loaded cargo (SWT)	35,640	59,400	25,920	59,400	27,000
Loaded cargo (SDT)	33,000	55,000	24,000	55,000	25,000
Voyage steam time	19.5	18.0	18.6	38.0	29.0
Loading time	2.782	3.97	2.296	3.97	2.35
Discharging time	4.564	6.94	6.184	6.94	3.7
Canal transit time	0	0	0	1.5	1.5
Total voyage days	26.8	28.9	27.1	50.4	36.5
Cost Calculations					
Intermediate fuel cost	$61,328	$96,570	$120,569	$245,988	$187,585
Marine diesel fuel cost	$14,765	$19,876	$14,905	$41,580	$20,086
Canal charges	$0	$0	$0	$50,000	$25,000
Port charges	*	*	$20,000	$40,000	$15,000
Time charter cost	$137,720	$274,645	$108,403	$302,402	$146,083
Insurance	$12,000	$25,000	$10,000	$25,000	$10,000
Total voyage cost	$225,813	$416,091	$273,877	$704,970	$403,754
Cost per SWT	$6.34	$7.00	$10.57	$11.87	$14.95
Transship to smelters	$24.00	$24.00	$5.00	$10.00	$5.00
Vancouver storage/handling*	$12.00	$12.00	$0.00	$0.00	$0.00
Total cost per SWT	$42.34	$43.00	$15.57	$21.87	$19.95

if movement of at least 250,000 tons per year through the port was guaranteed. Vancouver Wharves, however, has a shallow draft and ships requiring greater than 35 feet draft would be tide dependant. An alternative port is Roberts Bank, which could easily handle ships as large as 60,000 dead weight tons (dwt). Unloading and storage facilities would have to be installed at this facility, too, however.

Little inland haulage is anicipated, except for Trail, British Columbia, where the cost of moving the cargo is about $24 per ton. We have assumed that inland haulage will be about $5.00 per ton for Japan and Eastern Canada; and $10 per ton for Europe. Most of the smelters that might be used are relatively close to the port of discharge. Forecasts of these costs are provided in Table IV.5.

Table IV-5

ESTIMATED TRANSPORTATION COST FOR ZINC CONCENTRATE
(per short wet ton)

	1989	1990	1995	2000	2005	2010	2018
Barge capital and operating costs	$14.48	$5.98	$6.16	$6.78	$7.57	$10.20	$12.85
Voyage, storage and handling, and transshipment costs							
Vancouver, B.C.	$48.85	$46.84	$54.43	$63.42	$74.10	$87.62	$110.29
Japan	$21.12	$19.23	$23.80	$29.53	$36.74	$49.22	$70.54
Eastern Canada	$25.47	$26.62	$33.23	$41.57	$52.10	$79.67	$115.54
Europe	$31.31	$32.63	$32.37	$39.63	$48.68	$66.79	$94.33

V MINE ECONOMICS AND PROFITABILITY

The SRI cost model of the Red Dog mine and mill considers individual cost elements. Costs are broken down into the following major categories: operating costs, transportation charges, other costs, depreciation, and depletion. The model calculates an internal rate of return on investment (ROI), after state and federal taxes, that is based on capital costs during the life of the project. Capital investments include the initial investment spent before start-up of the operation, sustaining capital during the years of production, and working capital. The analysis considers the cash flow during the development and construction years, 1979 to 1989, and for a 30-year mine production life, 1989-2018.

The project is considered to be a "stand-alone" operation; corporate overhead costs are included in the overall cost structure. The ROI has been determined on the assumption that the project is financed totally by equity. In practice, a significant share of the initial capital for all mining projects is debt-financed and such an approach could have been selected, and an ROI based on the equity share of tne project could have been determined. However, making an initial determination of the profitability and return on mine investment on the basis of the total equity condition is in accordance with standard mining economic practices. (An ROI based on the equity share of a partially debt-financed project generally results in a higher ROI than that of a totally equity-financed project.)

The data used in our cost model have been taken from a variety of sources. The mine and mill capital and operating costs have generally been extracted from various published Cominco reports and submissions to AIDA. These data have been carefully examined and compared with information available to SRI through other sources. SRI has estimated the transportation charges for concentrate shipments from the port to smelters throughout the world. Other costs, including royalties for the Northwest Alaska Native Association (NANA) and the State Mining License Tax, have been calculated by formulas used by Cominco in its profitability determination. Income taxes and the minimum tax paid to the State have been calculated by considering investment tax credits and appropriate depreciation and depletion schedules.

In estimating cash flow profitability and internal rate of return, the major uncertainty is the future flow of revenues, which depends on the projected sales value of the commodity produced--in Red Dog's case, zinc and lead concentrates. The future sales value of these concentrates will be determined by metal--zinc, lead, and silver--prices, less penalties for impurities in the concentrate and treatment charges (i.e.,

the cost of converting the concentrate to metallic zinc, lead, and silver). Clearly, precise forecasts of commodity prices cannot be made. Instead, we have formulated a base price case, an optimistic price case, and a pessimistic price case for the metals. Our analysis of this major task in the project is summarized below.

Assumptions and Data Sources

Capital Costs

The capital costs for the initial charges spent before start-up of the mine and mill have been based on a Cominco memorandum of March 1, 1985, which was supplied to SRI by Cominco and AIDA. (This memorandum has also been used as the information source for the future production schedule; ore and concentrate grade, market distribution; sales value of the concentrate; and formulas for determining management and selling fees, royalties, investment tax credits, and federal and state taxes). The estimated fixed capital costs for the construction of the mine and mill, development costs, start-up costs, and various other expenses and advance payments are given in Table V-1. The costs have been escalated to account for inflation (discussed in Chapter I) during the years of construction.

The total initial capital costs are estimated to be $270 million for development and construction of the mine, mill, and on-site mine facilities, excluding interest during construction and working capital. Given the estimated future production of 2 million dry short tons per year (dst/y) of ore, the capital cost per ton for the mine and mill complex is $135. This cost per ton compares favorably with other new surface mines and mills now being considered throughout the world. Some of the proposed new South American operations have capital costs in the range of $90 to $115/dst of ore. But given the less expensive labor in South America and the remoteness of the Red Dog project, Cominco's capital cost estimates for its operation in Northern Alaska seem reasonable. (The Cominco Polaris mine in Canada, completed in 1983, was developed at a capital cost of $145/dst.)

Sustaining capital charges incurred over the life of the project vary, depending on the expenditure, from $2 to $8 million/y. (An exception to this range of capital charges occurs in the fourth and fifth years after mine start-up when additional worker accommodations are installed.) The sustaining capital costs are for the mine and mill, and for concentrate haulage from the mine to the port. Sustaining capital costs for road maintenance and port facilities have been included in the costs for the transportation system. (The estimates for sustaining capital were obtained from information provided in the Appendix of Cominco's "Feasibility Report" of July 1984.)

Table V-1

FIXED CAPITAL FOR RED DOG MINE AND MILL
(Millions of Dollars)

Cost Item	Year of Expenditure 1979 to 1984	1985	1986	1987	1988	1989
Exploration	0.62	0.30	0.42	0.56	-	-
Ore delineation	6.02	-	-	-	-	-
Advance NANA royalties	3.53	1.00	1.00	1.00	1.00	-
Airstrip	1.44	0.10	-	0.11	0.47	-
Concentrator	3.78	5.80	21.21	20.48	51.56	7.50
Power plant	0.78	2.10	13.08	10.91	8.26	2.13
Accommodations	0.15	0.60	-	6.01	18.40	-
Mine development	-	1.20	2.11	5.23	19.11	1.00
Mine and surface equipment	0.97	1.70	3.48	11.35	14.39	2.63
Start-up costs	-	-	-	-	-	5.63
Surface buildings	-	0.40	1.16	4.79	2.36	-
Other expenses	1.07	0.30	0.11	0.11	0.24	-
Total(a)	18.35	13.50	42.57	60.55	115.80	18.88

(a)Totals may not add because of rounding.

The estimates of working capital are those of SRI and have been based on accounts receivable, accounts payable, production inventory, and supplies inventory. The initial working capital has been estimated to be about $65 million spent during the first 3 years of mine operation, increasing by $4 to $6 million/y thereafter.

Operating Costs

Detailed operating costs were provided in Cominco's July 1984 Feasibility Report. After examining additional manning tables, salary schedules, fuel consumption, other supplies use, and details about overhead expenditures provided by Cominco, and comparing those data with SRI information of other mines and mills, we have accepted Cominco's operating costs as accurate and reasonable.

The operating costs are listed in the following categories: mining, milling, maintenance, power generation, mine and mill overhead, costs for start-up procedures (lasting 3 years), and cost contingency. These cost

categories, except for start-up and contingency, are broken down into labor, fuel, supplies, and other charges. Total operating cost, per ton of ore mined, is about $4l/dst in 1989--the initial year of mine operation. (Wet concentrate, containing about 8% moisture, will be the actual product shipped.) The concentrate cost, based on the appropriate ratio of ore mined to concentrate shipped, will be about $106/dst of concentrate. These costs are estimated to decrease to $103/dst of concentrate in 1992 when the operation is in full production and the additional operating costs for start-up are no longer needed.

Transportation Charges

The transportation of the concentrate initially involves moving the concentrate 55 miles from the mine and mill site to the port. This cost will be incurred by Cominco. The rest of the transportation costs will be fees, or charges, to be paid by Cominco to outside contractors. A road and port user-fee will be paid to the State. (This is essentially the revenue the State will collect to cover its capital and operating costs for the transportation system.) Cominco will also have to pay a fee for loading the concentrate at the port and hauling it by barge to oceangoing ships. It will then incur the costs for ocean transportation to ship the concentrate to Vancouver, British Columbia, Eastern Canada, Europe, and Japan. (We have assumed that, depending on the destination, ships in the 26,000 DWT to 60,000 DWT range will be used.) Finally, a rail transportation cost will be imposed at the destinations to transport the concentrate to the smelter sites.

As mentioned, SRI has estimated these costs. In 1992, the total transportation cost is about $73/dst of concentrate, of which the user fee of $19/dst reflects the "Cominco-based" proposal.

Other Costs

We have included corporate overhead (sales, general and administration) costs, NANA royalties, and the Alaska mining license tax in our "other cost" category. We have allocated a Cominco corporate overhead charge at 4% of the concentrate sales. (Although Cominco incurs an actual corporate overhead cost of about 6% on all sales, we have reduced this percentage because we consider the sales expense of Red Dog's concentrate product is likely to be less than Cominco's overall selling expenses.) The NANA royalty and the mining license tax are calculated by formulas defined by the State and NANA. No mining license tax is imposed in the first 3.5 years of the mining operation.

Total "other costs" are about $25 to $30/dst in the initial years of mine operation. They may escalate rapidly, however, depending on the NANA royalty. The royalty, in the initial years of mine operation, is 4.5% of "net smelter return" (i.e., concentrate sales, less selling and distribution expenses). The royalty based on 4.5% of net smelter return will prevail until Cominco recovers nearly all of its previously spent

capital and operating funds. Once Cominco has recovered these funds, the NANA royalty increases to a 25% (with further 5% incremental increases every 5 years until 50% is reached) of what is defined as "net proceeds from production"; that is, the net smelter return, less operating costs, management fees, and royalties.

In the years that the "percentage of net proceeds" constitutes the basis of the NANA royalty, this royalty is the largest single cost item incurred by Cominco for the project. Even when the royalty is "only" 25% of net proceeds, it can amount to $40 to $50/dst of concentrate. In years when the royalty reaches 40% to 45%, the royalty that Cominco has to pay can amount to as much as one-half of the total of all the operating costs (e.g., those for mining and milling).

Depreciation and Depletion

Although they are not "cash" costs, depreciation and depletion are critical in any cash flow analysis because they affect the Mining License Tax, state and federal income taxes, and the "minimum" state and federal tax.

Depletion allowances have been determined by standard depletion calculations--using the lesser of 22% of gross income of the operation or 50% of the net income from the mine. Depreciation has been determined by assigning the appropriate depreciation schedule to the various capital assets. We have used either a straight-line 5-year schedule, or and 18-year schedule, depending on the capital item. Rather than expense some of the initial fixed capital costs as they were incurred, we have carried these expenses to the first year of project operation and included them in the first year's depreciation. This results in a high depreciation charge in 1989, but in no way alters the tax calculation.

Production and Sales

The production schedule used is the one proposed in the Cominco memorandum (see Table V-2). We have assumed that sales of concentrates in each year will equal their production in that year. We recognize, however, that in practice a lag will occur before actual sales begin relative to production during the first 2 or 3 years of the mine operation.

The value of the concentrates has been calculated by using formulas defined by Cominco. These are based on the grade of zinc, lead, and silver in the concentrates; the metal prices; and the normal recovery factor in smelting the concentrate. Deductions from the metallic values of the concentrates have been made for iron and other impurities in the concentrates and for the treatment charge (i.e., the cost of smelting the concentrate to metal).

Table V-2

RED DOG PRODUCTION SCHEDULE
(Thousands of Dry Short Tons per Year)

	1989	1990 to 1991	1992 to 2008	2009 to 2018
Ore mined	1,000.0	1,826.0	2,050.0	2,050.0
Zinc concentrate	316.0	585.0	587.5	492.0
Lead concentrate	69.0	127.8	119.6	119.6

Metal Prices and Pricing Mechanisms

This section briefly discusses the assumptions SRI has used to project zinc and lead prices for the anticipated duration of the project. Silver prices, like those for all precious metals, are subject to greater uncertainty than the prices commodity metals. They are influenced by speculation and by the relatively smaller proportion of industrial applications to total consumption. Using a simplifying assumption, SRI has thus assumed that future silver prices will escalate from current levels at a slightly lower rate than inflation.

SRI recognizes that the present strength of the U.S. dollar can distort the relative cost position of international zinc and lead producers. However, in our calculations we have assumed that other major international currencies will gain value with respect to the dollar and, in turn, that international production costs when expressed in dollars will increase accordingly. Zinc and lead prices have been projected under three conditions: a base price case, an optimistic price case and a pessimistic price case. We provide for each case key assumptions and a brief description of our methodology.

For the base price case we have assumed that ideally the economics of supply/demand balance will apply to future zinc and lead producers throughout the Western world. Simply stated, future prices are assumed to be determined by the "marginal" producers; their output is required to meet current demand, and they neither profit nor lose excessively by maintaining operations.

However, in actual practice, a simple balance between supply and demand is not sufficient for analysis for a number of reasons. First, prices are not a simple function of production costs. Speculation, intermaterial substitution, and technical innovations all play different roles, particularly when the market is in balance or demand exceeds supply. Only when supply greatly exceeds demand are operating costs more important than the other factors.

In other words, only when recessionary economic conditions are in effect or when metals are under great pressure from substitutes does economic analysis allow the assessment of likely price movements. Thus, such price assessments can only be undertaken when market conditions are poor; accordingly, prices determined through these methods tend to correspond to what the industry calls "floor prices"-- prices that do not become lower because such price erosion would subtract significant supplies from the market place. "Normal" prices (in fact, a misnomer, because prices either go up or down but seldom remain at a "normal" level) can then be determined by historical relationships between floor and normal (or median) prices.

SRI's procedure in projecting zinc prices entails (1) first estimating future net demand (e.g., demand, less the portion of recycled scrap that contributes to total demand), (2) then identifying the marginal zinc producer that is required to meet such demand, and, (3) ending with price adjustments that reflect normal rather than recessionary conditions. Table V-3 summarizes the results for zinc and lead. Note that the lead figures have not been adjusted to normal conditions because the current contributions of scrap lead should prolong the near-recessionary conditions that primary lead producers are now experiencing for some time.

No provisions have been made in the base price case for profits or for meeting capital-related obligations. Naturally, low-cost producers-- those whose operating cash costs are substantially lower than marginal

Table V-3

METAL PRICE OUTLOOK

	Zinc		Lead	
	1990	1995	1990	1995
Demand metal demand (millions of dst/y)	5.37	5.50	4.47	4.54
Scrap use (percent of demand)	7.0	7.0	44.0	44.0
Net metal demand (millions of dst/y)	4.49	5.12	2.51	2.54
Prices ($/lb)				
Base price case	0.503	0.739	0.238	0.395
Optimistic price case	0.544	0.794	0.293	0.473
Pessimistic price case	0.430	0.601	0.225	0.319

Source: SRI International

producers--automatically receive some profits as long as prices allow marginal suppliers to meet operating cash costs. However, the base price case largely excludes the influence of capital charges. In contrast, the optimistic price case includes them and establishes the price levels that potential suppliers require to expand capacity. The implication is that such prices should not only be sufficient to meet depreciation and interest charges, but enough to provide a comfortable return on investment.

In arriving at the optimistic price case, SRI has adopted cash operating costs that correspond to floor price conditions. Then, we have added the cost of depreciation, interest, taxes, and other miscellaneous expenses that, when subtracted from metal revenues, will still provide a net profit. For this purpose, the specific investment requirements for new zinc and lead capacity have been assumed to be in line with that anticipated for the Red Dog deposit.

Unlike the previous two cases, the pessimistic price case takes account of the substantial shift in production from developed to developing countries, particularly at the mine and mill stage, and assigns that shift to the national differences in perceptions regarding what is a profitable operation. The pessimistic price case arbitrarily discounts major cost factors (e.g., labor, or hydro-power) in production in developing countries to reflect the cost perceptions of those countries. In addition, the pessimistic price case assumes that the proportion of secondary zinc and lead that enters into refined metal production will be greater than in the base price case (e.g., secondary lead use increases from 44% to more than 55%).

In SRI's experience, price projections that are based on production economics entail the risk of becoming increasingly less accurate after about 10 years. However, we see no reason to assume further cost escalations in real terms or deflationary influences for the period after 1995 in the many Western countries that supply zinc and lead. Accordingly, SRI's price projections for zinc and lead simply follow long-term inflation (which has been assumed to be about 5.5%) for that period.

Figures illustrating SRI's price projections for zinc and lead in inflated and 1985 dollars are included in Appendix ___.

Mine and Mill Cost Model

Table V-4 gives the cash flow of the Red Dog operation at the base case price projections. The cash flow includes expenditures during the construction years, 1979 through 1989, and the 30-year production period, 1989 through 2018. All numbers in the table are in millions of dollars, except zinc, lead, and silver, which are given in dollars per pound ($/lb).

Table V-4

RED DOG COST MODEL
(Inflated U.S. Dollars)

Ownership: Cominco American
Capacity: 710,000 sdt/y of concentrates
Metal Prices: Base case

Start-up Date: 1989
Capital Investment: $270 million
Production Rate: Full capacity

	1979 to 1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Millions of Dollars (Except Prices)																																		
U.S. PRICES																																			
Zinc - $/lb						.49	.50	.54	.59	.63	.68	.74	.78	.82	.87	.92	.97	1.02	1.08	1.13	1.20	1.26	1.33	1.41	1.46	1.56	1.66	1.74	1.84	1.94	2.04	2.16	2.28	2.40	2.53
Lead - $/lb						.23	.24	.26	.29	.32	.36	.40	.42	.44	.46	.49	.52	.55	.58	.61	.64	.68	.71	.75	.79	.84	.88	.93	.98	1.04	1.09	1.15	1.22	1.28	1.35
Silver - $/lb						7.53	7.87	8.22	8.64	9.07	9.52	10.00	10.50	11.02	11.57	12.15	12.76	13.40	14.07	14.77	15.51	16.28	17.10	17.95	18.85	19.79	20.78	21.82	22.91	24.06	25.26	26.52	27.85	29.24	30.76
SALES																																			
Zinc concentrates						83.85	161.33	173.96	190.17	205.48	222.03	239.90	253.18	267.10	281.66	296.87	313.38	330.53	348.64	367.73	388.11	409.42	431.76	455.37	480.26	427.17	451.98	475.36	501.21	528.70	557.82	588.29	620.66	654.66	690.55
Lead concentrates						9.60	18.85	21.75	24.60	28.00	31.89	36.15	38.10	40.12	42.21	44.36	46.73	49.27	51.88	54.54	57.51	60.52	63.71	67.05	70.55	73.36	77.29	81.39	85.66	90.19	94.96	99.96	105.20	110.76	116.70
TOTAL SALES						93.45	180.18	195.71	214.78	233.48	253.93	276.05	291.28	307.22	323.87	341.23	360.10	379.80	400.52	422.26	445.62	469.64	495.47	522.42	550.81	500.53	529.27	556.75	586.87	618.89	652.78	688.25	725.86	765.44	807.25
OPERATING COSTS																																			
Mine						3.20	6.19	7.34	7.78	8.26	8.76	9.30	9.83	10.40	11.01	11.65	12.32	13.04	13.79	14.59	15.44	16.33	17.28	18.29	19.35	20.47	21.66	22.92	24.25	25.65	27.14	28.72	30.39	32.15	34.02
Mill						5.60	10.77	12.73	13.46	14.23	15.04	15.91	16.80	17.75	18.74	19.80	20.91	22.08	23.33	24.64	26.02	27.49	29.03	30.67	32.39	34.21	36.14	38.17	40.32	42.59	44.98	47.52	50.19	53.02	56.00
Maintenance						4.95	9.61	11.39	12.09	12.83	13.62	14.46	15.30	16.19	17.13	18.13	19.19	20.31	21.49	22.74	24.07	25.47	26.95	28.52	30.19	31.95	33.81	35.78	37.87	40.07	42.41	44.89	47.50	50.28	53.21
Power generation						4.62	8.84	10.43	11.01	11.62	12.27	12.96	13.68	14.44	15.24	16.08	16.97	17.91	18.91	19.96	21.06	22.23	23.46	24.77	26.14	27.59	29.12	30.73	32.44	34.24	36.14	38.14	40.26	42.49	44.85
Mine and mill overhead						9.50	18.33	21.68	22.94	24.28	25.70	27.20	28.74	30.37	32.09	33.91	35.84	37.87	40.02	42.29	44.69	47.23	49.91	52.74	55.74	58.90	62.25	65.79	69.52	73.47	77.65	82.06	86.72	91.65	96.86
Additional costs for start-up						10.83	5.29	6.30	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
Contingency						2.36	4.53	5.34	5.63	5.94	6.27	6.61	6.98	7.36	7.77	8.19	8.64	9.12	9.62	10.15	10.71	11.30	11.92	12.57	13.27	14.00	14.77	15.58	16.43	17.34	18.29	19.30	20.36	21.48	22.66
TOTAL OPERATING COSTS						41.07	63.56	75.19	72.91	77.16	81.67	86.43	91.33	96.51	101.98	107.76	113.87	120.33	127.16	134.37	141.99	150.05	158.56	167.56	177.07	187.12	197.74	208.96	220.83	233.37	246.62	260.62	275.42	291.07	307.60
TRANSPORTATION COSTS																																			
Concentrates to port						1.65	3.19	3.76	4.01	4.26	4.51	4.79	5.06	5.36	5.67	5.99	6.34	6.71	7.09	7.50	7.94	8.40	8.88	9.40	9.94	10.52	11.12	11.77	12.45	13.17	13.93	14.74	15.59	16.49	17.45
Road and port user fee						2.66	13.19	13.40	13.65	13.93	14.69	17.04	17.39	17.75	18.10	18.46	18.88	19.30	19.80	20.22	20.72	21.28	21.85	22.42	23.05	23.38	23.06	23.67	24.40	25.14	25.87	26.73	18.71	19.63	20.61
Barge to ship						6.03	4.58	4.39	4.46	4.57	4.69	4.80	4.93	5.05	5.18	5.30	5.44	5.57	5.71	5.86	6.00	6.15	6.31	6.46	6.62	5.87	6.02	6.17	6.32	6.48	6.64	6.81	6.98	7.15	7.33
Ocean shipping						8.70	15.63	15.41	15.91	16.55	17.23	17.94	18.66	19.32	20.12	20.96	21.82	22.74	23.68	24.67	25.71	26.79	27.93	28.70	29.72	28.26	29.28	30.34	31.45	32.61	33.81	35.27	36.80	38.40	40.07
Inland freight						5.64	13.59	13.68	13.90	14.24	14.60	14.96	15.34	15.72	16.11	16.51	16.93	17.35	17.78	18.23	18.69	19.15	19.63	20.12	20.63	16.01	16.56	19.02	19.50	19.99	20.37	21.00	21.52	22.06	22.61
TOTAL TRANSPORTATION COSTS						24.69	50.17	50.66	51.92	53.55	57.72	59.53	61.32	63.19	65.18	67.22	69.41	71.67	74.07	76.49	79.06	81.76	84.40	87.10	89.96	85.04	88.04	90.98	94.13	97.38	100.62	104.54	99.61	103.74	108.08
OTHER COSTS																																			
Corporate overhead						3.74	7.21	7.83	8.59	9.34	10.16	11.04	11.45	12.29	12.95	13.65	14.40	15.19	16.02	16.89	17.82	18.79	19.82	20.90	22.03	20.02	21.17	22.27	23.47	24.76	26.11	27.53	29.03	30.62	32.29
NANA royalties						3.03	5.73	6.39	7.18	7.94	8.66	31.02	33.07	35.20	37.41	39.70	50.69	53.85	57.17	60.66	64.42	79.61	84.54	89.70	95.09	75.92	92.55	97.62	103.38	109.58	116.22	136.27	150.35	156.85	167.84
Mining license tax						-	-	-	.60	1.79	4.57	4.02	4.31	4.57	4.84	5.28	5.12	5.48	5.85	6.29	6.28	6.03	6.26	6.99	7.49	5.55	5.27	5.55	5.94	6.38	6.71	6.18	6.77	7.20	7.64
TOTAL OTHER COSTS						6.77	12.94	14.22	16.38	19.07	23.38	46.08	49.03	52.06	55.20	58.63	70.22	74.53	79.04	83.85	88.53	104.43	110.61	117.59	124.61	101.50	118.98	125.44	132.80	140.66	149.04	171.98	186.16	194.67	207.78
DEPRECIATION						74.49	36.29	36.50	36.79	37.63	6.94	7.82	8.04	8.97	9.94	8.55	9.09	9.21	9.38	8.86	15.22	15.47	18.60	14.81	14.79	10.70	11.29	11.90	11.86	12.15	13.10	13.94	15.61	15.87	16.26
DEPLETION						.00	9.87	10.89	19.97	24.80	41.26	40.61	43.32	45.94	48.68	51.55	52.03	55.48	59.08	62.73	64.41	63.17	66.07	72.39	77.16	62.37	61.13	64.49	68.64	72.94	77.26	74.44	80.69	85.54	90.62
TOTAL COSTS						147.01	172.82	187.48	197.98	212.22	210.97	240.46	253.04	266.67	280.97	293.71	314.62	331.22	348.73	366.29	389.21	414.90	438.25	459.44	483.58	446.72	477.19	501.77	528.25	556.50	586.64	625.53	657.49	693.89	730.33
NET INCOME BEFORE TAXES						-53.56	7.36	8.23	16.80	21.26	42.96	35.59	38.24	40.55	42.90	47.52	45.49	48.58	51.80	55.97	56.41	54.74	57.22	62.97	67.23	53.81	52.08	54.98	58.62	62.38	66.14	62.72	68.37	72.54	76.92
TAXES																																			
State						.00	.27	.29	.54	.67	1.11	1.10	1.17	1.24	1.04	1.04	1.10	1.16	1.24	1.30	1.42	1.37	1.45	4.51	6.65	4.42	3.17	2.47	5.36	7.07	6.30	5.09	3.97	7.04	8.89
Federal						.00	1.48	1.63	3.00	3.72	6.19	6.09	6.50	6.89	15.85	18.78	17.28	18.94	20.02	21.89	19.76	20.12	20.35	22.86	23.75	17.10	14.54	16.33	18.36	19.02	19.83	17.86	19.57	21.75	22.54
TOTAL INCOME TAXES						.00	1.75	1.93	3.54	4.39	7.30	7.19	7.67	8.13	16.89	19.82	18.38	20.10	21.26	23.19	21.18	21.48	21.80	27.37	30.40	21.52	17.71	18.80	23.72	26.09	26.13	22.97	23.54	28.79	31.23
NET INCOME AFTER TAXES						-53.56	5.61	6.31	13.26	16.87	35.66	28.40	30.57	32.42	26.01	27.70	27.11	28.48	30.54	32.78	35.23	33.26	35.43	35.61	36.83	32.30	34.37	36.18	34.91	36.29	40.01	39.76	44.83	43.75	45.69
CASH FLOW						20.93	51.77	53.70	70.03	79.30	83.86	76.83	81.93	87.38	84.63	87.80	88.23	93.17	99.00	104.37	114.86	111.91	120.10	122.81	128.78	105.37	106.79	112.57	115.41	121.38	130.37	128.14	141.12	145.16	152.56
CAPITAL INVESTMENTS																																			
Initial investment		18.35	13.50	42.57	60.55	115.80	18.88	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sustaining capital		-	-	-	-	-	-	1.00	1.05	2.01	13.47	13.94	5.38	2.16	5.86	6.95	2.63	8.10	2.73	6.74	4.35	34.44	9.34	18.38	2.97	4.23	14.00	12.50	24.60	3.97	5.67	18.74	16.73	32.92	5.32	7.58
Increase in working capital		-	-	-	-	-	43.00	20.09	9.69	-.63	4.23	4.34	2.62	4.65	4.92	5.19	5.46	4.92	6.06	6.40	6.75	7.19	6.37	7.92	8.30	8.81	9.45	8.65	10.35	10.92	11.53	12.18	11.31	13.06	14.28	15.09
TOTAL CAPITAL INVESTMENTS		18.35	13.50	42.57	60.55	115.80	61.88	21.09	10.74	1.38	17.70	18.28	8.00	6.81	10.78	12.14	8.09	13.02	8.79	13.14	11.10	41.63	15.71	26.30	11.27	13.04	23.45	21.15	34.95	14.89	17.20	30.92	28.03	45.98	19.60	22.67
NET CASH FLOW		-18.35	-13.50	-42.57	-60.55	-115.80	-40.96	30.68	42.96	68.65	61.61	65.58	68.83	75.12	76.56	72.49	79.71	75.20	84.37	85.85	93.27	73.22	96.20	93.80	111.53	115.74	81.91	85.64	77.62	100.51	104.18	99.45	100.11	95.14	125.56	129.89
INTERNAL RATE OF RETURN	16.5%																																		

Source: SRI International

In 1989, sales are estimated to be more than $93 million. They double during the next 2 years as production rises from 386,000 to about 710,000 sdt/y and as prices increase modestly. In 1992, when the operation is in full production, sales are estimated to be nearly $215 million. When operating costs stabilize because additional costs for start-up have been eliminated (which also occurs in 1992), operating cost estimates total $72.9 million, transportation costs are $51.9 million, and other costs are $16.5 million. With depreciation at $30.8 million and depletion at $20.0 million, total costs equal $198.0 million, yielding a pretax profit of $16.8 million. Net income after taxes (i.e., after-tax profits) in 1992 are estimated to be $13.3 million.

Table V-4 indicates net income is always positive, except in 1989, when high depreciation charges are incurred because of the items capitalized during the construction period. Depreciation charges substantially decline after 1993 because a major portion of the depreciated capital items are fully depreciated in 5 years. The net cash flow (i.e., net income after taxes, plus depreciation, plus depletion, less capital investments) is also always positive after 1989. The ROI for the "bottom line" cash flow is 16.5%.

The road and port user fee accounts for less than 7% of the total costs in 1992, and continues to decline as a percentage of costs in future years (see the summary in Table V-5). This decrease occurs because the major portion of the user fee is capital recovery, and the capital charge remains nearly constant over the life of the project. The user fee increases to $17.8 million in 1992 and to $19.8 million in 2002. The large increase in cost over this period is accounted for by the increase in the NANA royalty. These trends continue throughout the life of the project.

The major factors in determining the profitability of the project are metal prices. The comparison of ROI resulting from running the cost analysis for the base, optimistic, and pessimistic price scenarios using the "Cominco-based" user fee is given below:

	ROI (percent)
Base price case	16.5
Optimistic price case	19.3
Pessimistic price case	10.3

The detailed cash flows for these alternative price scenarios are included in Appendix C-1. Although the cash flows are significantly different for the three cases, all (even the pessimistic price case with the low ROI) show a positive cash flow after the first year of operation.

Table V-5

COST COMPONENTS OF TOTAL PRODUCTION COSTS
(Percent)

	1992	1997	2002
Operating costs	36.8	36.1	36.6
Transportation costs, less road and port user fees	19.3	17.0	15.6
Road and port user fees	6.8	6.7	5.7
Other costs	8.3	19.5	22.7
Depreciation	18.6	3.4	2.7
Depletion	10.1	17.3	16.9
Total(a)	99.9	100.0	100.2

(a)Totals do not add because of rounding.

The accumulated NANA royalties and accumulated revenues to the State (from the Mining License Tax and State taxes) during during the 30 years of production--1989 to 2018--are shown below:

	Base Price Case	Optimistic Price Case	Pessimistic Price Case
NANA royalties	635.5	813.9	286.6
Mining License tax	53.2	69.5	21.9
State tax	24.4	36.4	10.2

Another factor that has a measurable effect on the return of the operation is the treatment charge, which is deducted from the value of the concentrates. In this analysis we have used Cominco's proposed treatment charge of 40% to 41% of the value of the zinc concentrates. Treatment charges for concentrates vary, depending on concentrate quality, smelter availability (i.e., excess or limited smelter capacity), and smelter location. In addition, for a smelter to use Red Dog concentrates it must store large quantities because they will be shipped only during 4 months each year.

To test the sensitivity of the ROI with a reduced treatment charge, we used charges of 35% to 36% of the value of the zinc concentrates. (A lower treatment charge results in a higher concentrate value, hence a higher overall sales figure.) With the base price case projection, the

1992 total sales increase from $177.8 million to $191.6 million, with the lower treatment charge. Using a lower treatment charge increases the ROI by about 2% for each of the price cases, as shown below:

	ROI (percent)
Base price case	18.4
Optimistic price case	21.2
Pessimistic price case	12.7

VI INVESTMENT EVALUATION AND ALTERNATIVE FINANCE PLANS

The Investment Concept

Our investment evaluation and financing analyses are based on the following points:

- The State of Alaska, through AIDA, will finance, construct, own, maintain, and operate the proposed DeLong Mountain transportation system.
- The transportation system comprises a port, cargo-handling equipment, storage facilities, and a 55-mile road that provides tidewater access to mineralized areas in the DeLong Mountains.
- Cominco Alaska has asked the State to provide the transportation system so that commercial development of the Red Dog mine can proceed.
- The State's investment in the transportation system will be recovered, in whole or in part, through user fees and annual assessments levied against Cominco Alaska, other mining companies (which may develop claims if the State approves financing of the transportation system), and local residents who may use it to bring in fuel and other supplies.
- The State wishes to invest the minimum amount of funds at the least possible cost and financial risk, consistent with providing an adequate incentive for Cominco Alaska to develop its Red Dog mine.

SRI has addressed all of these points in evaluating the proposed State investment. However, we have emphasized the last point in developing alternatives for recovering the maximum portion of the State's investment while minimizing its financial exposure and risk.

Cominco Alaska's Proposal

Cominco Alaska, in its "Memorandum of Understanding" of December 11 1984, proposed design, construction, financing, operations management, and user charge terms to cover operating and maintenance (O&M) costs, as well as to contribute towards debt service. We refer to this Memorandum, as well as the estimates of capital costs and O&M costs in other Cominco documents, as "the proposal."

Our analysis has focused on the aspects of the proposal that directly influence the economics and financing of the project. However, other aspects of the proposal must also be carefully considered before reaching a final agreement with Cominco Alaska because they may influence the tax-exempt status of the bond issue. We have assumed that the bond issue will qualify for tax-exempt status in all but the one case, which is presented under "Alternatives to Cominco's Proposal" below.

We emphasize the following aspects of the proposal:

- A estimated capital cost of $157.9 million for the transportation system in as-spent dollars from 1985 to 1989, including some $5 million charged for studies before 1985. This is Cominco's $167.5 million estimate, less a project contingency of $9.6 million that the company does not expect to spend.

- A first shipment of concentrates during 1989, amounting to about one-half of the mine's designed production level, increasing to full output in 1990 and operating at this level thereafter. However, a clause in Cominco's proposal appears to allow delay of this first concentrate shipment by 2 years--to 1991.

- A minimum annual toll charge beginning in 1990, amounting to about $8.5 million, increasing in 1994 to about $11 million, remaining at this level to 2015, and then decreasing to about $2.2 million and remaining at this level to 2018, the end of our analysis period. This toll charge contributes towards fixed annual debt service payments.

- A user fee to cover Cominco's share of the transportation system's annual O&M costs.

- Revenues from other future transportation system users that accrue to Cominco Alaska's benefit (but not the State's) by allowing the company to reduce its annual payments by the corresponding amount of other user fees.

These points in the proposal have the greatest effect on the amount of State subsidy required. The following factors are critical here:

- The total capital costs that the State needs

- The year in which commercial concentrate production begins

- The source of funds to cover all or a part of the bond debt service (i.e., toll charges or a minimum annual assessment).

- o The source of funds to cover annual O&M costs (i.e., annual user fees).

- o The disposition of additional revenues from other future users of the transportation system.

The level of State subsidy and the ease of financing depend on the assumptions made about each critical factor. Cominco Alaska's assumptions about these factors are collectively referred to as the "Cominco Scenario."

We have also developed a set of assumptions for these factors as alternatives to Cominco's assumptions--an "Alternative Scenario." Our assumptions illustrate the potential effect on the required level of State subsidy and project financing if things do not proceed according to plan. The different assumptions for the two scenarios are illustrated in Figure VI.1, "Scenarios Used to Evaluate the Cominco Proposal."

Economic Evaluation of the Cominco Proposal

Detailed financial projections and our economic analysis are included in Appendix 8 for all the cases evaluated under each scenario. The results of our evaluation and analysis are summarized in Figure VI.2, "Evaluation of the Cominco Proposal." The left portion of the figure shows SRI's estimate of the mine's percent of after-tax return on investment (% ROI) to 2018. The bottom portion of the matrix shows our estimate of the State funds contributed. These are funds that are not recovered during project life (i.e., net present losses in 1985 dollars at a 10% discount factor).

We estimate that the State's subsidy of the transportation project will amount to about $80 million under the Cominco Scenario and about $95 million under the Alternative Scenario. This difference of $15 million is due to an assumed higher project capital cost of $190 million versus $157.9 million in as-spent dollars.

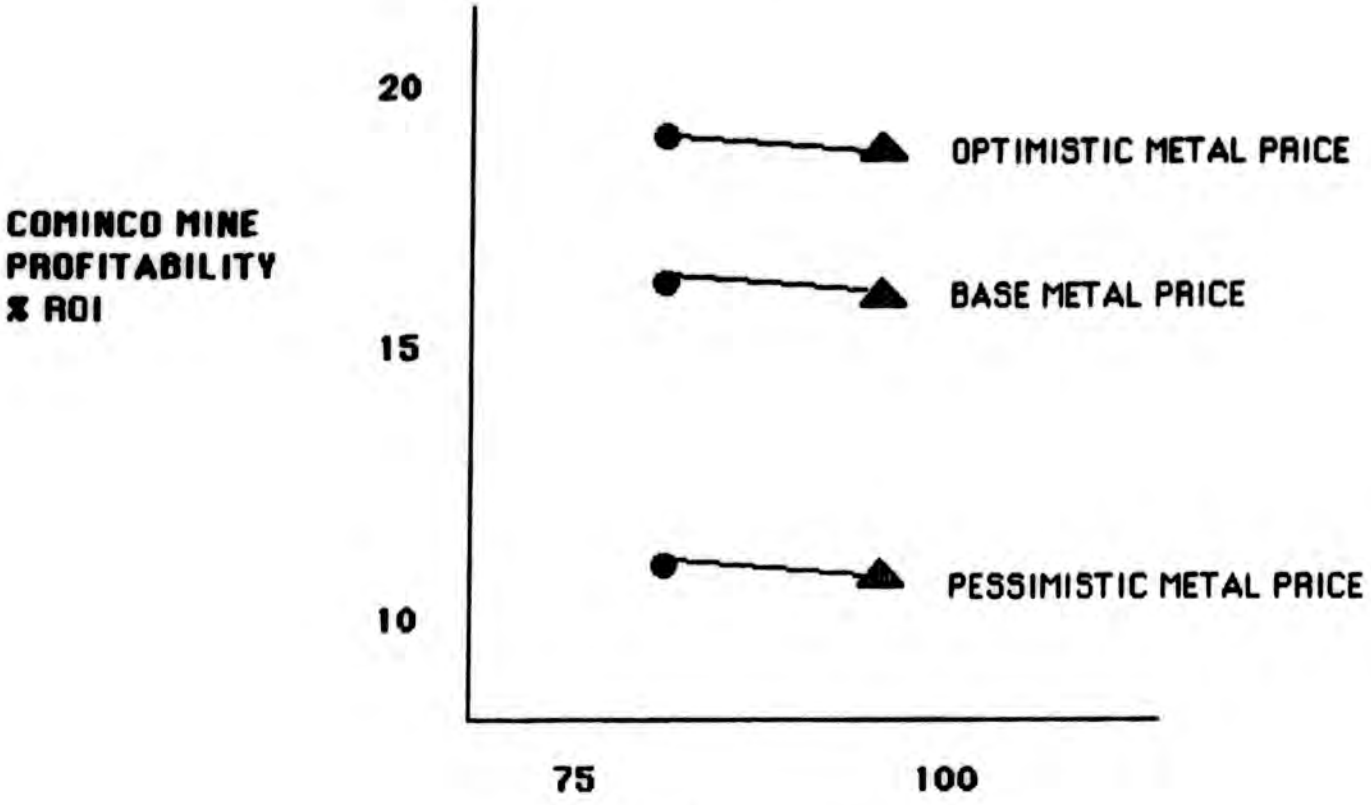
If Cominco Alaska should also delay concentrate shipments by 2 years to 1991, and hence user charges, the State's subsidy would increase by $35 million, to about $130 million (a one year delay would increase the subsidy by $20 million). We refer to this eventuality as the "Alternative, Plus Delay Scenario." This large increase is due to two factors: (1) loss of user charges in 1989 and 1991 and (2) the additional burden of financing the cost of a completed transportation system for 2 more years.

Figure VI.2 also shows the variation in Cominco Alaska's mining profitability for each scenario, given base, optimistic, and pessimistic case metal price assumptions over the 30-year analysis period (1989 to

FIGURE VI.1: SCENARIOS USED TO EVALUATE THE COMINCO PROPOSAL

ASSUMPTIONS	COMINCO SCENARIO	ALTERNATIVE SCENARIO
CARGO TRAFFIC:		
CONCENTRATE SHIPMENTS	PLANNED PRODUCTION LEVEL	PLANNED PRODUCTION LEVEL
FIRST CONCENTRATE SHIPPED	1989	1989
COMINCO INBOUND CARGO	YES	YES
OTHER INBOUND CARGO	YES	YES
OTHER OUTBOUND CARGO	NONE	NONE
USER REVENUES:		
ANNUAL ASSESSMENTS	COMINCO'S TAKE-OR-PAY CONTRACT	INCREASED TO ACCOUNT FOR HIGHER CAPITAL COSTS
USER FEES	COVERS ANNUAL O&M COST	COVERS HIGHER ANNUAL O&M COST
O&M:	COMINCO ESTIMATES	INCREASED MAINTENANCE COST
CAPITAL COST: (INFLATED $)	COMINCO'S $157.9 MILLION (PROJECT CONTINGENCY NOT SPENT)	$190 MILLION TO PROVIDE FOR HIGHER CAPITAL COSTS (PROJECT CONTINGENCY SPENT)
MINING OPERATION:	COMMERCIAL START-UP 1989	COMMERCIAL START-UP 1989

FIGURE VI.2: EVALUATION OF THE COMINCO PROPOSAL



2018). Mining profitability is marginally lower under the Alternative Scenario (for any given metal pricing assumption) because:

- Higher capital costs result in a higher annual user assessment charge
- Annual user fees are higher to cover higher O&M costs.

However, as Figure VI.2 shows, these two factors have a negligible effect on mining profitability in comparison with metal prices. Here, changes in metal prices can alter estimated mining profitability from about 10% to 19% after tax.

Financing the Cominco Proposal

The ability to finance the Cominco Proposal will be determined by two sets of constraints:

- The funds available to AIDA (through the proposed capitalization plan) to finance the project and their annual timing, including: a transfer to AIDA of a loan portfolio (and its annual cash flow) from the Department of Revenue effective July 1, 1985; a cash appropriation to AIDA of some $12 million effective July 1, 1985, which will increase its cash reserves to $15 million; and the issuance of a bond early in 1986.
- The annual user assessment (i.e., toll charge) proposed by Cominco Alaska, which is not quite large enough to cover the debt service on a 30-year $100 million fixed rate bond at 10.5%.

The three scenarios used in the preceding sections to evaluate Cominco's proposal can be financed within these constraints. We have sized the bond issue to maximize the use of all of AIDA's financial resources in our alternative financial plans. The bond issue size has therefore been set for each scenario at the minimum level necessary to ensure that AIDA would have sufficient funds to cover all construction expense, debt service, and possible operating losses. SRI has chosen the minimum level because smaller bond issues are more marketable than large ones and result in lower financing costs for the State. Our calculations have involved an iterative approach, testing each issue size against the AIDA Fund balance and ascertaining that in the years after 1986 the fund is not overdrawn.

Under fixed-rate financing (FRF), a $100 million bond issue (10.5%, 30 years) will be required to finance the Cominco Scenario. A $140 million FRF bond issue (10.5%, 30 years) will be required to finance the Alternative Scenario, and the Alternative, Plus Delayed Scenario will require a $145 million bond issue. For each of the FRF scenarios, we estimate that a 3% bond issue expense will be required. That fee

includes all expenses normally associated with issuing an industrial development bond, and the fee has been deducted from the bond proceed fund at the time of issuance.

Our principal concern with using a $140 or a $145 million bond issue is that the annual debt service payments (about $16 million) exceed Cominco Alaska's proposed annual assessments of about $10 to $13 million (the lower amount pertains to the first 4 full operating years). Thus, the project would not be self-financing after commercial start-up because the net operating income would be less than debt service. AIDA, therefore, would be required to cover the difference on an ongoing basis. Although AIDA has the financial resources to do so, the State may prefer a self-financing situation. Furthermore, the project would not generate enough surplus revenue to accrue reserves to provide for contingencies. However, each finance plan has a debt service reserve with the equivalent of 1 year's debt service payment that is funded from AIDA's cash balances.

We have also developed finance plans for the Cominco proposal that uses variable rate financing (VRF). VRF differs in three potential regards from FRF: (1) lower overall interest charges during construction, which reduces the State's subsidy; (2) the opportunity to issue a smaller bond; and (3) a smaller bond issuance fee of 1.5%. However, this financing approach exposes the State to the risk of higher future interest rates.

Figure VI.3, "Finance Plans--The Cominco Proposal," shows the key elements, assumptions, and results of alternative finance plans. Appendix 8 includes a financing analysis showing the details of each of these alternative finance plans and associated cash flows for each of the three scenarios.

We have measured the State's subsidy by discounting all cash outflows (i.e., all State funds put into the project, including the net interest expense during construction) and all cash inflows (i.e., annual net operating income from the transportation system) at 10% back to the beginning of 1985 (i.e., NPV at 10% in 1985 dollars). If the computed value is zero, the State will achieve a "breakeven" position, recovering all of its investment, plus 10% interest on that investment. If the NPV at 10% is negative, the State will have earned less than 10% on its investment.

Alternatives to Cominco's Proposal

Cominco Alaska's proposal would result in the State providing a permanent subsidy of some $78 million (in 1985 dollars under the Cominco Scenario). That is, the State would invest a total of about $154 million (NPV at 10% in 1985 dollars) in capital and interest during construction, but would only recover about $76 million (NPV at 10% in 1985 dollars)

Figure VI.3

FINANCE PLANS--THE COMINCO PROPOSAL

	Cominco Scenario		Alternative Scenario	Alternative Plus Delay	
	Fixed Rate	Variable Rate	Fixed Rate	Fixed Rate	Variable Rate
User Charges ('85$)					
-Concentrates	$4.00/t		$4.50 /t	$4.50 /t	
-General Cargo	$ 28 /t		$ 28 /t	$ 28 /t	
-Annual Assessment (MM)	$8.5-$11.0		$10.3-$13.3	$10.3-$13.3	
Capital Costs (MM)					
-As Spent $	158		190	190	
-1985 $	147		170	170	
Total State Funding (MM)					
-As Spent $	190	178	229	278	246
-NPV @10%	140	131	167	194	174
Bond Issue (MM)					
-Principal (MM$)	100	90	140	145	125
-Interest Rate	10.5%	7%	10.5%	10.5%	7.0%
-Issue expense, (MM$)	3.0	1.35	4.2	4.35	1.89
State Subsidy (NPV @10%)					
-Recovered Invest.	62	62	74	63	63
-Subsidy	78	69	93	131	111
-ROI	2.4%	3.0%	2.5%	1.2%	2.0%

through net operating income over a 30-year period. The other two scenarios result in yet higher State subsidies.

The State would be held to providing these potential subsidies on a permanent basis because of Cominco Alaska's proposal to use revenues from other users to offset its own user charges. Therefore, one alternative for the State to pursue to recover a higher proportion of its investment is having the additional revenues generated by future non-Cominco users accrue to the State's account and not to Cominco Alaska's.

As discussed, the State could encounter significant financial risk should Cominco Alaska delay start-up from 1989 to 1991. This option represents a financial exposure to the State of about $35 million (NPV at 10% in 1985 dollars). In view of the implied level of subsidy in Cominco's proposal, the State needs to consider whether or not it wishes to assume a risk of this magnitude.

The most direct means the State has to reduce the amount of subsidy implied in Cominco's proposal is to charge Cominco Alaska higher user fees. Cominco Alaska's rate of return on its mine investment is not particularly sensitive to the range of user fees suggested here. Yet the level of State subsidy is quite sensitive over this same range of user fees.

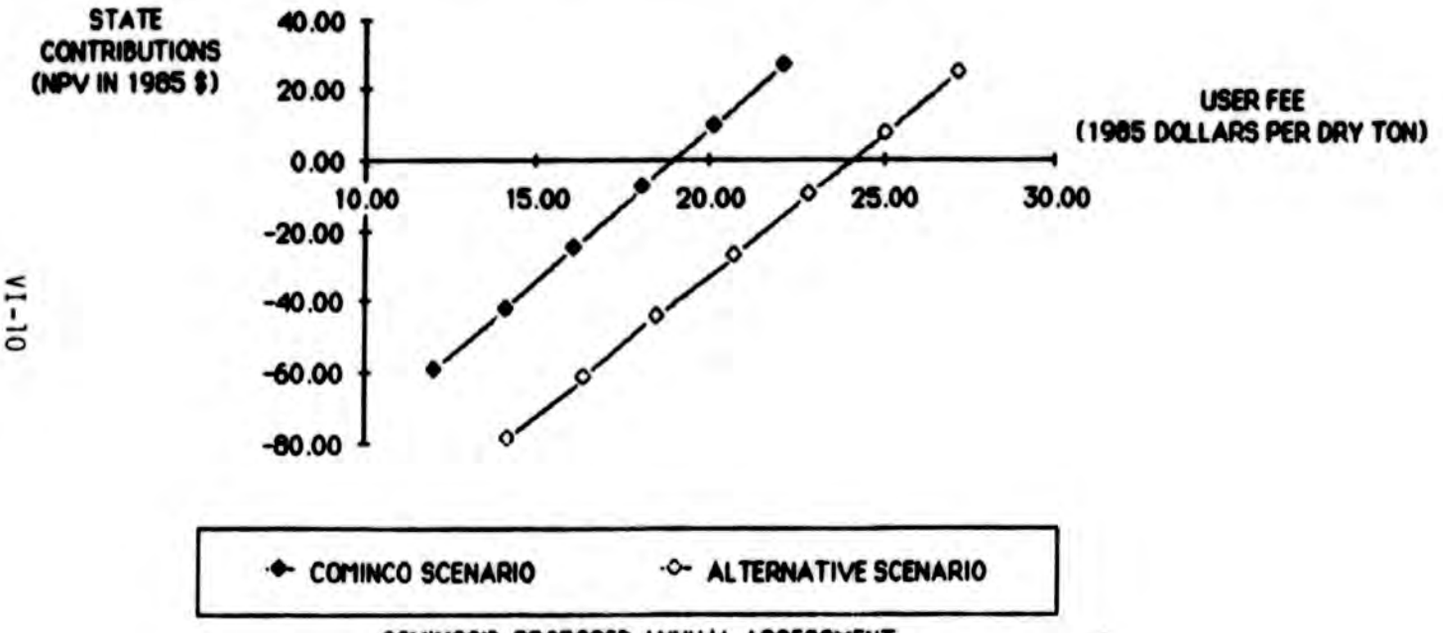
Figure VI.4, "State Contribution versus User Fees," shows the sensitivity of State contributions to variations in user fees. The user fees are expressed as a 30-year average rate in 1985 dollars per ton of concentrate.

The Cominco proposal (under the Cominco Scenario) had an average annual total user charge of about $11/dst of concentrate (in 1985 dollars). Figure VI.4 shows that the State can achieve a breakeven position (i.e., 10% return on its investment) with an average annual total user charge to Cominco Alaska of about $19/dst of concentrate (in 1985 dollars). This would increase Cominco Alaska's total annual user charges by about $10 million--from about $17 million to $27 million during 1995, for example.

Figure VI.5, "Mining Profitability versus User Fees," indicates an implied return on Cominco's mine investment that ranges from about 19% to 8%, depending on the metal price assumption selected (i.e., from pessimistic to optimistic) and average use fee selected. Under any given metal price assumptions, the State can achieve breakeven while reducing Cominco Alaska's profit by less than 2 percentage points compared with the Cominco proposal.

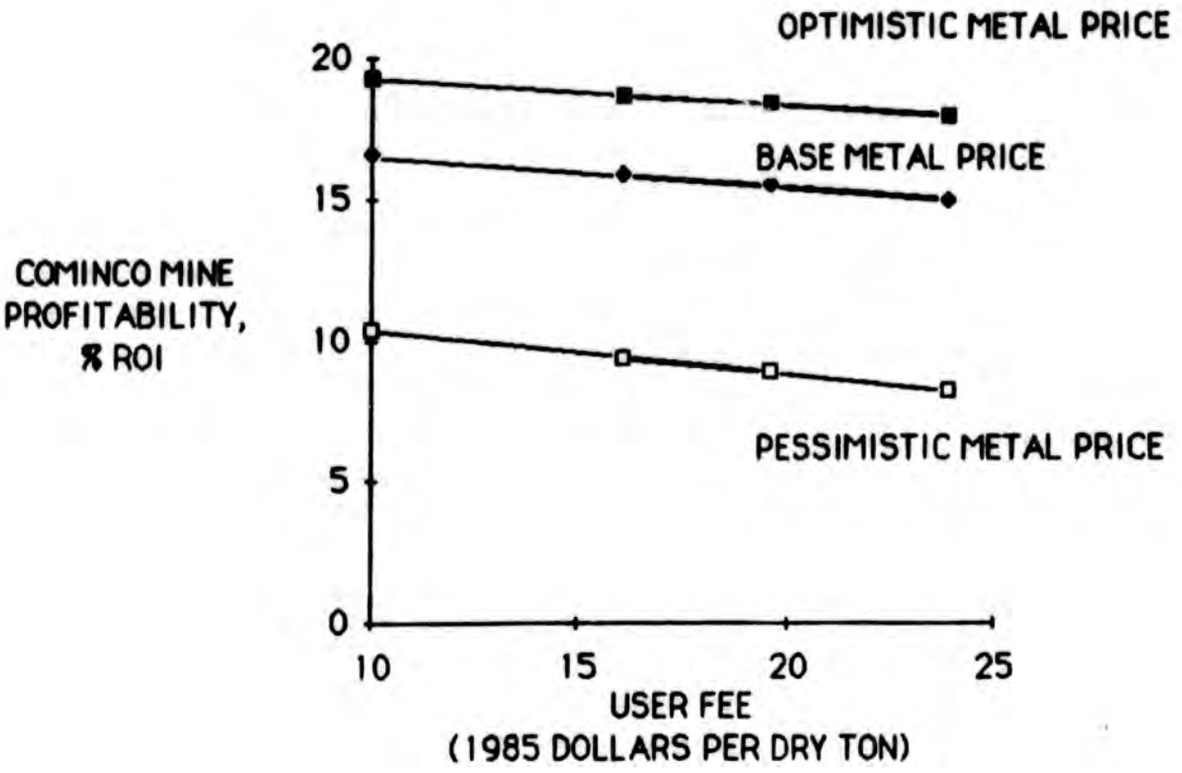
For illustrative purposes, we present a case with a user fee structure and rate that result in a 10% ROI for the State). Apart from the higher user fees (i.e., $6.40/dst of concentrate, $50/t or general cargo, and a flat annual assessment of $17 million), we have used the

FIGURE V1.4: STATE CONTRIBUTION VERSUS USER FEES (GENERAL CARGO RATE OF $50 PER TON)



COMINCO'S PROPOSED ANNUAL ASSESSMENT

FIGURE VI.5: MINING PROFITABILITY VERSUS USER FEE (GENERAL CARGO RATE OF $50 PER TON)



same assumptions as those in the Cominco Scenario. We refer to this new set of assumptions as the Adjusted Cominco Scenario. The detailed economic and financing analysis for this adjusted scenario is found in Appendix 8.

Alternative Financing Plans

We believe the best overall approach to financing the transportation project that will minimize the total cost to the State is by making maximum use of AIDA's funds and to supplement these funds, as necessary, with the least possible amount of bond debt. Our finance plans thus use AIDA money to fund the debt service reserve rather than bond proceeds. This approach would reduce the amount of bond money and will allow the money that would be set aside for debt service reserve to earn interest at a rate higher than the bond interest rate (i.e., it would not be subject to IRS arbitrage restriction).

We would also use AIDA funds rather than bond proceeds, to cover capitalized interest costs during the construction period; doing so would reduce the size of the required bond issue. Furthermore, the AIDA funds will earn interest at a rate higher than the bond rate.

The finance plans we have developed for use in evaluating the Cominco Proposal assume that the associated bond issue will have tax-exempt status. However, AIDA's legal counsel appears to be of the opinion that an advance ruling from IRS will be required to clarify this tax-exempt status issue.

Because tax-exempt financing is not at all certain at this point, we have developed two finance plans for the Adjusted Cominco Scenario: one is based on a fixed rate tax-exempt (FR/TE) bond issue; the other is a fixed-rate partially exempt (FR/PE) bond issue. The latter finance plan assumes that the port will qualify for tax-exempt financing (at 10.5%) and that the road will require taxable financing (at 13%). Therefore we have used a weighted average bond interest rate of 11.9% in this FR/PE version of the finance plan.

The key features of these two finance plans are shown in Figure VI.6, "Finance Plans--the Adjusted Cominco Scenario".

Figure VI.6

FINANCE PLANS--THE ADJUSTED COMINCO SCENARIO

	Tax Exempt Fixed Rate Financing	Partially Tax Exempt Fixed Rate Financing
User Charges ('85$)		
-Concentrates	$6.40/t	
-General Cargo	$ 50 /t	
-Annual Assessment (MM)	$ 17.0	
Capital Costs (MM)		
-As Spent $	$ 158	
-1985 $	$ 147	
Total State Funding (MM)		
-As Spent $	190	194
-NPV @10%	140	142
Bond Issue (MM)		
-Principal (MM$)	100	100
-Interest Rate	10.5%	11.9%
State Subsidy (NPV @10%)		
-Recovered Invest.	140	139
-Subsidy	0	3
-ROI	10.0%	9.8%

VII DISCUSSION

A central question in any decision involving user fees and financing alternatives for the transportation system is the effect of Cominco Alaska's project rate of return. Clearly, this is not an easy question to answer because Cominco Alaska, AIDA, and possibly others will apply different judgmental factors to the problem. SRI's approach has thus been to compare the results of Chapter V (Mine Economics and Profitability) with data for other operations, and to provide comments that qualify our previous conclusions.

The Red Dog mine should thus be a very low cost mine and become one of the most important zinc/lead operations in the world.

SRI has compared the economics of the Red Dog mine with other Western zinc and lead operations. To do so, we have used SRI's proprietary Mine Cost Model--a computerized model that estimates cash operating costs for mines, mills, and smelters in the Western World.

The results are graphically summarized in Figures VII.1 and VII.2, which depict lead and zinc suppliers in the Western World, arranged in ascending order of cash operating costs; the comparative position of the Red Dog mine is shown in each figure. (Cost items considered for Red Dog but not for other operations have been excluded to make for comparability.) In addition, each mine is assumed to be fully integrated into smelting and refining.

A mine's profit potential is related to its operating costs and revenues. The former, which have been discussed in the sections above, generally indicate that the Red Dog operation will be one of the lowest cost zinc/lead mines in the world. The revenues will be related to the realizable price of the metal concentrates that are sold, the "net smelter return"--a quantity that expresses the difference between prevailing metal prices and the amount that smelters charge for smelting and refining concentrates, plus transportation charges and selling expenses.

SRI recognizes that metal concentrates are sold on an individual basis and, therefore, that several factors (not merely one) determine the net smelter return for a mine.

Concluding Recommendations

SRI has examined several factors in terms of their potential effect on the proposed transportation system and its financing potential. Those that are most critical include: (1) the total capital costs of the

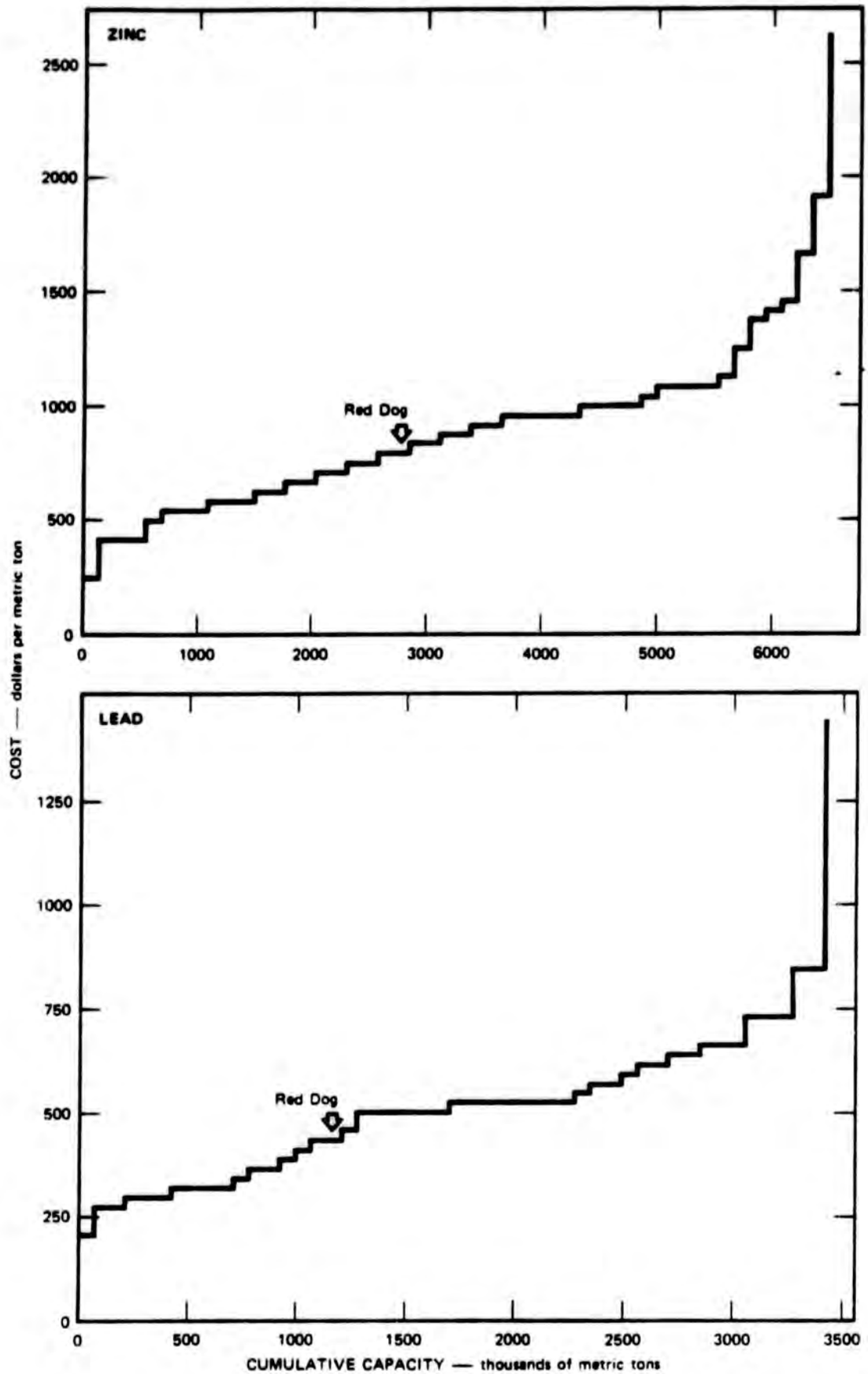


FIGURE VII-1 ZINC AND LEAD PRODUCTION COST CURVE FOR 1990

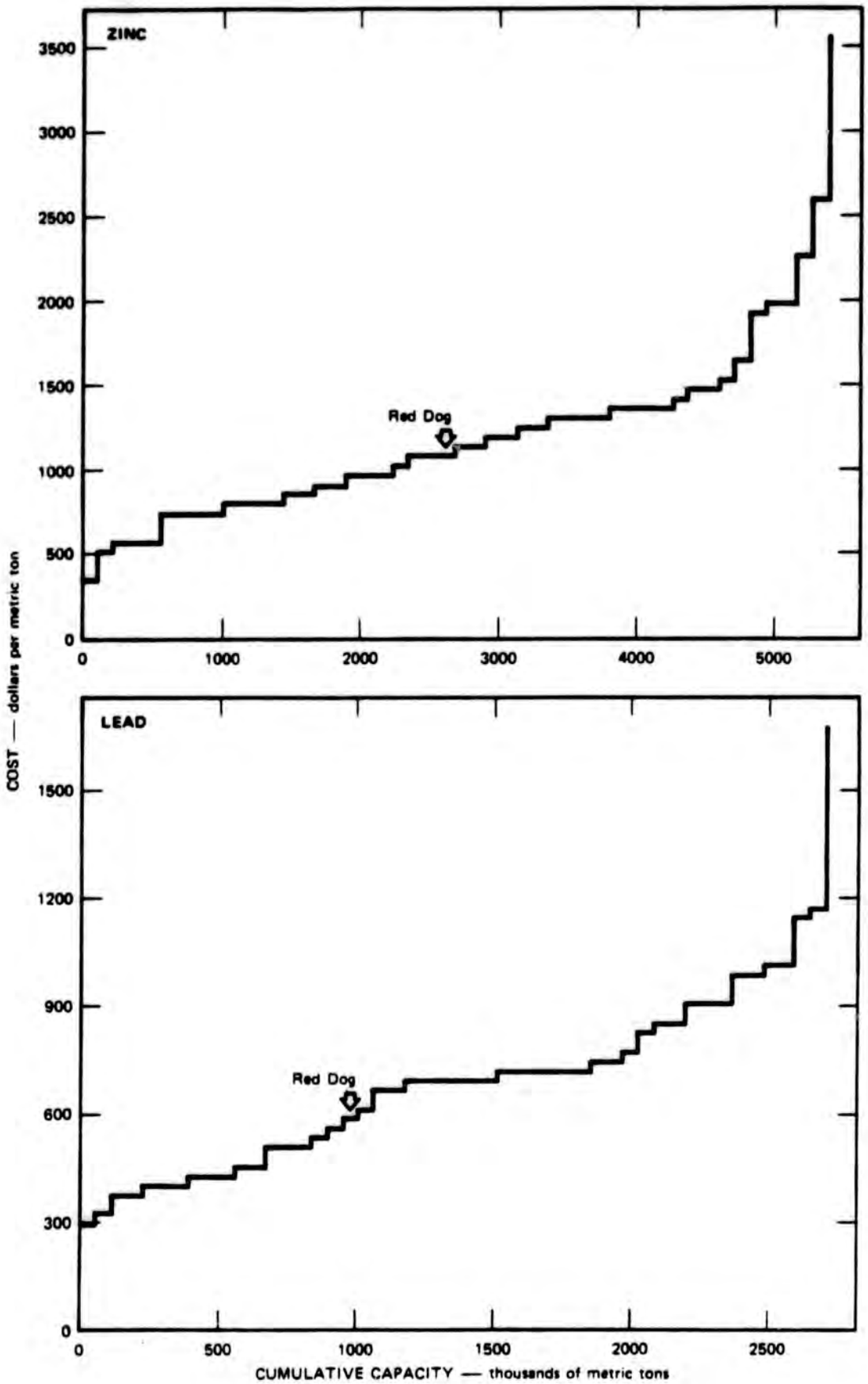


FIGURE VII-2 ZINC AND LEAD PRODUCTION COST CURVE FOR 1995

proposed infrastructure, (2) the date of mine and mill start-up, (3) the source of the funds that will cover all or part of the bond debt service, (4) the source of funds to cover O&M costs, (5) the disposition of possible revenues from other potential users of the transportation system, and (6) the price outlook for zinc, lead, and silver.

From SRI's analyses of these factors and of alternatives to those suggested by Cominco, it is clear that the most critical factor determining Cominco Alaska's return on investment will be the concentrate prices that the Red Dog operation will realize. This factor will depend on prevailing price levels for zinc, lead, and silver; equally important, however, will be the magnitude of smelting and refining charges.

Surprisingly, Cominco Alaska's rate of return appears relatively insensitive to many of the factors pertinent to its proposal (i.e., the broad range of user fees considered and, by extension, the amount of State subsidy required, if any). Potential increases in the amount of capital investment required for the road and port facilities or the possible contribution of other users of the transportation system also appear to have only limited effect on mining return. Instead, the second most important factor, following future concentrate revenues, is a possible delay in the starting date of production. If the delay is 1 year--from 1989 to 1990--for concentrate shipments an addition to the State subsidy of about $20 million would result that would be unrecoverable. For a 2-year delay--to 1991--an additional $35 million would be necessary.

Additional clarification may be gained by elucidating the meaning of ROI in Chapter V calculations. These calculations are based on the assumption that 100% of the required mine and mill investment will in fact be provided by Cominco Alaska's funds. In all likelihood, however, Cominco Alaska would seek debt-financing of a substantial portion of the Alaska investment as is commonly done in the industry. A 40% debt-to-equity ratio would raise Cominco Alaska's profitability because the rate of return is higher than the cost of debt funds.

SCOMM

#50:11

Geoffrey G. Snow, President

Noranda Exploration, Inc.

Joint Resources and Special Committee on Loans

Briefing

Friday, February 8, 1985

Mr. Chairmen, members of the committee - Thank you for the opportunity to brief you today. Noranda Exploration, Inc. is the wholly-owned subsidary of Noranda Inc. Noranda Inc. is a major Canadian mining company and a major zinc producer. Noranda mines produce (in 1982) about 625,000 tons of zinc per year, or close to 15% of world consumption. Zinc is important to Noranda's earnings. A 10% change in the price of zinc (4¢ today) affects Noranda's earnings 30%.

I am employed because Noranda's mines are being depleted. In order to survive, a mining company must replace material mined-out. Noranda can look any were in the world, but our organization has focused on the western Brooks Range. We have just concluded an agreement with GCO Minerals that permits us to examine a large claim block in the DeLong Mountains.

Why did we select the DeLong Mountains? Figure 1 shows where zinc has been mined. Most was from the Mississippi Valley. We are not looking there because, at today's prices and costs, the 6% average grade is not attractive.

Further we think the environment labled volcanic-exhalitive has greater potential. Figure 2 shows where reserves are.

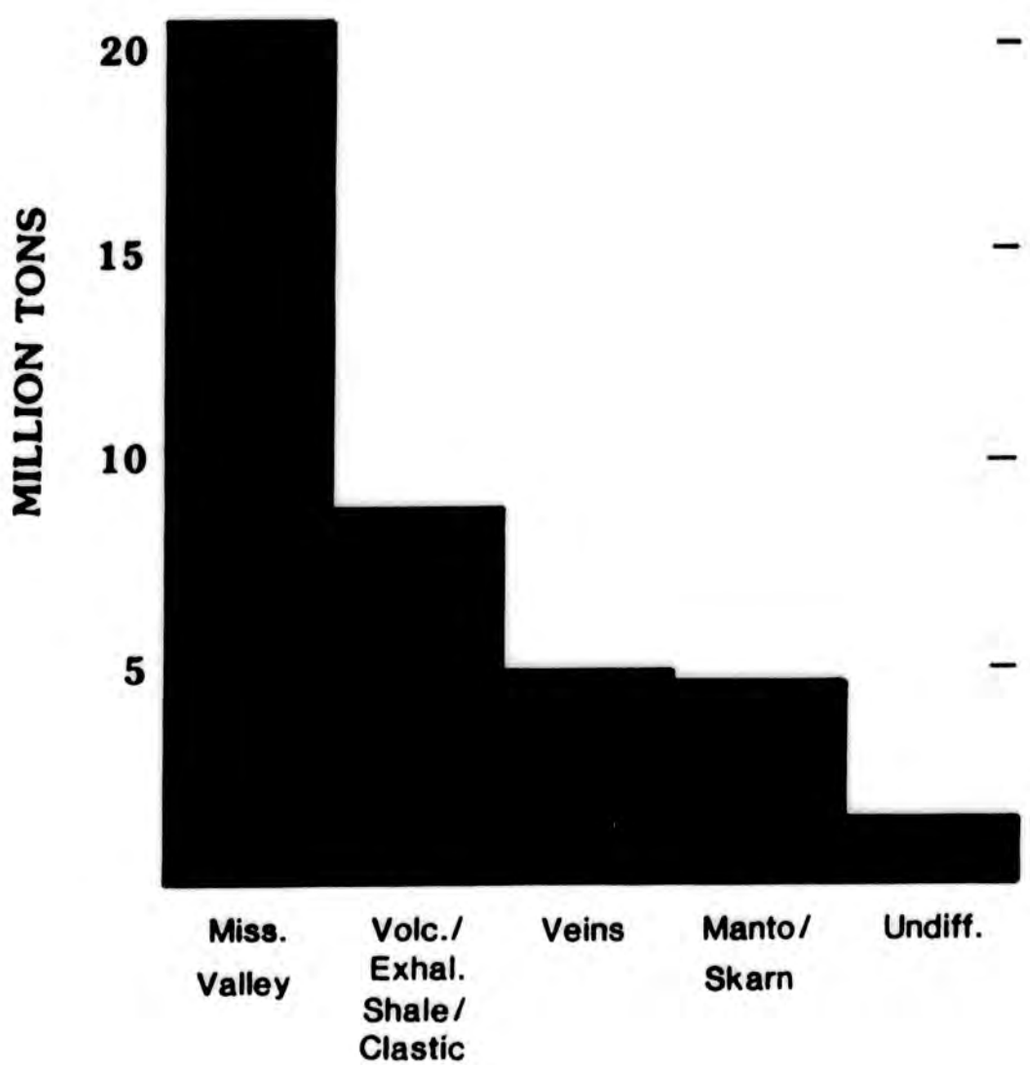
The Red Dog geologic environment is analogous to others in the world, for example the Selwyn Basin of the Yukon. There 10 deposits, ranging in size from 20 to 100 million tons, are in similar rocks over a length of 200 miles.

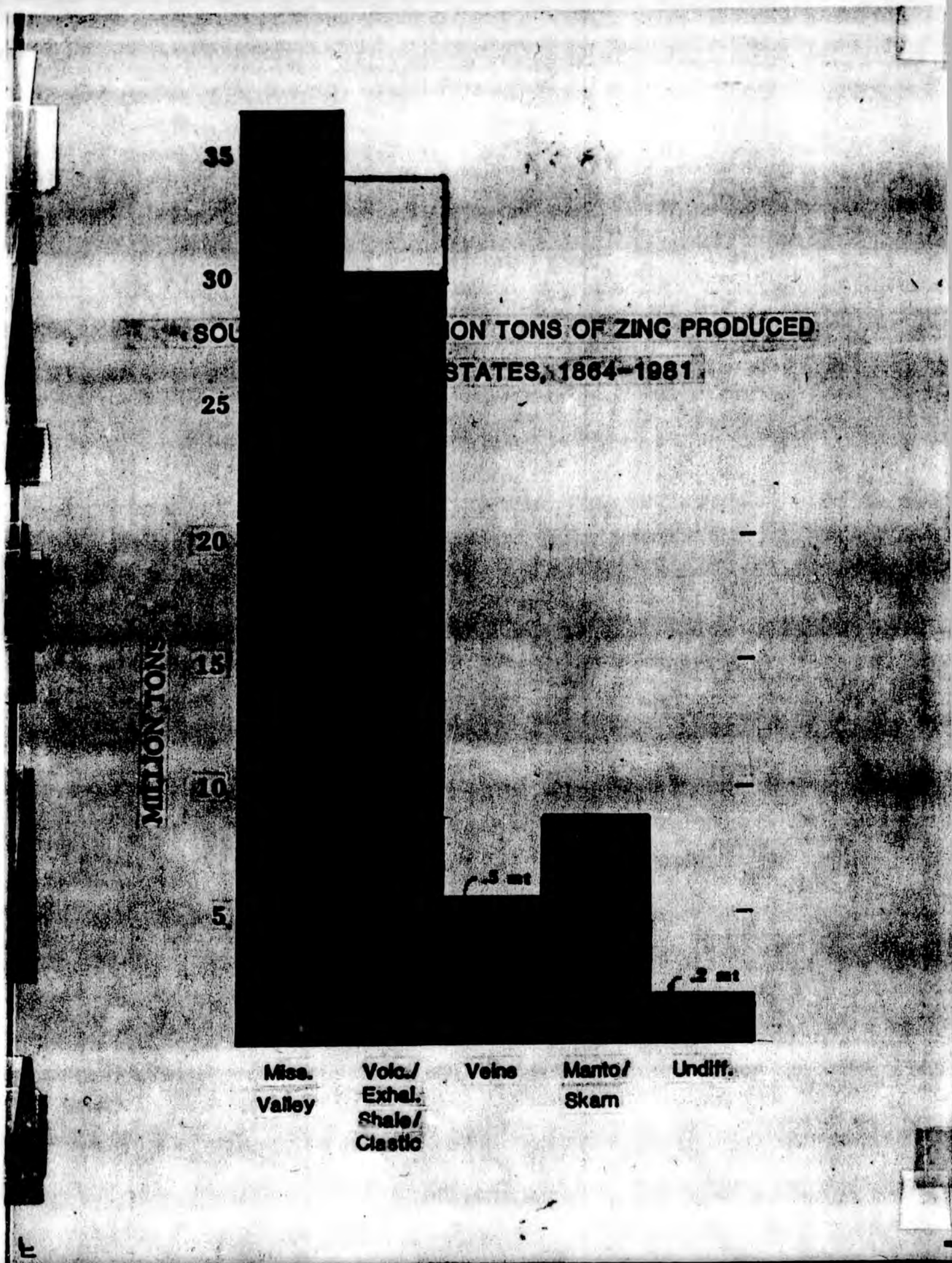
The point for me as an exploration geologist and for you as legislators is that deposits of this type occur in clusters. Noranda hopes to discover others in the Red Dog-Lik cluster.

We are not looking in the Yukon because that is too far from tide water. We are attracted to the DeLong Mountains because tide water is close. We are attracted because there is the possibility of a road to that water. We are attracted because Alaska's tax structure does not peralize those who produce.

The viability of mining operations is directly related to the capital required. A road into the DeLong Mountains will encourage exploration. Because of the clustering nature of deposits of this type, discoveries will hopefully result. Once started the DeLong Mountain zinc belt can provide long term employment, social benefit and new wealth to Alaska.

SOURCE OF 42 MILLION TONS OF ZINC PRODUCED IN THE UNITED STATES, 1864-1981





SOU ON TONS OF ZINC PRODUCED
STATES, 1864–1981

14-1052
Cook
4/10/85

IN THE SENATE BY THE RESOURCES COMMITTEE

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; and providing for an effective date."

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

* Section 1. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project. Bonds or notes may not be issued under this section until

(1) Cominco, Ltd. agrees in writing to terms and conditions under which

See #6

(A) adequate access to the road and port constructed as part of the DeLong Mountain project is guaranteed to other users;

(B) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco, Ltd. makes of the facilities compared to the use made by others;

(C) Cominco, Ltd. will repay all expenditures by the state for the project through toll fees for the use of facilities constructed as part of the project; [and other payments;]

(D) payments by Cominco, Ltd. to the state will be accelerated if the price of zinc rises above a level determined by the Alaska Industrial Development Authority to yield a reasonable profit;

(2) the United States Congress approves the Cape Krusenstern National Monument land exchange between NANA Regional Corporation and the United States Department of the Interior;

(3) NANA Regional Corporation agrees in writing to [convey] to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the DeLong Mountain transportation project and land needed for future expansion of the road and port;

[(4) NANA Regional Corporation agrees in writing to lease land for the Red Dog Mine to Cominco, Ltd. and to provide easements and right-of-ways needed to operate the mine to Cominco, Ltd.;]

(5) the Alaska Industrial Development Authority obtains a ruling from the Internal Revenue Service that bonds or notes issued under this section will qualify for tax exempt status; and

(6) the Alaska Industrial Development Authority establishes a toll schedule for use of facilities constructed as part of the DeLong Mountain transportation project that ensures [the greatest] return on the state's investment in the project and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted.

* Sec. 2. Notwithstanding limitations on the establishment of a capital reserve fund under AS 44.88.105, the authority may covenant and agree with the trustee or holders of the bonds or notes authorized under sec. 1 of this Act that the authority will establish a capital reserve fund for the purpose of securing the bonds or notes, that the chairman of the authority will, by January 2 of each year, certify in writing to the governor and the legislature the amount required to restore the capital reserve fund to the capital reserve fund requirement, and that the legislature may appropriate to the authority the amount certified by the chairman. Nothing in this section creates a debt or liability of the state.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

April 15, 1985 SECOND SCENARIO

SUGGESTED AMENDMENT LANGUAGE TO SB 280

Begin at line 18 of the bill

[(A) adequate access to the road and port constructed as part of the DeLong Mountain project is guaranteed to other users;]

(A) [B] Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities contructed as part of the project based on the use Cominco, Ltd. makes of the facilities compared to the use made by others;

(B) [C] Cominco, Ltd. will repay all expenditures by the state for the project through toll fees for the use of facilities constructed as part of the project and other payments;

(C) [D] payments by Cominco, Ltd. to the state will be accelerated if the price of zinc rises above a level determined by the Alaska Industrial Development Authority to yeild a reasonable profit;

(2) the United States Government [Congress] approves the Cape Krusenstern National Monument land exchange between NANA Regional Corporation and the United States Department of the Interior;

(3) NANA Regional Corporation agrees in writing to make available [convey] to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the DeLong Mountain transportation project and land needed for future expansion of the road and port.

[(4) NANA Regional Corporation agrees in writing to lease land for the Red Dog Mine to Cominco, Ltd. and to provide easements and right-of-ways needed to operate the mine to Cominco, LTd.;]

(4) [5] The Alaska Industrial Development Authority maximizes the use of tax exempt financing; and

(5) [6] the Alaska Industrial Development Authority establishes a toll schedule for use of the facilities constructed as part of the DeLong Mountain transportation project that ensures the greatest return on the state's investment commensurate with project viability in the project and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act transferring and appropriating certain loans to the Alaska Industrial Development Authority; and providing for an effective date."

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

* Section 1. (a) In an amount not to exceed $142,000,000 in unpaid principal as of July 1, 1985, all right, title, and interest in loans of the type described in (b) of this section, and all right, title, and interest in all mortgages, notes, and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated to the Alaska Industrial Development Authority (eff (AS__)) for the ~~purposes of its economic development fund (AS 44.88.172).~~ For the Delta Mtns Regional ~~Dist~~ Trans Project.

(b) This section transfers and appropriates

(1) veterans loans acquired or made under AS 26.15;

(2) commercial fishing loans acquired or made under AS 16.10.300 - 16.10.370;

(3) small business loans acquired or made under AS 45.95;

(4) tourism loans acquired or made under AS 45.90;

(5) fisheries enhancement loans acquired or made under AS 16.10;

(6) child care loans acquired or made under AS 44.33; and

(7) historical district loans acquired or made under AS 45.98.

(c) In an amount not to exceed $30,000,000 in unpaid principal as of July 1, 1985, all right, title, and interest in commercial fishing loans acquired or made under AS 16.10.300 - 16.10.370 and secured by a limited

entry permit, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated from the general fund to the commercial fishing revolving loan fund (AS 16.10.340) for the purposes of AS 16.10.300 - 16.10.370.

(d) In an amount equal to the principal balance of loans appropriated under (c) of this section, all right, title, and interest in commercial fishing loans, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, are transferred from the commercial fishing revolving loan fund to the Alaska Industrial Development Authority for the purposes of its economic development fund (AS 44.88.172). However, only loans that are not secured by a limited entry permit may be transferred or appropriated under this subsection.

* Sec. 2. This Act takes effect July 1, 1985.

April 15, 1985

SUGGESTED AMENDMENT TO SB 279

Sec. 4. All right, title, and interest in [commercial fishing] loans that are not secured by limited entry permits, in an amount equal to the principal balance of loans appropriated under sec. 3 of this Act, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, are transferred and appropriated from the commercial fishing revolving loan fund (AS 16.10.340), the Small Business revolving loan fund (AS 45.95.060), or the Alaska World War II veterans' revolving fund (AS 26.15.090) to the economic development fund (AS 44.88.172) of the Alaska Industrial Development Authority for the DeLong Mountain transportation project.

(3) NANA Regional Corporation agrees in writing to make available [convey] to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the DeLong Mountain transportation project and land needed for future expansion of the road and port.

[(4) NANA Regional Corporation agrees in writing to lease land for the Red Dog Mine to Cominco, Ltd. and to provide easements and right-of-ways needed to operate the mine to Cominc1, Ltd.;]

(4) [5] the Alaska Industrial Development Authority obtains a ruling from the Internal Revenue Service or obtains an opinion of bond counsel that some or all of the bonds or notes issued under this section will qualify for tax exempt status; and

(5) [6] the Alaska Industrial Development Authority establishes a toll schedule for use of the facilities constructed as part of the DeLong Mountain transportation project that ensures the greatest return on the state's investment commensurate with project viability in the project and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted.

April 15, 1985 FIRST SCENARIO

SUGGESTED AMENDMENT LANGUAGE TO SB 280

Begin at line 18 of the bill

[(A) adequate access to the road and port constructed as part of the DeLong Mountain project is guaranteed to other users;]

(A) [B] Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities contructed as part of the project based on the use Cominco, Ltd. makes of the facilities compared to the use made by others;

(B) [C] Cominco, Ltd. will repay all expenditures by the state for the project through toll fees for the use of facilities constructed as part of the project and other payments;

(C) [D] payments by Cominco, Ltd. to the state will be accelerated if the price of zinc rises above a level determined by the Alaska Industrial Development Authority to yeild a reasonable profit;

(2) the United States Government [Congress] approves the Cape Krusenstern National Monument land exchange between NANA Regional Corporation and the United States Department of the Interior;

Draft

4/4/85

It is the intention of the Legislature that, before the appropriation of $18.0 million and the loans of the Department of Revenue to the Economic Development Fund may be expended, obligated, or encumbered, the Alaska Industrial Development Authority must enter into a binding contractual agreement with Cominco, Ltd. and with NANA Regional Corporation to execute substantially the following assurances and guarantees:

1. Cominco, Ltd. will guarantee to pay minimum toll and other payments necessary to repay the State's investment if the mine is delayed or if production is suspended after operation commences.

2. Cominco, Ltd. will guarantee the operation and maintenance costs of the road and port facilities, proportianate to its use of those facilities.

3. Cominco, Ltd. will make available to AIDA and the communities of the region a description of the process it will use to allow regional freight to be carried on its ore carriers destined for the regional port, along with the estimated cost of such freight haulage.

4. NANA will make available at no cost to AIDA the land necessary to meet the expansion needs of the port to accommodate future regional and industrial users.

5. AIDA will establish a toll schedule for the use of the road and port facilities which maximizes the return to the state on its investment throughout the useful life of the facilities and which guarantees eqitable access to the facilities by all users.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM April 2, 1985

SUBJECT: Bond Authorization for the DeLong Mountain Transportation Project (Work Order No. 14-1012)

TO: Representative John Sund

FROM: Tamara Brandt Cook TBC
Deputy Director
Division of Legal Services

Here is a draft of the bill you requested based on a draft submitted by the Department of Law authorizing the Alaska Industrial Development Authority to issue bonds or notes for the DeLong Mountain Transportation Project.

With the permission of Mr. John Hartle, I have omitted language from section 2 of the draft submitted by the Department of Law that deals with a "moral obligation" of the state. Bill Berrier has informed me that the term is shorthand for the standard provision - the entity that issues bonds may covenant with the holders of the bonds that a capital reserve fund will be established that any shortfall must be reported to the legislature, and the legislature may appropriate the amount needed to restore the fund. The term does not have legal significance in itself and a "moral obligation" is not capable of being pledged. Consequently, I have rewritten section 2 using the standard provision. Bill Berrier also informed me that he checked the statutes of several other states and has not found any use of the term "moral obligation" in the other states.

If the language as rewritten in this draft creates a problem, please let me know. The committee might also consider submitting the draft to a qualified bond attorney for review.

TBC:ojb
J13/046

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project; and providing for an effective date."

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

* Section 1. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 2. Notwithstanding limitations on the establishment of a capital reserve fund under AS 44.88.105, the authority may covenant and agree with the trustee or holders of the bonds or notes authorized under sec. 1 of this Act that the authority will establish a capital reserve fund for the purpose of securing the bonds or notes, that the chairman of the authority will, by January 2 of each year, certify in writing to the governor and the legislature the amount required to restore the capital reserve fund to the capital reserve fund requirement, and that the legislature may appropriate to the authority the amount certified by the chairman. Nothing in this section creates a debt or liability of the state.

* Sec. 3. The Alaska Industrial Development Authority may not issue bonds or notes under sec. 1 of this Act unless conditions imposed by law related to the expenditure of money appropriated for the fiscal year ending June 30, 1986, to the authority for the DeLong Mountain transportation project have been satisfied.

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

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M April 2, 1985

SUBJECT: Bond Authorization for the DeLong Mountain Transportation Project (Work Order No. 14-1012)

TO: Representative John Sund

FROM: Tamara Brandt Cook TBC
Deputy Director
Division of Legal Services

Here is a draft of the bill you requested based on a draft submitted by the Department of Law authorizing the Alaska Industrial Development Authority to issue bonds or notes for the DeLong Mountain Transportation Project.

With the permission of Mr. John Hartle, I have omitted language from section 2 of the draft submitted by the Department of Law that deals with a "moral obligation" of the state. Bill Berrier has informed me that the term is shorthand for the standard provision - the entity that issues bonds may covenant with the holders of the bonds that a capital reserve fund will be established that any shortfall must be reported to the legislature, and the legislature may appropriate the amount needed to restore the fund. The term does not have legal significance in itself and a "moral obligation" is not capable of being pledged. Consequently, I have rewritten section 2 using the standard provision. Bill Berrier also informed me that he checked the statutes of several other states and has not found any use of the term "moral obligation" in the other states.

If the language as rewritten in this draft creates a problem, please let me know. The committee might also consider submitting the draft to a qualified bond attorney for review.

TBC:ojb
J13/046

14-1012
Cook
4/1/85

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project; and providing for an effective date."

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

* Section 1. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 2. Notwithstanding limitations on the establishment of a capital reserve fund under AS 44.88.105, the authority may covenant and agree with the trustee or holders of the bonds or notes authorized under sec. 1 of this Act that the authority will establish a capital reserve fund for the purpose of securing the bonds or notes, that the chairman of the authority will, by January 2 of each year, certify in writing to the governor and the legislature the amount required to restore the capital reserve fund to the capital reserve fund requirement, and that the legislature may appropriate to the authority the amount certified by the chairman. Nothing in this section creates a debt or liability of the state.

* Sec. 3. The Alaska Industrial Development Authority may not issue bonds or notes under sec. 1 of this Act unless conditions imposed by law related to the expenditure of money appropriated for the fiscal year ending June 30, 1986, to the authority for the DeLong Mountain transportation project have been satisfied.

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

14-1013
Levy
3/29/85

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act transferring and appropriating certain loans to the Alaska Industrial Development Authority; and providing for an effective date."

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

* Section 1. (a) In an amount not to exceed $142,000,000 in unpaid principal as of July 1, 1985, all right, title, and interest in loans of the type described in (b) of this section, and all right, title, and interest in all mortgages, notes, and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated to the Alaska Industrial Development Authority for the purposes of its economic development fund (AS 44.88.172).

(b) This section transfers and appropriates

(1) veterans loans acquired or made under AS 26.15;

(2) commercial fishing loans acquired or made under AS 16.10.300 - 16.10.370;

(3) small business loans acquired or made under AS 45.95;

(4) tourism loans acquired or made under AS 45.90;

(5) fisheries enhancement loans acquired or made under AS 16.10;

(6) child care loans acquired or made under AS 44.33; and

(7) historical district loans acquired or made under AS 45.98.

(c) In an amount not to exceed $30,000,000 in unpaid principal as of July 1, 1985, all right, title, and interest in commercial fishing loans acquired or made under AS 16.10.300 - 16.10.370 and secured by a limited

entry permit, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated from the general fund to the commercial fishing revolving loan fund (AS 16.10.340) for the purposes of AS 16.10.300 - 16.10.370.

(d) In an amount equal to the principal balance of loans appropriated under (c) of this section, all right, title, and interest in commercial fishing loans, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, are transferred from the commercial fishing revolving loan fund to the Alaska Industrial Development Authority for the purposes of its economic development fund (AS 44.88.172). However, only loans that are not secured by a limited entry permit may be transferred or appropriated under this subsection.

* Sec. 2. This Act takes effect July 1, 1985.

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4907

Senate
Committee on Resources

April 1, 1985

Bert Wagnon, Executive Director
Alaska Industrial Development Authority
1577 C Street, Suite 304
Anchorage, AK 99501

Dear Mr. ~~Wagnon~~ Bert:

We are continuing to gather information concerning the Delong Mountain Transportation Project (Red Dog) and would like to ask you to provide some additional data. The announcement by the Department of Revenue last Friday that the state's expected revenues would be less than previously anticipated has naturally caused a great concern about all state spending programs.

1. If the $160 million ($142 million in loans plus the $18 million from the general fund) are transferred to the AIDA Economic Development Fund, what is the mechanism for these funds to flow back to the general fund over time?

2. Considering that the $160 million will be used to back the sale of AIDA bonds but that toll fees charged to Cominco, LTD. (and perhaps others) as well as interest earned from the fund will be used to retire the bonds, what is the expected balance in the Economic Development Fund at the end of 20 years?

3. Can you provide us with a projected Economic Development Fund balance by year from July 1, 1985 until the retirement of all of the $175 million in bonds issued for this project?

4. What effect will the additional management requirements of $142 million in loans have on AIDA's personnel requirements?

5. Can you provide us with a breakdown of the expenditures made to date and those anticipated from the $3 million appropriation in last years budget for this project?

6. What is the total amount that could be expected to accrue to the Economic Development Fund in both principal and interest over time if you added together the $18 million from the general fund, the $142 million principal in loans, the interest on the $18 million while in the fund, the interest generated from the $142 million in loans and the interest earned on the earnings of the fund?

I have enclosed for your information copies of requests I have made to the Departments of Revenue and Commerce and Economic Development. Because of the limited time remaining this session, I would appreciate a response as soon as possible. Thank you.

Sincerely yours,

Arliss

Senator Arliss Sturgulewski
Chairman, Senate Resources Committee

Enclosures

cc: Mary Nordale, Commissioner, Department of Revenue
Loren Lounsbury, Commissioner, DCED

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4907

Senate
Committee on Resources

April 1, 1985

Mary Nordale, Commissioner
Department of Revenue
Mail Stop 0400, Pouch S
Juneau, AK 99811

Dear Commissioner Nordale: Mary

In light of your announcement on Friday regarding further declines in expected state revenues over the next several years, it is important that we closely analyze all proposed state funding requirements. As you know, the Senate Resources Committee has the Delong Mountain Transportation Project (Red Dog) under investigation and we are in need of some additional information.

1. It has been suggested that $142 million in state loans held by the Department of Revenue be transferred to AIDA bonds. I would like to know the make up of those loans. What is the amount of each category (such as veterans, commercial fishing, small business, tourism, fisheries enhancement, child care and historical districts), the interest rates by category and the maturity dates? What is the amount of money by category that returns to a revolving loan fund pool and what amount returns to the general fund? If any revolving loan funds are transferred to AIDA, how does that affect the future ability of those revolving funds to meet the public demand for loans?

2. What is the expected cash flow (principal and interest) by year from July 1, 1985 that would return to the state over the term of the loans if they remained in the Department of Revenue?

3. What is the expected financial shortfall in state revenue in FY 86 as a result of transferring these loans to AIDA? Has any adjustment been made to the Administration's budget for FY 86 to reflect this income reduction?

4. What is the total amount of interest that is expected to be returned to the state from the $142 million over the life of the loans calculated as of July 1, 1985?

5. What is the total amount of interest that the state would expect from the $142 million in loans plus the $18 million in general fund expenditure if this $160 million were not transferred to AIDA?

6. Will the transfer of the $142 million in loans to AIDA result in increased requests this year or in future years for the various state loan programs since the principal and interest will not flow back to the general fund or a revolving fund as expected?

I have included for your information copies of requests I have made to Bert Wagnon, Executive Director, AIDA and Commissioner Lounsbury, Department of Commerce and Economic Development. Because of the limited time remaining this session, I would appreciate a response as soon as possible. Thank you.

Sincerely yours,

Senator Arliss Sturgulewski
Chairman, Senate Resources Committee

Enclosures

cc: Loren Lounsbury, Commissioner, DCED
Bert Wagnon, Executive Director, AIDA

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4907

Senate
Committee on Resources

April 1, 1985

Loren Lounsbury, Commissioner
Department of Commerce and Economic Development
Mail Stop 0800, Pouch D
Juneau, AK 99811

Dear Commissioner Lounsbury: Loren

It has been suggested that $142 million in loans from the Department of Revenue and Department of Commerce and Economic Development be transferred to AIDA in support of the Delong Mountain Transportation Project (Red Dog). This would no doubt have some effect on your department's operation. Can you provide me with some further information on the following questions.

1. Will the transfer of the $142 million in loans to AIDA affect the personnel requirements of your loan servicing division? In other words, would you anticipate a reduction in staffing?

2. If these loans were transferred to AIDA, do you anticipate that the loan repayment or servicing policies would change?

3. What would be the effect on the borrowers if these loans were transferred to another agency?

4. How would the loss of future income from these loans (both principal and interest) affect the ability of your loan divisions to provide for the public demand for loans in the various categories? Would you anticipate increased funding requests to the legislature to meet the public need?

5. Does the loss of income from these loans affect your FY 86 budget loan requests if all principal and interest is transferred on the $142 million as of July 1, 1985?

I have enclosed for your information copies of requests I have made to AIDA and the Commissioner of the Department of Revenue. Because of the limited time remaining this session, I would appreciate a response as soon as possible. Thank you.

Sincerely yours,

Senator Arliss Sturgulewski
Chairman, Senate Resources Committee

Enclosures

cc: Mary Nordale, Commissioner, Department of Revenue
Bert Wagnon, Executive Director, AIDA



by Wilbur Mills in *Alaska, The Great Land*

Sierra Club
241 E. Fifth Avenue
Suite 205
Anchorage, Alaska 99501
(907) 276·4048

MEMORANDUM

To: John Hartle
From: Jack Hession
Re: Cominco's Transportation Study
Date: April 1, 1985

On page 25, total construction cost of the Asikpak Route is listed as $125.7 million. On page 31, total construction cost for the Kruz (Cominco's preferred) route is $115.3 million if Cominco is not allowed to take gravel from inside Cape Krusenstern National Monument.

When Cominco filed its Title 11 application, the National Park Service asked the company what the Kruz route would cost with and without gravel from the Monument. Cominco's answer is $74.7 million (p. 29), and $115.3 million, respectively. Hence, the $40.6 million difference I mentioned.

One other observation. Cominco is apparently telling the Legislature that its preferred route is assured if the State agrees to the funding of its transportation facilities.

Is it prudent for the Legislature to appropriate funds on the basis of Cominco's assurance of Congressional cooperation? That cooperation is by no means assured. Hearings have not even been scheduled yet.

REPORT

An Economic Evaluation of Alternative Road Routes from RED DOG to a Road/Marine Transhipment Site

PREPARED FOR COMINCO ALASKA INC.
JUNE 1984

Cominco Engineering Services Ltd.
a subsidiary of Cominco

TABLE OF CONTENTS

Page No.

LIST OF FIGURES i

I. INTRODUCTION 1

° Purpose and Outline of Report

II. DESCRIPTION OF PROPOSED ROAD ALTERNATIVES 2

° Identification of Alternatives Considered

° Description of Selection Procedure

° Derivation and Definition of Design Parameters

° Discussion of Engineering Constraints

III. COST ESTIMATES 19

° Basis of Estimate

° Audit

° Estimate for Asikpak Route

° Estimate for Kruz Route Using Borrow Sources Inside the National Monument

° Estimate for Kruz Route Using Borrow Obtained Outside the National Monument

LIST OF FIGURES

			Page No.
Figure	1	° Preliminary Selected Route Options	4
	2	° Engineering Constraints	5
	3	° Hunting and Trapping Constraints	6
	4	° Fish and Game Constraints	7
	5	° EIS Selected Route Options	9
	6	° Design Vehicle (Concentrate Truck) and Module Transporter	11
	7	° Road Cross Sections	13
	8	° Proposed Borrow Pit Locations	14
	9	° Typical Bridge Details	16
	10	° Typical Culvert Details	17

I. INTRODUCTION

The purpose of this report is to provide route selection and engineering data sufficient to permit a detailed independent review.

The report outlines the cost of constructing and operating a road from Red Dog to a port on the Chukchi Sea. The alternative routes investigated are identified and the selection procedure described. In addition, the report defines the environmental constraints, basic engineering design parameters and basis of estimate.

Throughout this report geographical identification is based on physical features and settlements named on the U.S. Geological Survey 1:63360 scale mapping.

II. DESCRIPTION OF PROPOSED ROAD ALTERNATIVES

The Red Dog deposit is located in northwest Alaska approximately 90 miles north of Kotzebue and 70 miles east of Kivalina. The deposit is on the west side of Deadlock Mountain and straddling Red Dog Creek. A suitable mill site has been identified on a low hill 1-1/2 miles west of the deposit at an elevation of 1050 feet. This is the designated inland terminus for all the alternative road routes investigated.

Four possible port sites on the Chukchi Sea have been identified, together with two road vehicle to barge transhipment sites on the Noatak River. These are located as follows (see Figure 1):

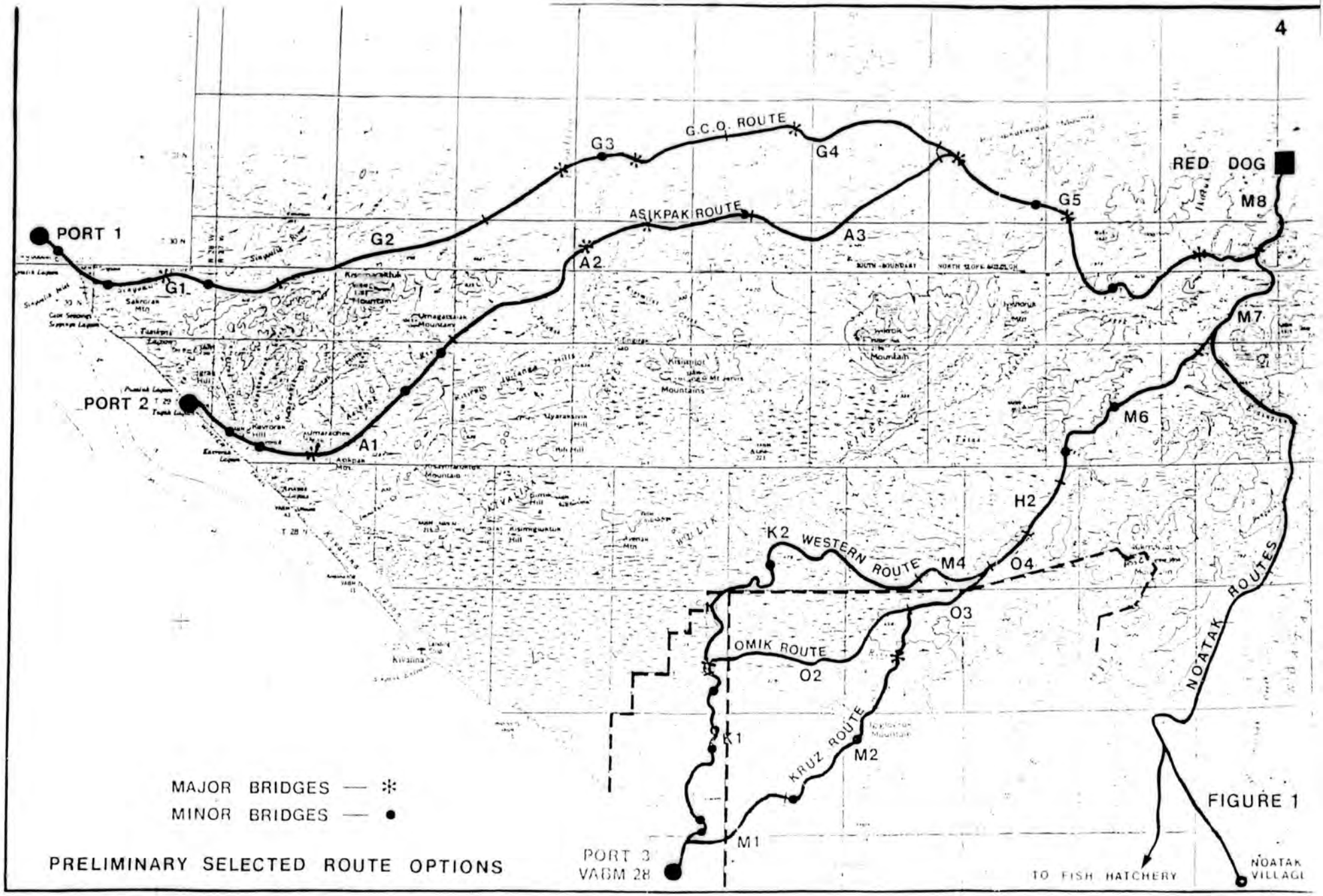
- Port Site 1 -- 28 miles northwest of Kivalina village, between Singoalik and Pusigrak lagoons.
- Port Site 2 -- 16 miles northwest of Kivalina village and immediately south of Tugak lagoon.
- Port Site 3 -- Located 10 miles southeast of Kivalina village at VABM 17, between Imikruk and Ipiavik lagoons.
- Port Site 4 -- Located 16 miles southeast of Kivalina village at VABM 28, midway between the mouths of New Heart and Umagatsiak Creeks.
- Transhipment Site 1 -- On the Noatak River at Noatak village.
- Transhipment Site 2 -- At the Fish hatchery on the Noatak River, 19 miles south of Noatak village and 10 miles above the confluence of the Agashashok River.

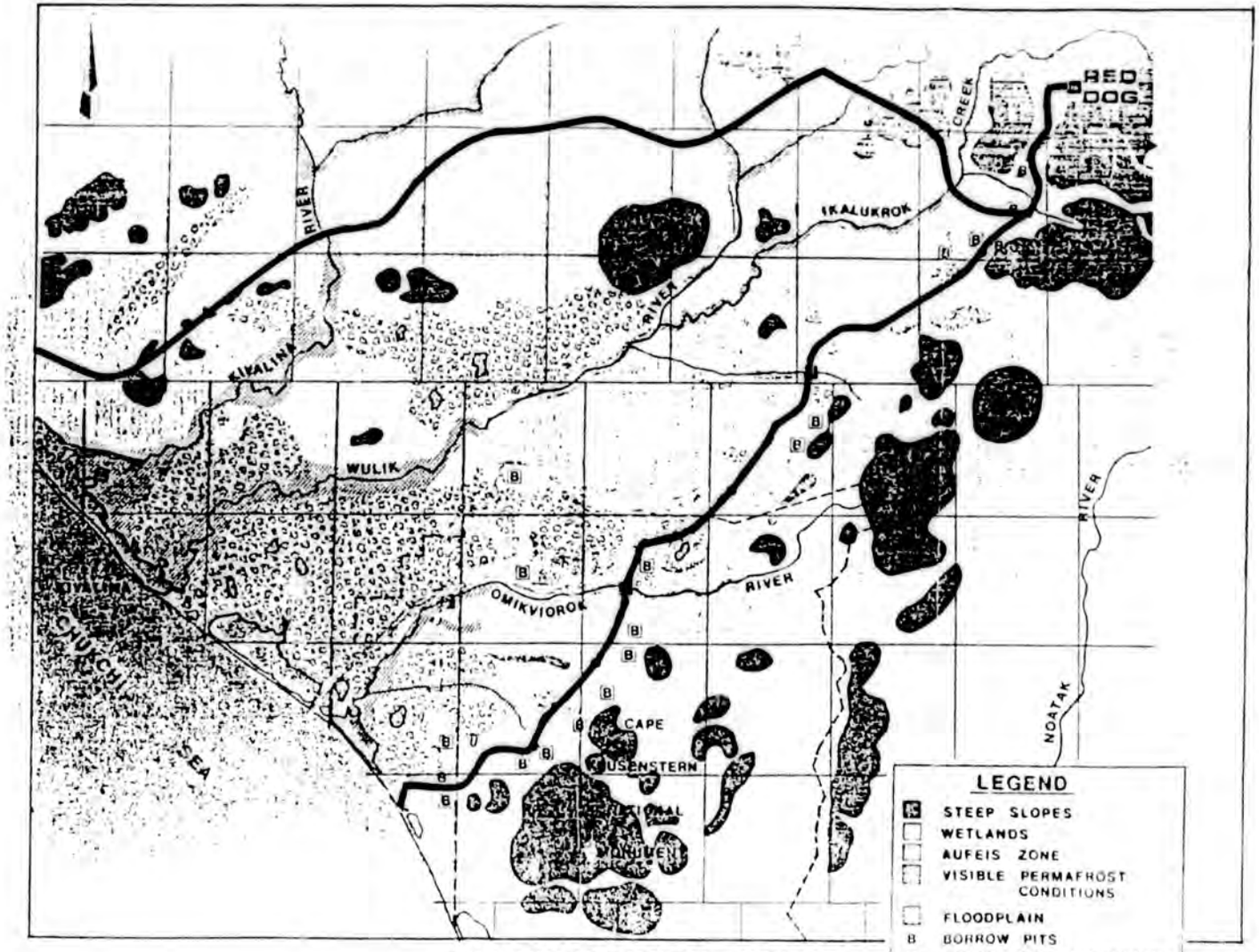
II. DESCRIPTION OF PROPOSED ROAD ALTERNTIVES (continued)

Engineering and environmental constraint maps were prepared incorporating existing data and the results of field work carried out by Cominco's consultants. (For much simplified versions of these maps, see Figures 2, 3, and 4). Using these maps, along with U.S. Geological Survey 1:63360 scale mapping, numerous possible routes and route segments were defined (see Figure 1).

For each of these routes, the alignment has been plotted on 1:63360 scale mapping or enlargement of this mapping and for the majority of routes profiles were also prepared.

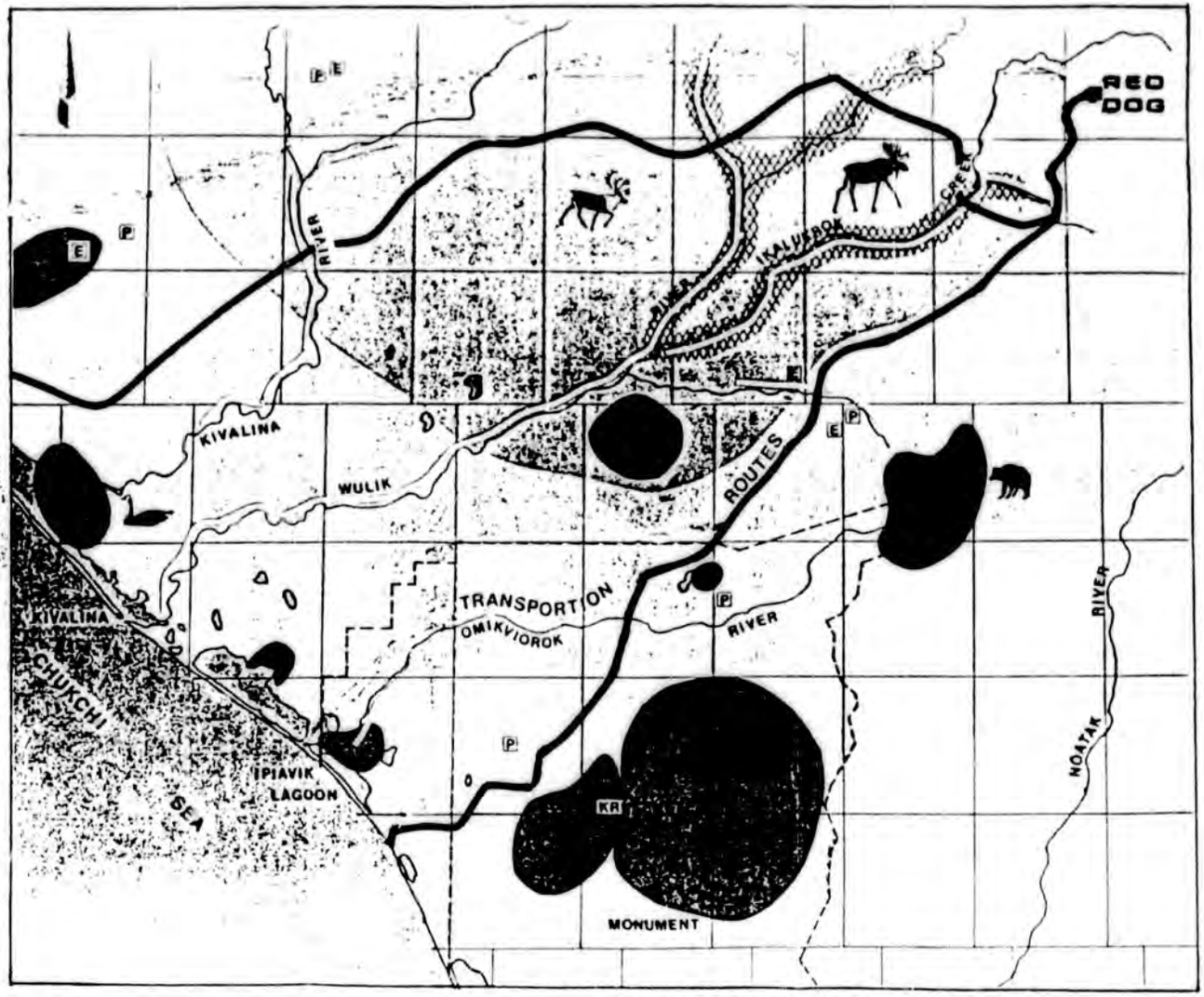
A preliminary engineering evaluation was carried out for each route. This evaluation included an estimation of route length, determination of terrain characteristics by segment, calculation of approximate fill quantities, preliminary sizing of major bridges and an estimation of minor bridge and culvert requirements. From this data, preliminary cost estimates were prepared. A preliminary selection was made using these cost estimates in conjunction with the constraint mapping and additional field reconnaissance.


4
G.C.O. ROUTE
G3
G4
G5
RED DOG
M8
ASIKPAK ROUTE
A3
A2
G2
G1
PORT 1
PORT 2
A1
M7
M6
H2
K2 WESTERN ROUTE
M4
O4
O3
OMIK ROUTE
O2
K1
KRUZ ROUTE
M2
M1
NOATAK ROUTES
PORT 3
VABM 28
TO FISH HATCHERY
NOATAK VILLAGE
MAJOR BRIDGES
MINOR BRIDGES
PRELIMINARY SELECTED ROUTE OPTIONS
FIGURE 1



TRANSPORTATION ROUTES
ENGINEERING CONSTRAINTS

FIGURE 2



TRANSPORTATION ROUTES

FISH & GAME CONSTRAINTS

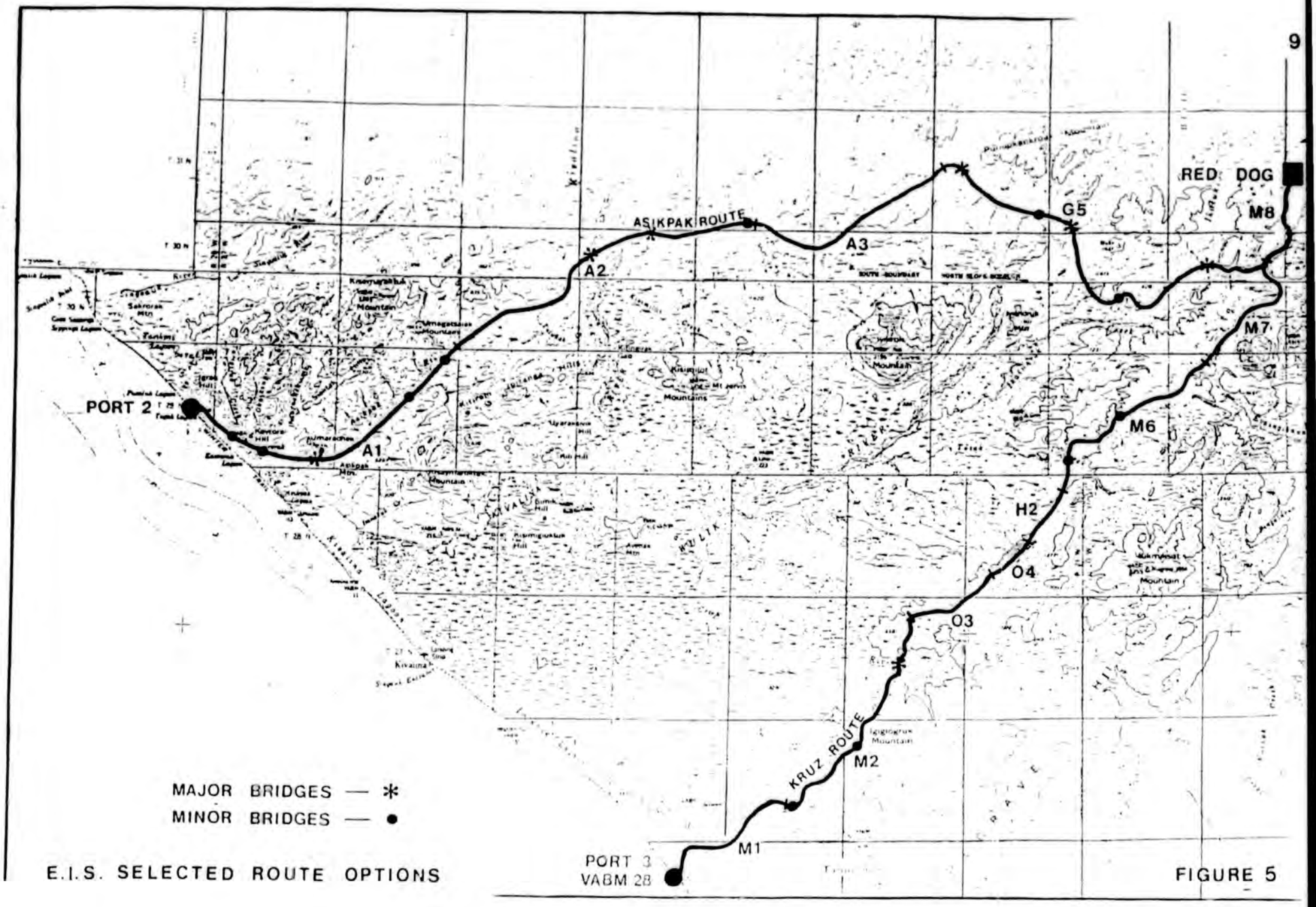
FIGURE 4

II. DESCRIPTION OF PROPOSED ROAD ALTERNTIVES (continued)

All of these routes were reviewed by the Environmental Protection Agency and the Department of the Interior. The KRUZ and ASIKPAK route options were selected by these agencies for more detailed study (Figure 6). The Environmental Impact Statement should be referred to for a detailed description of this selection procedure. In addition, further studies were carried out by Cominco and the Environmental Protection Agency's E.I.S. contractor of the logistics and costs of the road/barge/bulk carrier transhipment via the Noatak River.

At this point, engineering design parameters were reviewed and refined to form a basis for more detailed evaluation of the two selected routes. These parameters are as follows:

- Road design speed - 30 mph.
- Road width - 30 feet.
- Design vehicle is the proposed concentrate haul truck/a tractor/ double trailer, side dump vehicle of 443,000 pounds GVW and maximum tandem axle loads of 109,500 pounds. (Figure 7).
- Crossfall 3 percent either side of center line.
- Side slopes 2:1 minimum.
- Maximum grade 4 percent.
- Maximum grade change 4 percent.
- Minimum radius of horizontal curvature 400 feet.
- Minimum radius of vertical curvature 1,500 feet.
- Thaw settlement of subgrade 6 inches maximum.
- Passing turnouts (50 feet total road width) at 2-mile intervals.



E.I.S. SELECTED ROUTE OPTIONS

FIGURE 5

II. DESCRIPTION OF PROPOSED ROAD ALTERNATIVES (continued)

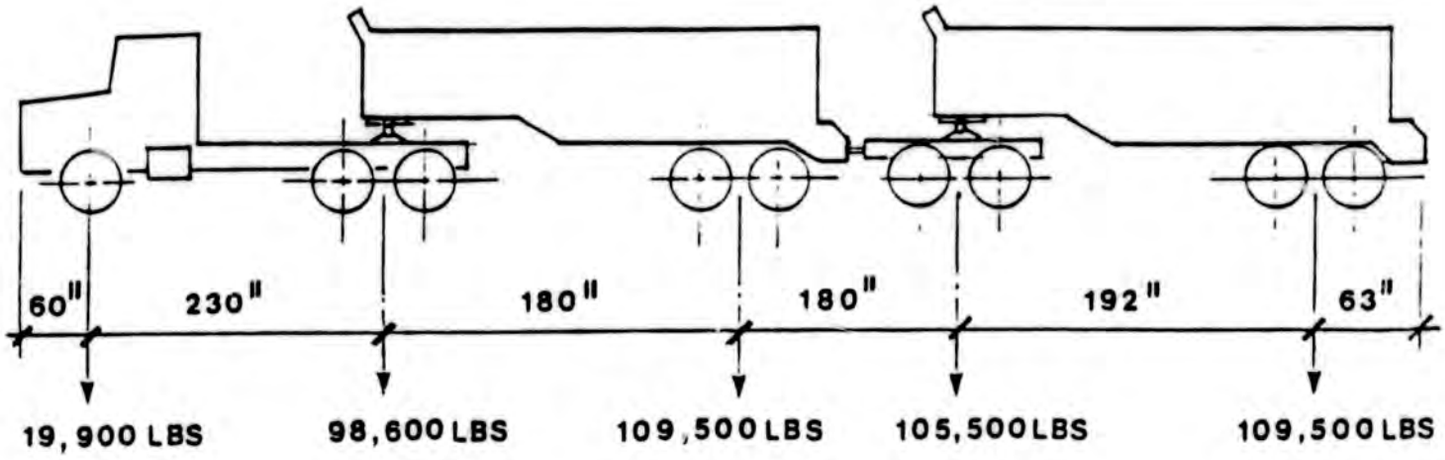
The road must also be capable of handling the movement of plant modules of up to 1500 tons weight during the construction period. These modules will be moved on multi-wheeled, hydraulic levelled, purpose made transport vehicles (Figure 7). Maximum speed when loaded will be approximately 5 mph. Side clearances must be sufficient to permit movement of modules up to 70 feet wide.

At stream and river crossings, two approaches to module movement have been considered. Modules may be transported through the streams at low water using temporary diversion roads and fords or alternatively, bridges would be strengthened to sustain module loads. Either of the approaches would be viable for the Kruz Route, however, on the Asikpak Route, fording the major rivers may not be practicable and strengthening of the longer span bridges will result in significantly increased costs.

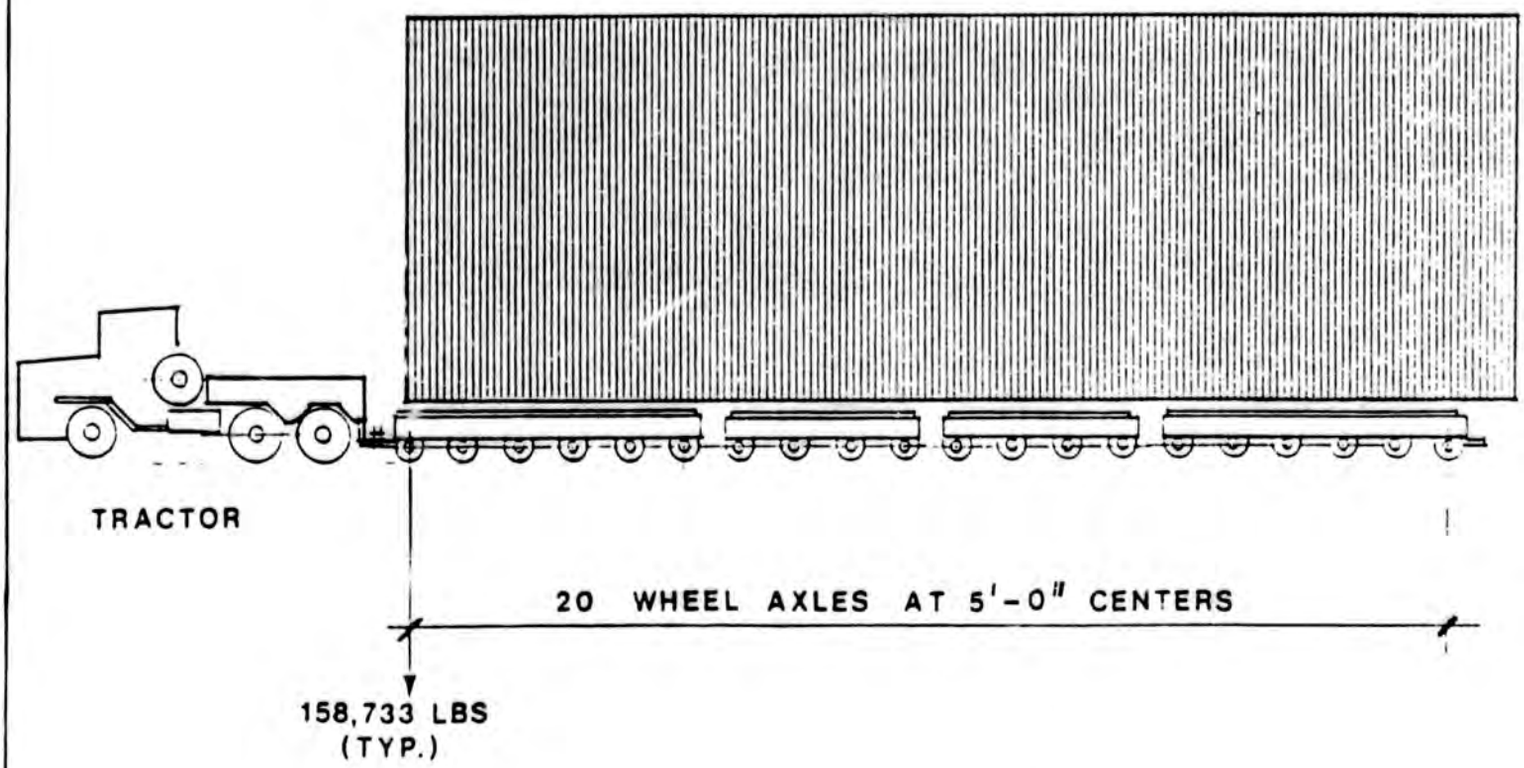
The maximum grade of 4% was adopted to accommodate movement of plant modules and to permit possible future reuse of the grade for a railroad. In general, grades will be easier than the maximum, particularly on the Kruz route where maximum grades only exceed 1-1/2% for short distances. The maximum 4% grade will be adopted in areas of more difficult terrain on the Asikpak route and on both routes locally at stream crossings.

The use of 4% grades for a railroad will generate operating difficulties and high operating costs. Industry practice for a railroad of this type would be to limit grades to 1-1/2% which will significantly reduce operating costs but at the expense of increased capital cost. Studies indicate that 1-1/2% grades will offer economic benefit where profile improvements are required in the vicinity of stream crossings only. The easier terrain of the Kruz route option would permit cheaper conversion to a railroad.

Both routes lie within the zone of continuous permafrost and all soils and bedrock are expected to be permanently frozen. Available thermistor data shows temperatures from 32°F to 27°F indicating a relatively warm permafrost. The active layer is expected to range from 1-2 feet thick on poorly drained soils to a maximum of 4-5 feet on well-drained upper slopes.



CONCENTRATE HAULER - 150 tons



MODULE TRANSPORTER

FIGURE 6

II. DESCRIPTION OF PROPOSED ROAD ALTERNATIVES (continued)

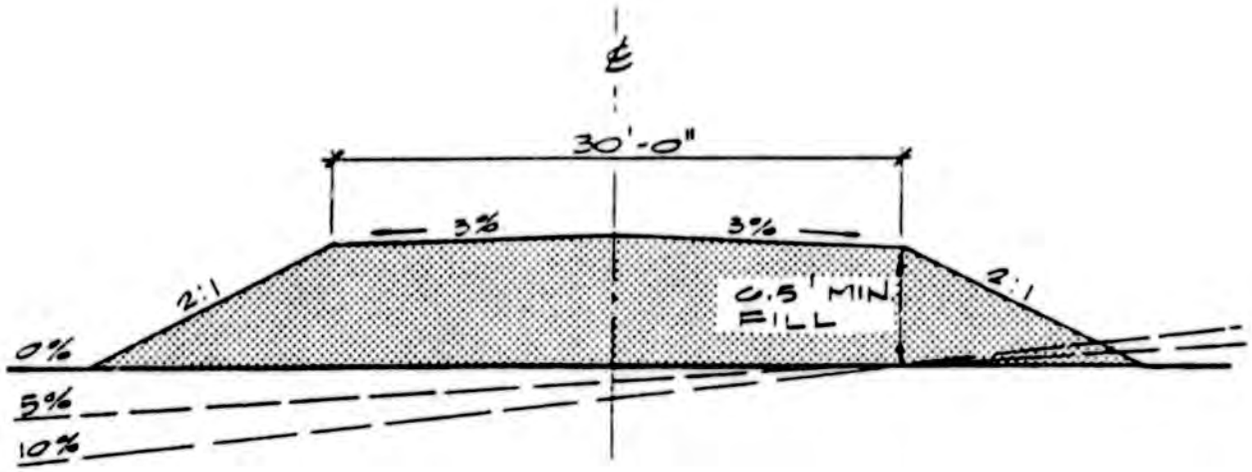
From an engineering point of view, the most acceptable thermal regime is expected to occur on well drained, gently sloping north facing slopes.

Preliminary thermal analyses have been carried out which indicate that a minimum fill depth of from 5 feet to 6.5 feet will be required to limit thaw settlement to 6 inches. Determination of minimum fill depth for detailed road design will be based on the results of the Geotechnical Investigation which will define terrain, underlying soils, ground thermal regime and micro-climate variations. It is anticipated that minimum fill depth will vary along the length of the road.

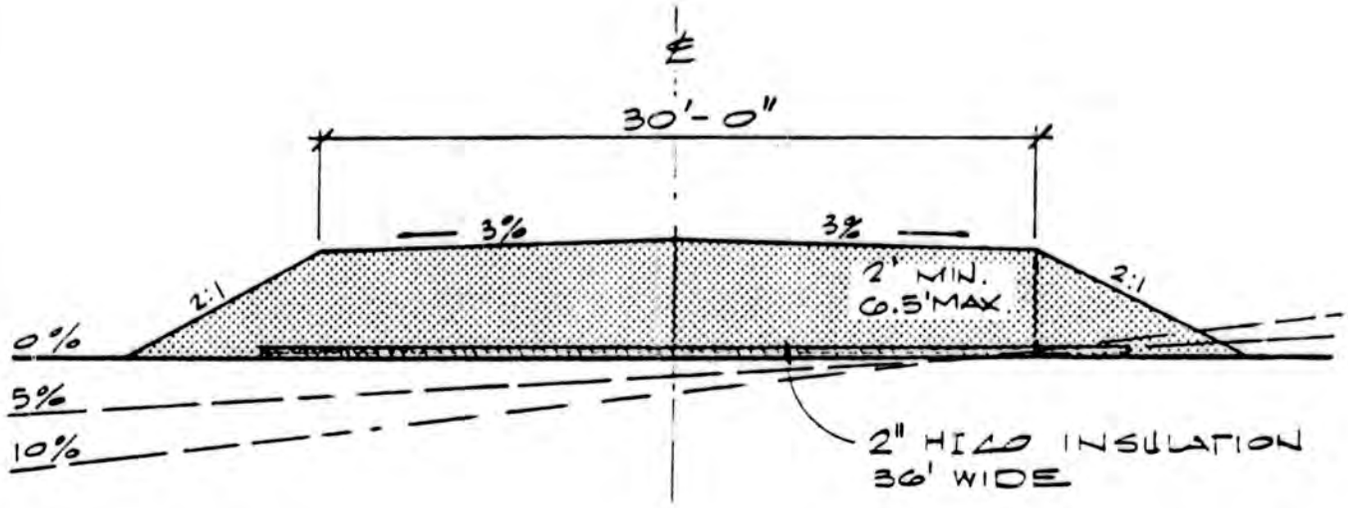
The estimates have been based on a minimum fill depth of 6.5 feet with an alternative composite construction comprising 2 inches of rigid insulation with a 2 feet minimum thickness of granular fill topping. Thermal characteristics of both Asikpak and Kruz routes are expected to be similar and so these sections have been adopted for both routes (Figure 8). The composite section will be utilized only where haul distances from borrow sources are long enough for it to offer a cost advantage.

On the Asikpak and Kruz routes it is anticipated that cut and fill construction will only be possible within the final 8 miles approaching Red Dog.

Proposed borrow pit locations have been determined by reference to U.S. Geological Survey mapping, aerial photography at 1:12000, reports and terrain unit mapping based on field work carried out for Cominco by Dames and Moore and supported by field reconnaissance (Figure 9).



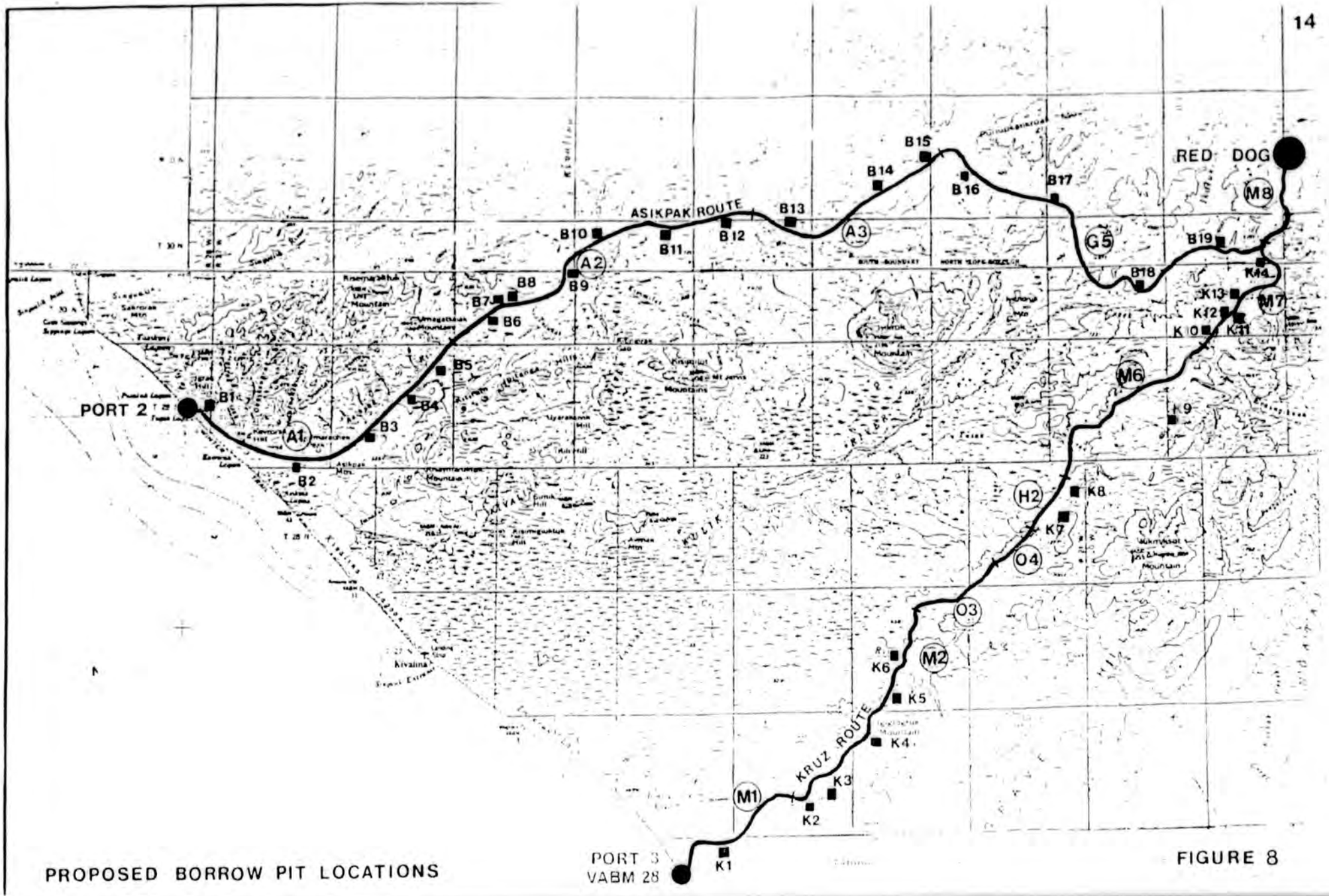
FILL CROSS SECTION



COMPOSITE CROSS SECTION

TYPICAL ROAD SECTIONS

FIGURE 7



PROPOSED BORROW PIT LOCATIONS

FIGURE 8

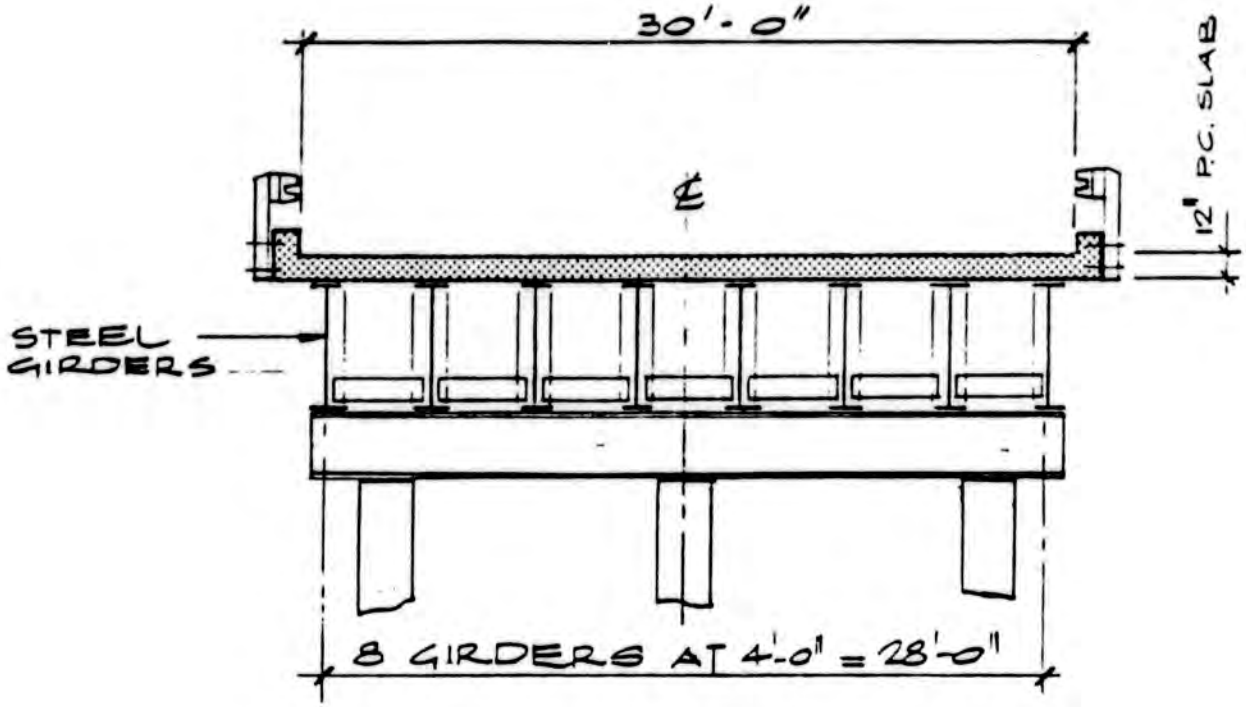
II. DESCRIPTION OF PROPOSED ROAD ALTERNATIVES (continued)

All water courses crossed by the selected routes have been identified, their drainage basins defined and areas measured. Peak flows at each crossing were calculated using peak unit flows of 80 cfs/sq. mile for drainage basins smaller than 10 sq. miles and 55 cfs/sq. mile for drainage bains exceeding 10 sq. miles. Lengths of bridges were calculated using a peak flow of 5 fps and an average water depth of 4 to 5 feet. Bridges have been used wherever peak flow exceeds 800 cfs. Culvert sizes are based on capacities ranging from 10 cfs for 24-inch diameter to 710 cfs for 120-inch diameter.

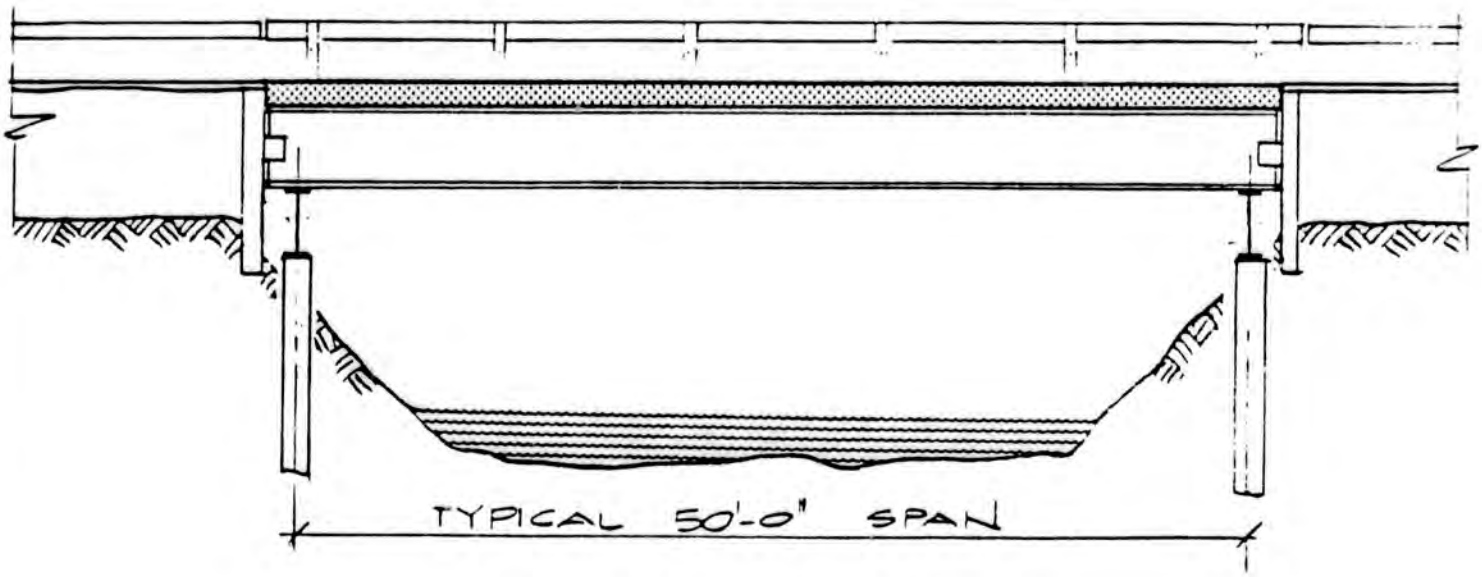
Bridges are designed using standardized decks suitable for spans of 50 to 60 feet with a width of 30 feet face to face of guardrails. These units would be utilized wherever possible. Construction would consist of steel beams supporting composite precast concrete deck slab units with abutments and piers of steel adfreeze piles into permafrost (Figure 10). Pier design would be modified wherever a significant thaw bulb exists.

Culverts would be galvanized corrugated steel pipe with rip-rap or similar protection to side slopes adjacent to the crossing. Culverts (48-inch diameter) would be provided at all well-defined dry swales and in addition 24 and 30-inch diameter culverts are allowed for at a nominal spacing to handle sheet flow and roadway runoff (Figure 11).

Preliminary engineering studies and all engineering for the Southern Route options were carried out for Cominco by R&M Consultants of Anchorage. Engineering for the Northern and Noatak Route options has been carried out by Cominco Engineering Services Ltd. A consistent methodology has been used throughout.



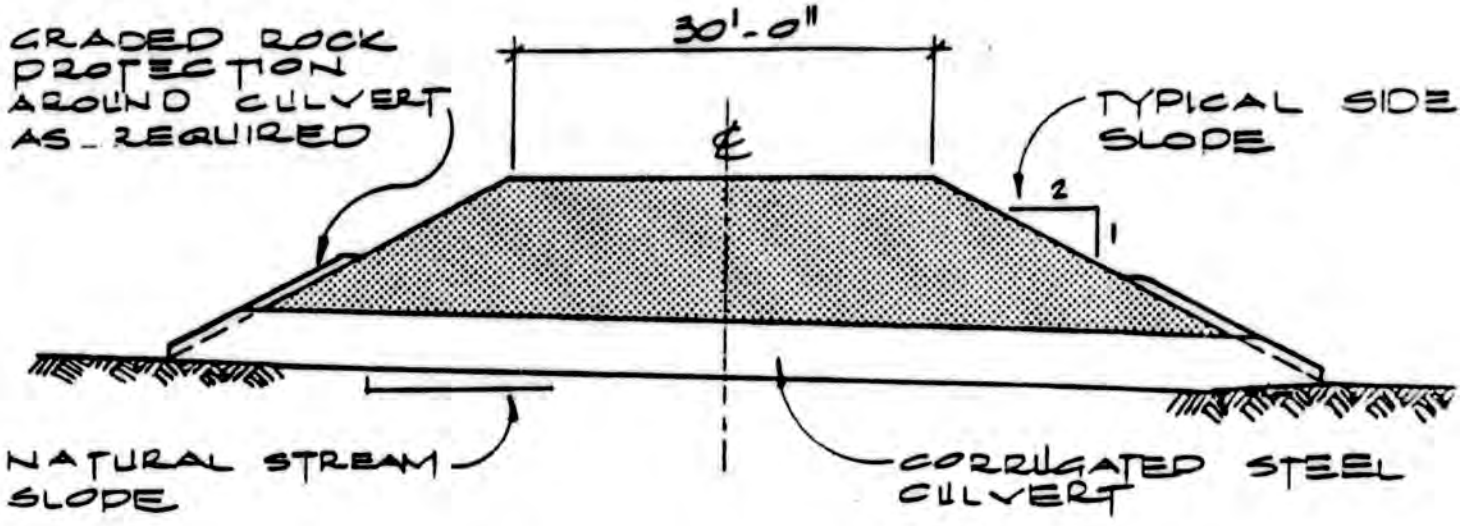
BRIDGE SECTION



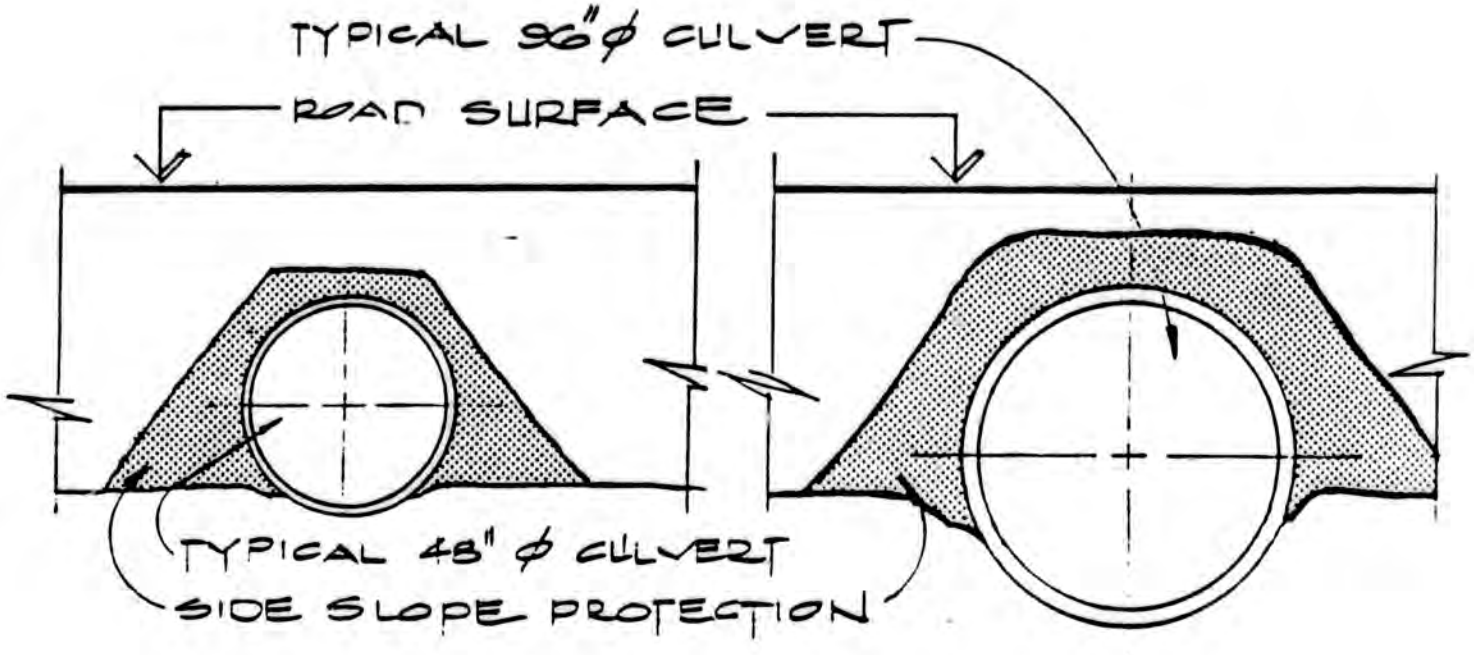
BRIDGE ELEVATION

TYPICAL BRIDGE

FIGURE 9



CROSS SECTION



ELEVATIONS

TYPICAL CULVERTS

FIGURE 10

III. COST ESTIMATES

Estimated road costs are developed as "Direct Costs" to which are added "Indirect Costs" to obtain a "Net Total Cost". A contingency allowance is added to this Net Total Cost to give the "Total Estimated Capital Cost" for road construction.

Direct costs are developed under five headings:

- Road Fill
- Turnouts
- Culverts
- Bridges
- Royalty on Fill

Road fill cost is generated as two elements: first, the fill which includes all extraction and placement costs and, second, the haulage cost. The base costs used in this estimate are $9.20 per cubic yard for fill and $1.30 per cubic yard mile for haulage. These prices also allow for all costs associated with cut and fill construction and insulation costs where composite construction is utilized.

Turnout cost is generated in a similar manner to road fill cost.

Culverts are estimated assuming all culverts are of the average 80 feet length and are priced according to size. Prices used range from $6,400 for a 24-inch diameter up to $61,200 for a 120-inch diameter culvert. These costs include all installation costs, provision for the side slope protection and allowance for mitered end treatment on culverts of 66-inch diameter or larger.

Bridge costs are based on nominal deck area which is defined as net width times span. The base cost used in this estimate is $400 per sq. foot of nominal deck area. This price includes allowance for deck, substructures, piling, watercourse training work, side slope protection and provides for all field construction and deck placement. Actual costs for major bridges on the Asikpak route may well be higher than the base case, if hydraulic or other considerations dictate longer spans than those provided for with the standard deck.

III. COST ESTIMATES (continued)

Royalty on fill is estimated at a rate of $0.45 per cubic yard of fill extracted. This item also includes a provision for reclamation work at the borrow sites.

Indirect costs are estimated as 7.3% of direct costs. Indirect costs cover the costs of engineering design and project management.

The Contingency allowance is estimated at 5.7% of net total costs and is an allowance to cover a portion of the anticipated risk in carrying out the road construction element of the project.

All direct costs included in the estimate include an allowance for construction support, construction supervision, taxes and insurance.

Costs for the Kruz route option have been developed on two bases:

- Alternative 1 assumes that fill will be drawn from borrow sources dispersed throughout the route as defined (Figure 9).

- Alternative 2 assumes that fill will be drawn only from borrow sources located outside the Krusenstern National Monument. This alternative includes the cost of constructing an ice road from close to the port to borrow sources 7 and 8. This ice road will permit construction equipment access to these borrow sources which would provide fill for construction in the northern part of the monument. (Figure 9).

  Another approach to constructing this alternative has also been estimated. This approach allows for flying construction equipment into the Red Dog airstrip and building the road from two fronts only. There was no significant difference between estimated costs for these two approaches. The estimate for the ice road approach is used in this report.

Costs for the Asikpak route option have been developed on the basis that fill will be drawn from borrow sources dispersed throughout the route.

III. COST ESTIMATES (continued)

A control has been applied to ensure a uniform approach to road fill costs for both route options. This involves making direct comparison of costs for Asikpak route segments with those for a route segment with similar terrain characteristics estimated for one of the Southern routes.

For instance, Asikpak route segment A5 is compared with Southern route segment M5. Both segments are on gently graded lower slopes on the fringe of wetland areas and have average borrow availability.

Operating costs consist of all items for which costs will vary dependent on road route mileage. These include concentrate haulage, personnel movement, haulage of inbound supplies and road maintenance.

Cominco, as part of their normal estimating procedure, frequently make use of a suitably experienced third party to carry out an audit of their estimates. If a reasonable correlation is achieved, confidence in the validity of the estimate is enhanced and estimate credability improved.

The estimate for the Kruz route option has been audited by Morrison-Knudsen of Boise, Idaho. This company is a large and reputable civil engineering contractor with extensive experience of construction in remote areas. They have been involved in Alaskan construction for 40 years.

This audit was completed in May 1984 and the road element took the form of an independent estimate carried out in accordance with Morrison-Knudsen's usual in-house methods for preparing construction bids. Their estimate is based on a reduced nominal fill thickness of 5 feet compared with the 6-1/2 feet designed depth used in the Cominco estimate.

III. COST ESTIMATES (continued)

Morrison-Knudsen's estimate of total net cost is $68.2 million to which they added a contingency allowance of $4.4 million for an estimated total cost of $72.6 million. This provides an unusually close correlation with Cominco's estimate of $74.7 million. For construction work of this type at a remote site, it is very unusual for independent estimates to agree so closely.

ASIKPAK ROUTE
QUANTITIES AND COSTS — FILL

SEGMENT	FILL QUANT-YD^3	FILL COST ($)	HAUL QUANT (YD^3 Mi)	HAUL COST ($)	NET TOTAL COST ($)	TOTAL COST ($M)
A1	1121858	10321094	2352697	3058506	13379600	13.75
A2	1682710	15480932	1347462	1751701	17232633	17.78
A3	1044780	9611976	1361976	1770569	11382545	11.78
G5	1917731	17643125	2445331	3178930	20822055	21.55
M8	224580 *550800	2066136 *5060000	74044	96257	7222393	7.47
TOTAL		60183263		9855963	70039226	72.3

* EXCAVATION

SEG-MENT	24" DIA @$6400	30" DIA. @$7200	48" DIA. @$15360	54" DIA. @17440	66" DIA. @$30960	78" DIA @$36000	96" DIA @$41200	108" DIA @$44080	120" DIA @$61200	NET TOTAL	TOTAL ($M)
A1	30 192000	13 93600	16 245760		3 92880	2 72000		3 132240		67 828480	0.85
A2	38 243200	28 201600		9 156960	6 185760	4 144000	21 865200			106 1796720	1.86
A3	13 83200	40 288000	5 76800	2 34880		4 144000	16 659200		3 183600	83 1469680	1.51
G5	54 345600	5 36000	5 76800	5 87200	2 61920	1 36000	2 82400			74 725920	0.75
M8	2 12800		21 322560	5 87200						28 422560	0.44
	137 876800	86 619200	47 721920	21 366240	11 340560	11 396000	39 1606800	3 132240	3 183600	358 5243360	5.41

ASIKPAK ROUTE
CONSTRUCTION COST ESTIMATE - BRIDGES

SEGMENT	WATERCOURSE CROSSED	LENGTH (FEET)	NET COST ($)	TOTAL COST ($ MILLION)
A1	TATIGIROK CREEK	30	360 000	
	UMARACHEK CREEK	50	600 000	
	ASIKPAK RIVER	150	1800 000	
	TRIBUTARY OF ASIKPAK RIVER	45	540 000	
	ASIKPAK RIVER	30	360 000	
			3600000	3.60
A2	KIVALINA RIVER	700	8400 000	
	SOUTH FORK OF KIVALINA RIVER	220	2 640 000	
	TRIBUTARY OF KIVALINA RIVER	35	420000	
			11440000	11.46
G5	NORTH FORK OF WULIK RIVER	250	3000000	
	TRIBUTARY OF WULIK RIVER	30	360000	
	WULIK RIVER	380	4560000	
	TRIBUTARY OF IKALUKROK RIVER	70	840000	
	IKALUKROK RIVER	400	4800000	
			13560000	13.56
				28.7

ASIKPAK ROUTE

CONSTRUCTION COST SUMMARY

SEGMENT	LENGTH (MILES)	FILL ($MILLION)	TURNOUTS ($MILLION)	CULVERTS ($MILLION)	BRIDGES ($MILLION)	TOTAL ($MILLION)
A1	14.0	13.75	0.08	0.85	3.66	18.34
A2	19.5	17.78	0.08	1.86	11.46	31.18
A3	12.5	11.78	0.06	1.51	0	13.35
G5	21.5	21.55	0.12	0.75	13.56	35.98
M8	7.5	7.47	0.02	0.42	0	7.91
TOTAL	75.0	72.3	0.4	5.4	28.7	106.8

ROYALTY ON FILL	4.0
TOTAL DIRECT COSTS	110.8
INDIRECT COSTS	8.1
NET TOTAL	118.9
CONTINGENCY	6.8
TOTAL COST	125.7

TOTAL ANNUAL OPERATING COST	5.93

KRUZ ROUTE

(USING BORROW SOURCES THROUGHOUT ROUTE)

CONSTRUCTION COST ESTIMATE - FILL

SEGMENT	FILL QUANTITY (CU. YD.)	FILL COST ($)	HAUL QUANTITY (CU. YD. MILE)	HAUL COST ($)	NET TOTAL COST ($)	TOTAL COST ($M)
M1	576570	5304444	887420	1153646	6458090	6.70
M2	937770	8627484	1597985	2077380	10704864	11.29
03	357380	3287896	2137830	2779179	6067075	6.25
04	149190	1372548	605979	787773	2160321	2.22
H2	308620	2839304	490778	638011	3477315	3.60
MG	799170	7352364	3090460	4017598	11369962	11.76
M7	512100	4711320	226346	294250	5005570	5.18
M8	224580 *550800	2066136 *5060000	74044	96257	7222393	7.47
		40621496		11844094	52465590	54.47

* EXCAVATION

SEGMENT	24" DIA. @ $6400	30" DIA	48" DIA.	54" DIA.	66" DIA.	78" DIA.	96" DIA @ $41200	NET TOTAL	TOTAL ($MILLION)
M1	9 $57600	2 14400	10 $153600	5 $87200	2 $61920	2 $72000	—	30 446720	0.47
M2	17 $108800	—	17 $261120	9 $156960	2 $61920	2 $72000	2 $82400	49 743200	0.77
03	1 $6400	5 36000	12 $184320	5 $87200	—	—	—	23 313920	0.32
04	—	—	7 $107520	4 $69760	—	—	2 $82400	13 259680	0.27
H2	2 $12800	2 30720	3 $52320	1 $30960	—	—	—	8 126800	0.13
MG	15 $96000	—	12 $184320	5 $87200	1 $30960	—	—	33 398480	0.42
M7	7 $44800	—	5 $76800	2 $34880	2 $61920	2 $72000	2 $82400	20 372800	0.38
M8	2 $12800	—	21 $322560	5 $87200	—	—	—	28 422560	0.44
	53 $339200	9 $81120	87 $1342560	36 $641360	7 $216720	6 $216000	6 $247200	204 $3084160	3.20

KRUZ ROUTE

CONSTRUCTION COST ESTIMATE - BRIDGES

SEGMENT	WATERCOURSE CROSSED	LENGTH (FEET)	NET COST ($)	TOTAL COST ($M)
M2	TRIBUTARY OF OMIKVIOROK RIVER	50	600000	
	TRIBUTARY OF OMIKVIOROK RIVER	50	600000	
	OMIKVIOROK RIVER	160	1920000	
			3120000	3.18
M6	TUTAK CREEK	100	1200000	
	TRIBUTARY OF TUTAK CREEK	40	480000	
			1680000	1.72
				4.90

KRUZ ROUTE

(USING BORROW SOURCES THROUGHOUT ROUTE)

CONSTRUCTION COST SUMMARY

SEGMENT	LENGTH (MILES)	FILL ($MILLION)	TURNOUTS ($ MILLION)	CULVERTS ($ MILLION)	BRIDGES ($ MILLION)	TOTAL ($MILLION)
M1	8.60	6.70	0.04	0.47	—	7.21
M2	12.88	11.29	0.06	0.77	3.18	15.12
03	5.10	6.25	0.04	0.32	—	6.66
04	1.95	2.22	0.01	0.27	—	2.52
H2	3.69	3.60	0.02	0.13	—	3.76
M6	11.50	11.76	0.07	0.42	1.72	14.02
M7	5.49	5.18	0.02	0.38	—	5.60
M8	7.44	7.47	0.03	0.44	—	7.97
TOTAL	56.65	54.47	0.29	3.20	4.90	62.9

ROYALTY ON FILL	3.0
TOTAL DIRECT COSTS	65.9
INDIRECT COSTS	4.8
NET TOTAL	70.7
CONTINGENCY	4.0
ROAD TOTAL COST	74.7

TOTAL ANNUAL OPERATING COST	4.48

KRUZ ROUTE

(NOT USING BORROW SOURCES INSIDE KRUSENSTERN NATIONAL MONUMENT)

CONSTRUCTION COST ESTIMATE - FILL

SEGMENT	FILL QUANTITY (CU. YD)	FILL COST ($)	HAUL QUANTITY (CU YD MILE)	HAUL COST ($)	NET TOTAL COST ($)	TOTAL COST ($ MILLION)
M1	576570	5304444	13588633	17665223	22969667	23.25
M2	927770	8627484	14994942	19493425	28120909	28.68
03	357380	3287896	2501600	3252158	6540054	6.67
04	149190	1372548	605979	787773	2160321	2.22
H2	308620	2839304	190773	633011	3477315	3.60
M6	799170	7352364	3090460	4017598	11369962	11.76
M7	512160	4711320	2263446	294250	5005570	5.13
M8	224580 *550800	2066136 *5060000	74011	96257	7222393	7.17
TOTAL		40321496		46244695	86866191	88.9

* EXCAVATION

KRUZ ROUTE

(NOT USING BORROW SOURCES INSIDE KRUSENSTERN NATIONAL MONUMENT)

CONSTRUCTION COST SUMMARY

SEGMENT	LENGTH (MILES)	FILL ($MILLION)	TURNOUTS ($MILLION)	CULVERTS ($ MILLION)	BRIDGES ($MILLION)	TOTAL ($MILLION)
M1	8.60	23.25	0.14	0.47	—	23.86
M2	12.88	28.68	0.15	0.77	3.13	32.78
03	5.10	6.67	0.08	0.32	—	7.07
04	1.95	2.22	0.01	0.27	—	2.50
H2	3.69	3.60	0.02	0.13	—	3.75
M6	11.50	11.76	0.07	0.42	1.72	13.97
M7	5.49	5.18	0.02	0.38	—	5.58
M8	7.44	7.17	0.03	0.44	—	7.94
TOTAL	56.65	33.9	0.5	3.20	4.90	97.5

ICE ROAD CONSTRUCTION	1.2
ROYALTY ON FILL	3.0
TOTAL DIRECT COSTS	101.7
INDIRECT COSTS	7.4
NET TOTAL	109.1
CONTINGENCY	6.2
ROAD TOTAL COST	115.3

TOTAL ANNUAL OPERATING COST	4.48

4/1/85

Loren Lounsbury, Commissioner,
Department of Commerce and Economic Development
Pouch
Juneau, AK 99811

Dear Commissioner Lounsbury:

I appreciate your efforts in providing so much information on the Delong Mountains Regional Transportation Project for consideration by the House Special Committee on Loans. Before recommending legislative action on any appropriation or bond authorization measures, however, I would like to request your providing further backup on the proposal.

We have taken extensive testimony on the Red Dog project in three hearings and I would appreciate your help in coordinating the administration response to the few issues yet to be resolved.

The remaining issues fall into the following categories:

Finance Plan
State support in cash and appropriated loans
Route
Where we go from here

legislative consideration and as the actual
I know that many of the questions I have cannot be resolved until the plan of finance is completed by SRI. However as the SRI plan will aparently be drafted too late for legislative consideration and as the actual financing will be approved by the AIDA board, which you chair, I am hoping you will attempt to be as specific as possible. I also realize that some of these questions are still to be resolved in negotiations between the state and Cominco/Nana.

The first question is the quantification of the state contribution to the project. What will be the state contribution, including the general fund cash to ba appropriated, the earnings on the loan portfolio to be appropriated and the interest earned on the funds in the Economic Development fund of AIDA?

The second question is what will be the cash flow for the entire state contribution - from the General Fund throung the Economic Development Fund and back to the General Fund. The Committee has already requested information on the reason for the need for appropriating $18 million this session.

I have understood that under consideration [redacted] for financing the project is a combination of of tax-exempt bonds and a letter of credit from a bank and that these may

come in stages. What is the proposed timing for bond and letter of credit authorizations?

Cominco Ltd. has assured us that a firm guarantee will be forthcoming for the user fees on the road in the form of a 'take-or-pay' contract. What will be the outline of this contract and have any letters of understnding been signed? How will toll fees be assessed and what will be provided for future road users?

3/28/85

(Dept. of Commerce + Economic Development)

SUGGESTED DRAFT OF LETTER OF INTENT ATTACHED TO THE APPROPRIATION BILL WHICH INCLUDES THE APPROPRIATION OF $18.0 MILLION AND REVENUE'S LOANS TO AIDA:

It is the intent of the Legislature that, before the appropriation of $18.0 million and loans to the Economic Development Fund may be expended, obligated, or encumbered, the Alaska Industrial Development Authority must enter into a binding contractual agreement(s) with Cominco, Ltd. and with Nana Regional Corporation to execute substantially the assurances and guarantees represented by the parties to the Legislature.

Specifically, those assurances and guarantees are as follows:

1. Cominco, Ltd. will guarantee to pay toll fees that will repay State expenditures.

2. Cominco, Ltd. will guarantee to pay the operation and maintenance costs of the road and port facilities.

3. Cominco, Ltd. will guarantee minimum toll payments and other payments necessary to repay the State's investment if the mine is delayed or if production is suspended after operation commences.

4. Cominco, Ltd. will agree that, to the extent that the price of zinc should rise above a level presently contemplated to yield a reasonable profit, the State's investment will be repaid at an accelerated rate.

5. Nana Regional Corporation will guarantee to provide necessary land to accomodate reasonable expansion requirements for future users at the port site.

DRAFT
Law

IN THE _____ BY THE _____ COMMITTEE

_____ BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project; and providing for an effective date."

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

* Section 1. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175 million to provide financing for the development of the DeLong Mountain transportation project.

* Sec. 2. The authority may pledge the moral obligation of the state in support of the issuance of bonds or notes authorized under sec. 1. If the moral obligation of the state is pledged, the authority shall establish appropriate capital reserve funds, and the chairman of the authority shall, no later than January 2 of each year, certify in writing to the governor and the legislature the amount, if any, required to restore a capital reserve fund to the capital reserve fund requirements. The legislature may appropriate to the authority the amount certified by the chairman of the authority. Nothing in this section creates a debt or liability of the state.

* Sec. 3. The authority may not issue bonds or notes authorized under this Act unless any limitations imposed by law with respect to the expenditure of money appropriated for the fiscal year ending June 30, 1986 to the authority as loans or grants for the purpose of the DeLong Mountain transportation project have been satisfied.

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

DRAFT
Law

Agrp
LPSD #4
3/28/85

"PROPOSED SECTION TO BUDGET BILL"

* Sec. __. (a) All right, title, and interest in loans of the type described in (b) of this section, in an amount not to exceed $142,000,000 in unpaid principal as of July 1, 1985, and all right, title, and interest in all mortgages, notes, and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated to the Alaska Industrial Development Authority for the purposes of its economic development fund (AS 44.88.172).

(b) This section transfers and appropriates

(1) veterans loans acquired or made under AS 26.15;

(2) commercial fishing loans acquired or made under AS 16.10.300 -- 16.10.360;

(3) small business loans acquired or made under AS 45.95;

(4) tourism loans acquired or made under AS 45.90;

(5) fisheries enhancement loans acquired or made under AS 16.10;

(6) child care loans acquired or made under AS 44.33; and

(7) historical district loans acquired or made under AS 45.98.

(c) In an amount not to exceed $30 million in unpaid principal as of July 1, 1985, all right, title, and interest in commercial fishing loans acquired or made under AS 16.10.300 -- 16.10.360 and secured by a limited entry permit, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated from the general fund to the commercial fishing revolving loan fund (AS 16.10.340) for the purposes of AS 16.10.300 -- 16.10.370.

(d) In an amount equal to the principal balance of loans appropriated under (c) of this section, all right, title, and interest in commercial

fishing loans, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, are transferred from the commercial fishing revolving loan fund to the Alaska Industrial Development Authority for the purposes of its economic development fund (AS 44.88.172). However, only loans which are not secured by a limited entry permit may be transferred or appropriated under this subsection.

Draft 2

4/8/85

It is the intention of the Legislature that, before the appropriation of $18.0 million and the loans of the Department of Revenue to the Economic Development Fund may be expended, obligated, or encumbered, the Alaska Industrial Development Authority must enter into a binding contractual agreement with Cominco, Ltd. and with NANA Regional Corporation to execute substantially the following assurances and guarantees:

1. Cominco, Ltd. will guarantee to pay minimum toll and other payments necessary to repay the State's investment if the mine is delayed or if production is suspended after operation commences.

2. Cominco, Ltd. will guarantee the operation and maintenance costs of the road and port facilities, proportianate to its use of those facilities.

3. Cominco, Ltd. and AIDA will agree on a written plan for the use of the port facilities by regional shippers and which will include provision for access by those shippers to the backhaul capacity available on Cominco owned or chartered vessels.

4. NANA will make available at no cost to AIDA the land necessary to meet the expansion needs of the port to accommodate future regional and industrial users.

5. AIDA will establish a toll schedule for the use of the road and port facilities which maximizes the return to the state on its investment throughout the useful life of the facilities and which guarantees eqitable access to the facilities by all users.

DRAFT
Law

DeJong 2
LI'52 3/28/85
#3

IN THE _____ BY THE _____ COMMITTEE
±

_____ BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project; and providing for an effective date."

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

* Section 1. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175 million to provide financing for the development of the DeLong Mountain transportation project.

* Sec. 2. The authority may pledge the moral obligation of the state in support of the issuance of bonds or notes authorized under sec. 1. If the moral obligation of the state is pledged, the authority shall establish appropriate capital reserve funds, and the chairman of the authority shall, no later than January 2 of each year, certify in writing to the governor and the legislature the amount, if any, required to restore a capital reserve fund to the capital reserve fund requirements. The legislature may appropriate to the authority the amount certified by the chairman of the authority. Nothing in this section creates a debt or liability of the state.

* Sec. 3. The authority may not issue bonds or notes authorized under this Act unless any limitations imposed by law with respect to the expenditure of money appropriated for the fiscal year ending June 30, 1986 to the authority as loans or grants for the purpose of the DeLong Mountain transportation project have been satisfied.

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

IN THE SENATE BY THE RESOURCES COMMITTEE

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the economic development fund of the Alaska Industrial Development Authority, transferring and appropriating certain loans to the economic development fund and the commercial fishing revolving loan fund; and providing for an effective date."

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

* Section 1. The sum of $18,000,000 is appropriated from the general fund to the economic development fund (AS 44.88.172) of the Alaska Industrial Development Authority for the DeLong Mountain transportation project.

* Sec. 2. (a) All right, title, and interest in loans of the type described in (b) of this section, and all right, title, and interest in all mortgages, notes, and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated to the economic development fund (AS 44.88.172) of the Alaska Industrial Development Authority for the DeLong Mountain transportation project. However, if the amount in unpaid principal of the loans exceeds $112,000,000 as of July 1, 1985, only loans and instruments of security totaling $112,000,000 in unpaid principal are transferred and appropriated under this section.

(b) This section transfers and appropriates

(1) veterans loans acquired or made under AS 26.15;

(2) small business loans acquired or made under AS 45.95;

(3) tourism loans acquired or made under AS 45.90;

(4) fisheries enhancement loans acquired or made under AS 16.10;

(5) child care loans acquired or made under AS 44.33; and

(6) historical district loans acquired or made under AS 45.98.

* Sec. 3. All right, title, and interest in commercial fishing loans acquired or made under AS 16.10.300 - 16.10.370 that are secured by limited entry permits, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, purchased or acquired by the Department of Revenue and held in the general fund on July 1, 1985, are transferred and appropriated from the general fund to the commercial fishing revolving loan fund (AS 16.10.340) for the purposes of AS 16.10.300 - 16.10.370. However, if the amount in unpaid principal of the loans exceeds $30,000,000 as of July 1, 1985, only loans and instruments of security totaling $30,000,000 in unpaid principal are transferred and appropriated under this section.

* Sec. 4. All right, title, and interest in commercial fishing loans that are not secured by limited entry permits, in an amount equal to the principal balance of loans appropriated under sec. 3 of this Act, and all right, title, and interest in all mortgages, notes and other instruments of security made in connection with those loans, are transferred and appropriated from the commercial fishing revolving loan fund (AS 16.10.340) to the economic development fund (AS 44.88.172) of the Alaska Industrial Development Authority for the DeLong Mountain transportation project.

* Sec. 5. The appropriation made by sec. 3 of this Act is for capitalization of a loan fund and does not lapse in accordance with AS 37.25.010.

* Sec. 6. The appropriations made by secs. 1, 2 and 4 of this Act are for a capital project and are subject to AS 37.25.020.

* Sec. 7. This Act takes effect July 1, 1985.

14-1052
Cook
4/10/85

IN THE SENATE BY THE RESOURCES COMMITTEE

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes for the DeLong Mountain transportation project, establishing conditions under which the bonds or notes may be issued; and providing for an effective date."

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

* Section 1. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project. Bonds or notes may not be issued under this section until

(1) Cominco, Ltd. agrees in writing to terms and conditions under which

(A) adequate access to the road and port constructed as part of the DeLong Mountain project is guaranteed to other users;

(B) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco, Ltd. makes of the facilities compared to the use made by others;

(C) Cominco, Ltd. will repay all expenditures by the state for the project through toll fees for the use of facilities constructed as part of the project and other payments;

(D) payments by Cominco, Ltd. to the state will be accelerated if the price of zinc rises above a level determined by the Alaska Industrial Development Authority to yield a reasonable profit;

(2) the United States Congress approves the Cape Krusenstern National Monument land exchange between NANA Regional Corporation and the United States Department of the Interior;

(3) NANA Regional Corporation agrees in writing to convey to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the DeLong Mountain transportation project and land needed for future expansion of the road and port;

(4) NANA Regional Corporation agrees in writing to lease land for the Red Dog Mine to Cominco, Ltd. and to provide easements and right-of-ways needed to operate the mine to Cominco, Ltd.;

(5) the Alaska Industrial Development Authority obtains a ruling from the Internal Revenue Service that bonds or notes issued under this section will qualify for tax exempt status; and

(6) the Alaska Industrial Development Authority establishes a toll schedule for use of facilities constructed as part of the DeLong Mountain transportation project that ensures the greatest return on the state's investment in the project and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted.

* Sec. 2. Notwithstanding limitations on the establishment of a capital reserve fund under AS 44.88.105, the authority may covenant and agree with the trustee or holders of the bonds or notes authorized under sec. 1 of this Act that the authority will establish a capital reserve fund for the purpose of securing the bonds or notes, that the chairman of the authority will, by January 2 of each year, certify in writing to the governor and the legislature the amount required to restore the capital reserve fund to the capital reserve fund requirement, and that the legislature may appropriate to the authority the amount certified by the chairman. Nothing in this section creates a debt or liability of the state.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

ALASKA MINERS ASSOCIATION, INC.

509 W. Third Ave., Suite 17, Anchorage, Alaska 99501 (907) 276-0347

April 8, 1985

Alaska State Legislature
Pouch V(MS 3100)
Juneau, Alaska 99811

Dear Legislator:

During this time of drastic reductions in oil revenues it is essential that Alaska aggressively seek means of diversifying its economic base. At this point in time, Alaska's most immediate promise for economic diversity is development of its resources.

As you well know, Alaska is blessed with a wealth and diversity of resources that is unequaled by any other states or by many sovereign nations. Yet, resource rich as we are , we are almost totally dependent on a single resource for our state's economy. Even the most superficial knowledge of history and economics makes it obvious that to attempt to maintain such a dependence is sheer folly!

The Alaska minerals industry has long known that the mineral resources of Alaska have great potential for providing long term alternative economic development for our state. We are firmly convinced that Alaska's most immediate hope for economic diversity is the creation of new wealth by mining of our vast mineral deposits.

Alaska now has an opportunity, by developing the Noatak area deposits, to quickly achieve much needed economic diversification. Time, however, is of the essence. If we do not avail ourselves of this opportunity now, we will have foreclosed much of the economic future for this generation and for those to follow.

Red Dog in the Noatak area is one of the most well known and closely watched mineral activities in the world. As such, it is an almost absolute barometer to the world of whether it is possible to develop Alaska's minerals. If the largest and richest mineral deposit of its kind cannot be mined, it is the belief of many that none can.

ALASKA MINERS ASSOCIATION, INC.

The Alaska Miners Association and the mineral industry has long encouraged the State's participation in developing the transportation infrastructure needed for development of the Noatak deposits.

Enclosed is a resolution by the Alaska Miners Association which expresses our strong support of the State's participation in the DeLong Mountain Transportation System. We trust it will be of assistance to you in supporting the project.

Sincerely,

ALASKA MINERS ASSOCIATION

James R. Jinks
Executive Director

Enclosure



ALASKA MINERS ASSOCIATION, INC.

509 W. Third Ave., Suite 17, Anchorage, Alaska 99501 (907) 276-0347

RESOLUTION SUPPORTING THE DELONG MOUNTAINS TRANSPORTATION SYSTEM

WHEREAS, the people of Alaska support the diversification and expansion of the State of Alaska's economic base through the development of mineral resources; and

WHEREAS, the lack of transportation facilities, particularly in Northwest Alaska, has created economic barriers to development, including mineral development; and

WHEREAS, Cominco Alaska and the NANA Regional Corporation are considering the development of the Red Dog mineral deposit in the Delong Mountains area; and

WHEREAS, the development of the Red Dog deposit will provide the people and the State of Alaska with employment, income, tax revenues, and economic diversification; and

WHEREAS, other mineral resources have been identified in the area near the Red Dog deposit; and

WHEREAS, the lack available transportation facilities near the mineral deposit may substantially delay the development of the Red Dog deposit and other mineral deposits; and

WHEREAS, Cominco Alaska has requested the State of Alaska to assist in financing the transportation infrastructure, also known as the DeLong Mountains Transportation System; and

WHEREAS, Cominco Alaska has guaranteed to repay the State of Alaska, through equitable user fees, in an amount to enable the State to repay amounts loaned; and

WHEREAS, Cominco Alaska has further guaranteed to bring the mine into production within a specified timeframe, to pay for the operation and maintenance of the transportation facilities, and, if there were to be significant delays, to still repay the State of Alaska the amount loaned to develop the transportation facilities, and

WHEREAS, the State of Alaska in its involvement in the DeLong Mountains Transportation System will provide a positive image to the resource development industry and international markets,

NOW, THEREFORE BE IT RESOLVED that the Alaska Miners Association supports the State of Alaska assisting in financing of the DeLong Mountains Transportation System; and

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
(907) 465-4920

TUESDAY, APRIL 16, 1985
3:30 p.m.
Capitol Room 124 (House Judiciary)

* HB 105 "An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

Loan Program Funding for FY 86.

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

* Indicates first public hearing.



ALASKA MINERS ASSOCIATION, INC.

509 W. Third Ave., Suite 17, Anchorage, Alaska 99501 (907) 276-0347

RESOLUTION SUPPORTING THE DELONG MOUNTAINS TRANSPORTATION SYSTEM

WHEREAS, the people of Alaska support the diversification and expansion of the State of Alaska's economic base through the development of mineral resources; and

WHEREAS, the lack of transportation facilities, particularly in Northwest Alaska, has created economic barriers to development, including mineral development; and

WHEREAS, Cominco Alaska and the NANA Regional Corporation are considering the development of the Red Dog mineral deposit in the Delong Mountains area; and

WHEREAS, the development of the Red Dog deposit will provide the people and the State of Alaska with employment, income, tax revenues, and economic diversification; and

WHEREAS, other mineral resources have been identified in the area near the Red Dog deposit; and

WHEREAS, the lack available transportation facilities near the mineral deposit may substantially delay the development of the Red Dog deposit and other mineral deposits; and

WHEREAS, Cominco Alaska has requested the State of Alaska to assist in financing the transportation infrastructure, also known as the DeLong Mountains Transportation System; and

WHEREAS, Cominco Alaska has guaranteed to repay the State of Alaska, through equitable user fees, in an amount to enable the State to repay amounts loaned; and

WHEREAS, Cominco Alaska has further guaranteed to bring the mine into production within a specified timeframe, to pay for the operation and maintenance of the transportation facilities, and, if there were to be significant delays, to still repay the State of Alaska the amount loaned to develop the transportation facilities, and

WHEREAS, the State of Alaska in its involvement in the DeLong Mountains Transportation System will provide a positive image to the resource development industry and international markets,

NOW, THEREFORE BE IT RESOLVED that the Alaska Miners Association supports the State of Alaska assisting in financing of the DeLong Mountains Transportation System; and

ALASKA MINERS ASSOCIATION, INC.

BE IT FURTHER RESOLVED that the Alaska Miners Association urges the 1985 Alaska State Legislature to appropriate such funds as are necessary to begin the construction of the DeLong Mountains Transportation System, and

BE IT FURTHER RESOLVED that this resolution be sent to:

The Governor of Alaska
The Commissioner of Commerce and Economic Development
The Commissioner of Revenue
The Commissioner of Natural Resources
The Commissioner of Transportation and Public Facilities
The Senate Resources Committee
The Senate Finance Committee
The House Resources Committee
The House Finance Committee
The House Special Committee on Loans
All Other Members of the Alaska Legislature

Adopted: March 29, 1985

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE:
(907) 465-4919
(907) 465-4920

TUESDAY, APRIL 16, 1985
3:30 p.m.
Capitol Room 124 (House Judiciary)

* HB 105 "An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

Loan Program Funding for FY 86.

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

* Indicates first public hearing.

University of Alaska-Fairbanks

John Alfonsi-Chairman
S. A. A. D.
415-E MODS- UAF
Fairbanks, AK. 99701

Dear Rep. Sund

The Red Dog Mine project has had a negative cost/benefit analysis since 1981. However, the recent developements concerning Cominco's activity in South Africa deserve special consideration.

Economically speaking, big companies would not exist in South Africa without the present apartheid form of government. Regretably, the money made by Cominco is shared primarily with white South African supremacists and used to maintain minority rule.

It seems Cominco is tacitly supporting the present South African government by negotiating mining contracts with racists thus contributing to South Africa's very selective wealth re-distribution scheme. Obviously, the vast majority of South Africas' people are neither as financially secure or politically powerful as the racist minority. The product of apartheid is racial violence, with Cominco providing indirect monetary support for the immoral government that exists in South Africa today.

It is our belief that Alaskan dollars should not be appropriated by any elected offical to tacitly support Cominco Ltd. while the company indirectly condones a racial, oppressive, supremacist government.

We hope Alaska's people will realize that the Red Dog Mine project only generates dollars, for NANA Inc. cash dependant shareholders. In addition, the project would generate money for Cominco consequently, for the white minority rulers in South Africa.

Sincerely,

John Alfonsi- Chairman
Students Against Alaska's Destruction (S.A.A.D.)

KEY:
— additions to Loans CS
[ ] deletions from Loans CS

Original sponsor: Rules/Governor

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 105 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes, establishing conditions under which the bonds or notes for the DeLong Mountain transportation project may be issued; and providing for an effective date."

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

* Section 1. AS 37.15.410 is amended to read:

Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of providing part or all of the money to be used, with or without any grants or other money that [WHICH] may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed $86,525,000 [$62,825,000] is authorized to acquire, equip, construct, and install the additions, improvements, extensions, and facilities authorized in AS 37.15.510. The principal of and interest on these bonds shall be paid out of and secured by the gross revenues derived by the state from the ownership, lease, use, and operation of the airports, and of all the facilities of them and out of any other revenues or money that [WHICH] the state legislature may provide exclusive of any state tax or license.

* Sec. 2. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 3. Before bonds or notes authorized under sec. 2 of this Act may be issued the Alaska Industrial Development Authority shall comply with

AS 44.88.173 and shall incorporate into the final finance plan for the DeLong Mountain transportation project the following terms and conditions:

(1) Cominco, Ltd. is required to agree in writing that

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco Alaska makes of the facilities compared to the use made by others;

(B) if Cominco Alaska ceases to develop the Red Dog Mine after costs or debts have been incurred by the Alaska Industrial Development Authority for the project, Cominco, Ltd. will repay the authority for those costs and debts;

[Alaska Ind. Development]

(C) toll fees paid by Cominco Alaska for the use of facilities constructed as part of the project to the Alaska Industrial Development Authority may be periodically adjusted if the price of zinc rises above a level that yields a return on investment commensurate with risk;

(2) the United States government makes available land in the Cape Krusenstern National Monument that is included in the proposed land exchange with NANA Regional Corporation to the corporation for construction of a transportation system; [is conveyed to by the U.S. Department of the Interior]

(3) NANA Regional Corporation is required to agree in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the project and land needed for future expansion of the road and port;

(4) tax exempt financing for the project is used to the maximum extent possible;

(5) a toll schedule, that may be periodically adjusted, is established for use of facilities constructed as part of the project that

(A) ensures a reasonable return on the state's investment in the project; and

(B) guarantees equitable access to the facilities by all users;

(6) contracts for the construction, operation, and maintenance of the port and road are subject to AS 36;

(7) reasonable access to the port and road is guaranteed to all users. and equitable

* Sec. 4. Before bonds or notes authorized under sec. 2 of this Act may be issued the Alaska Industrial Development Authority shall

(1) report in writing to the legislative budget and audit committee that the conditions under sec. 3 of this Act have been met; and

(2) agree with the Department of Revenue in writing to deliver all money generated by the DeLong Mountain transportation project to the Department of Revenue for deposit in the general fund, other than money necessary for payment of the principal and interest on bonds or notes issued under sec. 2 of this Act and except as may otherwise be provided in the bond or note covenants. [to the Dept. of Rev. for deposit in the general fund]

* Sec. 5. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Red Dog Project Analysis

A report to Governor
Bill Sheffield

February, 1984

Red Dog Project Analysis

February 1984

Lead Agency

Office of Mineral Development
Department of Commerce and Economic Development

Contributing Agencies

Department of Commerce and Economic Development
Department of Community and Regional Affairs
Department of Transportation and Public Facilities
Department of Natural Resources
Office of the Governor

Table of Contents

I. Introduction

II. Executive Summary
- A. Summary of Findings
- B. Recommendations

III. Report of the Office of Mineral Development
- A. Technical Description of the Project and Permitting Requirements
- B. Cominco Profile: History; Metal Mining and Processing Operations; and Arctic Mining Experience
- C. Commodity Profile of Mine Products, Marketing Considerations and Price Forecasts
- D. Zinc Resources of Alaska and Northwest Canada
- E. Potential Alaskan Mineral Projects Requiring Public Sector Infrastructure
- F. Bibliography

IV. Report of the Division of Finance and Economics: Red Dog Mine Analysis

V. Report of the Office of Management and Budget
- A. Corporate Profile of Cominco Ltd. (Canada)
- B. Corporate Profile of NANA Regional Corporation Inc.
- C. Direct and Indirect Economic Impacts Within the State of Alaska
- D. Fiscal Impacts
- E. Cominco/NANA Contractual Agreements
- F. Effects on State Bonding Capacity
- G. Synopsis

VI. Report of the Department of Community and Regional Affairs
- A. Examination of Regional Government Structure
- B. Evaluation of Regional Socio-Economic Impacts
- C. Regional Dependence on State and Federal Appropriations
- D. Comments and Recommendations
- E. Appendices

VII. Report of the Department of Transportation and Public Facilities
- A. Review of Cominco's Road Design and Cost Estimates
- B. Review of Cominco's Port Design and Cost Estimates
- C. Alaskan Extractive Resource Projects
- D. Qualification Matrix for State Transportation Projects
- E. Impact of the Jones Act
- F. Synopses of two Canadian Mining Projects with Joint Public/Private Sector Participation

Table of Contents (Cont.)

VIII. Report of the Division on Land and Water Management
- A. Summary of DLWM Involvement in Red Dog Project
- B. Outline of Topics to be Considered in a Right-of-Way Agreement
- C. Commissioner's Response to Cominco and GCO Minerals Right-of-Way Applications

IX. Appendices
- A. Appendix A: Project Description from Preliminary Draft Environmental Impact Statement
- B. Appendix B: Red Dog Fact Sheet
- C. Appendix C: Project Permitting Time-Line
- D. Appendix D: Permit Flow Chart
- E. Appendix E: Base Metal Markets (Cu, Pb, Zn): Alaskan Opportunities (Paper by Gordon H. Laurie, Cominco, Ltd.)

I. Introduction

II. Executive Summary

A. Summary of Findings

B. Recommendations

I. Introduction

The Red Dog zinc, lead and silver deposit was discovered in the mid 1970's. Located in the Noatak River drainage 55 miles from the Chukchi Sea, the deposit was included in a 1976 NANA land selection. In February 1982, the NANA Regional Corporation signed an agreement with Cominco American Ltd. to develop the deposit.

In late 1984, the Board of Directors of Cominco will decide whether or not to proceed with the project according to the present proposed schedule. If the decision is positive, construction would begin in mid 1985, with initial production starting at a rate of one million tons per year. The capacity of the mine would be expanded to 2 million tons of ore per year in 1993.

The development of the mine will require the construction of a port facility on the Chukchi Sea and a 55 mile road inland to the mine. Cominco estimates the cost of port construction to be $57 million and the cost of the road to be $75 million. Total development costs for the mine, including the port and the road are estimated to be $390 million. NANA and Cominco have jointly indicated that they will seek State funding assistance for construction of the road and the port.

This report was commissioned by the Governor to provide his office with the information necessary to formulate the State's role in the development of Red Dog. The lead agency in the preparation of the report is the Office of Mineral Development, Department of Commerce and Economic Development. Other State agencies contributing to the report are the Division of Finance and Economics, Office of Management and Budget, Department of Community and Regional Affairs, Department of Transportation and Public Facilities, the Division of Land and Water Management, and the Department of Revenue. Guidance in the handling of confidential information was provided by the Department of Law.

The following section is an executive summary which includes a summary of findings and recommendations. Following the Executive Summary, the contributions of each agency are included in their entirety. Minor inconsistencies inevitably occur in a report of this type which incorporates contributions from originating agencies.

The information used in the writing of this report represents independent research by the agencies involved as well as confidential and non-confidential information provided by NANA and Cominco.

II. Executive Summary

- This section of the report was prepared by the Office of Mineral Development. The contributing agencies have reviewed the Executive Summary for consistency.

A. Summary of Findings

Project Feasibility

- The enormous tonnage and high combined grade of zinc, lead and silver make Red Dog the worlds largest, undeveloped zinc/lead deposit.

- Development costs will be high. However, the deposit can be mined as an open pit with a very low ratio of waste material to ore. Therefore, actual mining costs will be low compared with the majority of world zinc/lead mines. This will give the Red Dog mine competitive advantage and result in reducing the possibility of temporary mine shutdowns in times of world economic recession.

- For the foreseeable future, 70%-80% of mine revenues will be from the sale of zinc concentrates. Zinc is the fourth most widely used industrial metal, and compared with the other base metals (copper and lead), zinc has the greatest potential for growth in terms of world demand and the least potential for being over-produced.

- Without State investment, an average long term zinc price of 63¢ per pound is estimated to provide Cominco a 15% return on investment. A return on investment of 15% is cited for comparison purposes only and should not be interpreted as a decision threshold for Cominco. A 2.5% change in the return on investment is estimated for each 5¢ change in the long-term average zinc price.

- In the long term, much of Red Dog's concentrate production can be refined at Cominco's smelter and refiner in Trail, British Columbia, and will replace concentrates from other depleting Cominco zinc mines. In the near and long term, concentrates from Red Dog will be attractive to Japanese and European processors because of the reliability of the supplier, the longevity of the mine, and the political stability of the United States. The development of Red Dog and other base metal deposits may eventually make the construction of an in-State smelter and refiner feasible.

Permitting and Access

- Conditions at Red Dog will allow the operators to meet the most stringent environmental regulations and environmental permitting should not pose any problems.

- Gaining an access right-of-way from a Chukchi Sea port, across the Krusenstern National Monument to the mine site, poses the single greatest hurdle to mine development.

NANA

- The NANA Regional Corporation is solvent and is strongly oriented towards projects which offer long-term employment benefits to its shareholders, principally in the form of joint ventures within the region.

Cominco

- Cominco is a sound corporation, has good overall prospects, is backed by a large, reputable parent corporation, and appears able to provide a solid corporate base for support and development of the Red Dog mine project.

- Cominco is presently the free worlds largest producer of zinc and lead and has been successfully mining, processing and marketing zinc and lead for over 70 years.

- Cominco has developed and successfully operates four major mines in the North American arctic. Three of these are zinc/lead mines and have been developed within the last 20 years. The senior management for the Red Dog project will include many of the same personnel responsible for building and operating these arctic mines.

State Impacts

- The project will create between 350 and 400 direct, permanent jobs within the State with an annual gross payroll of between $11.2 and $12.9 million. Additionally, approximately 225 secondary and indirect jobs will be created. Construction employment will total 143 full time equivalent jobs between 1986 and 1988 with an annual gross payroll of $8.8 million during those years.

- Revenues to the State from the mine will be derived from the mining license tax and the corporate income tax. As both taxes are based on net profits, annual State revenues range from $9 to $20 million in current dollars subject to how repayment of infrastructure costs are treated. The net present value of revenues to the State over 30 years, including estimated reductions in

transfer payments, is from $200 million to $300 million based on a zinc price range between 55¢ and 65¢ per pound. Additionally, earnings derived by NANA from the mine will provide revenue to the State. At present, there is no personal income tax so no revenues from employee income can be projected.

- No estimates have been made for the potential demands on State programs from the migration of out-of-state job seekers attracted by the project. Because of the NANA/Cominco agreement requiring preferential local hire, the remoteness of the project, and the lessening of national unemployment, the problem of out-of-state job seekers may not be significant.

- Recent dramatic decreases in the total of state transfer payments to the NANA region have been tentatively linked with permanent fund distributions. This indicates that income derived from mine wages may also have a positive effect on reducing regional transfer payments by the State.

- If State ownership and future control of the transportation corridor and infrastructure facilities are not considered and assuming a 60¢ lb. zinc price an examination of project finances estimates that a direct State subsidy of $40.1 million towards project development costs would assure a 15% rate on investment. This would provide a six-fold net present return on the State's subsidy in the form of tax revenues and transfer payment reductions totaling $270 million. If the State were to completely finance construction of the road and port for an estimated cost of $135 million, the cost/benefit ratio would be reduced to 2:1.

- Industrial development bond financing of the project infrastructure would not adversely affect the State's bonding capacity.

Regional Impacts

- Red Dog will provide approximately 260 full-time jobs for regional residents at mine start-up in 1988, increasing to 400 in 1993. The total regional payroll will total approximately $7.0 million initially and will increase constantly as local employees move into professional and technical positions. Additionally, some 75 secondary jobs will be created after start-up and would mostly be filled by regional residents. At present, 88% of the regional economy is supported by Federal and State revenues, and the existing 1200 full-time equivalent jobs in the region are heavily dependent upon Federal, State and local government employment.

- If the local hire objectives are met, the net effect of the mine on increasing the regional population will not be significant. Some increase in the population of Kotzebue is expected as regional residents relocate to be closer to their jobs. Kotzebue's population increase attributable to the mine represents about 6% of the total increase in Kotzebue's population over the next 20 years. With the possible exception of the water system, existing municipal facilities should not be significantly stressed by population growth attributable to development of the mine.

- Because Red Dog is an enclaved development, no substantial additional demands will be placed upon the region's service delivery. However, an increase in regional affluence is likely to require some increased social service delivery, at least temporarily. Service delivery in Kotzebue will be impacted to some degree if mine workers commute regularly through the city. That impact will depend on the frequency and duration of transient visits.

- The NANA/Cominco agreement requires Cominco, contingent upon the availability of skilled labor, to preferentially hire regional

residents, state residents and out-of-state residents in that order. While there is no guarantee of the percentage of local hire, NANA has stated it will assume the responsibility to train regional residents for these jobs.

- The region could benefit from the use of the project's port facilities and backhaul capabilities. Savings on freight costs are estimated by Cominco to be between $1 million and $3 million annually assuming port user fees are not assessed to incoming regional freight.

- NANA is presently seeking to detach Red Dog and other mineral deposits in the area from the North Slope Borough. Successful detachment is seen as a factor in the decision to proceed with the Red Dog project (due to uncertain future taxation policies of the North Slope Borough), and in the creation of a Northwest Alaska Borough.

Infrastructure Costs

- Cominco's route selection and road design are based on sound engineering criteria and the cost estimate of $80 to $90 million for the preferred road through the Krusenstern National Monument is realistic for this stage of the evaluation.

- Cominco's estimates for port costs of $50 to $60 million, based on the proposed, ballasted-tanker design, appear reasonable.

B. Recommendations

Red Dog will become one of the premier zinc/lead mines in the world. While the mine would eventually be developed without assistance, there are several reasons why the State may want to consider participating in the funding of all or part of the costs of building a road and regional port.

- There is little risk that the project will not generate sufficient revenues to amortize infrastructure costs at a modest interest rate.

- In addition to being able to repay any State funding, the project will generate over 400 year-round, permanent jobs; provide direct tax revenues to the State and local governments; and may significantly reduce the amount of regional transfer payments.

- The port facility, tidelands, uplands and right-of-way will service the region as well as the mine, and both the road and the port may stimulate future development of additional mineral deposits in the Noatak area. The road could eventually become part of an integrated transportation system that could link other more distant mineral developments such as the Northern Alaska Coal Field.

- The development of Red Dog will signal Alaska's firm intention to become a world supplier of mineral resources. This will have the effect of establishing Alaska's credibility with international consumers and attracting investment capital for other resource development projects.

If the State is to participate in the funding of the road and port facilities, the following recommendations are suggested.

- Any major State investment in the road and port facilities which will initially service the Red Dog mine should be conditional upon

firm agreements with NANA and Cominco which will provide for State interests in the facilities and right-of-way, as well as further guarantee the use of the road and the port to other potential users. This requires that State tidelands, privately owned uplands and the right-of-way be available for expanded development and use, in a reciprocal use agreement among affected landowners and users.

- The maintenance and operating costs of the road and the port should be borne by the users.

- If State funding were to take the form of a loan or appropriation, repayment of the funds should be required and should be spread over a period of 20 years or longer to begin with mine production. Whether repayment is to be made in the form of annual installments, tied to a tonnage user fee or some combination of both, the interest rate attached to the repayment should reflect the State's willingness to share in the project risk and should recognize the total benefits the project will provide, including State interests in the road and port.

- Any agreement between the State and NANA/Cominco should include an equitable mechanism to accommodate other future users into a fee schedule which would incorporate a pro rated share of debt amortization as well as operating and maintenance costs.

III. Report of the Office of Minneral Development Department of Commerce and Economic Development

A. Technical Description of the Project and Permitting Requirements

B. Cominco Profile: History; Metal Mining and Processing Operations; and Arctic Mining Experience

C. Commodity Profile of Mine Products, Marketing Considerations and Price Forecasts

D. Zinc Resources of Alaska and Northwest Canada

E. Potential Alaskan Mineral Projects Requiring Public Sector Infrastructure

F. Bibliography

A. Technical Description of the Project and Permitting Requirements

1. Project Description

The Red Dog deposit has indicated reserves of 85 million tons of ore with an average grade of 17.1% zinc, 5.0% lead (22.1% combined) and 2.4 ounces per ton silver. Red Dog's reserves and grades compare extremely favorably on a worldwide basis with other primary zinc/lead mines. These would include the Brunswick Mining Company's (64% Noranda) No. 12 mine in Eastern Canada with reserves of 100 million tons of 13% combined zinc and lead; the Mount Isa Mine in Australia with 93 million tons of 14% combined zinc and lead; and the Tara Mine in Ireland with 59 million tons of 12.7% combined zinc and lead.

On a regional comparison, the open pit Cyprus Anvil zinc/lead mine in the neighboring Yukon Territory has reserves of about 37 million tons with a combined zinc/lead grade of only 7.8%. On a world basis, according the U. S. Bureau of Mines, the average zinc grade of primary zinc mines is between 6% and 9%, spotlighting Red Dog's 17% zinc grade.

While the Red Dog grades and reserve tonnage compare favorably with major world producers, Red Dog will also enjoy the advantage of being an open pit mine, while most major zinc mines operate underground. U. S. Bureau of Mines statistics indicate less than 20% of the world's present primary zinc producers are surface mines. The cost of mining a ton of ore from an open pit is significantly less than the cost from an underground operation. This will enhance Red Dog's ability to operate during periods of market weakness and low prices. Cominco officials believe that Red Dog's actual cost to produce a ton of zinc, excluding development costs, will be lower than production costs of the majority of world zinc mines.

The mine site is located about 55 miles inland from the Chukchi seacoast and about 100 miles north of Kotzebue. A port site is proposed south of the village of Kivalina on the Chukchi Sea. The port will include either offshore or shore-connected docking facilities to accommodate 25,000-35,000 ton ore carriers which will ship mine concentrates to smelters and backhaul mine supplies during the ice-free shipping season from early July to mid October.

A 55 mile road will be constructed between the port and the mine site for the supply of the mine and for the transport of mine concentrates to port. At the proposed initial start-up production rate, 9 to 12 truckloads of concentrate will be hauled over the road daily. The road grade will be engineered for possible modification to a railbed when the production rate doubles and the economics of rail haulage become beneficial.

The mine site facilities will include an accommodation building for housing workers on a rotational basis, a mill complex for concentrating the mine ore, and other buildings for housing a vehicle maintenance shop, a primary ore crusher, an ore storage shed and other facilities. To the greatest extent possible, these buildings will be prefabricated in modules at Pacific port sites, shipped on barges to the port, and transported overland to Red Dog for siting on bedrock foundations.

The mine and mill will require 18 MW of power and the port facilities an additional 1.5 MW. The power will probably be supplied by diesel generators. While the cost of buying and transporting coal to the mine is significantly cheaper on a per Btu basis, Cominco has indicated the capital costs of a coal-fired power plant may not be competitive. A 50 MW power requirement is reported as being the minimum that would allow for the economies of scale necessary for coal fired generation to be considered cost effective.

The mine itself will be an open pit that may eventually reach a depth of 700 feet and cover 65 acres. Associated with the pit is the waste tailing pile area and the mill tailings pond. The tailings pond is located to allow treatment of all discharge water draining from the mine area including the pit, the waste tailings and the mill complex. Water naturally draining into the tailings pond basin will be diverted to an adjacent drainage to minimize the volume of water that must be treated. Once the tailings pond and drainage ditches are in place, the water quality in Red Dog Creek will be improved and the periodic fish kills in Ikalukrok Creek (caused by natural ground water leaching metals out of the orebody) will be eliminated.

The pit will require removal of only 1.3 million tons (less than 1 million yards) of material to prepare the mine site for production. Much of the waste material will be used in the construction of the tailings pond dam and access road. A portion of this preproduction material is mineralized and will be stockpiled in the tailings pond drainage area for possible future processing. The overall ratio of waste stripping to ore production is 0.8:1, which represents an extremely favorable situation compared with most open pit mines and will contribute significantly to the long term viability of the mine. Additionally, the first five years of ore to come from the pit will grade 21% zinc and 6% lead, 5% above the average mine ore grade, enhancing revenues from the initial production.

Initial ore production will be 1.1 million tons per year on a basis of 3000 tons per day. The ore will be crushed and concentrated using selective flotation. The final products shipped to smelters will be a lead sulfide concentrate with an approximate lead content of 62%, and a zinc sulfide concentrate with an approximate zinc content of 59%.

Forecast production at the initial mining rate is 350,000 tons of zinc concentrate and 79,000 tons of lead concentrate. The silver will be equally contained by weight in the lead and zinc concentrates,

resulting in a silver grade in the lead concentrate of 4-5 times than that of the silver grade in the zinc concentrate due to the smaller tonnage of the lead concentrate.

The chemicals and technology required to treat and concentrate the raw ore is well developed and the equipment and chemicals needed are readily available. The only departure from an "average" treatment scheme is the need for finer grinding of the ore to effectively liberate the ore minerals from the waste minerals.

Under the expanded scenario beginning in the sixth year of operation, production will nearly double increasing the daily mill throughput from 3000 tons to 5,600 tons. Annual ore tonnage will be 2.0 million tons with annual zinc concentrate shipments of 585,000 tons and lead concentrate shipments of 119,000 tons.

Two Appendices are attached to this report which provide further details on the design, construction and operation of the Red Dog project. Appendix A is from the Preliminary Draft Environmental Impact Statement. Appendix B is a "Red Dog Fact Sheet" generated and distributed by Cominco.

2. Permitting Requirements

Permitting activity to date for the Red Dog project has included the initiation of applications for those permits requiring long lead times. Cominco employs a full time environmental coordinator to manage this aspect of the project. This position is staffed by Mr. Harry Noah who formerly filled a similar position with the Noranda Mining Company during which the Federal EIS for the Greens Creek project was being prepared.

Environmental baseline data collection for the Red Dog project began in the winter of 1981 and continued through the summer of 1983.

The Environmental Impact Statement (EIS) process was begun in January of 1983 and the formal Draft EIS will be distributed to the public in March 1984. The final EIS could be issued by July of 1984. Other major permits applications which have been filed to date include a National Pollution Discharge Elimination System permit, a Section 10(404) Army Corps of Engineers wetlands permit, a State of Alaska right-of-way permit, and a Title 11 right-of-way permit with the U.S. Department of Interior.

The following is an itemization of major permits needed before the construction and operation of Red Dog can begin.

Federal Permits

U. S. Environmental Protection Agency
- National Pollutant Discharge Elimination System Permit
- Review of U. S. Army Corps of Engineers Section 404 Permit for conformance with Section 404(b)(1) guidelines

U. S. Army Corps of Engineers
- Section 404 Permit (wetlands)
- Section 10 Permit (navigable waters dredge and fill)

U. S. National Park Service
- Right-of-way for transportation system

U. S. Fish and Wildlife
- Possible Section 7 Consultation (for endangered species)

National Marine Fisheries Service
- Possible Section 7 Consultation (for endangered marine mammals)

State Permits

Department of Environmental Conservation

- Air Quality Permit to Operate
- Certificate of Reasonable Assurance (Water Quality)
- Wastewater Disposal Permit
- Solid Waste Disposal Permit

Department of Fish and Game

- Title 16 Anadramous Fish Stream Permit

Department of Natural Resources

- Right-of-way Permit
- Water Rights Permit
- Tidelands Use Permit
- Tidelands Lease
- Materials Sale Contract

State Historic Preservation Office

- Archaeological Clearance

Office of Management and Budget

- Coastal Zone Management Consistency Determination

Local Permits

North Slope Borough

- Land Use Permit

Little problem is foreseen by Cominco in obtaining permits for the environmental aspects of the project. However, special interest litigation challenging procedural matters or other aspects of the issuance of federal permits may be possible as the project is large and represents the development of a remote area of Alaska.

In general the project should be able to meet the most stringent environmental standards. A water treatment plant will be installed to process the limited mine and mill discharge water. The naturally contaminated drainage from the mineral zone will also be treated. Ultimately the project will have permanently improved the quality of Red Dog Creek, even after the mine and water treatment facilities have been removed.

It is of interest to note that the present EPA regulations mandating zero-discharge of mill process water (which were developed on the basis of mill tailings ponds in the arid and evaporative climate of Southwest America) will be met at Red Dog by constructing a dam large enough to impound the cumulative volume of mill discharge water over the life of the mine. This regulation is attainable at Red Dog because the topography and the availability of stripped overburden material allow the construction of a mine tailings pond large enough to satisfy this requirement. The Quartz Hill mine, in the rainforest of Southeastern Alaska, will not have to comply with the regulation because a sole variance was granted to the project in the language of the regulations. However, this regulation has the potential to preclude the development of other Alaskan and U. S. mines which have neither a variance nor the favorable conditions found at Red Dog.

A possible major environmental permit that is not listed, but that may be in effect and needed for the permitting of Red Dog is a State Hazardous Waste permit which will be necessary if the proposed hazardous waste regulations are adopted. It is the contention of Cominco's staff that all the applicable provisions of these proposed regulations will have been addressed by the federal permitting process and that the State's permit requirements for Red Dog will be redundant. The State's proposed Hazardous Waste permitting process, however, would present an additional opportunity for project delay through litigation of permitting procedures.

At present, the most critical aspect of permitting for the project is the road access from the Chukchi coast to the mine site. Of two possible routes, a northern route across State lands and southern route through the Cape Krusenstern National Monument, the southern route has been identified in the Draft EIS as the preferred access option as it will have the least environmental impact and is the most cost-effective alternative for the project.

Use of the southern route requires either securing land from the Krusenstern National Monument or gaining a right-of-way across it. Both of these avenues are being pursued. The NANA Corporation is presently seeking a land exchange with the National Park Service for the four, corner townships in the monument through which the road would pass. Cominco has also begun a right-of-way application to the Park Service under the process outlined in Title 11 of ANILCA. The land swap is seen as the preferred method for gaining access as the alternative Title 11 right-of-way process is lengthy, complex, untried and would ultimately require approval of both the U. S. Congress and the President.

At present, government approval for access to the project is seen to be the only major permitting hurdle to the development of the mine. Appendix C contains a permit schedule time-line, and Appendix D is the basic flow chart for the Red Dog permitting process.

B. Cominco Profile: History; Metal Mining and Processing Operations; and Arctic Mining Experience

1. History

The development and operation of Red Dog will be carried out by Cominco Alaska Incorporated, a wholly owned subsidiary of Cominco Ltd. of Canada. Cominco Ltd. was originally formed in 1906 as the Consolidated Mining and Smelting Company of Canada by the Canadian Pacific Railway (CPR), which remains the majority stockholder (53%) of Cominco Ltd.

The CPR entered the smelting business indirectly in 1898 when they purchased a government-granted railroad franchise from Augustus Heinze. Heinze's railroad franchise threatened the viability of the CPR's own rail expansion plans, but as a condition of the sale, Heinze required the CPR to purchase his smelter located at Trail, British Columbia. In 1906, to secure ore concentrates for the smelter, CPR merged its smelting interests with three mining companies and a local power company to form the Consolidated Mining and Smelting Company of Canada.

In 1913, the company purchased the Sullivan Mine in Kimberly, British Columbia (150 miles from Trail) at a sheriff's auction. The ore at the mine was extremely complex for the existing technology, but shortly after acquiring the mine, the company's research division discovered a new recovery technique called selective flotation which allowed the processing of the complex sulphide ore. The actual size of the Sullivan Mine turned out to be larger than anyone had imagined. Still operating in 1983 with an additional mine life of 20 years, the Sullivan Mine is the flagship of the company.

At present, Cominco is one of the largest mining, smelting and refining enterprises in the world. It is the leading producer of zinc

and lead, accounting for 10% and 11% of the world's supply, respectively. Additionally, the company operates fertilizer plants in the U.S. and Canada and operates a potash mine in Saskatchewan and a phosphate mine in Montana. Cominco supplies 22% of Canada's fertilizer demand and 12% of the U.S. demand.

2. Metal Mining and Processing Operations

Smelters and Refineries

Trail, British Columbia - The smelting and refining complex at Trail, British Columbia has an annual production capacity of 300,000 tons of refined zinc, 150,000 tons of refined lead and 12 million ounces of silver. Other products include gold, bismuth, cadmium, antimonial lead, sulphuric acid, ammonia, and fertilizers. The operation includes two hydro-electric plants which supply Cominco's power needs and sell the surplus locally. The Trail metallurgical operations represent Cominco's largest single source of revenue. Trail processes concentrates from the Sullivan Mine (100% Cominco) in British Columbia and from the Pine Point Mine (69% Cominco) in the Northwest Territories. Additional Trail capacity is met by purchasing concentrates from other sources including South America.

In 1977 Cominco began a modernization program at Trail which included $210 million for a new zinc refinery. Of the 300,000 ton annual production capacity at the recently completed zinc facility, 70,000 tons is produced in a "state of the art" hydrometallurgical plant which uses a pressure leaching process to produce zinc. Elemental sulfur is a by-product of this process instead of sulfuric acid. An additional $200 million investment is planned to rebuild the lead smelting segment of the complex.

Mitsubishi Cominco Smelting Company - Cominco holds a 45% interest in a lead smelter located on Naoshima Island, Japan. The

smelter has a 40,000 ton annual refined lead production annual capacity and purchases lead concentrates from the Pine Point mine.

Cominco Binani Zinc Ltd. - Cominco Ltd. and Metal Distributors Ltd. in joint venture operate an electrolytic zinc plant in India with a capacity of 32,000 tons refined zinc, and by-product cadmium and sulphuric acid.

Metal Mines

Sullivan Mine, Kimberly, B.C. - In its 74th year of production, the Sullivan Mine is wholly owned by Cominco and is the principal supplier of lead and zinc concentrates to the Trail smelter. In 1982 the Sullivan Mine milled 2.4 million tons of ore grading 3.2% zinc, 5.0% lead, and 1.9 ounces per ton silver and shipped 131,000 tons of zinc concentrate and 171,000 tons of lead concentrate to Trail. The Sullivan Mine has published ore reserves of 49 million tons grading 6.1% zinc 4.4% lead, and 1.0 ounces per ton silver, giving it an indicated mine life of an additional 20 years at the present production rate.

Pine Point Mine, Pine Point, Northwest Territory - Cominco is a 69% owner of the Pine Point Mine. In 1982 Pine Point milled 2.4 million tons of ore grading of 7.3% zinc and 3.0% lead. Almost all of the 287,000 tons of zinc concentrates were shipped to the Trail, British Columbia smelter while most of the 85,000 tons of lead concentrate were shipped to the Mitsubishi Cominco lead smelter in Japan. Published reserves are 25 million tons at 6.1% zinc and 2.4% lead. Full mine production capacity is four million tons of ore per year indicating an assured mine life of 7 years.

The Pine Point Mine began production in 1964 after a joint development effort with the Canadian government which provided infrastructure to the remote location consisting of a 400 mile railroad, and a hydroelectric power plant.

Polaris Mine, Little Cornwallis Island, Northwest Territory - The recently developed Polaris Mine commenced operation in 1982 at an annual production rate of 800,000 to 900,000 tons per year. Proven reserves are 11 million tons of 15.2% zinc and 4.4% lead while an additional 13 million tons of ore are inferred, indicating a mine life of 25-30 years. The concentrate production from Polaris is shipped to European smelters.

The Polaris Mine is located on Little Cornwallis Island only 75 miles from the magnetic North Pole. The shipping season from Polaris is restricted to a few months in the summer, as will be the shipping season at Red Dog, and a year's production of concentrate is shipped during the brief ice-free season. The mine's mill complex was constructed as a module at a Quebec port site and barged to Little Cornwallis Island for installation. This is the same method that will be used for construction of facilities at Red Dog.

Black Angel Mine, Maarmorilik, Greenland - Cominco is a 63% owner of the Black Angel Mine which milled 744,000 tons of ore in 1982, grading 12.6% zinc, 4.5% lead and 1.0 ounce per ton silver. Zinc and lead concentrates are shipped from Black Angel to European smelters during the summer shipping season. Black Angel reserves are 2.2 million tons grading 13.4% zinc, 4.0% lead and 1.0 ounces per ton silver. A mine life of 3 years is indicated unless additional reserves are discovered.

Magmont Mine, Bixby, Missouri - Cominco owns 50% of the Magmont Mine which milled 1.1 million tons of ore in 1982 at grades of 1.0% zinc and 6.5% lead. Concentrates from the mine are sold to U.S. smelters. The mine has 9.1 million tons of proven and inferred reserves indicating a mine life of 8-9 years.

Con Mine, Yellowknife, Northwest Territory - The Con Mine is located on the shores of Great Slave Lake and has been in production

since 1938. In 1982, 234,000 tons of ore were milled with an average grade of 0.36 ounces per ton gold. The ore is milled and the gold refined locally in Yellowknife. The mine has reserves of 2.1 million tons grading 0.47 ounces of gold per ton for an indicated mine life of 8-10 years.

Jersey Mine and Valley Mine, Logan, B.C. - These two open pit mines have reserves of over 500 million tons of copper ore. The Valley Mine is the largest known copper deposit of its type in Canada. The Valley Mine began production in January 1983 at a rate of 23,000 tons per day.

Warm Springs Mine, Garrison, Montana - Cominco owns and operates the Warm Springs Mine, a major underground producer of phosphate which employs 114 people.

Other Metal Mining and Exploration Interests - Cominco has interests in several other metal mines worldwide including a 47% interest in Aberfoyle Ltd. which operates two tin mines, a zinc/lead mine and other properties in Australia; a 17% interest in Tara Exploration which operates an underground zinc/lead mine in Ireland; and a 47% interest in Exploracion Minera Internacional Espana S.A. which operates a zinc/lead mine in Spain. Cominco also operates wholly owned subsidiaries for exploration in America, Australia, Belgium, France, Italy and the United Kingdom.

Research - Cominco operates a Product Research Center in Ontario which works towards developing uses for lead and zinc, including developing, marketing and licensing new products and processes.

3. Arctic Mining Experience

Cominco has major and minor interests in eight zinc/lead mines in the world of which five are in North America. Of these five, three are

located in the arctic and were developed and are being operated by Cominco. The Pine Point Mine in Northern Canada is located at latitude 62°, the Black Angel in Greenland at latitude 71° and the Polaris on Little Cornwallis at latitude 77°N. The Red Dog deposit is located at latitude 68°.

The development and operation of each of these mines has presented special challenges which have been successfully met.

The Pine Point Mine located in Northern Canada required the construction of the Great Slave Lake Railway between the closest existing rail link in Alberta, to the mine site on the south shore of Great Slave Lake, 423 miles to the north. Much of the railroad was built over permafrost. Construction was financed by the Canadian Government under the northern "Roads to Resources" program and construction and operating costs were recovered from the mine through a schedule of user fees based on a guaranteed volume of 215,000 tons of concentrate shipped annually and special fees based upon the value of the concentrate as determined by smelter returns. When the agreement was negotiated, infrastructure costs were to be recovered in 10 years as there were only 10 years of proven ore reserves known at that time. Due to higher than forecast shipping tonnages, the mine ultimately repaid the railroad capital costs in about seven years.

Cominco underwrote the costs of developing a hydro-electric generating plant for use by the Pine Point mine and the developing region. Also a complete townsite was constructed which is today a chartered village with a population of 2200 and presently enjoys the second highest per capita income in the Northwest Territories. 640 residents are employed by the mine. Pine Point is an open pit, as will be Red Dog, with production coming from several pits. The ore is concentrated at the mine site and shipped to smelters at Trail, B.C. and Naoshima, Japan.

The Black Angel Mine was developed in 1972 with production beginning in 1973. The mine's entrance is located in a cliff wall of Maarmorilik Fjord on the west coast of Greenland. The mill and concentrator are located on the opposite side of the fjord and ore is transported from the mine portal, by aerial tramway, across the fjord to the mill site. The mine ships its concentrates by ocean transport to various European smelters, and as will be true at Red Dog, is limited to a shipping season determined by the winter ice pack.

The decision to develop the Polaris Mine was made by Cominco in November of 1979 and the first ore was processed in the mill on November 4, 1981, just two years later and 10 weeks ahead of schedule. Located on Little Cornwallis Island only 1,000 miles from the North Pole, the severe climactic conditions and short ice-free season required innovative development. As at Black Angel, the mine was located virtually at tide water. The mill and administrative offices were constructed as a single barge-mounted module at a port in Quebec and towed to the mine site. This is the same scenario Cominco will use to develop the Red Dog facilities. For Red Dog the modules will be constructed and shipped from Pacific ports and will then be transported overland approximately 55 miles.

Polaris is an underground mine, and mining techniques take into account the underground permafrost conditions which extend to a depth of about 1200 feet. While Red Dog will be and open pit mine and will therefore not have the mining problems as at Polaris, similar arctic conditions will be experienced at Red Dog. During the ice free season at Polaris, eight shiploads of concentrate, representing 12 months of mine and mill production, are shipped to European smelters.

The Polaris Mine maintains a personnel program targeted at maximizing regional employment of the area's Inuit natives. A training program for Northern Canadians is utilized and work schedules have

been tailored to accommodate the subsistence lifestyle of the northern residents.

The Con Mine in Yellowknife, Northwest Territories is a gold mine and as such does not handle the same large quantities of ore that a basemetal producer must mine, mill, concentrate and transport. The mine has been in operation since 1938, was one of the first of Canada's northern mines, and has given Cominco 45 years of practical experience operating in the arctic.

Cominco's success has been attributed to its strong management. Locally, the President and General Manager of Cominco Alaska is Hank Giegerich, who is responsible for Cominco's statewide activities and for the development of Red Dog.

Mr. Giegerich is a 30 year Cominco employee and was formerly Vice President of Cominco's northern operations, headquartered in Yellowknife. In that position Mr. Giegerich was responsible for the operation of the Con and Pine Point mines was responsible for the development of the Polaris Mine. Prior to that assignment he was Project Engineer for the development of the Black Angel Mine in Greenland. Mr. Giegerich recently received awards from the Canadian Institute of Mining and Metallurgy and the Alberta Chamber of Commerce for the success of the development of the Polaris Mine and is undoubtedly one of the most qualified individuals in North America (and quite probably in the world) to manage the development of the Red Dog Mine.

The project manager for the Red Dog development is James "Bud" Rae. Mr. Rae is a long time Cominco employee and participated in the construction of the Pine Point Mine and later served as the mine's production superintendent. Mr. Rae managed the rehabilitation and development of Cominco's Pinchi Lake mercury mine in Northern B.C. which operated until the mid 1970's, and has been involved in the

development of Cominco's Valley Copper Mine, the operation of the Trail smelter and the construction of hydroelectric dams in British Columbia.

More generally, as the world's largest miner, smelter, refiner and marketer of zinc and lead, Cominco's profitable history is the result of its success in assessing market demand and timing the development of carefully planned and efficiently operated mines. This record is more impressive when it is taken into consideration that four of Cominco's major mines operate in remote regions of the arctic. These mines are successful despite the high development costs of infrastructure creation, and high operating and labor costs.

C. Commodity Profile of Mine Products and Marketing Considerations

1. Introduction

The average grade of the Red Dog Mine is 17.1% zinc, 5.0% lead and 2.4 ounces per ton silver. The importance of zinc to the economics of the mine is understated as the actual zinc grades will be closer to 21% in the first five years and average 19% for the following 15 years. It is in this initial period of the mine's life when capital costs are amortized and therefore the higher ore grade is important to the ultimate return on investment.

Using an average grade of 19.0% zinc, 5.0% lead and 2.4 ounces per ton silver (conservatively representing the first 20 years of operation), an appreciation can be gained for the relative contribution each commodity will make to the total mine revenues by figuring the gross value of a ton of ore and the relative percentage each metal contributes.

Commodity prices published for November 4, 1983 were 49¢ per pound for zinc, 25¢ per pound for lead and $9.00 per ounce for silver. Though the price a smelter pays for contained metals is discounted to reflect smelting charges and other considerations, applying these basic prices will give a relative comparison of the importance of each commodity.

At a grade of 19.0% zinc, one ton of ore will contain 380 pounds of zinc with a gross value of $186.20 at 49¢ per pound. At a 5% grade, one ton of ore will contain 100 pounds of lead with a gross value of $25.00 at 25¢ per pound. And at 2.4 ounces per ton silver, one ton of ore contains 2.4 ounces of silver with a gross value of $21.60 at $9.00 per ounce. The total gross value of a ton of ore at these prices is therefore $232.80. Gross value, as used here, simply states the value

of the contained metals and does not account for the costs and losses that occur during mining, milling and refining. Zinc value represents 80% of this total while lead and silver contribute 11% and 9% respectively. It is obvious that zinc is the critical commodity in the economics of the Red Dog mine.

To further highlight the importance of zinc, the same calculations can be done holding the price of zinc at its present level of 49¢ while doubling both the price of lead (to 50¢ per pound) and silver (to $18.00 per ounce.) The recalculated percentage contributions to revenues are 67% zinc, 18% lead and 15% silver. Thus Red Dog is primarily a zinc mine and unless there are extraordinary increases in lead and silver prices, the critical commodity is, and in the foreseeable future will remain, zinc.

2. Zinc

Uses and Substitutes

Zinc is the fourth most widely used industrial metal, surpassed only by iron, aluminum and copper. Its importance, however, often goes unnoticed as the metal loses its identity in most end product forms. There are four primary areas of zinc use.

1) Protective coatings. The greatest use of zinc is for coating (galvanizing) steel and iron products. This use accounted for about 44% of all zinc consumed in 1982. Zinc coating protects steel in two ways; by providing a long-lived barrier between the steel base and the corrosive environment; and by protecting the steel through galvanic action due to zinc's high electrochemical activity. Common applications for zinc coating are steel sheet, fencing, storage tanks, fasteners, wire rope, towers, industrial plants, culverts, bridges, ships and structural shapes. As a second method of protecting steel, sacrificial zinc anodes are used

to inhibit electrolytic corrosion of ship hulls, offshore drilling rigs, submerged or buried steel including tanks, pipes or other works.

2) Brass. Brass is an alloy of copper and zinc containing up to 40% zinc. Brass tubes, valves, radiators, and fittings are extensively used in vehicles, motors, refrigeration equipment, heat exchangers, communication and electronic devices. Brass accounts for about 20% of the world's zinc consumption.

3) Die casting. Zinc's low melting point allows problem-free gravity casting. Zinc used in die casting is often combined with small percentages of aluminum to impart strength and wear resistance, and copper to improve tensile strength, hardness and other properties. Zinc die cast parts, such as handles, grills, brackets, carburetors, gauges, pumps, and housings are extensively used in automobiles, machinery, business machines, appliances, scientific and electronic equipment. Die casting accounts for about 16% of the world's zinc consumption.

4) Rolled Zinc. Products manufactured from rolled zinc include engraving plate, coinage and zinc foil. These uses account for about 8% of consumption.

5) Zinc compounds. Zinc dust, zinc oxide, and other zinc compounds are used in a variety of industrial applications as corrosion inhibitors, activators in vulcanizing rubber, chemical catalysts, fluxing agents, fungicides, pharmaceuticals, TV screen phosphors, and additives in lubricants. Zinc ferrite is used in electrical motors, transformers, coils, amplifiers, timers, and in radios, television and computers.

It also should be noted that zinc is an essential element in the growth of human beings and animals. An animal with a zinc deficient

diet will require 50% more food to achieve the same weight-gain as an animal supplied with sufficient zinc. While inhalation of freshly formed zinc oxide can result in the temporary disorder known as "zinc chills" or "oxide shakes," zinc is not considered to be a toxic substance.

The primary substitutes for zinc, (and therefore its economic competition) are aluminum, plastic and magnesium.

In protective coatings there is no substitute for zinc galvanizing in large-tonnage applications and therefore, zinc's largest use has an assured base level demand. In steel sheet coating a recently marketed product, Galvalume, has made significant inroads on traditional zinc-coated steel sheet. Galvalume is comprised of 55% aluminum and 43% zinc. Because the coating is less dense and offers greater corrosive resistance, much less zinc is used than when steel sheet is hot-dipped in zinc to form conventional galvanized sheet. However, Galvalume is not easily molded, nor can it be welded, so there are presently limitations on its ability to substitute for zinc coated sheet. A competitive sheeting product, Galfan (95% zinc, 5% aluminum), has also been developed and may be competitive with Galvalume in some applications. Aluminum sheet also competes with galvanized steel sheet for such applications as roofing and siding.

Aluminum alloys, stainless steels and plastics have replaced many traditional uses of brass and will continue to compete for those applications.

In die casting, aluminum and magnesium are competitive materials where weight limitations, temperature tolerances, and surface finishes are important. Plastics have also made inroads in this field. However the recent development of thinwall zinc die casting and improved zinc alloys and finishing techniques has allowed zinc die casting to retain many of its challenged applications. It is also possible that the recent

MAJOR WORLD ZINC MINES

Mine Name*	Location	Average Grade[1] Zn	Pb	Ag	Annual[2] Capacity	Re-[2] serves	Life[3]	Ownership
#Red Dog (S)	Alaska	17.1	5.0	2.4	2.0	85	40+	NANA (100%)
Sullivan (U)	Canada	6.1	4.4	1.0	2.4	49	20	Cominco (100%)
Pine Point (S)	Canada	6.1	2.4	-	4.0	25	7	Cominco (69%)
Polaris (U)	Canada	15.2	4.4	-	0.8	24	30	Cominco (100%)
Black Angel (U)	Greenland	13.4	4.0	1.0	0.8	2	3	Cominco (63%)
Magmont (U)	Missouri	1.3	6.8	0.1	1.1	9	8	Cominco (50%)
Que River (U)	Australia	8.8	4.8	3.2	0.3	5	17	Cominco (47%)
Rubiales (U)	Spain	6.9	1.2	0.4	1.2	14	12	Cominco (48%)
Tara (U)	Ireland	9.6	2.8	-	3.0	74	25	Noranda (36%)
Nanisivik (U)	Canada	10.4	0.8	-	0.7	4	5	Mineral Res. Int'l. (53%)
Brunswick (U)	Cnanda	9.1	3.7	3.0	3.5	100	29	Noranda (64%)
Cyprus Anvil (S)	Canada	4.5	3.0	1.5	3.5	60	17	Dome Petroleum (100%)
Kidd Creek (U)	Canada	5.0	0.2	2.0	5.0	100	20	Canada Devel. Corp. (100%)
Mount Isa (U)	Australia	6.3	6.5	4.8	3.5	54	15	Mount Isa Mines (100%)
#Hilton (U)	Australia	6.6	9.6	4.8	3.5	46	13	Mount Isa Mines (100%)
Zinc Corp. (U)	Australia	9.5	8.9	2.8	1.0	13	13	Rio Tinto Zinc (61%)
New Broken Hill (U)	Australia	12.2	6.6	1.9	1.5	13	13	Rio Tinto Zinc (61%)
North Broken Hill (U)	Australia	10.0	13.0	6.5	1.1	6	5	North Broken Hill (100%)
Elura (U)	Australia	8.6	5.6	4.4	1.5	30	20	Electrolytic Zinc (100%)
#Scuddles (U)	Australia	9.0	-	2.3	1.5	29	20	Electrolytic Zinc (100%)
Cerro de Pasco (U,S)	Peru	7.9	3.3	2.7	2.5	57	23	Centromin (100%)
Prieska (U)	South Africa	3.0	-	-	3.0	9	3	U. S. Steel (46%)
#Crandon (U)	Wisconsin	5.4	5.0	0.4	3.5	84	24	Exxon (100%)

* - (S) Surface or open pit mine, (U) Underground mine
(1) - Zinc and lead grades in percentages, silver in troy ounces per ton
(2) - Million short tons
(3) - Years
\# - Indicates property is in development stage

developments in thinwall zinc die casting may find new applications, further limiting any erosion of zinc demand.

In chemical uses, aluminum and magnesium replace zinc to some extent in chemical reactions, and titanium oxide can replace zinc oxide in paints.

In general, economic and other considerations favor the continued wide use of zinc and limit inroads of substitutes. Magnesium substitution is limited by the low capacity of magnesium production facilities, and while aluminum and plastics are widely available, the price of zinc is favorable. As aluminum production is energy intensive and as plastics are petrochemical products, both are sensitive to energy price increases.

The energy requirement for producing 1 ton of aluminum from ore is 244 million Btu's while the equivalent process for zinc requires only 65 million Btu's. Additionally, where durability is a factor, plastic will never be an acceptable substitute for metals. Cominco's Product Research Center has developed a super plastic zinc (SPZ) consisting of 78% zinc and 22% aluminum with a low forming temperature which would allow use of the same low cost thermoforming technology utilized by plastics and would possibly result in zinc becoming a substitute for plastic in certain applications.

World Supply and Demand

The U.S. consumes one sixth of the world's zinc supply, but presently produces only a third of its own demand. U.S. zinc smelter capacity has decreased from self-sufficiency in 1968, to 60% dependency on foreign sources at present. In the absence of a repeal of the Jones Act, which penalizes the shipment of commodities between U. S. ports, Red Dog Mine concentrates will be processed by foreign smelters as a matter of economic reality. U.S. consumers will enjoy no inherent

domestic supply advantage despite the nationality of the mine. Therefore discussions of supply and demand for zinc and other commodities will be examined from primarily a global perspective.

World mine production in 1982 from non-socialist countries was 4.8 million tons of contained zinc. Production of refined metal was 4.3 million tons while metal consumption was 4.1 million tons. Consumption was 6% below the 1981 level and primarily reflected a 17% decline in U.S. consumption due to the general economic recession, and a lesser decline in Europe for the same reasons. Japan showed no consumption change in 1982.

The decline in world demand reflected general worldwide economic recession. As zinc consumption is tied to automobile production, residential and commercial construction and general industrial output, zinc consumption will parallel general economic trends.

A demand increase in U.S. consumption is forecast as a nationwide program to restore or replace highway structures such as bridges, guardrails and culverts will increase the need for galvanized steel. Additionally the change from a 95% copper penny to a 98% zinc penny will increase the annual U.S. base demand by about 40,000 tons per year, which represents about 1% of the 1982 world demand. Similar changes in coinage elsewhere in the world could add significantly to zinc demand.

In world automotive production, zinc may increasingly be used to coat exterior sheet metal surfaces as well as interior surfaces due to improvements in the ability of zinc coatings to accept high quality paint finishes. A survey of the four major U.S. auto makers found that zinc consumption in sheet metal materials had increased 2% per vehicle for 1983 models. This new demand may begin to offset reductions in zinc die castings used in automobiles which declined in total weight from about 45 pounds per car to 23 pounds per car between 1975 and 1982.

In general, demand for zinc has grown faster in developing industrialized countries such as Brazil, Mexico and South East Asian countries than in the older industrial nations. In 1982 increased export of zinc concentrates and record export levels of refined metal to socialist countries were recorded. Much of this tonnage was shipped to China which may represent a growing zinc consumer.

The U.S. Bureau of Mines estimates a probable annual world growth rate in zinc consumption through the year 2000 of 2.5%. This compares with an annual growth rate of 4.8% between 1960-73. Using the 1981 free world zinc consumption of 4.3 million tons as a base level for demand (this assumes the recessionary 1982 consumption level is not representative of the present base level) a growth rate of 2.5% would indicate an increase in world consumption to 5.1 million tons in 1988. Using the three year mine production high of 4.8 million tons in 1982 as representing present annual capacity, a need for an additional 0.3 million tons of production will be required in 1988. The new production from Red Dog will produce 0.2 million tons of zinc metal in 1988. In 1993 when Red Dog's zinc metal production has increased to 0.3 million tons, the free world demand forecast would be 5.8 million tons or 1.0 million tons greater than 1982 mine production levels. Several sources also suggest the socialist bloc will become a significant importer of zinc, supporting the demand growth forecast.

An important factor in forecasting the need for new mine's is the possibility of new supply coming from recycling or secondary sources. Unlike lead, in which a significant component of supply comes from recycled batteries and other products, the largest uses of zinc are sacrificial. Zinc used for coatings is dissipated and therefore recycle will never become a major supply source.

Marketing Considerations

At the initial production levels, the Red Dog Mine will produce 350,000 tons of zinc concentrate. Assuming a concentrate grade of about 59%, this represents 207,000 tons of contained metal. Cominco has indicated its intention to sell concentrates to Japanese and European smelters and to its own smelter at Trail, B.C. In 1982 Trail produced 226,000 tons of zinc, representing the zinc concentrate output of both the Sullivan and Pine Point Mines. The total zinc capacity at Trail is 300,000 tons so that the smelter has an additional unused capacity of 75,000 tons, representing about a third of Red Dog's initial production.

The reserves at the Sullivan Mine indicate it will continue to produce for about 20 years if no additional reserves are discovered, while reserves at Pine Point indicate the mine may be exhausted in about 10 years. In 1993 Red Dog is scheduled to increase its zinc production to 585,000 tons of concentrate or about 345,000 tons of contained zinc which will exceed the total present capacity of Trail, B.C. However, the new zinc smelter at Trail was designed with space available for installing an additional zinc refining capacity of 150,000 tons. Cominco could exercise the option to expand the zinc smelter prior to Red Dog expansion (or earlier) and thereby have the capability to smelt all Sullivan and Pine Point concentrates (at their present production rate), as well as over 60% of Red Dog's expanded production. When the Pine Point Mine is exhausted the expanded Trail zinc refinery could handle 100% of Red Dog's maximum production, plus all production from the Sullivan Mine.

Japanese zinc refineries at present have a a combined capacity of in excess of 800 thousand tons refined metal. In recent years Japanese refineries have had problems securing adequate supplies of zinc concentrates and may view Red Dog as a desirable long-term, stable source. European smelters, not counting communist countries, have a combined capacity of about 2.0 million tons. At present there is an over capacity

of zinc smelters in Europe. Red Dog will be attractive to both Japanese and European refineries as a long term zinc concentrate source (more than 40 years) and, with a competitive climate among smelters to secure adequate concentrate supplies, Red Dog should receive favorable rates and terms from smelters.

A final marketing consideration is the ownership of the zinc mining and processing industry. At present the zinc industry, compared with the copper industry, is being operated more in line with free enterprise concepts. Better balance of zinc metal stocks with demand will result in stronger and more predictable long term prices. This contrasts with metal industries in which gross overproduction for the sake of generating foreign exchange results in depressed or even below cost metal prices - very much a factor in the copper industry for example.

3. Lead

Uses and Substitutes

Lead ranks as the fifth most widely used metal behind iron, aluminum, copper and zinc. At present the two major uses of lead are for lead-acid batteries and as an anti-knock gasoline additive. Other uses include construction materials, ammunition, solders, protective coatings and paints, radiation shielding and electrical cable sheathing.

Over 50% of present lead consumption is used in lead-acid batteries, primarily vehicle starting-lighting-ignition (SLI) batteries. In transportation applications, weight is a primary consideration, and as average car size and "cranking" requirements have diminished, so has the average lead content from about 30 pounds per car in 1977 to 20 pounds per car in 1983. Severe winters shorten battery life and increase demand for replacement batteries.

Research to find alternate combinations of metals and non-metals for batteries has been extensive, and while most substitutes can match or exceed the performance of the lead-acid battery, problems include cost of components, economics of material recycling, toxicity, and operating limitations and difficulties. The U.S. Bureau of Mines indicates no large scale substitution for lead-acid batteries is forthcoming.

Domestically the use of lead additives in gasoline is gradually declining due to environmental restrictions on lead emissions. Consumption of lead in the U.S. for gasoline additives has dropped by 50% since the early 1970's. However, while the use of lead additives has declined in the U.S. and future use may be strictly limited to certain types of engines, consumption in developing countries may continue to increase.

Lead coatings are used on materials exposed to corrosive agents and lead lined containers and tanks are used for the storage of corrosive chemicals and hazardous wastes. Lead coatings are also used as shields against radiation. While demand for these applications may increase, the use of lead in paints and other chemical applications where lead is likely to enter the environment has declined in recent years.

The large scale use of massive, stationery, lead-acid storage batteries for leveling power loads in electrical generating plants may represent a significant future use.

Supply and Demand

With only a few exceptions, primary lead is produced as a by- or co-product of zinc, copper and silver mining. Recovery of lead from batteries and other sources results in a large component of recycled metal. In 1982 free-world mine production totaled 2.6 million tons.

Refined lead production, including recycled lead, totaled 3.9 million tons while lead consumption totaled 3.8 million tons.

The forecast demand for lead varies. The U.S. Bureau of Mines forecasts a probable average annual world growth rate of 2.8%, which is larger than the agency's forecast of 2.5% growth for zinc. Other sources indicate the lead growth rate will be significantly less, possibly approaching 1.0%.

At present, 75% of lead use is in transportation. If the use of lead in gasoline declines on a world wide basis, the importance of lead-acid batteries as a percentage of total lead consumption will increase. Battery demand for vehicles is a function of the total number of vehicles in use as replacement batteries constitute some 80% of sales. Any increased long term demand for lead-acid batteries will ultimately depend upon increasing automobile use in developing countries.

Marketing Considerations

Markets for lead concentrates from Red Dog would be found either at Cominco's Trail, B.C. smelter, at the Cominco Mitsubishi Lead Smelter in Japan or at other Japanese lead smelters. Lead concentrate production from Red Dog could replace Pine Point concentrates at the Cominco Mitsubishi smelter when the mine is exhausted. Present Trail lead capacity is 150,000 tons refined metal. Actual utilized capacity in 1982 was 126,000 tons. Plans to modernize and expand the lead smelter, as was done with the zinc refinery, could assure an in-house market for lead concentrates.

At present with Pine Point lead concentrates being shipped to Japan, concentrates from Cominco's Sullivan Mine represent about 100,000 tons of the Trail's refined capacity, leaving 50,000 tons available. At Red Dog's initial production rate, mine out put in terms of refined lead would just match this capacity.

4. Silver

Uses and Substitutes

The largest use of silver is in the production of photographic materials. Despite intensive research, no substitutes have been found to replace light sensitive silver-halides used in photographic films. Other industrial uses of silver include electrical switches, silver solders and batteries. Medicinal uses include antiseptics for certain types of infections, and as an amalgam in dental fillings. Silver coinage, jewelry, tableware, and investment bars are also major uses.

No viable substitute has been found for silver in photographic uses. Gold or platinum-group metals may be substituted for silver in electrical applications but only where the more oxidation resistant qualities of these precious metals overcomes the cost disparity. Copper, nickel, zinc and aluminum in various combinations have replaced silver coinage in many countries.

Supply and Demand

About two-thirds of the world's future supply of silver is contained in copper, lead and zinc deposits. Therefore the supply of silver will be determined more by the production of these base metals than by actual silver demand. The long term growth of silver demand, as with zinc and lead, is seen to be tied to the prosperity of developing nations. Increasing industrial and photographic demands, attendant upon an increased standard of living in these countries, will contribute to a strong demand growth.

The U.S. Bureau of Mines forecasts a probable annual world growth rate of 2.5% through 2000. Complicating the supply, demand, and price structure are the large quantities of silver held by investors. Silver holdings of private investors are large compared with annual

industrial consumption and these investors can respond to price fluctuations as either a source of supply or a source of demand. Also, despite the large industrial base, the silver price, to a certain extent, is influenced by gold prices. Rarely do the prices of the two metals move in opposite directions, a factor which underlines price linkage.

5. Barite

Uses

Over 90% of the world barite demand, and over 98% of the U.S. barite demand, is for use in oil and gas well drilling fluids. Barite is finely ground and slurried with water and other agents to produce a heavy fluid which is circulated in the drill hole as it is being drilled. In 1982 an average of 47 tons were used per well.

Supply and Demand

Barite has a low per unit cost and high bulk. The reported average value of primary barite in the United States was about $40 per ton in 1982. The delivered price of drilling grade barite to Alaska's North Slope drill rigs is said to be close to $600 per ton, however this cost incorporates a wide range of services carried out at the drill site. If barite must be shipped a significant distance, the transportation costs can easily exceed the cost of the barite itself. Therefore a relatively local market for barite must be available before the commodity is saleable.

Potential markets for Red Dog barite are the North Slope oil fields, and possibly the Norton Sound and Chukchi Sea fields if oil is discovered at either of these locations. Currently restrictive trade practices would inhibit the sale of Red Dog barite to Canadian Arctic oil and gas operations in the Beaufort Sea. At present, Cominco is examining possible processes to recover barite concentrates from the zinc/lead

ore. Also, high grade zones of barite are found apart from the metal rich zones of the ore deposit and barite could be selectively mined from these zones. One possible problem with barite from either of these sources is the presence of heavy metal or silica contamination which could result in the barite being unacceptable as a drill mud. The financial analyses of the project have not included any revenues from the possible sale of barite.

6. Zinc, Lead and Silver Price Forecast

The following price projections which were estimated by the Office of Mineral Development are for a 20 year period and represent the average commodity price in 1983 U.S. dollars.

RED DOG METAL PRICES

	Zinc (¢/lb.)	Lead (¢/lb.)	Silver ($ /tr.oz.)
Base Level	55	30	10
Probable	60	35	18
High	65	40	25

The demand for all three of these metals is dependent upon the growth of the world economy. The North American and European economies may be described as maturing and major increases in the consumption of base metals is in these economies unlikely. However, expansion and growth of economies in the developing countries will increase world demand for these metals. The present prices for zinc and lead (49¢/lb. and 25¢/lb. respectively) are below what could be considered base level prices due to the low recessionary demand and present high levels of metal stocks. As the world economy recovers, base level prices will be reached.

Discussion:

Zinc

Zinc is the most important commodity to the Red Dog Mine and will contribute up to 4 times the revenue generated by lead and silver combined.

World demand for zinc will grow commensurate with the growth of the world economy and the increasing industrialization of developing nations. The U. S. Bureau of Mines forecasts a probable growth of world demand at 2.5% annually. The increase in world demand coupled with the following factors indicates a stable market characterized by real price increases is likely for primary zinc producers (mines) over the long term.

1) Zinc is the fourth most widely used industrial metal surpassed only by iron, aluminum and copper.

2) The largest use of zinc (galvanizing) results in its dissipation. Therefore recycling and secondary production will always remain a less important supply factor than is the case for other metals.

3) There are no environmental problems associated with the use of zinc.

4) While known world zinc reserves, including Red Dog, appear adequate to satisfy medium and long term demand, the market is not over-shadowed by enormous undeveloped deposits as is the case with copper.

5) Reserves at several major zinc mines will be exhausted over the medium term, and as most existing zinc mines are underground producers, actual costs will increase as mining depths increase .

6) Unlike the copper industry, the Free World's primary zinc production is largely in private sector hands, eliminating the danger that government operated mines, for the sake of generating foreign exchange, will overproduce and undermine metal prices.

7) It is possible that the socialist countries and China in particular could become significant zinc importers.

8) In addition to increased demand due to an expanding world economy, the potential exists for further increases in zinc consumption as the use of protective zinc coatings becomes more widespread, substitution of zinc for silver or copper in coinage becomes common, and new applications, such as thermoforming zinc alloys, are developed.

A base level zinc price is forecast at 55¢ per pound with probable and high levels forecast at 60¢ and 65¢ respectively.

Lead

Lead is the fifth most widely used industrial metal behind zinc. The two major uses are in automotive batteries and as a gasoline additive.

Consumption as a gasoline additive has declined in North America and Europe due to lead emission restrictions. However demand for lead additives in developing nations has not decreased at present and it is not clear whether or when such restrictions will begin to be imposed.

The trend towards smaller, lighter automobiles, and a concurrent reduction in needed "cranking" power has reduced the amount of lead in the average automobile battery from 30 pounds in the 1970's to about 20 pounds at present. Eighty percent of all automotive batteries sold are for replacement, and therefore lead battery demand is more a function of total number of vehicles in use than annual new car production.

Long term demand for lead, as with zinc, will depend upon the world economy and the economic growth of developing nations. The U.S. Bureau of Mines estimates a probable world growth of 2.8%. However other sources feel it may be as low as 1%.

The present price of 25¢ per pound is unrealistically low, possibly being lower than the cost of even secondary production. This is the result of record inventories of lead stocks. A realistic minimum base level is the price at which secondary production (recycled lead) is viable. That price is felt to be 30¢ per pound. A 35¢ price is felt to be a probable 20 year price average, with a 40¢ per pound high average.

Silver

Silver is an industrial metal used in photographic film and processing and in electronic and electrical components and solders. It is also an investment precious metal and as a "poor man's" gold, its price is influenced by gold prices. As an industrial metal there is little likelihood of significant substitution and with an expanding world economy and rising standard of living, consumption of industrial silver will increase. The U. S. Bureau of Mines estimates an annual growth of 2.5%.

A base price level of $10 is realistic, with a probable average 20 year price of $18, and a high of $25.

Summary

In general these price forecasts are conservative, in that they are predicated on a moderate growth in the world's economy. Stability of world energy prices, resolution of debt crises and general political stability could initiate a period of prosperity for developing nations and create a much higher growth rate for the demand of these metals.

D. Zinc Resources of Alaska and Northwestern Canada

Zinc mineralization is found almost ubiquitously in association with lead and silver. Throughout extensive areas of Alaska and Northwest Canada zinc-lead-silver mineralization occurs in two broad geological associations

i) as disseminated and massive sulfide in shales and other fine grained sediments;
ii) as massive sulfide in volcanic sequences which accumulated in submarine depositional environments.

1. Alaska

Red Dog, though unique in its combined attributes of size and high grade, is but one of a large number of deposits which contain zinc as the main metal or more usually as a significant co-product. Because of the extensive distribution of favorable host rocks, future exploration is certain to discover new major deposits.

Red Dog with its presently defined reserve of 85 million tons grading 22.1% combined zinc-lead and 2.4 oz. silver per ton is the largest and best known deposit of its type in an arcuate trend which could become known as the Noatak Zinc Belt. Within this belt, which extends for several tens of miles, at least 15 significant prospects are known. There is a high probability that this region could become one of the world's major supply sources of zinc, with lead and silver as major co-products.

The Lik and Su prospects appear to be segments of a contiguous deposit located some ten miles from Red Dog. GCO Minerals, owners of Lik, has released a reserve estimate of 25 million tons of 8.8% zinc 3.0% lead and 1.2 oz/ton of silver. This reserve, which is based upon 75 ore sections from 103 diamond drill holes, appears to be well defined.

The orebody itself is open along strike to the north, and southwards it extends into a Cominco owned claim block where it forms the Su deposit for which no tonnage or grade figures have been released. A developed infrastructure for Red Dog should, in time, favorably influence the development schedule for Lik and possibly other reserves in the area. Although GCO Minerals has proposed a northerly access road to the coast as a component of a possible development scenario for Lik, no firm development commitments have been made.

The regional significance of metal associations within a certain rock assemblage is emphasized by the fact that some 90 miles from the heart of the Noatak region, the Drenchwater deposit occurs in similar sedimentary units. This discovery has not been intensively prospected as it was included within the National Petroleum Reserve - Alaska (NPRA) and is off limits for mineral entry. Sampling of surface exposures returned grades of 17.4% zinc 3.0% lead and 3.3 oz/ton silver - very similar tenors to those of Red Dog. However no reserve tonnage has been estimated. Still other impressive surface showings of mineralization have been included within the Noatak National Monument and are off limits to further exploration.

Zinc and lead are significant potential co-products of the Ambler Schist Belt which extends over a trend of more than 100 miles across the south flank of the Brooks Range, north of the broad Kobuk River Valley. Exploration over a period of more than 20 years has identified a large tonnage of polymetallic ore contained in at least four major prospects and the potential for significantly more ore exists in many known but not intensively prospected occurrences. Given the large established reserve base, there is little to encourage further high-cost exploration until some progress is made towards solving access and transportation problems. Although copper appears to be the major metal found in this belt, zinc and lead grades are significant and concentrates containing both metals would be produced from all potential

operations in the area with the possible exception of the Bornite deposit which is geologically different.

Substantial production of zinc and lead concentrates from the Ambler District in the future (beyond 1995) would fall far short of the projected production of concentrates from Red Dog.

Another newly discovered base metal trend in Alaska extends across the north flank of the Alaska Range from the Bonnifield area, south of Fairbanks to Tok-Big Delta region in East Central Alaska. Exploration work has been continuous since 1978 to evaluate the potential of the extensive belt within which dozens of individual massive sulfide occurrences have been located. The company most actively involved in evaluating this potentially important belt is Resource Associates of Alaska (RAA), a company within the NERCO Group. Potential tonnage and grade figures supplied by RAA are cited below.

Name		Reserve*	%Cu	%Zn	%Pb	Oz/Ag	Oz/Au	Remarks
Delta System	1) Valley	1.0	.26	3.45	.46	0.7	0.018	Offset segments of one massive sulfide body with overall potential of +40 MT
	2) DW	3.65	.93	1.74	1.15	0.72	0.012	
	3) Middle	5.2	.46	3.34	1.36	1.49	0.038	
	4) LP	1.2	.40	3.69	1.54	1.80	0.061	
DD South		1.60	1.09	5.66	2.27	2.03	0.061	Expectations are to double the reserve base
Dry Creek		1.2 MT	No specific grade figures released					Tenors believed to be significantly better than Delta

* Reserves in millions of tons

In Southeastern Alaska numerous mineral deposits containing zinc are known. However, with the exception of Greens Creek, no development plans for properties capable of producing zinc concentrates have been announced.

Greens Creek is expected to be the first major new metal mine into production in Alaska for many years, and it will produce silver, gold, zinc, lead and copper from an underground mining operation on Admiralty Island. The deposit has not been fully defined by exploration work to date and substantial additions to the reserve base are assured in the future. The latest published ore reserve cites 4 million tons grading 13 oz/ton silver, 0.1 oz/ton gold, 7.5% zinc, 2.5% lead and 0.4% copper. Once in production at a planned milling rate of +800 tons per day, the mine will ship approximately 30,000 tons of lead concentrate and 48,000 tons of zinc concentrate annually. Though significant, these volumes are small compared with the planned production from Red Dog.

2. Northwestern Canada (Yukon, Northern British Columbia and Western NWT)

Excluded from consideration here are the producing properties such as Pine Point and Sullivan in which Cominco has a major interest.

The Yukon has two mining properties which have produced and shipped zinc and lead concentrates. United Keno Hill, which first and foremost is a silver mine, maintains a relatively small proven reserve base and is unlikely, given the geologic characteristics of the deposit, to greatly expand concentrate production. Cyprus Anvil, with its operations centered near the town of Faro, is a major producer of zinc and lead concentrates from a large open pit operation. Future plans may involve underground mining on at least one of the orebodies in Anvil Range.

The Selwyn Basin is rimmed by zinc-lead prospects which occur in rocks equivalent in age to those which host the mineralization in the Anvil Range. Undeveloped reserves in the Anvil District plus other major known deposits in the Selwyn Basin will likely form the next generation of major zinc-lead base metal properties which may be developed in the Yukon Territory between now and the year 2000. The following table lists the announced reserves and grades of major properties in Northwest Canada.

An eastward extension of the Alaska Railroad into the Yukon Territory could "capture" the large volume of mineral traffic which future mines, especially in the Selwyn Basin, are likely to generate. Concentrates would be transported through Alaska to a major bulk materials handling port situated in Cook Inlet. There would be more than enough feed from Interior Alaska and Canadian mines to justify the development of smelter-refinery facilities at tidewater utilizing clean state-of-the-art technology. Two advantages Alaska has which could make this industrial development possible are 1) the abundance of energy in Southcentral Alaska, available in the form of gas, coal, and if the Susitna Dams are built, hydroelectric power; and 2) tidewater access to major Pacific Rim markets. As the value of refined metal products is much greater than the value of the equivalent metal content of ore concentrates, the economic benefits of in-state processing of Canadian and Alaskan minerals far exceeds the benefits to be derived from exporting these resources in raw form.

E. Potential Alaskan Mineral Projects Requiring Public Sector Infrastructure

Given the extraordinary potential within Alaska for the discovery of major new mineral deposits, additional calls for infrastructure support will be made in the future. However some major discoveries will be made as a consequence of the intensification of exploration efforts along arterial transportation corridors constructed to serve the new generation of mining activity between now and 2000. This is an intangible economic benefit of transportation development. However these benefits are not considered in a financial analysis when the initial end user are required to guarantee total capital debt retirement. Without an appreciation of this factor, development of transportation to serve remote areas, such as the Ambler District, will be nearly impossible and public policy will continue to focus on the ability of the initial end-user to totally repay any public sector financing.

Mining projects in Alaska can be divided into two categories in relation to their transportation infrastructure needs.

1) Stand alone projects - Those projects which involve high value, low bulk commodities such as precious metals and those which are located close to a deep water port site which can be developed for exclusive use of the proposed mining operation as are Quartz Hill and Greens Creek.

2) Contingent projects - These are projects which like Red Dog will require significant transportation development.

The following tabulation lists known projects and estimates transportation infrastructure costs and the possible timing of projects.

Lik, Su and Other Deposits. The Lik deposit is located approximately 10 miles from Red Dog and in the same mineralized terrain. The Lik claims are held by GCO Minerals in association with Tenneco. Lik has been intensively prospected and a diamond drill program has identified a reserve of 25 million tons grading approximately 12% combined lead and zinc with 1.3 oz/ton silver. The ore grade is about half of the Red Dog average and mining conditions are such that a much greater ratio of waste stripping to ore would characterize the operation at Lik. These factors notwithstanding, Lik appears to be a very good deposit when compared, in terms of tonnage and grade, with potential lead-zinc properties in northwestern Canada and elsewhere.

The announced reserve for the Lik deposit does not take into account the open-ended character of the orebody or the unannounced reserves which have been proven by diamond drilling on the extension of the Lik orebody on claims held by Cominco. In the Cominco claim block the deposit is known as the Su and a substantial reserve is known to be present.

A number of other zinc occurrences have been staked in the region and it may be reasonable to refer to this area as the "Noatak Zinc Belt." Major additional discoveries will be made as the geology and the ore controls become better understood.

Greens Creek. The Greens Creek project is a "stand alone" mining development on Admiralty Island. No public sector involvement in transportation infrastructure components is foreseen. Impacts on public sector spending which relate to the workforce and their families being housed in Juneau focus upon community service needs - schooling, police protection, emergency services, etc. A power intertie would be a highly desirable component of the project if this satisfied basic beneficial economic parameters. The anticipated workforce to be directly employed at Green Creek is 315.

Quartz Hill. Similarly this is a "stand alone" project which will proceed largely independent of public sector involvement in infrastructure. The 850 employees and their families will be permanently housed in Ketchikan where community service costs will be incurred in the public sector. A power intertie to Quartz Hill is under consideration as part of a Southern S.E. Alaska integrated electric distribution grid. A formula for capital and operational costs of such a system could provide a total user benefit throughout the region.

Bering River Coal. This is a project aimed at developing a large, high quality coal resource for export to Korea. Three years of exploration work have been completed and the feasibility and cost parameters associated with overland transportation and port site alternatives are currently under examination. The project is a joint venture of the Bering Development Company involving Chugach Natives Incorporated, a Native regional corporation, and KADCO, a consortium of Korean companies including the large Hyundai Corporation.

A possible scenario may involve the of an underground mining operation capable of producing 2 million tons per year; an overland transportation system which would link the mine development by service road to Cordova and also provide for a delivery system, probably an overhead tramway, to the coast near Katalla; and the construction of a port-loading terminal possibly on Kanak Island. Transportation infrastructure costs associated with the development of an access-service road, overhead coal transportation tram, and a port loading facility capable of handling 3 million tons per year could approximate $180 million.

The Bering River Project could create a permanent employment base of more than 500 Cordova based jobs, and annual revenues from coal shipments on a 2 million tons per annum basis may approximate $120 million.

An interesting feature of the project is the captive market represented by the involved Korean business participation at all stages of the project.

Alaska Asbestos Project. This is a joint venture project involving the Doyon Native Corporation and GCO Minerals. Progress to bring the project on line will depend largely upon market interest and the extent to which any mining and milling operation will be able to satisfy stringent regulations.

Transportation infrastructure needs center on the construction of a 40 mile haul road from the mine site to join the Taylor Highway near Chicken, Alaska. From Chicken to its junction with the Alaska Highway some 60 miles of major upgrade of the Taylor Highway would be needed. Total cost is estimated to be $100 million. At a production rate of 150,000 tons per year of processed fiber grades, the mining project will generate approximately 500 permanent year round jobs and revenues of $90 million a year.

An eastwards extension of the Alaska Railroad could favorably influence the economics of this project.

Beluga Coal Terminal. Development of coal resources located on State leases and Cook Inlet Regional Corporation (CIRI) land within the Beluga Coalfield will require the construction of a large coal export loading facility near Granite Point on Cook Inlet. Efforts to develop the leases in the near term hinge upon market interest from the Pacific Rim, especially by Japan and Korea. Recent gluts in international markets of oil, natural gas and coal have detracted from the short term development potential for this enormous resource. Diamond Alaska and Placer Amax could supply major Pacific Rim markets with the cheapest delivered energy source in the future. Advantages this resource has over other coal suppliers are the favorable location of coalfield close to tidewater and shorter ocean freight distance.

The major leaseholders at Beluga have not approached the State for infrastructure assistance and in fact, when Beluga coal development potential was brighter, the major leaseholders expressed a willingness to construct and operate a port facility without any assistance. However, as Granite Point may be the only good port site on the west side of Cook Inlet, any port development should require provision for future expansion to handle bulk resources such as coal from Yentna and Nenana and metal concentrates and industrial minerals from the Interior.

A world scale deep water port facility in Cook Inlet would also act as a catalyst for the location of other facilities which may include in-state metals smelting and refining and agricultural product export handling capability.

A major mineral export facility for Beluga Coal having an initial capacity of 15 million tons per year would cost an estimated $250 million, exclusive of any additional rail spurs which could link to the existing railroad or access the Mobil leases in the Yentna area. Full development of the Beluga coal properties could create as many as 1,000 year round jobs.

Yentna Spur Line A 50 mile long rail spur would be needed to deliver coal from the Yentna leases of Mobil into the feeder system and on to a Beluga coal terminal. The estimated cost of this spur could amount to $75-100 million.

Matanuska Spur Line. Future production of high quality coal from the Matanuska Coalfield would require rehabilitation of the former rail bed extending beyond Palmer to Sutton. The right-of-way is still owned by the Alaska Railroad. Cost of rehabilitation and engineering improvements to the line may total $25 million based upon $750,000 per mile for ballast, ties and track.

Depending upon the scale of operations a coal mine in the Matanuska field could support as many as 250 year round jobs.

Interior Rail Extension to Canadian Border. Serious justification for this long promoted rail extension may hinge upon potential mineral traffic. The line could capture bulk mineral traffic from a variety of potential mine properties, including Alaska Asbestos (150,000 tpy), Tok-Big Delta massive sulfide base metal district (125,000 tpy), Jarvis Creek coal (up to 500,000 tpy) and perhaps most importantly the next generation of major base metal mines to be developed in Yukon's Selwyn Basin which could have a potential for 1 million tpy. This latter opportunity would make good economic sense if a metal smelting and refining complex was built at Cook Inlet, a logical export gateway to expanding Pacific Rim markets. Agricultural resources from Interior Alaska would also be served by such a route.

The total aggregate of possible annual mineral tonnage could exceed 2 million tons well above the threshold required to justify a rail extension. Capital cost of extending the railroad eastward to the Canadian border would be high. The least tangible cost of railroad construction relates to the primary grading (cuttings, embankments, bridges, etc. across difficult terrains). Such costs could lie in the $1 to $2 million per mile range to which the known cost of ballasting, ties and rail amounting to $750,000 per mile needs to be added. A ballpark figure for total rail construction cost would lie somewhere between $1.75 and $2.75 million per mile. The proposed rail extension to the Canadian border, which is approximately 300 miles, could cost anywhere between $600 and $900 million.

Ambler Mining District. For more than two decades the issue of how best to access the mineral wealth of the Kobuk Valley, represented by the Bornite deposit and those of the Ambler Schist Belt characterized by Arctic, Smucker and Sun-Picnic Creek, has challenged the resolve and ingenuity of Alaskans anxious to see the development of

this mineral rich province. The issue was successively examined by the Federal Field Committee in its 1968 report, "Transportation and Economic Development in Alaska," the North Commission in the "Alaska Corridor Study (1970-1972)" and the Corps of Engineers in a study commissioned through the University of Alaska titled, "Northwest Alaska Port Study." More recently the issue has been reexamined by the DOT/PF commissioned "Western Arctic Alaska Transportation Study-1982" (WAATS), and a proprietary 1983 report for Bear Creek Mining Company by Parker Associates, Inc. titled "An Analysis of the Transportation of Ore Concentrates from the Ambler Mining District to Ports in North America and Japan."

The potential aggregate concentrate production from Arctic, Smucker, Sun and Bornite (980,000 tons per year according to an Alaska Miners Association study 1982) exceeds the threshold level of 400,000 tons per year which would favor rail over road haulage. The combined reserve base in known deposits exceeds 100 million tons; a figure which possibly represents a fraction of the gross potential of this mineral province. Future additions to the proven reserve of known deposits and new discoveries will add greatly to the resource value of the District. However until the deadlock over access is resolved and tangible progress made towards opening up the region, there is little or no incentive to add to the proven reserve base.

Besides the question of who would pay for a transportation system serving the Ambler District, there are other concerns which focus on:

1) the most cost effective and long term utilitarian system;
2) the best interests of the regional peoples whose traditions, values and customs differ from those of metropolitan Alaskans.

A recent report prepared by Parker Associates for Bear Creek Mining identifies a railroad from Ambler to a port site near Cape

Krusenstern in Western Alaska as the best choice for a projected 1 million tons per year load. This route seems to satisfy both concerns expressed above. In the WAATS study three transportation modes rail, haulroad and slurry pipeline were compared for four basic routes:

1) Interior Alaska Railbelt link
2) Cape Krusenstern
3) Cape Nome
4) Golovnin Bay

Using cost parameters generated by the WAATS report, a haul road system could cost from a low of $214 million (link to the Dalton Highway at Prospect Creek) to $502 million for a road and related facilities at Golovnin Bay. Projected freight volumes and the preferences of area residents appear to rule out the road in favor of a rail link. Rail costs were estimated by WAATS to be in the range $1037 million for the Krusenstern route up to $1896 million for the Cape Nome scenario; both cases include port construction costs. The Nenana route linking to the existing Railbelt would cost an estimated $1117 million. WAATS revealed that for a traffic volume in excess of 1.5 million tons per year, certainly achievable within a short time of the system going into operation, the Railbelt link through Nenana would have a cost per ton advantage over the other alternatives.

In the Parker Associates 1983 study for Bear Creek, a range of four alternative road and rail routes were. Three western routes for both road and rail provided links to Cape Krusenstern, Cape Darby and Cape Nome. Two other routes were considered; a road to Fairbanks and a railroad to Nenana.

Parker considered two scenarios - one of 400,000 tons per year, the other 1,000,000 tons per year in calculating total delivered costs of concentrates to Vancouver, B.C. Both appear to fall short of the true potential freight tonnage which could move over a regional system.

Major departures between the WAATS and Parker Associates findings focus on capital costs of rail construction. These differences are highlighted in the following tabulation.

		CAPITAL ESTIMATES ($ Millions) WAATS	PARKER
ROAD	Cape Krusenstern	398.7	261.4
	Cape Darby		360.0
	Golovnin Bay	502.3	
	Cape Nome	479.0	365.4
	Interior (Prospect C Fbks)	214.0	227.2
RAIL	Cape Krusenstern	1037.3	368.0
	Cape Darby		518.0
	Golovnin Bay	1589.1	
	Cape Nome	1896.1	653.5
	Interior (Nenana)	1117.0	668.8

Major capital cost disparities are most evident in comparing the capital estimates of rail construction. The lower costs cited by Parker are based on using a single construction heading over a longer time period as opposed to using multiple construction headings of several years (essentially reverting to construction practices used in the heyday of railroad development). Under the Parker approach a rail link to C. Krusenstern or Nenana would take 5 years to complete from mobilization. Other major differences relate to contingency and engineering overheads which total 40% in the WAATS and and 15% in the Parker analysis. On a per mile basis a comparison of the C. Krusenstern and Nenana rail alternatives is as follows:

	WAATS/Mile	Parker/Mile	Parker as a Rate % of WAATS
Ambler-C. Krusenstern	$3,427 M	$1,640 M	48%
Ambler-Nenana	$3,243 M	$1,715 M	53%

Some costs such as major and minor bridging estimates are not significantly different.

Using accelerated construction schedules and considering current cost figures estimated by the ARR, a realistic capital construction cost per mile appears to lie somewhere between the two extremes represented by WAATS and PARKER. The ARR states that once basic grading costs (which are the real intangibles) have been met, the current cost of laying ballast, ties and rail is $750,000 per mile.

The basic findings of the Parker Associates study which focuses specifically on Ambler are as follows:

1) Cape Krusenstern is cheapest route irrespective of mode up to 1 million tons per year.

2) Shipment to Southcentral Alaska through the existing Railbelt is the most expensive irrespective of mode, tonnage or capital amortization schedule (but does not consider a total system volume greater than 1 million tons per year).

3) As tonnages increase so do advantages of a railroad to Cape Nome or Cape Darby.

4) Capital amortization costs for a 1 million tons per year freight volume exceed working costs by more than 100%.

5) Concentrate storage costs, imposed by limited shipping windows for three of the options, do not significantly affect rankings between the four port site alternatives.

Very little consideration is given to the following:

i) the benefits the operation of a year round port site at Cook Inlet or Seward could provide.

ii) the benefits of operating one integrated rail system rather than two unconnected rail lines.

iii) the catalytic effect an integrated transportation system could have in stimulating the creation of a value-added industry along the Railbelt or at Cook Inlet.

The major recommendation contained in the Parker Associates study urges the creation of a Transportation Authority for Northwest Alaska with the prime purposes of:

1) acquiring a right-of-way to the Ambler District and

2) arranging financing for a rail link.

In making this recommendation it is acknowledged that eminent domain has not been tested for public acquisition of reconveyed native lands.

Western NPRA Coal. This is a really long term scenario which if it ever materializes might commence at some time well into the next century. Enormous reserves of good quality coal on the North Slope may eventually be mined on a large scale to help satisfy future domestic and foreign energy needs. Practicalities may require on site processing to liquid phase products which would be moved by pipeline, however bulk transportation of coal by rail may also be viable.

Before development of NPRA coal deposits commences, several major components of a transportation system could already be in place in the form of

1) a western arctic railway to Ambler from C. Krusenstern

or

a completed rail extension from Nenana to the Ambler District;

2) a world scale minerals export facility at Cook Inlet for year round shipments;

3) a seasonal port facility in the Western Arctic for summer shipment.

If these components were already in place, the capital cost of completing an integrated rail system to haul large volumes of coal might not be too intimidating. An estimate in 1983 dollars would be $1.5 billion for completion of the additional 500 to 625 miles of track.

Economic benefits which might flow from a rail link between the existing Railbelt and Northwest Alaska would include:

i) year round servicing of the Ambler Mining District

ii) year round servicing of the Noatak Zinc Belt

iii) year round servicing of coalfields on the NPRA and adjacent lands.

iv) overland servicing for oil and gas related activities

v) intangible benefits stemming from major new mineral discoveries proximal to the arterial transportation route.

Nome Regional Port. Future expansion of the Nome port beyond the planned initial phase may be justified by hardrock mining production from the Seward Peninsula and the servicing needs of offshore oil and gas activity in Norton Sound. Two sites which appear to offer the

best potential for mineral development are the Lost River and Kougarok Mountain tin deposits. At Lost River development plans for a major mining project which received considerable prominence in the early 1970's were shelved and the project status became mired in litigation. A large tonnage of ore containing tin, tungsten, fluorite and beryllium has been outlined by drilling and underground development on the property. The Lost River deposit represents the nation's largest known proven tin reserves and therefore assumes a significant strategic importance. Kougarok Mountain, some 40 miles to the east, is a more recent discovery which reportedly has major potential for tin and related mineralization.

Besides port expansion, an estimated 80 miles of new road construction would be needed to tie these properties into the Nome port through an extension of the existing Nome-Teller Road via Brevig Mission. DOT/PF estimated the cost of constructing a road to Lost River and Tin City at $30.9 million, however this figure would increase substantially in order to access Kougarok.

DOT/PF in an analysis of other projects which may need or request infrastructure assistance from the State drew attention to several potential mine sites in addition to those already described. Brief descriptions of these follow.

Dry Creek. This is a deposit undergoing active exploration of similar type to the Greens Creek orebody in S.E. Alaska. It is a polymetallic deposit containing precious metals and zinc, lead and copper. No tonnage or actual grade estimates have been announced. A possible development scenario would include plans to widen 21 miles of existing road, and build an extension for approximately 15 miles. The current access point of is through Ferry which is on the Alaska Railroad between Nenana and Healy.

Twin Mountain. Houston Oil and Minerals has for several years conducted exploration on a tungsten-rich district northeast of Fairbanks. Access to the area would require construction of a 62 mile extension of the Chena Hot Springs Road. No development schedule has been announced by the company. The proposed road extension would serve a broad spectrum of need including access to a potentially valuable mineral deposit, recreation and tourism as well as improve access for placer mining.

Bonanza Creek. This is another tungsten property on land owned by Doyon Ltd. No details relating to grade or tonnage have been released. Construction of a 24 mile gravel road would provide adequate access to the property.

Lignite Creek-Kantishna. This is another proposed road which would serve multiple user needs while providing access into a known mineral-rich district. Of prime importance is the access that would be provided to antimony deposits in Kantishna District. This district is also important for precious metals. The proposed access is from a point on the Parks Highway at Lignite Creek and would involve the construction of 75 miles of road which would link up with the seasonally congested Wonder Lake Road which serves Denali National Park. Opposition for such a road may be expected from the National Park Service and conservation groups although it would serve a broad public need.

Chandalar Mining District. Increased activity in the Chandalar area in recent years, with focus upon hardrock as well as placer deposits, highlights the excellent potential for expansion of mining activity. Current access during the mining season is by air using a 4500 foot runway. Construction of a 65 mile road from the Dalton Highway would provide access and enhance the prospect for more mining in the district.

Point-Lay Cape Lisbourne Coal Deposits. These coal fields would be included in the discussions of transportation to the North Slope coalfields. Major development is some years away and would be contingent upon an adequate transportation system. The Arctic Slope Regional Corporation has examined the possibility of mining 100,000-200,000 tons of coal from the Cape Beaufort area to serve local needs of communities within range of barge transport. Suggestions that this could also satisfy the energy needs of mining development in the Noatak region have not enjoyed support from Cominco officials who feel the capital costs for coal-fired generating equipment for their power requirements overshadow any savings to be realized by purchasing coal rather than fuel oil.

Another scenario for exploiting coal for local Northwest Alaska needs focuses on the Chicago Creek deposits on the north side of the Seward Peninsula. This development would require a 170 mile road to link the Chicago Creek mine site to Kotzebue, however the route would cross terrain with a high mineral potential for placer gold, uranium and a range of base metals.

There is little merit in further cataloging the hundreds of known mineral occurrences in Alaska and speculating on possible access needs. In remote regions of Alaska it is not the lack of minerals that is inhibiting industry, but the lack of transportation to allow development. Any expansion of Alaska's ground transportation system to serve major, economically viable, mining centers will enhance access to other known deposits as well as stimulate exploration for undiscovered ore deposits.

The development of transportation infrastructure is the key to the creation of an Alaskan mineral industry that will strengthen and diversify Alaska's economic base.

IV. Report of the Division of Finance and Economics: Department of Commerce and Economic Development

Red Dog Economic Analysis

Red Dog Mine Analysis

Division of Finance and Economics
Department of Commerce
and Economic Development

This report will identify the direct benefits to the State of Alaska that result from subsidization of the Red Dog Mine. The report will also identify the maximum level of expenditure the State can make on the project and still retain a positive rate of return.

The following analysis is based on a 60¢ per pound price of zinc, the most important metal produced from the mine in terms of the mine's economic viability. Sixty cents (60¢) per pound, in 1984 dollars, represents the "best estimate" in terms of expected real future zinc prices. This estimate was made by the Office of Mineral Development. A low estimate of 55¢ per pound and a high estimate of 65¢ per pound were also considered.

All quantifiable benefits are given in terms of their present value for purposes of consistency and in order to protect the confidential nature of the data supplied by Cominco Corporation. All present values are based on 30 years of mine operation regardless of when mine development begins. A 15% return on investment (ROI) was assumed to be the threshhold level needed to induce mine development and production. (This implies a capital recovery period of approximately 5 years.)

At a price level of 60¢ per pound for zinc and assuming mine development beginning in 1985, the present value to the State of taxes is $205.69 million. In addition to the tax estimate, "transfer payment" reductions have a present value of $41.61 million, for a total direct benefit of $246.85 million. The corresponding values to the State for zinc prices of 55¢ per pound and 65¢ per pound can be found in Table I.

Table I

Returns* to the State from
Red Dog Mine Development
(Millions of Dollars)

	Price of Zinc		
	55¢	60¢	65¢
Taxes	157.50	205.69	262.52
Transfers	41.16	41.16	41.16
Total	198.66	246.85	303.68

* All returns are given in terms of their present value. Only direct returns to State Government are considered.

In order to get the requisite 15% return on investment with no State involvement the price must reach a real price of 63¢ per pound.

Based on the above assumptions, to obtain a 15% return on investment at a real price of 60¢ per pound for zinc, the State would have to subsidize the capital costs of Cominco by $40.1 million. For this $40.1 million investment the State will directly benefit by $246.85 million which is a positive benefit/cost ratio to the State of 6.2:1. The ratio is high because it appears the project would not be viable without State support. Under the foregoing assumptions, the minimum level of investment the State can make in the project and have any expectation

of immediate development is estimated to be $40.1 million. Higher involvement by the State through larger amounts of subsidy will increase expected rates of return to Cominco, and increase the likelihood of immediate project development. At a price of 60¢ per pound for zinc the State could subsidize the project up to $245.0 million and still have a benefit/cost ratio greater than 1, i.e., the State investment becomes increasingly marginal as it approaches $245 million.

The relationship between the return on investment and State subsidy is show in Chart I and the relationship between State subsidy and benefit/cost is shown in Chart II.

CHART I

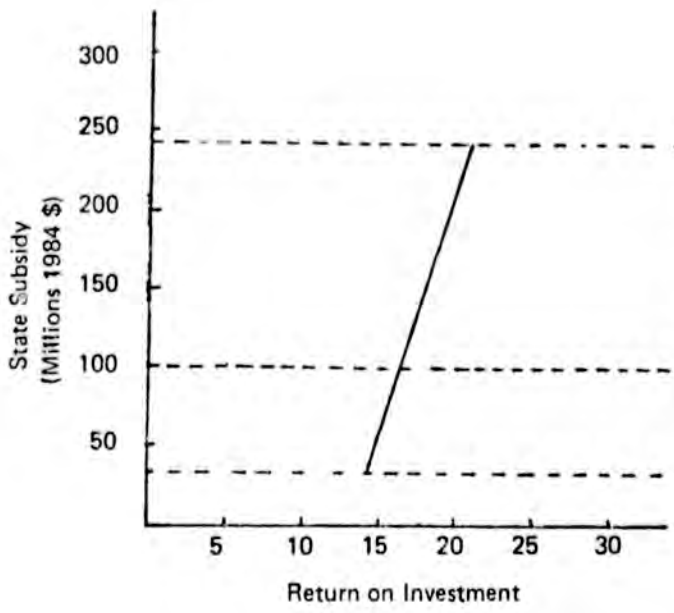
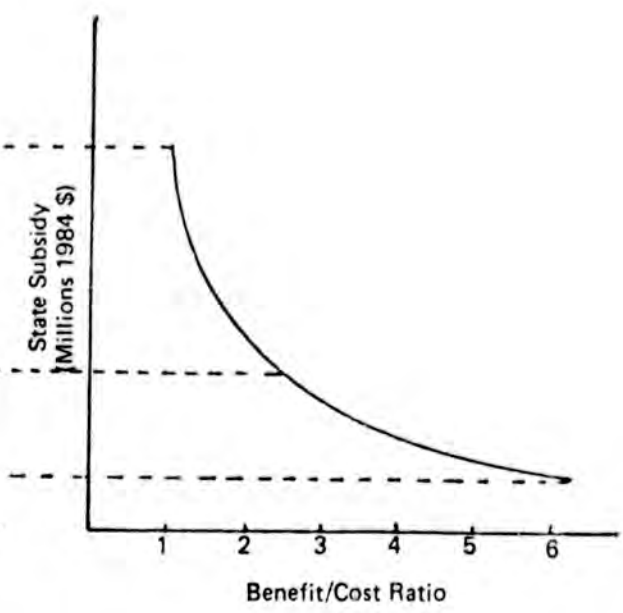


CHART II



[* Assumes a real price of zinc of 60¢ per pound.]

While the above analysis is based on what appear to be reasonable assumptions, changes in these assumptions produce different results. For example, the development of the mine is sensitive to changes in the price of zinc. If the zinc price is lowered from 60¢ to 55¢ per pound (the low side of our estimated future price), the rate of return to Cominco would also fall. At the 55¢ price, to get the return to Cominco up to 15% the State might have to put a subsidy of $158.0 million in the project. Because of the lower price, the taxes are also lower; this, coupled with the higher level of subsidy, reduces the benefit cost ratio to 1.25 in comparison to the 6.2 figure generated by a 60¢ price. On the other side, if the higher price level of 65¢ per pound of zinc is attained, the return is estimated to be in excess of the requisite 15% ROI with no State subsidy and the State benefits directly by $303.48 million even with no contribution.

In addition to direct benefits to the State in the form of tax revenues and reduced transfer payments, there are gains to the public in the form of wages, reduction in freight costs and the implicit benefits of having a road and port where previously there was none. The present value of direct wage gains, freight cost reductions, and royalties to NANA are set forth below. The present value was calculated for a period of 30 years, however, the Red Dog Mine and road is anticipated to be active for at least 50 years. The benefits for the additional years are so far in the future that their present value is not included, but should be considered from a social point of view. Implied infrastructure benefits are not quantified though the existence of a State road and port offers opportunities for future expansion at Red Dog and for other mining opportunities in the region.

Table II

Private Sector Benefits* from
Red Dog Mine Development
(Million $)

Benefit	Amount
Wages	$365.25
Freight Cost Reduction	50.96
Infrastructure Gains	Not Quantified
Royalty payments to NANA**	658.56

* Present value over 30 year period.

** These monies are subject to the revenue sharing provisions of the Alaska Native Claims Settlement Act, 7(i) Clause, and could also be taxed by the State and Federal Governments.

The wages and salaries generated are a result of average annual employment increase of 500.

V. Report of the Office of Management and Budget Office of the Governor

A. Corporate Profile of Cominco Ltd. (Canada)

B. Corporate Profile of NANA Regional Corporation Inc.

C. Direct and Indirect Economic Impacts Within the State of Alaska

D. Fiscal Impacts

E. Cominco / NANA Contractual Agreements

F. Effects on State Bonding Capacity

G. Synopsis

OFFICE OF MANAGEMENT AND BUDGET
OFFICE OF THE GOVERNOR
STATE OF ALASKA

RED DOG PROJECT

Report Prepared for Part IV of the Interagency Task Force on
State Participation in Infrastructure Development
February 21, 1984

INTRODUCTION

The Office of Management and Budget participated in the State's interagency task force on the Red Dog Mine project during the period September-December, 1983. The purpose of the task force was to evaluate whether and how the State of Alaska might participate in the infrastructure development necessary for the Red Dog mine, which is located in the northwest region near Kotzebue. The Office of Management and Budget was responsible for completing the following six tasks:

(A) preparation of a detailed corporate profile of Cominco Ltd., with reference to its financial structure, operational spread and market participation;

(B) preparation of a similar corporate profile of NANA Regional Corporation, Inc.;

(C) evaluation of the direct and indirect economic impacts of the Red Dog Mine project within Alaska;

(D) evaluation of the taxation impacts of the Red Dog Mine project, utilizing Alaska's current taxation framework;

(E) examination of the contractual relationship between Cominco-Alaska, Inc. (the Alaska subsidiary of Cominco Ltd.), and NANA Regional Corporation, Inc.; and,

(F) assessment of the possible effects of various risk-sharing scenarios for total project development on the State of Alaska's bonding capacity.

The sections below present the Office of Management and Budget's findings and conclusions regarding these six tasks.

A. CORPORATE PROFILE OF COMINCO, LTD. (CANADA)

Cominco Ltd. of Canada is the parent company of Cominco-American, Inc., and its branch, Cominco-Alaska Inc., which has joined with NANA Development Corporation, Inc., to develop the Red Dog Mine near Kotzebue. This corporate profile describes the operations and relationships of Cominco Ltd.

1. BACKGROUND

Cominco Ltd. is an integrated natural resources company whose principal activities are in minerals exploration, mining, smelting and refining. Headquartered in Vancouver, British Columbia (Canada), the company with its subsidiaries constitutes one of the world's largest mining and metallurgical concerns. Cominco Ltd. employees numbered approximately 10,500 as of August, 1983, with union representation encompassing some 70% of the total. [1]

The Cominco enterprise was first incorporated in Canada in 1906 as Canadian Consolidated Mines Ltd., as a means of amalgamating the mining interests of the Canadian Pacific Railway. (The name was changed a month later to Consolidated Mining and Smelting Company of Canada Ltd.) The company was acquired and re-chartered in 1962 by Canadian Investments Ltd. (now Canadian Pacific Enterprises Ltd.), which is an investment holding corporation for Canadian Pacific Ltd., a private Canadian company. Under this arrangement, the company's name was changed to Cominco Ltd. in 1966. Finally, in 1970, Cominco Ltd. moved its executive offices from Montreal to Vancouver.

The range of Cominco Ltd. business operations is extensive. Its participation in mining and minerals industries includes exploration and mining operations (chiefly for zinc, lead, silver, copper and gold) in North America, South America, Europe, Asia, Africa and Australia, as well as the operation of major smelting and refining facilities in Canada, Japan and India. Worldwide, Cominco Ltd. and its subsidiaries operate some 14 major mines and 4 major smelting and refining complexes. Cominco Ltd. was the world's largest producer of zinc and lead in 1982, accounting for approximately 10% and 11% of the western world's mine production of those metals, respectively. [2]

Beyond its mining and metals operations, Cominco Ltd. also is one of Canada's largest producers of phosphates and chemical fertilizers, and is a major supplier of these commodities for the upper American Midwest. Additional Cominco Ltd. operations include the production of high purity metals, steel products, fabricated metals products, compound semiconductors and electronic components, and hardware specialties, as well as the distribution of electrical power in western Canada. Its Project Research Center at Sheridan Park, Ontario, is the world's largest research center for new and improved uses of lead and zinc.[3] The company also is a holding and investment concern with a relatively large number of corporate subsidiaries and affiliates.

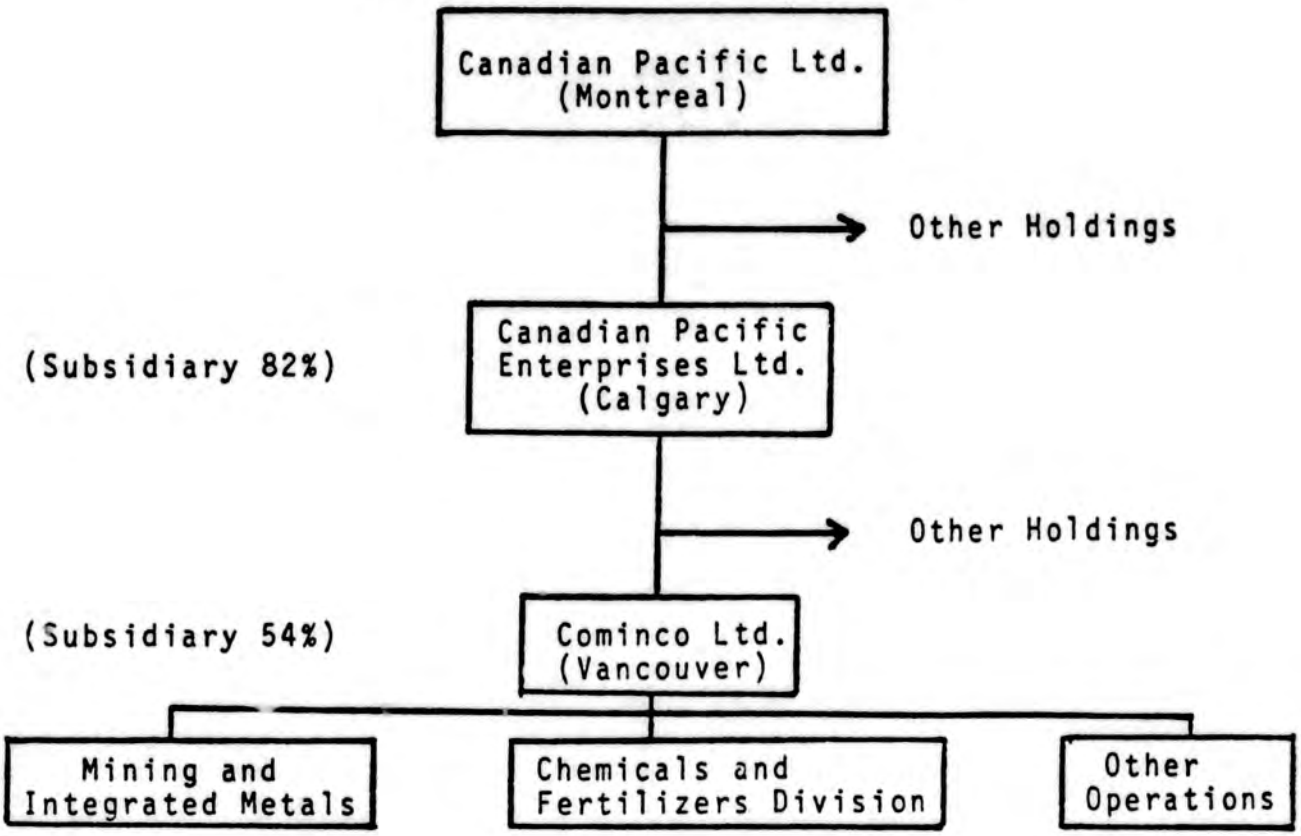
2. CORPORATE STRUCTURE AND MARKET PARTICIPATION

Diverse and large as its holdings are, Cominco Ltd. occupies a position within a yet larger corporate structure. (See Figure A-1.) Principally, it is 54% owned by Canadian Pacific Enterprises Ltd. (Calgary, Alberta), which is a large investment company with interests in oil and gas, mines and minerals, iron and steel, forest products, real estate, hotels and food services. Canadian Pacific Enterprises Ltd. is itself 82% held by Canadian Pacific Ltd. (Montreal, Quebec), a private Canadian company directly involved in various transportation services.

The corporate structure of Cominco Ltd., including its subsidiaries and affiliates, reveals a high degree of both vertical and horizontal

FIGURE A-1

COMINCO LTD. CORPORATE STRUCTURE



integration. It encompasses vertically linked operations that include exploration and reconnaissance, mining, smelting and refining, fabrication, product development and research, direct specialty hardware supply and sales. Its horizontal dimension is revealed by its many associated mining and smelting operations (including, beyond metals, the mining of coal, diamonds, potash, et al.), chemical and fertilizer production facilities, steel plants, electronics plants and network of hydroelectric power plants.

Overall, the associated companies of Cominco Ltd. participate in three broad industry segments or markets. These include mining and integrated metals, chemicals and fertilizers, and a range of "other operations" which includes the previously mentioned steel, electronics and hydroelectric plants, etc. (See Table A-1.) Among these three corporate segments, mining and integrated metals consistently has been the greatest contributor to Cominco Ltd's total revenues. It has consistently also been the greatest contributor to the company's operating profits, except during 1982, when low base metal prices and softening demand produced the company's first overall loss in fifty years. (See Table A-2.) However, it appears that mining and integrated metals operations will once again be the major contributor to its profits in the coming years, due to the potential of the Red Dog Mine, and the expected future improvement in world metal market conditions. (See Table A-3.)

3. MINING HOLDINGS AND OPERATIONS

a. Amalgamated Divisions and Operating Subsidiaries

Cominco Ltd. amalgamated (i.e., merged) in late 1982 with Bethlehem Copper Corporation and Copper Valley Mines Ltd., previously two wholly owned subsidiaries, under the name of Cominco Ltd.[4] The operations of these companies and Green Valley Mines continue as divisions of Cominco Ltd. Figure A-2 depicts the corporate linkage of these divisions and Cominco Ltd.'s operating subsidiaries, in which Cominco Ltd. ownership is greater than 50%. (See Figure A-2.)

TABLE A-1

COMINCO LTD.
SCOPE OF OPERATIONS AND MARKET PARTICIPATION

INDUSTRY SEGMENT	PRINCIPAL INVOLVEMENTS	MAJOR FACILITIES
1. Mining & Integrated Metals	Mining, processing smelting and refining of zinc, lead, copper, silver, gold, tin, et al.	*14 major mines *4 major smelting facilities
2. Chemicals & Fertilizers	Production of sulphuric acid, sulphur dioxide, potash, ammonia, urea, phosphates and nitrates	*3 mines *5 processing plants (all in Canada and USA)
3. Other Operations	Fabrication of metal products, steel, high purity metals, semiconductors and electronic components, electrical power distribution.	*3 steel plants *1 metal fabricating plant *2 electronics plants *4 hydroelectric plants (all in Canada and USA)

Source: Office of Management and Budget, State of Alaska, December, 1983.

TABLE A-2

CONTRIBUTIONS OF COMINCO LTD.
OPERATING SEGMENTS, 1978-1982

	1982 Contributions		5-Year Average Contributions	
	To Total Revenues	To Operating Profits (Losses) *	To Total Revenues	To Operating Profits (Losses)
Mining and Integrated Metals	53%	($31 million)	56%	61%
Chemicals and Fertilizers	33%	$30 million	30%	29%
Other Operations	14%	$17 million	14%	10%

* U.S. Dollars

Source: Based on data from Cominco Ltd. 1982 Annual Report and report by the Canadian investment firm Levesque, Beaubien, Inc. (July, 1983).

TABLE A-3

FORECASTED CONTRIBUTIONS OF COMINCO LTD.
OPERATING SEGMENTS, 1983-1985

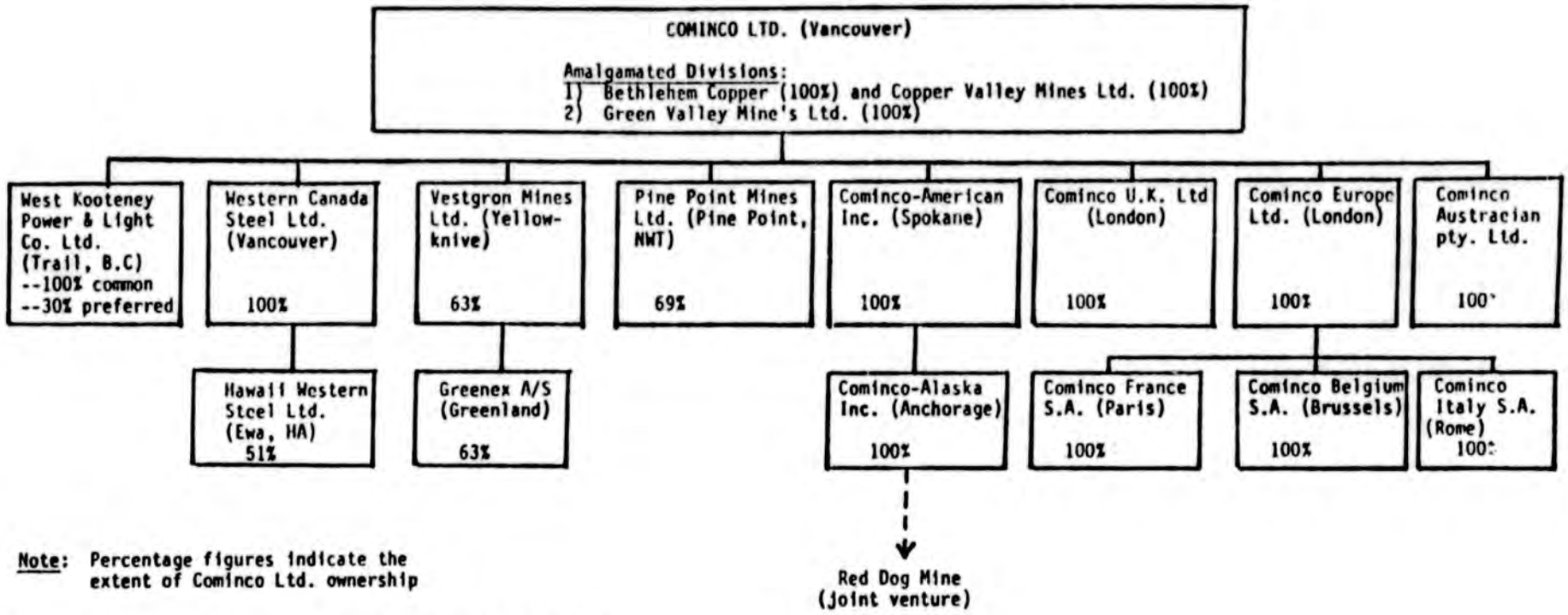
	Contributions To Total Revenues				Contributions To Operating Profits			
	1984E	1984E	1985E	(Avg.$_5$)*	(Avg.$_5$)*	1983E	1984E	1985E
Mining and Integrated Metals	57%	61%	62%	(56%)	(61%)	56%	76%	79%
Chemicals and Fertilizers	30%	27%	27%	(30%)	(29%)	19%	17%	15%
Other Operations	13%	12%	11%	(14%)	(10%)	25%	7%	6%

*Avg.$_5$= 5-year average contribution, 1978-82.

NB: Forecast assumes inclusion of Red Dog Mine costs.

Source: Based on report by Canadian investment firm Levesque, Beaubien, Inc. (July, 1983)

COMINCO LTD.
OPERATING SUBSIDIARIES AND AMALGAMATED DIVISIONS
(MINING AND INTEGRATED METALS SEGMENT)



Note: Percentage figures indicate the extent of Cominco Ltd. ownership

Source: Office of Management and Budget, State of Alaska, December, 1983

b. Affiliates

The corporate affiliates of Cominco Ltd., in which a 50% or less ownership interest is held, include the following: (percentages indicate the extent of Cominco Ltd. ownership)

* Canada Metals Co. Ltd. (50%)
  Toronto: lead refining and metals products

* Mitsubishi Cominco Smelting Co. Ltd. (45%)
  Tokyo: smelter products, refined lead, concentrates from Pine Point Mines Ltd.

* Cominco Binani Zinc Ltd. (40%)
  Calcutta: electrolytic zinc smelting and refining

* Fording Coal Ltd. (40%)
  Calgary: coal mine

* Aberfoyle Ltd. (47%)
  Melbourne: minerals exploration in Australia and Tasmania, 6 tin and lead/zinc mines, metals production

* EXMINESA S/A (48%)
  Madrid: minerals exploration, zinc/lead mine

*Panarctic Oils Ltd. (7.4%)
  Undetermined: oil and gas exploration

c. Other Holdings (Unidentified)

References to a number of additional Cominco Ltd. holdings in the mining and integrated metals area have been located, but could not be

investigated due to time constraints. These include the following: (percentage figures indicate the extent of Cominco Ltd. ownership)

* Vol Mines Ltd (66.7%)
* Baffinland Iron Mines Ltd. (4.5%)
* Stikine Copper Ltd. (5%)
* Sunloch Mines Ltd. (84%)
* Sunro Mines (77%)
* Cominco Holdings, N.V. (-?-)
* Cominco GmbH, Germany (100%)
* Mayak Ltd., U.K. (50%)
* Arvik Mines Ltd., Canada (100%)
* Abminco NL (38%)

d. Principal Mining Facilities

The principal mining facilities of Cominco Ltd. include 9 major mines in North America and Greenland, and the giant integrated smelting and refining complex at Trail, British Columbia, which also includes part of Cominco Ltd.'s fertilizer and chemical processing operations. These facilities, along with their approximate levels of employment as of December 31, 1982, are described below: (percentage figures indicate the extent of Cominco Ltd. ownership)

* Trail Complex (100%)
  Trail, B.C.: integrated smelting and refining complex for lead, zinc, silver, et al.; chemical and fertilizer plant; 4,036 employees

* Sullivan Mine (100%)
  Kimberly, B.C.: lead/zinc/silver mine; pig iron plant; chemical and fertilizer plant; 959 employees

* Valley Mine and Jersey Mine (100%)

Logan Lake, B.C.: Copper mines; 360 employees

* Polaris Mine (100%)
  Little Cornwallis Island NWT: Zinc/lead mine; 244 employees

* Con Mine (100%) and Rycon Mine (76%)
  Yellowknife, NWT: gold mines; arsenic recovery plant; 309 employees

* Pine Point Mine (69%)
  Great Slave Lake, NWT: Lead/zinc mine; 583 employees

* Black Angel Mine (63%)
  Maarmorilik, Greenland: Lead/zinc/silver mine; 324 employees

* Magmont Mine (50%)
  Bixby, Missouri: Lead/zinc mine and concentrator; 186 employees

4. FINANCIAL STRUCTURE

Unless otherwise specified, all figures presented below are based on the 1980-1983 annual reports of Cominco Ltd. All dollar amounts shown are in Canadian dollars for 1982. (For purposes of conversion or comparison, the average conversion rate during 1982 was: $1.234 CAN=$1.00 USA.)

a. Assets and Net Worth

As of year end 1982, the consolidated assets of Cominco Ltd. totalled approximately $2.1 billion. The larger portion (65%) was in fixed assets such as land, buildings, equipment and developed mineral properties, with

a total book value of some $1.36 billion. Investments in affiliated and unaffiliated companies totalled nearly $128 million, while current assets stood at more than $575 million (over 27% of total assets). Net worth for the company as of December 31, 1982, was approximately $834.9 million. This comprise some $145 million in preferred shares, $136 million in common shares and approximately $554 million in earnings reinvested in the company. (See Table A-4.)

b. Capitalization

Capitalization for Cominco Ltd. as of the end of 1982 was approximately $1.52 billion. This comprised long-term debt of some $688 million, reinvested earnings of approximately $554 million, $145 million in preferred stock, and $136 million in common stock. (Some 5.8 million shares of preferred stock and 18.8 million shares of common stock were outstanding at the end of 1982, approximately 54% of the total value of which was held by Canadian Pacific Enterprises Ltd.) If $38 million in minority interests and $175 million in deferred income taxes are included as representing long-term debt, total capitalization for the company was actually approximately $1.74 billion.

The company's financial leverage ratio (long-term debt to total long-term capital), was 0.52 at the end of 1982, and its debt-equity ratio was 1.08, down from 1.44 earlier in the year.

The capital structure underlying Cominco's $688 million in long-term debt for 1982 included $46.8 million in notes, $101 million in debentures, $533.4 million in bank loans (approximately three-quarters of which are at variable rates, with the remainder at fixed rates of 5-3/4% to 10-3/8%), $5.4 million in bonds, and $1.4 million in other debt. The company has moved recently to reduce its reliance on bank debt through the application of some $100 million raised from a 2.2 million common share offering in April of 1983. (Canadian Pacific Enterprises Ltd. purchased 1.2 million shares of this offering, to preserve its 54% interest in the company). This was in addition to an earlier issue of 2 million preferred redeemable shares, which brought proceeds of approximately $50 million in 1982. A

TABLE A-4

COMINCO LTD.
CONSOLIDATED BALANCE SHEET
1981 - 1982

	1982	1981
	(thousands)	
Current Assets		
Cash and short-term investments	$ 31,279	$ 48,887
Accounts receivable	182,573	243,624
Inventories	352,156	334,181
Prepaid expenses	9,732	7,317
	575,740	634,009
Investments		
Associated companies	95,929	95,458
Other companies	31,941	34,614
	127,870	130,072
Fixed Assets		
Land, buildings and equipment	1,562,144	1,396,081
Less accumulated depreciation	518,682	463,791
	1,043,462	932,290
Mineral properties and development	417,975	402,365
Less accumulated depreciation	101,645	92,291
	316,330	310,074
	1,359,792	1,242,364
Other Assets	28,142	21,379
TOTAL ASSETS:	$ 2,091,544	$ 2,027,824
Current Liabilities		
Bank loans and notes payable	$161,633	$ 140,007
Accounts payable and accrued liabilities	141,411	171,220
Income and resource taxes	16,206	19,268
Long-term debt due within one year	30,457	11,509
	354,707	342,004
Long-Term Debt	687,975	566,677
Income Taxes Provided, Not Current Payable	175,520	219,155
Minority Interests	38,397	45,449
Shareholder's Equity		
Capital	280,531	232,229
Earnings Reinvested in the business	554,414	622,310
	834,945	854,539
TOTAL COMMITMENTS AND LIABILITIES	$ 2,091,544	$ 2,027,824

Source: Cominco Ltd., 1982 Annual Report

TABLE A-5

COMINCO LTD. FINANCIAL POSITION
MARCH 31, 1983

	$ million	$/Share*	%
Assets:			
Working Capital (a)	161.6	8.60	
Net Fixed Assets	1,357.7	72.22	
Investments & Others	158.2	8.41	
	1,677.5	89.23	
Financed By:			
Long-term Debt (b)	667.1	35.48	39.8
Deferred Taxes	163.7	8.71	9.8
Minority Interests	36.9	1.96	2.2
Preferred Shares	144.7	7.70	8.6
Common Equity (a)	665.1	35.36	39.6
	1,677.5	89.23	100.0

* 18.8 million shares, raised to 21.0 million shares in April, 1983

(a) Increased by $100 million in April, 1983

(b) Of the $667 million in long-term debt, approximately $157 million is at fixed rates varying between 5 3/4% and 10 3/8% and the balance is at variable rates

Source: Levesque, Beaubian, Inc., Investment Research Report, July, 1983

major factor in Cominco Ltd.'s decision to issue more stock, presumably, was the 44% rise in the company's overall interest expense during 1982 to $90.4 million, up from $62.6 million at the end of 1981. (A more recent snapshot of Cominco Ltd.'s capitalization, as of March, 1983, is shown in Table A-5.)

c. Liquidity and Credit Rating

The company's current ratio (current assets to current liabilities) was 1.62 at the end of 1982. Its acid-test ratio (current assets less inventory to current liabilities) was 0.63. However, its cash ratio (cash plus short-term investments to current liabilities) was 0.09. The company had to sell off over 27,000 tons of its lead and zinc concentrate inventories in 1982 due to cash flow problems.[5]

During the first half of 1983, however, the company appears to have improved its liquidity position. Independent assessment of the company's operations in May of 1983 showed net working capital (current assets minus current liabilities) centered in accounts receivable and inventory, with satisfactory inventory turn-over, and adequate cash deposits and short-term investments for financing operations.[6] Analysis of the sources and uses of Cominco Ltd.'s funds during 1981 and 1982 also indicates that the company instituted an aggressive collections policy regarding receivables during 1982 (see subsection 5, below, "Sources and Uses of Funds"), helping to improve cash flow and liquidity.

Cominco Ltd.'s overall credit rating was very good as of mid-1983. Independent credit assessment of the company showed a high composite credit appraisal, a consolidated line of credit available without security to the high eight-figure range, excellent relations, and good conditions.[7] The same sources and uses analysis referred to above also shows that Cominco Ltd. started paying its own bills more promptly in 1982, which is undoubtedly responsible in part for the company's current good credit rating.

TABLE A-6

COMINCO LTD.
EARNINGS SUMMARY
1978-1982

	1978	1979	1980	1981	1982
				- - ($ millions)- -	
Mining & Integrated Metals					
Sales	515	789	850	732	641
Operating Costs	371	430	589	601	622
Depreciation & Amortization	34	40	44	52	57
Operating Profit	110	319	217	79	(38)
Fertilizers & Chemicals					
Sales	271	317	390	462	421
Operating Costs	213	239	273	342	362
Depreciation & Amortization	23	24	20	22	22
Operating Profit	35	54	97	98	37
Other Operations					
Sales	115	168	203	223	173
Operating Costs	100	138	163	181	145
Depreciation & Amortization	8	9	10	10	7
Operating Profit	7	21	30	32	21
Consolidated					
Sales	901	1274	1443	1417	1235
Operating Costs	684	807	1025	1124	1129
Depreciation & Amortization	65	73	74	84	86
Operating Profit	152	394	344	209	20
Exploration Expense	(7)	(10)	(13)	(20)	(15)
Interest Expense	(28)	(28)	(33)	(63)	(90)
Corporate Charges	(13)	(4)	(6)	(1)	(13)
Earnings Before Taxes	104	352	292	125	(98)
Income & Resource Taxes					
Current	(36)	(104)	(69)	(12)	(7)
Deferred	(9)	(30)	(50)	(39)	50
Total Taxes	(45)	(134)	(119)	(51)	43
Minority Interests	(6)	(23)	(14)	(10)	1
Equity Income	9	11	14	4	5
Currency Translation	8	(1)	(2)	(5)	(1)
Earnings Before Extras	66	205	171	65	(49)
Extraordinary Item	2	-	-	5	18
Earnings	68	205	171	70	(31)
Preferred Dividends	(6)	(7)	(8)	(8)	(10)
Net Income	62	198	163	62	(41)
EPS Before Extraordinary Item	3.51	11.57	9.54	3.04	(3.16)
EPS After Extraordinary Item	3.61	11.57	9.54	3.35	(2.20)
Cash Flow Per Share (a)	8.12	18.65	17.54	10.49	(0.96)
Average Shares Outstanding	17.0	17.1	17.1	18.4	18.8

(a) After preferred dividends

Source: Levesque, Beaubien, Inc., Investment Research Report, July 1983

d. Earnings

Cominco Ltd. president W.G. Wilson told stockholders in April of 1983 that 1982 was "one of the worst years in the company's history." [8] 1982 was indeed not a good year for Cominco Ltd., as the company suffered an overall net loss of approximately $31.2 million (a loss of $2.20 per share). This was a dramatic slump from net earnings of $70.3 million (a gain of $3.35 per share) in 1981, and is attributed to sagging metal markets and softening world demand over the past two years, resulting in falling metal prices. The loss of $31.2 million was on sales of products and services totalling approximately $1.24 billion, down almost 14% from 1981 sales. Earnings before interest and taxes for the company reflect the same decline, dropping to a loss of approximately $7.2 million in 1982 from earnings of over $189 million in 1981. (Actually, Cominco Ltd.'s net loss in 1982 would have been much larger than $32.1 million, but the company took some $49.9 million tax in credits during the year and its Cominco-American, Inc., subsidiary sold off its oil and gas properties for an after-tax gain of approximately $18.1 million).

The 1982 net loss was something of an exception for Cominco Ltd., however, representing the company's first overall loss in the past fifty years. It should not be taken as indicative of the company's solidity or prospects. Cominco Ltd. has extensive ore reserves, is already in 1983 nearly breaking even on its mining and integrated metals operations (with an operating loss of only $800,000 in the second quarter of 1983, down from $7.5 million in 1982), [9] and is in a position to improve its earnings performance in view of forecasts of an economic upturn. (For a summary of recent years' earnings, though with a slightly different data base than that used here, see Table A-6.)

e. Sources and Uses of Funds

A funds flow analysis was conducted for this report by examining the company's annual balance sheets. The major findings of this analysis include the following: (as of year-end 1982)

(1) the company was still relying on long-term debt, but was cutting that reliance back (i.e., increases in annual long-term debt outstanding slowed from 1980 to 1982);

(2) the company was still raising new capital through share issues, but at a slower rate than in the past (e.g., the share issues totaling $48.3 million in 1982 were only half of 1981's issues of $97.5 million);

(3) the company was still acquiring new land, buildings and equipment ($166 million in 1982), but less than in 1981 ($225 million);

(4) acquisition of mineral properties dropped dramatically during 1982 ($15.6 million) compared to the year before ($166 million);

(5) the company introduced a strong collections policy during 1982, cutting accounts receivable by $61 million as opposed to a $1 million increase during 1981 (this has been offset somewhat, however, by another new policy introduced during 1982 of paying off the company's own debts more quickly); and,

(6) the company has sharply cut back its payment of dividends to shareholders (e.g., from $83 million during both 1980 and 1981 to less than $35 million during 1982).

This pattern of retrenchment also is reflected in recent announcements by the company that : (1) capital investment spending was reduced by $710 million during 1981-82, after the company spent more than $1 billion on new projects over the preceding five years; (2) modernization of the Trail, B.C., smelting complex was being delayed; (3) completion of mechanization for the complex at Kimberly, B.C., was being delayed; (4) sustaining capital was being reduced throughout the company to low but acceptable levels; (5) exploration expenditures were being reduced; and, (6) some 2,200 company employees had been laid off during the 15 months prior to June, 1983.[10]

5. CONCLUSION

Its 1982 set-back notwithstanding, Cominco Ltd. appears to be a sound company with a firm economic footing and good overall prospects. The company is backed by a large reputable parent (Canadian Pacific Ltd.), has a strong mining and metals position worldwide, and is well diversified across several broad markets. It also reportedly has excellent managers who evidently are orienting the company towards more conservative spending policies and stronger earnings performance. In these respects, Cominco Ltd. appears able to provide a solid corporate base for development and support of the Red Dog Mine project.

FOOTNOTES

1 Standard & Poor's Corporation, Standard ASE Stock Reports, Vol. 18, No. 66, Sec. 11, August 18, 1983; p. 7541.

2 Ibid.

3 Canadian Mines Handbook, 1982-83; p. 88.

4 Dun & Bradstreet Canada Ltd., Business Information Report, May 2, 1983; p.2.

5 Cominco Ltd., ORBIT: The Cominco Quarterly, June, 1983; p.18.

6 Dun & Bradstreet, op. cit.; p. 3.

7 Ibid.; pp. 1-3.

8 Cominco Ltd., op. cit.; p. 17.

9 Dun & Bradstreet Canada Ltd., Business Information Report, August 18, 1983; p. 1.

10 Cominco Ltd., op. cit. p. 2.

B. CORPORATE PROFILE OF NANA REGIONAL CORPORATION, INC.

This corporate profile describes the operations and relationships of NANA Regional Corporation, Inc., which has joined with Cominco-American, Inc., to develop the Red Dog Mine near Kotzebue.

1. BACKGROUND

NANA Regional Corporation, Inc. (NANA), is one of twelve Alaska Native regional corporations which were formed under the Alaska Native Claims Settlement Act of 1971. (A thirteenth corporation was also formed for Alaska Natives no longer residing in the State.) Company records indicate that NANA represents some 4,800 Inupiaq shareholders, [1] of whom some 4,000 or more reside in the NANA Region.[2]

The Alaska Native Claims Settlement Act of 1971 (ANCSA) provides that the regional corporations formed under it are to share jointly a settlement comprising $962.5 million in cash and 40 million acres of land; the former is distributed through the Alaska Native Fund, and the latter through federal government land conveyances. As of June of 1983, NANA had received approximately $46.3 million as its cash settlement, and interim conveyance of 945,469 acres of surface estate and 766,816 acres of subsurface estate. NANA's total land entitlement under the terms of ANCSA is approximately 1.9 million acres of land including both surface and subsurface estates, and title to subsurface estate rights only on approximately 365,000 additional acres. [3]

ANCSA provisions also govern the division of NANA's stockholders into two groups, based on village or regional affiliation. The corporation's stockholders accordingly are divided into those enrolled as residents of one of the eleven NANA Region villages (Class A common stockholders), and those enrolled as NANA Region residents but not as residents of any particular village (Class B common stockholders). Under the Act's terms, NANA is required to issue 100 shares of the appropriate class of stock to

each Native enrolled in the Region.[4] The Corporation's stock generally cannot be sold or otherwise transferred except by death beneficiary until 1991, also under ANCSA provisions.

A final major ANCSA requirement[5] is that a part of NANA's resource earnings must be pooled with those of the other regional corporations similarly created and then redistributed among all twelve corporations serving resident shareholders. Under this requirement, 70% of the net revenues received by NANA from development of its timber resources and subsurface estate (notably, mineral resources) enter the pool. These are then distributed proportionally to the twelve corporations, including NANA, based on the number of shareholders enrolled in each corporation. Of the amount that NANA receives from this distribution, 50% is required under ANCSA to be distributed proportionally to nonvillage stockholders and the village corporations within NANA's designated boundaries.[6]

2. CORPORATE STRUCTURE AND BUSINESS OPERATIONS

The corporate activities of NANA comprise both non-profit and profit-oriented operations. Non-profit activities include a variety of Native culture, education, and vocational development programs. The profit-oriented side of NANA is centered in the company's single, wholly owned operating subsidiary, NANA Development Corporation, Inc.

NANA Development Corporation, Inc., is the focus for NANA's several joint venture projects and has six separately incorporated subsidiaries. These include NANA Oil Field Services (provides housing for oil field personnel at Prudhoe Bay), Arctic Utilities (supplies electrical power generation for Prudhoe Bay operations and camps), and Purcell Services (provides industrial security systems for Sohio at Prudhoe Bay). A fourth division, NANA Construction Company, Inc., was discontinued during 1982 due to losses.

NANA's operating divisions and joint ventures, as described in the company's financial report for the year ending June 30, 1983 (YE1983),

included the following: (percentage figures indicate extent of NANA ownership, where given)

* 2 Reindeer Breeding Companies (100%, 20%)

* Bank Holding Company (11% in YE1983, 17% in YE 1982)

* Oil drilling and lease partnership with Sohio and four other Native regional corporations, Beaufort Sea

* Jade Mining and Exploration

* Surveying and Engineering Services, with Bell Herring Associates of Anchorage

* NANA Mannings (food service and camp operations)

* NANA Coates (minerals exploration and drilling)

* Lease for oil exploration on NANA lands

* Vehicle maintenance venture

* Nul-Luk-Vik Hotel (Kotzebue)

* Construction joint venture at Prudhoe Bay, with Morrison-Knudsen, Inc. (on a job-by-job basis)

* Red Dog Mine development project

NANA's published annual reports for prior years (i.e., the years ending at June 30 for 1980-1982) provide little additional information regarding the company's holdings, investments and joint ventures. The only reasonable conclusions which can be formed on the basis of these documents are: (a) many different ventures have been undertaken in the past four years, most of which were generally similar in nature to those

listed above; and, (b) most of the ventures suggest a placement of company resources intended to achieve long-term employment benefits to NANA shareholders and other regional residents.

It is not possible to provide an accurate summary of the performance or contributions of NANA's business operations (or joint ventures) over the past few years, as the amounts shown in the company's financial statements have been reclassified in each of the two most recent years (YE1983 and YE1982). NANA's financial report for YE1983, however, does allow comparison by broad line of business for the past two corporate fiscal years. This comparison indicates that NANA's oil field and support services have by far contributed most to NANA's earnings from joint ventures (99% of all joint venture earnings in YE1983, and 73% of all joint venture earnings over the past two fiscal years). (See Table B-1) Among NANA's continuing operations, the greatest contributors to overall operating revenues both in YE1983 and over the past two fiscal years have been NANA's camp and hotels (23.7% in YE1983 and 23.3% over the past two years) and the company's contracted services operations (23.6% in YE1983 and 21.0% over the past two years).

TABLE B-1

NANA JOINT VENTURES
EARNINGS (LOSS) SUMMARY BY LINE OF BUSINESS
YEARS ENDING JUNE 30, 1983 and 1982

	YE 1983		YE 1982		
	Earnings (Loss)	%	Earnings (Loss)	%	Two-Year Contribution (%)
Oilfield & Support Services	$1,788,373	99.7%	$975,883	49.2%	73.2%
Construction	212,779	11.9	952,767	48.1	30.9
Surveying	62,126	3.5	9,183	0.5	1.9
Sales	(402,378)	(22.4)	(144,808)	(7.3)	(14.5)
Catering	133,916	7.5	189,421	9.6	8.6
Total Earnings (Loss):	$1,794,816	100.2%*	$1,982,446	100.1%*	100.1%*

*Does not total due to rounding

Source: Based on data from NANA Regional Corporation, Consolidated Financial Statements: June 30, 1983 and 1982, September 30, 1983.

3 FINANCIAL STRUCTURE

a. Assets and Net Worth

As of June 30, 1983, the consolidated assets of NANA totaled approximately $68.7 million. The greatest portion (36.9%) of these assets were investments and marketable securities, with more than two-thirds of the latter (approximately$8.0 million of a total $11.7 million) representing the purchase costs of common and preferred stocks. NANA's combined property and equipment holdings represented another 24.1% of total assets, while its current assets stood at approximately $17.4 million, or 25.2% of total assets. NANA's joint ventures had a combined asset value to the company of some $9.06 million (13.2% of total assets), representing the combined equity allocable to NANA from those ventures. (See Table B-2)

TABLE B-2

NANA REGIONAL CORPORATION, INC.
AND SUBSIDIARY

Consolidated Balance Sheets

June 30, 1983 and 1982

Assets	1983	1982
Current assets:		
Cash and temporary investments	$ 2,388,705	$ 2,748,878
Current portion of notes receivable	7,753,487	8,149,697
Receivables	5,114,907	7,106,099
Inventories	1,843,702	2,218,290
Other current assets	328,366	370,682
Total current assets	17,429,167	20,593,646
Note receivable	7,258,430	7,679,029
Investment in Beaufort Sea lease partnership	2,467,542	2,237,225
Marketable securities	11,715,201	9,359,468
Investment in bank holding company	2,103,614	2,103,614
Investment in joint ventures	9,058,137	5,947,541
Raw jade at processing plant	657,470	597,488
Property and equipment, at cost	25,808,506	25,200,941
Less accumulated depreciation	9,223,976	8,000,842
Net property and equipment	16,584,530	17,200,099
Other assets, less amortization of $110,695 in 1983 and $63,821 in 1982	1,446,972	1,886,023
	$68,721,023	$67,604,133

TABLE B-2
(Continued)

Liabilities and Stockholders' Equity	1983	1982
Current liabilities:		
Note payable	$ 11,578,000	$ 12,933,881
Current installments of long-term debt	858,263	846,314
Trade payables	2,097,748	4,270,441
Accrued payroll and other liabilities	2,032,119	2,048,068
Due to village corporation and at large stockholders	78,868	84,956
Resource revenues distributable to others	732,868	--
Total current liabilities	17,377,866	20,183,660
Long-term debt, excluding current installments	2,412,208	2,751,262
Deferred income taxes	60,000	--
Stockholders' equity: Class A common stock of $.01 par value. Authorized 2,000,000 shares; issued and outstanding 704,700 shares	7,047	7,047
Class B common stock of $.01 par value. Authorized 500,000 shares; issued and outstanding 29,400 shares	294	294
Additional paid-in capital - Alaska Native Fund distributions	43,582,871	43,582,871
Retained earnings	5,280,777	2,248,735
Unrealized loss on marketable equity securities	--	(1,169,736)
Total stockholders' equity	48,870,989	44,669,211
Commitments and contingencies		
	$68,721,063	$67,604,133

Source : NANA Regional Corporation, Inc. Consolidated Financial Statements: June 30, 1983 and 1982.

It is not currently possible to estimate NANA's actual net worth, because the company has not ascribed a value to its land rights (surface and subsurface). Also, neither its Class A common stock nor its Class B common stock can be assigned market value until at least 1991 (the earliest time when NANA's shares can be generally sold or transferred, under the terms of ANCSA). NANA's common stock is currently assigned a par value of $0.01 per share, with a total of 734,100 shares outstanding from a total of 2.5 million shares authorized. The company did report some $5.3 million in retained earnings during YE1983 (up 135% from the previous year), however, and showed a total of approximately $43.6 million in paid-in capital from Alaska Native Fund distributions.

b. Capitalization

A true statement of value of NANA's overall capitalization cannot be made, again due the fact that the company's outstanding common stock will not have a meaningful market value until at least 1991. Excluding NANA's shareholder equity and the value of NANA's overall minerals holdings, however, it can be said that NANA's reported capitalization as of YE1983 totaled approximately $7.8 million. This total comprised approximately $2.4 million in long-term debt outstanding (current portion excluded), retained earnings of approximately $5.3 million, and some $60,000 in deferred income taxes.

It would be difficult at best to say whether NANA's YE1983 debt level represents a large or small amount of debt for the company to be carrying. The current artificial value of NANA's shares, and the absence of a meaningful basis for comparing NANA with other corporate entities, combine to make any such assessment necessarily speculative at the present time.

Given NANA's current inability to raise additional share capital before 1991, it is to be expected that the company's capital structure should consist primarily of long-term notes payable. NANA's non-current long-term debt outstanding of approximately $2.4 million at YE1983, in fact, consisted entirely of such notes, carrying interest rates ranging

from 7-1/2% to 18% and payable primarily to financial institutions. Approximately 77% of NANA's total long-term debt (including the current portion) was secured by property and equipment holdings with a combined depreciated cost (sic) of approximately $6.3 million.

c. Liquidity

The company's current ratio (current assets to current liabilities) at YE1983 was 1.003, while its quick ratio (current assets less inventory to current liabilities) was 0.897. The company's YE1983 statements also show a cash ratio (cash plus short-term investments to current liabilities) of 0.137. NANA did, however, have an unused line of credit at YE1983 for approximately $4.9 million.

The financial ratios for NANA indicated above are correct as taken from NANA's financial statements. It should be noted, however, that the company is currently in the process of converting some of its short-term debt (notes payable) into longterm debt. This should improve the company's liquidity in the future, particularly over the short run.

d. Earnings

Two conclusions regarding earnings are immediately clear from NANA's consolidated earning statements. One is that the company's overall net income and earnings per share have risen steadily over the last eight corporate years (and ahead of overall revenue increases), particularly since YE1981. The second is that the most recent year, YE1983, was NANA's most profitable year ever, showing corporate net income up by 147% over the company's previous best year in YE1981. (See Table B-3.)

TABLE B-3

NANA REGIONAL CORPORATION, INC.
EARNINGS SUMMARY
YEAR ENDING AT JUNE 30, 1976-1983

	1983	1982	1981	1980	1979	1978	1977	1976
Revenues [1]	30.69 [2]	54.38	43.47	19.72	31.44	27.69	30.34	26.77
Net Income [1]	3.95	1.32	1.60	0.21	0.64	0.48	0.38	0.16
Assets [1]	68.72	67.60	64.94	66.77	59.14	61.84	58.31	26.94
Stockholders' Equity	48.87	44.67	44.75	43.97	45.20	44.93	44.57	12.08
Earnings per share	$5.38	$1.80	$2.18	$0.28	$0.87	$0.67	$0.53	$0.21
Dividends paid per share	$1.50	$1.25	$0.75	$0.75	$0.50	-	-	-

[1] Figures shown are in $ millions.

[2] Revenues from continuing operations only.

Source: Compiled from NANA Regional Corporation, Inc. published Annual Reports.

Overall net earnings for NANA during YE1983 were approximately $3.95 million, based on operating revenues totaling some $30.68 million. The company's major sources of income beyond operating revenues included approximately $2.25 million in interest income, $988 thousand in resource revenues received from other regions under ANCSA, and a $380 thousand tax benefit representing a net operating loss carry forward from the year before.

Regarding NANA's joint venture operations, the company earned a total of $1.79 million on revenues of $117 million in YE 1983. This represents NANA's total allocable share of earnings across all of its joint ventures, based on the company's combined equity investments of approximately $9.06 million.

e. Sources and Uses of Funds

Analysis of the sources and uses of NANA corporate funds over the past four years, based on the company's balance sheets for the period YE1980-YE1983, primarily shows two general trends. One, already described, is the steady expansion of NANA's overall base of operations (including assets, revenues and profits) as company activities increased. The second, which appears to indicate an emerging priority of the corporation, is the increasing proportion of corporate resources devoted to the sponsorship of joint ventures. Specifically, from YE1979 through YE1983, NANA increased its commitment to joint ventures from approximately $2.6 million to $9.06 million, representing an increase in the proportion of total corporate assets pledged to such ventures from some 4.4% in YE1979 to over 13% during YE1983. (See Table B-4)

TABLE B-4

NANA REGIONAL CORPORATION, INC.
JOINT VENTURE INVESTMENTS, 1979-1983

Year Ending June 30:	Joint Venture Investments	Total Assets	Per cent of Total Assets
1979	$2,[illegible]24,354	$59,139,664	4.4%
1980	3,653,895	66,768,938	5.5
1981	4,311,939	64,939,741	6.6
1982	5,947,541	67,604,133	8.8
1983	9,058,137	68,721,063	13.2

Source: Office of Management and Budget, State of Alaska
(based on NANA Regional Corporation, Inc.,
Annual Reports, 1980-1983.)

CONCLUSION

Overall, NANA appears to be a solvent and increasingly profitable corporation. Its growing involvement in joint business ventures within the northwest Alaska area indicates a marked attempt to provide both general economic and long-term employment benefits to residents of the region. NANA's participation with Cominco-American, Inc., to develop the Red Dog Mine appears in these respects consistent with the purposes and past activities of the corporation.

FOOTNOTES

1 NANA Regional Corporation, Inc., NANA Regional Corporation Inc., and Subsidiary Consolidated Financial Statements: June 30, 1983 and 1982: September 30, 1983. (Hereafter cited as NANA Financial Statements.) Estimate of shareholders based on comparison of stockholders equity data shown in consolidated balance sheets with information given in Note (1) of consolidated statements.

2 Based on 1980 U.S. Census data and Alaska Department of Community and Regional Affairs 1983 population estimates for the NANA Region.

3 Figures for cash and land distribution and entitlements are from NANA Financial Statements, Note (1).

4 NANA Financial Statements, Note (1).

5 Public Law 92-203, Alaska Native Claims Settlement Act of 1971, Sections No. 7(i), (j).

6 NANA Financial Statements, Note (1).

7 Consolidated Statement of Earnings, NANA Financial Statements.

C. DIRECT AND INDIRECT ECONOMIC IMPACTS WITHIN THE STATE OF ALASKA

INTRODUCTION

This analysis estimates the direct and indirect economic impacts which are likely to occur within Alaska due to the development of the Red Dog Mine, located in northwest Alaska near Kotzebue.

1. PRINCIPAL ASSUMPTIONS

The principal characteristic of the Red Dog Mine project is that its scope and scale, as a whole, depend on the successful merging of the joint goals of Cominco-American, Inc. (Cominco), and the NANA Regional Corporation, Inc. (NANA). It is important to note in this regard that these parameters, the project's ultimate scope and scale, are not fixed at the present time. According to the project sponsors, these items will be fixed only after a joint agreement is reached between Cominco and NANA regarding the project's feasibility. The sponsors expect this agreement to be reached within the next several months.

Until agreement is reached, it appears that NANA will have a greater influence than Cominco in determining the ultimate size of the mining operation and its attendant work force.[1] NANA specifically sought this provision in its contractual agreement with Cominco, for two reasons.[2] One was to guarantee that the project could not become so large that its work force requirements might result in the employment of an excessive number of people from outside of the NANA region. The other reason was to allow NANA to attain its primary goal in supporting the project, which is to extend the project's employment benefits over the longest time possible by avoiding rapid depletion of the Red Dog Mine resources.[3]

In view of this arrangement, it seems reasonable to assume that the pace and scale at which Red Dog Mine development is set (in the future feasibility agreement) will be highly subject to NANA's perceptions

between now and then as to how well the project appears to be meeting NANA's expectations and long-term objectives. It is worth noting that this is quite different from a conventional business arrangement, where market and profit considerations normally are paramount. In the present case, however, the determining factors for NANA would appear to be considerations such as: (a) the extent to which vocational training efforts are likely to be successful in increasing regional residents' participation in the mine work force, both in terms of the number of NANA-region residents employed at the mine, as well as in terms of the number and type of higher-paying positions obtained; (b) the extent to which regional residents' employment at the mine appears likely to mesh acceptably with established regional subsistence patterns and lifestyles; (c) the extent to which adverse social and economic impacts deriving from the project are likely to be mitigated or avoided within the region; and, (d) the extent to which NANA's general long-term goals are likely to be accommodated by an agreement on project scope and scale which, once set, will become binding.

If NANA perceives that these concerns are likely to be met, it would seem reasonable to assume that the feasibility agreement between NANA and Cominco will set Red Dog Mine operations generally at the scale and along the timeframes projected currently by Cominco. Should there be any perception, however, that these concerns may be addressed in anything but the most successful fashion, it would seem equally reasonable to assume that development of the project may entail both a smaller scale and a more elongated timeframe than is currently projected. It is thus worth emphasizing that, at the present time, there is no firm basis for assuming that everything will go exactly as planned or hoped by NANA and Cominco--i.e., that the <u>most</u> successful scenario should be assumed.

In view of this, prudence would seem to require taking a somewhat conservative view of the project's scale over the long term. This analysis, consequently, assumes that Cominco's projection of total mine employment at 420 full-time equivalent (FTE) jobs is optimistic, and that a

range of 350-400 FTE jobs over the life of the mine incorporates more reasonably the uncertainties described above.

A similar prudence would also seem to require acknowledging that, because there are no employment guarantees in the sponsors' contractual agreement, no adequate basis is available at present for assuming a maximum participation rate for NANA regional residents in the project's long-term work force. On this basis, therefore, the analysis assumes that regional residents are unlikely to obtain less than 50% of the total FTE mine jobs available over the life of the mine, and are likely to obtain a reasonable maximum of approximately 75% (with an indeterminate but limited probability that their participation rate might become higher over the years.

2. EMPLOYMENT

Direct employment associated with the Red Dog project will comprise the total number of jobs at the mine site, as well as eight company jobs available at the project's accounting and data processing office in Anchorage. Additional jobs will be created through the indirect employment effects of company expenditures for services and supplies, and of mine employees' spending when off site. Secondary employment, in turn, will be created through the expenditures of the employees (and their families) who take these indirectly created new jobs, the mine jobs, and the mine office jobs in Anchorage.

a. Direct Employment (Annual)

Employment at the Red Dog Mine site is planned to occur in three phases. The construction phase (including related pre-construction activities) is scheduled for the period July 1, 1985, to December 31, 1987. The initial production phase begins at start-up of the mine's operations on or about January 1, 1988, and is planned to continue through December 31, 1992. A full production phase starting on or about January 1, 1993,

is thereafter planned as a steady-state operation continuing throughout the mine's estimated life of forty years.

In view of the preponderance of the full production phase (35 of the 40 years) in determining the economic benefits of the mine, this analysis focuses only on the Construction Phase (CP) and the Full Production Phase (FPP). (The fact that the weighted average for total employment over the forty years is within five jobs of Cominco's estimate of the full production phase total employment level confirms that this approach is reasonable.)

Cominco estimates that construction of the mine will provide 10-250 jobs at varying points within the Construction Phase. Inspection of Cominco's project charts shows that the manpower projections and timeframes underlying this range represent 143 full time equivalent (FTE) jobs for the period. Since this appears reasonable, and as no other estimates have been made, 143 jobs has been accepted as the total employment during this phase.

Three estimates have been used for the likely NANA-region resident participation rate in the Construction Phase work force: 33%, 43% and 45%.[4] Since two of them appear to be Cominco estimates, and the third an extrapolation therefrom, none is viewed as superior. Consequently, this analysis assumes that the average of the three estimates, or approximately 40%, represents the proportion of the Construction Phase jobs that will be obtained by NANA-region residents.

Cominco estimates that the mine's accounting and data processing office in Anchorage will employ eight people during the Full Production Phase of the mine's life. These include a controller, paymaster-senior accounting clerk, accountant, purchasing agent, buyer-expediter, data processing supervisor, data entry clerk, and clerk typist. This estimate of eight employees has been accepted in the analysis.

The following assumptions govern the annual direct employment estimates made in this report:

(1) total mine employment during the Construction Phase (CP) of the project will be 143 jobs (FTE);

(2) approximately 40% of those jobs will go to NANA-region residents;

(3) total mine employment during the Full Production Phase (FPP) of the project will be between 350 and 400 jobs (FTE);

(4) approximately 50% to 75% of these jobs will go to NANA-region residents;

(5) NANA-region residents will receive mine jobs in direct proportion to their populational distribution within the region; i.e., 46% will be residents of Kotzebue and 54% will be residents of the other ten communities within the region, distributed on a pro rata basis;[5] and,

(6) during both phases of the mine operation, mine employees who are not NANA-region residents will comprise the following: 40% of them will be from the Anchorage area, 40% of them will be from other parts of Alaska, and 20% of them will be from outside Alaska. (Thus, during both phases, 10%-20% of the total mine work force will be from the Anchorage area, another 10%-20% of the total mine work force will be from other parts of Alaska, and 5%-10% of the total mine work force will be from outside of Alaska.) It is assumed that all of these out-of-state mine employees will move to the Anchorage area.

Based on these assumptions, the estimated direct annual employment from the Red Dog Mine project is shown in Table C-1, below. (See Table C-1.)

TABLE C-1
RED DOG MINE
ESTIMATED DIRECT ANNUAL EMPLOYMENT

	Participation Rate		Number of Jobs Per Phase (FTE)			
	CP%	FPP%	CP	FPP@350	FPP@400	Average of FPP Range Mid-Points
NANA Region	40%	50-75%	57	175-263	200-300	235
Anchorage**	24	10-20	35	35-70	40-80	56
Other Alaska	24	10-20	34	35-70	40-80	56
Out of State	12	5-10	17	17-35	20-40	28
TOTALS:	100%	100%	143	350	400	375

CP = Construction Phase
FPP = Full Production Phase (@ total work force level indicated)

* Kotzebue proportion of totals shown = 46%.
** Does not include personnel at financial office in Anchorage.

Source: Office of Management and Budget, State of Alaska

11/1368

Direct annual employment estimates for the Red Dog project during the Construction Phase (CP) can therefore be summarized as follows:

- total mine employment will be approximately 143 employees;
- approximately 57 NANA-region residents will be employed, 26 (46%) of whom probably will be from Kotzebue and 31 (54%) of whom probably will be village residents;
- approximately 69 residents of other locations in Alaska will be employed, 35 of whom probably will be from the Anchorage area; and,
- approximately 17 mine employees will be hired from outside of Alaska.

Direct annual employment estimates for the Red Dog project during the Full Production Phase (FPP) can therefore similarly be summarized as follows:

- total mine employment probably will range between 350-400 employees;
- approximately 235 NANA-region residents will be employed, 108 (46%) of whom probably will be from Kotzebue and 127 (54%) of whom probably will be village residents;
- approximately 112 residents of other locations in Alaska will be employed, 56 of whom probably will be from the Anchorage area;
- additionally, 8 employees will be hired at the project's financial office in Anchorage; and,
- approximately 28 mine employees will be hired from outside of Alaska.

b. Indirect and Secondary Employment (Annual)

Indirect and secondary employment will be generated in several different locations by the direct employment at the Red Dog Mine. The locations and causes of these additional jobs are summarized in Figure C-1 below. (See Figure C-1.)

Certain assumptions were used to estimate the magnitude and distribution of indirect and secondary employment from the mine. These assumptions include the following:

(1) mine employees who are not residents of the NANA Region will commute directly between the mine and Anchorage (as stipulated in the Cominco/NANA agreement), and therefore will not impact Kotzebue or the regional villages;

(2) regional-resident mine employees will be hired proportionately from locations within the NANA Region; i.e., 46% from Kotzebue, and 54% from the region's villages;

(3) 50% of the village-resident mine employees will each spend an average of $500 per month in Kotzebue for purchases and recreation;

(4) local residents will take 50% of all new jobs created locally by the mine's effects, except in NANA-Region villages where the percentage will be 75%;

(5) 50% of local residents hired for newly created local jobs will have been unemployed prior to hiring;

(6) within the NANA Region, residents hired for local jobs who were previously unemployed probably will not be replaced by unemployed in-migrants (i.e., there will be a tangible effect on local unemployment rates in the region);

FIGURE C-1

RED DOG MINE
INDIRECT AND SECONDARY EMPLOYMENT
SOURCES AND DISTRIBUTION

	Jobs		
Location	Indirect	Secondary	Cause of Jobs
Kotzebue	X		spending of village-resident mine employees in Kotzebue during two weeks off from mine
		X	spending of employees (and their families) who take new indirect jobs, above
		X	spending of Kotzebue-resident mine employees (and their families)
Villages		X	spending of village-resident mine employees and their families), adjusted for Kotzebue spending
Anchorage	X		Cominco expenditures for mine resupply
		X	spending of employees (and their families) who take new indirect jobs, above
		X	spending of 8 Cominco-office employees (and their families)
		X	spending of Anchorage-resident mine employees (and their families) including those hired from outside of Alaska who relocate to the Anchorage area
Other Alaska		X	spending of other Alaska mine employees (and their families) across the State
Out of State		X	spending of out of State employees (and their families) outside of Alaska

(7) outside the NANA Region, residents hired for local jobs who were previously unemployed probably will be replaced by unemployed in-migrants (i.e., there will be little or no effect on local unemployment rates);

(8) during both phases of the project, mine employees hired from outside of Alaska will move to the Anchorage area; only during the Full Production Phase, however, will their families accompany them.

(9) 25% of local residents' spending will go toward wages and salaries in generating new indirect jobs; for Cominco expenditures the percentage will be 50%; every $25,000 so generated will create one additional indirect job.

(10) job multipliers for the Construction Phase (CP) and the Full Production Phase (FPP) are assumed as follows:[6]

	CP	FPP
NANA Region	0.4	0.45
Anchorage	1.0	1.0
Other Alaska	0.5	0.5

(11) the statewide population multiplier is assumed to be 2.1 new residents per new employee hired.

On the basis of these assumptions, the number and distribution of jobs likely to be created by the project through indirect and secondary employment effects is estimated as shown in Table C-2, below. (See Table C-2.)

It should be noted that Table C-2 does not include any indirect or secondary employment effects resulting from Cominco annual supply

(7) outside the NANA Region, residents hired for local jobs who were previously unemployed probably will be replaced by unemployed in-migrants (i.e., there will be little or no effect on local unemployment rates);

(8) during both phases of the project, mine employees hired from outside of Alaska will move to the Anchorage area; only during the Full Production Phase, however, will their families accompany them.

(9) 25% of local residents' spending will go toward wages and salaries in generating new indirect jobs; for Cominco expenditures the percentage will be 50%; every $25,000 so generated will create one additional indirect job.

(10) job multipliers for the Construction Phase (CP) and the Full Production Phase (FPP) are assumed as follows:[6]

	CP	FPP
NANA Region	0.4	0.45
Anchorage	1.0	1.0
Other Alaska	0.5	0.5

(11) the statewide population multiplier is assumed to be 2.1 new residents per new employee hired.

On the basis of these assumptions, the number and distribution of jobs likely to be created by the project through indirect and secondary employment effects is estimated as shown in Table C-2, below. (See Table C-2.)

It should be noted that Table C-2 does not include any indirect or secondary employment effects resulting from Cominco annual supply

TABLE C-2

RED DOG MINE
ESTIMATED INDIRECT AND SECONDARY ANNUAL EMPLOYMENT
TOTAL NUMBER OF JOBS

	CP	FPP@350*	FPP@400*	Average of FPP Range Mid-Points
Kotzebue	12	40-60	46-69	54
Villages**	11	38-58	44-66	52
Anchorage***	52	60-113	68-128	92
Other AK.****	17	18-35	20-40	28
TOTALS:	92	156-266	178-303	226

CP = Construction Phase
FPP= Full Production Phase (@ total work force level indicated)

* Ranges shown indicate number of jobs if NANA proportion of total work force = 50% - 75%.

** Indirect and secondary job totals shown during FPP reflect a 9.4% reduction to offset spending in Kotzebue by 50% of village residents ($500 per month X 12 months X 0.5/$32,000 = 9.4%).

*** Includes 8 personnel at Cominco office in Anchorage during FPP.

**** Distributed across the State.

Source: Office of Management and Budget, State of Alaska

expenditures, as those expenditures have not been estimated by the company. (Under the NANA/Cominco agreement, long-term resupply for the mine will occur via the proposed port facility and short-term supplies will be purchased in Anchorage.) Under the assumptions made here, however, it can be estimated that every $1 million (1983 dollars) of annual Cominco expenditures made in Anchorage will create 20 indirect jobs and 20 secondary jobs, or a total of 40 new jobs in the Anchorage area.

Indirect and secondary employment effects within Alaska of the Red Dog Mine operation during the Construction Phase (CP) of the project can therefore be summarized as follows:

- total indirect and secondary employment generated in Alaska by the project will be approximately 92 jobs;
- approximately 23 (25%) of those jobs will be in the NANA Region, divided almost equally between Kotzebue and the other regional communities; and,
- approximately 69 (75%) of those jobs will be in other communities in Alaska, including 52 (57%) in the Anchorage area and 17 (18%) distributed among other Alaskan communities.

The indirect and secondary employment effects of the mine during the Full Production Phase (FPP) can therefore similarly be summarized as follows:

- total indirect and secondary employment generated in Alaska by the project will be approximately 226 jobs;
- approximately 106 (47%) of those jobs will be in the NANA Region, divided almost equally between Kotzebue and other regional communities;

- approximately 120 (53%) of those jobs will be in other communities in Alaska, including 92 (41%) in the Anchorage area and 28 (12%) distributed among other Alaskan communities; and,
- for every $1 million (in 1983 dollars) that Cominco spends in Anchorage to resupply the mine, approximately 40 additional indirect and secondary jobs will be created in the Anchorage area.

3. INCOME

Direct income will be generated by the Red Dog Mine in the form of wages and salaries paid by Cominco to the mine employees. The indirect and secondary jobs created by the project also will generate new income, in the form of wages and salaries received by the employees who take those new jobs. This section of the report estimates the magnitude and distribution of these new income gains within the State of Alaska.

a. Direct Income (Annual)

Cominco originally estimated that it would pay mine employees through annual gross payrolls of approximately $23 million in 1983 dollars during the mine's Construction Phase (CP) and $13.5 million in 1983 dollars during the Full Production Phase (FPP). Later, Cominco apparently revised its total work force estimate for the project; no revision was available, however, for the company's annual gross payroll estimate.

This analysis, consequently, estimates annual direct income on the basis of pro rata adjustments to Cominco's earlier payroll estimates, using the following assumptions:

(1) the average annual gross payroll for mine employees during the Construction Phase (CP) will be less than $23 million by an amount proportional to Cominco's revised (FTE) estimate of total

work force employment for this phase; therefore, average annual gross payroll for the phase will be approximately (143/372 X $23 million =) $8.84 million; and,

(2) the average annual gross payroll for mine employees during the Full Production Phase (FPP) will similarly be less than $13.5 million by an amount proportional to this analysis' estimate of total work force employment for this phase; therefore, average annual gross payroll for the phase will be approximately (350/420 X $13.5 million =) $11.25 million if the total work force is 350 employees, or approximately (400/420 X $13.5 million =) $12.86 million if the total work force is 400 employees.

Based on these assumptions, the direct annual income from the Red Dog Mine project (excluding the eight employees at the Company's financial office in Anchorage) is estimated as shown in Table C-3. (See Table C-3.)

Direct annual income estimates for the Red Dog project during the Construction Phase (CP) can therefore be summarized as follows:

- total annual direct income will be approximately $8.84 million in 1983 dollars;

- NANA-Region residents will receive approximately $3.54 million (40%) of this total, with approximately 46% ($1.63 million) of that going to Kotzebue residents and 54% ($1.91 million) to residents of other NANA Region communities;

- residents of other Alaskan communities will receive approximately $4.24 million (48%) of the $8.84 million, divided nearly equally between residents of the Anchorage area and residents of other communities in the State; and,

- mine employees hired from outside of Alaska will receive approximately $1.06 million (12%) of the total $8.84 million.

Direct annual income estimates for the mine's Full Production Phase (FPP) can therefore be similarly summarized as follows:

- total annual direct income will range between $11.25 million and $12.86 million in 1983 dollars (with a mid-point of $12.06 million);

  NANA-region residents will receive approximately $7.54 million (62.5%) of this total, with approximately 46% ($3.47 million) of that going to Kotzebue residents and 54% ($4.07 million) to residents of other NANA-Region communities;

- residents of other Alaskan communities will receive approximately $3.62 million (30%) of this total, divided nearly equally between residents of the Anchorage area and residents of other communities in the State;

- if the 8 employees at the mine's Anchorage office receive $35,000 per year, this would represent an additional $280,000 in direct annual income for residents of the Anchorage area; and,

- mine employees hired from outside of Alaska will receive approximately $900,000 (7.5%) of the total annual direct income generated by the mine.

TABLE C-3

RED DOG MINE
ESTIMATED DIRECT ANNUAL INCOME
(Millions--1983 Dollars)

	Participation Rate					
	CP%	FPP%	CP	FPP@350	FPP@ 400	Average of FPP Range Mid-Points
NANA Region*	40%	50-75%	$3.54	$5.63-8.44	$6.43-9.65	$ 7.54
Anchorage**	24	10-20	2.12	1.13-2.25	1.29-2.57	1.81
Other Alaska	24	10-20	2.12	1.12-2.25	1.29-2.57	1.81
Out of State***	12	5-10	1.06	0.56-1.12	0.64-1.29	0.90
TOTALS:	100%	100%	$8.84	$ 11.25	$ 12.86	$12.06
Average Annual Earnings Per Job:			$62,000	$32,000	$32,000	$32,000

CP = Construction Phase
FFP = Full Production Phase (@ total work force level indicated)

* Kotzebue Proportion of total shown = 46%.
** Does not include personnel at financial office in Anchorage.

*** Out of state employees who relocate to the Anchorage area.

Source: Office of Management and Budget, State of Alaska

11/1368

b. Indirect and Secondary Employment Income (Annual)

There is no convenient way to estimate the different wage levels and salaries received by Alaska employees in the various service and support industries. The annual income from the indirect and secondary jobs created in Alaska by the Red Dog Project has therefore been estimated on the basis of a fixed $25,000 per year for each such job created. The magnitude and distribution of these estimated income gains is shown in Table C-4. (See table C-4.)

TABLE C-4

RED DOG MINE
ESTIMATED ANNUAL INCOME
FROM INDIRECT AND SECONDARY EMPLOYMENT
(Millions--1983 Dollars)

	Jobs* During CP	Annual Income @$25K/Job	Jobs* During FPP (Avg.)	Annual Income @$25K/Job
Kotzebue	12	$ 0.3	54	$ 1.35
Villages	11	0.275	52	1.30
Anchorage**	52	1.30	92	2.30
Other AK***	17	0.425	28	0.70
TOTALS:	92	$ 2.30	226	$5.65

CP = Construction Phase
FPP = Full Production Phase (@ total work force of 350-400 employees)

* From Table C-2.
** Includes 8 personnel at Anchorage financial office.
*** Distributed across the State.

Source: Office of Management and Budget, State of Alaska

4. UNEMPLOYMENT IMPACTS

The Red Dog Mine project is expected to have a substantial effect on unemployment within the NANA region, due to the jobs made available through employment at the mine site. While the number of jobs likely to be obtained by regional residents can be estimated, however,it is not so clear what the effects of those jobs may mean in terms of regional unemployment levels. Many unemployed regional residents may be available for work, for example, but do not appear on the State's unemployment rolls. Also, some unemployed regional residents simply do not seek conventional forms of employment, preferring instead a traditional subsistence lifestyle. Identifying an overall regional "unemployment level" which would be "reduced" by the direct employment at the mine site, consequently, is complicated by the existence of these two groups of people. For this reason, and because of the time constraints surrounding preparation of this report, no estimate has been made of the unemployment impacts likely to be caused by the project's direct employment effects, other than to acknowledge that those impacts will likely be important. Given the assumptions made earlier, however, it is possible to estimate the unemployment impacts likely to occur because of the project's indirect and secondary employment effects.

Based on the assumptions made in Section "b." of this part of the report ("Indirect and Secondary Employment"), estimates have been made of the number and distribution of net unemployment reductions caused within Alaska by the indirect and secondary employment effects of Red Dog Project hiring. These estimates, representing numbers of local residents hired who previously were unemployed, are shown in Table C-5. (See Table C-5.)

TABLE C-5

RED DOG MINE
NET UNEMPLOYMENT REDUCTIONS
THROUGH INDIRECT AND SECONDARY EMPLOYMENT

Number of Previously Unemployed Residents Hired During:

	CP	FPP@350	FPP@400	Average FPP Range Mid-Points
Kotzebue	5	14-21	17-25	19
Villages	7	24-35	28-41	32
Anchorage*	19	21-39	24-43	32
Other AK	7	7-13	8-14	10
TOTALS:	38	66-108	77-123	93

CP = Construction Phase
FPP = Full Production Phase (@ total work force level indicated)

* Includes 8 personnel at Anchorage Office.

Source: Office of Management and Budget, State of Alaska

11/1368

It should be noted that every $1 million spent by Cominco in Anchorage for short-term resupply of the mine is estimated to result in the hiring of an additional 14 Anchorage area residents (net) who previously were unemployed.

5. POPULATION IMPACTS

Because of the "enclave" nature of the Red Dog Mine project, population increases within the NANA region currently are expected to be limited to approximately 5%. The project sponsors also intend to emphasize the project's local hire aspect in their recruiting advertisements, which should further help to contain regional population growth. If regional population gains due to the project's direct employment effects were only 5%, however, this still would represent approximately 275 new residents in the region (5,500 population x .05), with roughly half of that growth likely to occur in Kotzebue and half in the region's other community.

Based on the assumptions made in Section "b." of this part of the report ("Indirect and Secondary Employment"), estimates have been made of the net increases in local populations caused within Alaska by the indirect and secondary employment effects of the Red Dog project. These estimates, which include net population increases due to new employees and their families, are shown in Table C-6. (See Table C-6.)

It should be noted that every $1 million spent by Cominco in Anchorage for short-term resupply of the mine is estimated to increase the Anchorage area population by an additional 55 people (net).

TABLE C-6

RED DOG MINE
NET LOCAL POPULATION INCREASES
DUE TO INDIRECT AND SECONDARY EMPLOYMENT

Net Population Gains During:

	CP	FPP@350	FPP@400	Average FPP Range Mid-Points
Kotzebue	15	55-82	61-92	72
Villages	8	29-48	38-52	42
Anchorage*	70	82-156	93-179	128
Other AK	21	23-46	25-55	36
TOTALS:	114	189-332	217-378	278

CP = Construction Phase
FPP = Full Production Phase (@ total work force level indicated)

* Includes 8 personnel at Anchorage Office.

Source: Office of Management and Budget, State of Alaska

6. REGIONAL SAVINGS IN SHIPPING COSTS

The sponsors of the Red Dog Mine project propose to use their ore-concentrate vessels to back-haul supplies of fuel and cargo to the NANA Region. These supplies would be lightered from the proposed port facility West of Noatak to Kotzebue, and then distributed to Kotzebue residents and to residents of other communities in the region. Execution of this operation would entail supplanting the shipping operation which currently provides this service to Kotzebue and regional residents, according to the project sponsors.

Cominco has estimated that this use of the port facility will save regional residents approximately $2.6 - $3.5 million a year in shipping costs, compared with the current method of shipping bulk cargo and fuel into the region. Such a level of savings would represent an annual savings of approximately $630 per regional resident, according to the estimate, or about 9% of the average regional resident's annual income.

Analysis shows this estimate to be reasonably made, although it does rest on several assumptions which are subject to change. One is that tax-exempt financing for the port facility can be obtained at 8% annual interest. A second is that no overtime expenses are incurred regarding labor costs. A third is that land for the port facility can be leased or purchased for no cost, other than an estimated $7,000 per year for land disturbance expenses. A fourth is that cycle times for the port's operations will be maximally efficient and thus minimally expensive. A fifth is that shipping costs for bulk cargo and fuel will remain constant at present levels. A sixth is that the capital costs of the port facility itself will turn out to be as currently estimated.

Of these assumptions, only two could be assessed within the report's timeframe. These were the cost of tax-exempt financing, and the overtime cost for labor. After adjusting for these factors, however, and after correcting calculation errors in the estimate, only a slight difference from

the original estimate was found. As an "outside" case, for example, the estimate was tested using the following assumptions: a 12% annual interest rate for financing, an overtime labor expense equalling 30% of payroll (for those labor categories likely to be affected), and imposition of a 5% import duty on bulk fuel delivered from Canada. Under these assumptions, the total annual savings in regional shipping costs would be approximately $2.3 million per year. This would represent an annual savings of approximately $418 per resident, or roughly 6% of the average regional resident's annual income.

Allowing for the other assumptions made in the Cominco estimate, therefore, an estimate of roughly $2 - $3 million saved annually would seem to be reasonable at this point.

7. SUMMARY OF FINDINGS

The principal findings of this analysis address the economic impacts which can be expected during the projected 40-year life of the proposed Red Dog Mine. These findings, based on the assumptions made, have resulted in the following overall estimates:

- total long-term mine employment probably will range between 350 and 400 full-time jobs;
- NANA-Region residents probably will obtain 50%-75% of those jobs, or approximately 220-250 jobs, with the total divided evenly between Kotzebue residents and residents of other communities in the region;
- the project probably will generate approximately 225 indirect and secondary jobs, of which approximately half (106 jobs) will be obtained by NANA-Region residents;

- approximately 92 of the indirect and secondary jobs generated by the project will be obtained by Anchorage area residents, with another 28 such jobs distributed among other Alaskan communities;

- for every $1 million that Cominco spends on supplies in Anchorage, approximately 40 additional new jobs will be created in the Anchorage area;

- total direct income generated by the mine probably will range between $11-$13 million per year in 1983 dollars, with NANA-Region residents obtaining between $7-$8 million of the total;

- residents of other parts of Alaska probably will receive approximately a third (30%) of the $11-$13 million in total annual income, divided approximately evenly between Anchorage area residents and those of other Alaskan communities;

- indirect and secondary employment deriving from the mine's effects probably will produce some $5.7 million in total annual income, of which approximately half ($2.65 million) will be received by NANA-Region residents;

- the project's indirect and secondary employment effects will cause a modest drop in local unemployment levels, causing approximately 50 previously unemployed persons to be hired within the NANA Region and an additional 30-60 persons across the rest of the State; and,

- local population increases due to the mine project's indirect and secondary employment effects probably also will be modest, totaling approximately 280 new residents and dependents across the State, but may have significant local consequences within the NANA Region (e.g., approximately 70 new residents in Kotzebue).

FOOTNOTES

1 Letter from Don Argetsinger, Vice President of NANA Development Corporation, to John Sims, Director of the Office of Mineral Development, State of Alaska, Dated November 11, 1983.

2 Ibid.

3 Ibid.

4 Estimates are by Cominco-American, Inc., Alaska Department of Community and Regional Affairs, and Kevin Waring and Associates, respectively.

5 Based on 1982 regional population estimates made in 1983 by the Alaska Department of Labor from U.S. Census data. Estimate agrees with 1982 estimate made by the Department of Community and Regional Affairs in November, 1983.

6 Job multipliers shown for the NANA Region are averages of estimates made by Kevin Waring and Associates and the Alaska Department of Community and Regional Affairs in 1983.

D. FISCAL IMPACTS

INTRODUCTION

This analysis estimates the major fiscal impacts which the State of Alaska may experience as a result of the proposed Red Dog Mine project. The fiscal impacts estimated include the magnitude of tax revenues likely to be received by the State from the earnings and operations of the project, and the potential State expenditures for the project's infrastructure (an access road and a port facility). Other potential impacts noted include the effects of the project on the State's programming costs, and the effects of the project on local unemployment costs.

1. TAX IMPACTS

The principal State taxes applicable to the Red Dog operation, and therefore the greatest potential source of tax revenues to the State, are the mining license tax (MLT) and the corporate income tax (CIT). A third tax applicable to the project is the State's motor fuel tax (MFT), though it is not a major source of tax revenues for this particular project.

For an operation the size of the Red Dog project, the applicable mining license tax rate is $4,000 plus 7% of the taxpayer's net income in excess of $100,000. An exemption from tax payments is permitted for the first three and one-half years of a new mine's operation, as is a specific depletion allowance, depending on the particular resource being extracted. In the case of the Red Dog mine, which is primarily a zinc and lead mine with associated silver ore, the applicable depletion allowance appears to be 15% (AS 43.650.010(e)(2)).

The applicable corporate income tax rate for the Red Dog mine operation is $4,500 plus 9.4% of the taxpayer's taxable income over $90,000. While calculation of this tax appears straightforward enough,

however, a substantial complication arises in estimating corporate income tax payments because of the prolixities and uncertainties regarding the State's unitary tax formulas. (Alaska uses the traditional three-factor approach, which apportions a multi-state or multi-national corporation's sales, property values and salaries, and levys the tax on the proportion of those elements which are directly relatable to Alaska.) This is a particularly difficult constraint in the case of the Red Dog mine analysis, as the project sponsors have provided the only available estimate of their potential tax liability in Alaska, and this estimate has not been based on the unitary approach.

The State's motor fuel tax entails a levy of 2¢ per gallon for internal-combustion equipment which is used off-highway, and a levy of 8¢ per gallon for such equipment when used on roads. Because both the mining license tax and the corporate income tax are both net profits taxes, and therefore sensitive to taxpayers' reported earnings, a certain amount of uncertainty is involved in estimating future tax payments based on these instruments. In the case of the Red Dog operation, this necessitates a significant reliance on forecasts of future metals prices. This analysis, therefore, has used a range of 20-year average price forecasts for the Red Dog mine metals which has been provided by the Office of Minerals Development, Alaska Department of Commerce and Economic Development. These price forecasts, along with recent market prices for the Red Dog metals, are shown in Table D-1. (See Table D-1.)

Based on these forecasts, Cominco-American, Inc., has estimated that its annual tax amounts due to the State from the Red Dog Mine operation will be approximately as shown in Table D-2, below. (See Table D-2.)

TABLE D-1

PRINCIPAL METALS OF RED DOG MINE
TWENTY-YEAR AVERAGE PRICE FORECASTS

	Nov. 1983 Price (Appx.)	"Low" Avg. 20-Yr. Price	"Probable" Avg. 20-Yr. Price	"High" Avg. 20-Yr. Price
Zinc	49¢/lb.	55¢/lb.	60¢/lb	65¢/lb.
Lead	25¢/lb.	30¢/lb.	35¢/lb.	40¢/lb.
Silver	$9/Tr. oz.	$10/Tr. oz.	$18/Tr. oz.	$25/Tr. oz

Source: Department of Commerce and Economic Development, State of Alaska

11/1368

TABLE D-2

RED DOG MINE
COMINCO'S ESTIMATED AVERAGE ANNUAL TAX PAYMENTS TO THE STATE*

(Millions--1983 Dollars)

Metal Price Forecast Scenario:	MLT	CIT	MFT	Average Total Taxes to State Per Year
"Low"	$4.09	$3.63	$0.13	$7.85
"Probable"	5.25	4.83	0.13	10.21
"High"	6.65	6.22	0.13	13.00

MLT=Mining License Tax
CIP=Corporate Income Tax
MFT=Motor Fuel Tax

*Over the first 20-25 years of the mine's life, approximately.

Source: Cominco-American, Inc. (Spokane, Washington)

As can be seen from Table D-2, Cominco-American, Inc., estimates that its tax payments to the State will average approximately $8 - $13 million per year (in 1983 dollars). Analysis of this estimate shows that the company's estimation procedure is consistent with current Alaska statutes and provisions therein. Several factors should be kept in mind, however, as they will ultimately determine the actual amount of State taxes paid by Cominco-American. These include: (1) the State has not yet promulgated regulations regarding implementation of the mining license tax; (2) Cominco-American's tax estimates are based on a separate accounting method, whereas the method actually used could turn out to be the unitary tax basis; and (3) Cominco's corporate income tax liability was calculated without provision for any debt or interest costs in the base that are unrelated to a possible State loan.

A similar situation arises in attempting to assess the potential tax revenues which the State may receive from NANA Development Corporation (NANA) because of the project. Based on Cominco's projections of the royalties to be paid to NANA for the project, NANA's average annual tax payments to the State are estimated as shown in Table D-3, below. (See Table D-3.)

Table D-3 indicates that NANA may have a total State tax liability of approximately $1.4 - $3.2 million per year prior to 1991 (i.e., until its projected conversion from advance royalty payments from Cominco to net proceeds payments), and approximately $4 - $7 million per year thereafter, in 1983 dollars. In fact, NANA itself will pay a considerably lower amount of annual State taxes, as NANA representatives estimate that approximately 66% of NANA's total proceeds from the mine will be distributed to the other regional Native corporations in Alaska under section 7(i) and 7(j) of the Alaska Native Claims Settlement Act. The total amount of annual taxes received by the State should remain relatively unchanged, however, as State taxes on the distributed portion of NANA's proceeds should be recouped through tax payments from the other Native corporations.

TABLE D-3
NANA AVERAGE ANNUAL STATE TAX LIABILITY
BASED ON ROYALTIES RECEIVED

(Millions of 1983 Dollars)

	Average Annual Royalties	Average Annual CIT Due* (Begins In 1988)	Average Annual Net Proceeds Royalties	Average Annual MLT Due** (Begins In Mid-1991)	CIT and MLT Combined After 1991: Average Annual Taxes Due State During 1988-91	CIT and MLT Combined After 1991: Average Annual Taxes Due State After 1991
"Low"	$15.24	$1.43	$34.97	$2.44	$1.43	$3.87
"Probable"	25.11	2.36	48.57	3.39	2.36	5.75
"High"	33.78	3.18	58.88	4.12	3.18	7.30

CIT=Corporate Income Tax
MLT=Mining License Tax

*Payable on all royalties received over the life of the mine.
**Payable on all net proceeds royalties due (in addition to CIT).

Source: Office of Management and Budget, State of Alaska

11/1368

Several factors thus make assessment of the potential Red Dog Mine tax revenues somewhat uncertain at this point. The most important among these are the profit-based orientation of the two major tax instruments involved, the current absence of mining license tax regulations, and the as yet indeterminate effects of any unitary tax applications yet to come.

2. STATE INFRASTRUCTURE EXPENDITURES

Three financing scenarios have been discussed regarding possible State participation in the infrastructure costs for the Red Dog mine. One is the case where the State simply offers a flat grant in the amount of $135 million (1983 dollars) to build both the road ($83 million) and the port facility ($52 million). A second is the case where industrial development bond financing is provided for the project infrastructure, either through the Alaska Industrial Development Authority or through a regional resource development authority. A third is the case where the State extends a $135 million no-interest loan to Cominco for construction of the road and the port.

The first two cases require little elaboration, because the costs to the State are fairly clear. In the case of a direct grant, the cost to the State would be the full $135 million. In the case of revenue bonding, assuming the project would withstand the scrutiny of investors, the costs to the State would be limited to relatively small administrative costs incurred as handling costs for the bond issue.

The implications of a $135 million no-interest loan to Cominco, however, are not so clear. On the one hand, Cominco proposes to pay off the loan, yet still leave ownership of the road and port in the hands of the State. On the other hand, however, Cominco proposes that payback occur over a 20-year period which begins after a 10-year period

of deferred payments. The potential cost implications of this scenario for the State should not be overlooked. Specifically, depending on how the State chooses to define its opportunity cost of capital (e.g., between 8% and 12%), and assuming overnight construction costs, the payback to the State from such a loan could be worth approximately $16-$30 million in present value. This would represent a direct State cost of approximately $105-$119 million dollars.

Table D-4, below, shows the present value to the State of a $135 million no-interest loan offered with varying periods of deferred payments. Also shown are the related direct State costs involved. As can be seen from Table D-4, State costs are not sensitive to varying deferment periods, as even with no deferment the direct State cost ($68 million in 1983 dollars) is still approximately half the cost of the original loan, or more. (See Table D-4.)

Table D-5, below, shows a broader range of options for State lending assistance to the Red dog project, and the associated direct costs to the State. It can be seen from the table that various combinations of shortening the $135 million loan's deferment period, and charging Cominco an interest rate commensurate with the State's own cost of capital, could significantly reduce the State's cost. Additionally, it might be possible to equate annual loan repayment amounts with the sum of the annual direct benefits received from the project. This latter approach might at least provide a basis for determining the loan level (or terms) which the State would be willing to offer to Cominco and NANA. (See Table D-5.)

3. STATEWIDE PROGRAM COSTS

Time constraints have prevented analysis of the potential increases in State program costs which might result from the effects of the Red Dog Mine project. However, it is possible to estimate broadly the likely magnitude and distribution of net local population increases due to the project's indirect and secondary employment effects. These estimated local population gains have been estimated as follows:

* approximately 70 new people will move into the Kotzebue area;

* approximately 40 new people (total) will move into the other ten NANA region villages.

* approximately 125-130 new people will move into the Anchorage area;

* Cominco supply expenditures could cause additional population gains in the Anchorage area, at the rate of approximately 55 new residents per $1 million spent locally; and

* approximately 40 new people (total) will move into other communities across the State.

4. STATEWIDE UNEMPLOYMENT COSTS

Time constraints have prevented analysis of the potential decreases in State unemployment costs which might result from the effects of the Red Dog Mine project. However, it is possible to estimate broadly the magnitude and distribution of net local unemployment reductions due to the project's indirect and secondary employment effects. These reductions have been estimated as follows:

* approximately 20 previously unemployed residents of Kotzebue will gain employment;

* approximately 30 previously unemployed residents (total) of the NANA region's other communities will gain employment;

* approximately 30 such individuals in Anchorage will gain employment;

TABLE D-4

COST TO THE STATE
OF NO-INTEREST LOAN OF $135 MILLION
WITH VARYING PAYBACK PERIODS*

(Millions--1983 Dollars)

Payback Deferment Options	Present Value to State of Payback @ OCC =			Direct State Costs (-NPV) OCC =		
	8%	10%	12%	8%	10%	12%
10 Years	$30	$22	$16	$105	$113	$119
5 Years	45	35	28	90	100	107
No Deferment	67	58	51	68	77	84

OCC = Opportunity cost of capital for the State.
-NPV = Negative net present value.

* Loan is to be paid back in equal installments over a 20-year period, with different deferment periods as shown.

NB: Estimates based on overnight construction costs, (i.e., initial loan is made at a single point in time, after which the deferment period or repayment period begins).

Source: Office of Management and Budget, State of Alaska

11/1368

TABLE D-5

REPAYMENT OPTIONS AND STATE COSTS FOR $135 MILLION LOAN
(1983 Dollars, In Millions)

REPAYMENT OPTIONS:

Interest Rate	Deferment	PV OF Payback	Direct Costs To State
0%	10 yr	$16-30	$105-119
	5 yr	28-45	90-107
	none	51-67	68-84
5%	10 yr	25-48	87-110
	5 yr	45-72	63-90
	none	81-107	28-54
8%	10 yr	31-61	74-104
	5 yr	57-91	44-78
	none	103-135	0-32
10%	10 yr	36-71	64-99
	5 yr	66-105	30-69
	none	0-118	0-17
12%	10 yr	41-80	55-94
	5 yr	75-120	15-60
	none	0-135	-0-

Source: Office of Management and Budget, State of Alaska

11/1368

- **Cominco supply expenditures could cause additional employment of previously unemployed persons in the Anchorage area, at the rate of approximately 14 unemployed persons hired per $1 million spent locally; and,**

- **Approximately 10 such individuals (total) will gain employment in other Alaska communities.**

E. COMINCO/NANA CONTRACTUAL AGREEMENT

The agreement appears to contain no provisions which would alter this report's assessment of the fiscal and economic impacts of the project.

F. EFFECTS ON STATE BONDING CAPACITY

Industrial development bonding, either through the Alaska Industrial Development Authority or through a yet-to-be structured regional resource development authority, is the only bonding option which has been discussed seriously to date for financing the Red Dog Mine infrastructure (the access road or the port facility). This approach, if undertaken, would essentially require the project sponsors to pledge Red Dog Project revenues toward repayment of any revenue bond financing obtained. As such, this financing method would not be "affordable" to the State only to the extent that it:

(1) increased the State's borrowing costs on other bond issues;
(2) saturated the national market for Alaska bonds; or,
(3) diluted the strength of the State's so-called "moral obligation pledge". None of these outcomes are regarded as likely.

Assuming that the Red Dog Project will be viewed as economically feasible by market investors, therefore, industrial development bonding for the project infrastructure should not in itself adversely affect the State of Alaska's overall bonding capacity.

G. SYNOPSIS

This synopsis presents the major findings of the Office of Management and Budget on the Red Dog Mine project.

Task 1 - Cominco Corporate Profile

- Cominco Ltd. is an established and sound company, with good overall prospects, and is backed by a large and reputable parent corporation.

- The company appears able to provide a solid corporate base for support and development of the Red Dog Mine project.

Task 2 - NANA Corporate Profile

- NANA Regional Corporation appears to be solvent and strongly oriented towards projects which offer long-term employment benefits to its shareholders (principally joint business ventures within northwest Alaska).

- The corporation's participation in the Red Dog Mine project appears consistent with its corporate purposes and past activities.

Task 3 - Direct and Indirect Economic Impacts

- No guarantee exists that the project sponsors' projected employment goals or local hire goals will be achieved.

- The project appears likely to create 350-400 permanent jobs at the mine site, constituting approximately $11-$13 million per year (1983 dollars) in total direct income.

- NANA region residents may obtain an estimated 220-250 (50%-75%) of the mine jobs, constituting approximately $7-$8 million per year (1983 dollars) in direct income for regional residents.

- The project may generate an estimated 225 additional jobs within the State due to indirect and secondary employment effects, constituting an estimated $5.7 million per year (1983 dollars) in additional income.

- NANA region residents may obtain an estimated 100-110 (47%) of these additional jobs, constituting approximately $2.7 million per year (1983 dollars) in additional income for regional residents.

- The project's indirect and secondary employment effects may cause approximately 50 previously unemployed persons to be hired within the NANA region, plus an additional 30-60 such persons elsewhere in the State (chiefly, in the Anchorage area).

- No basis is available at present for estimating the number of job-seeking in-migrants which the project might attract into the State, though the project sponsors will attempt to minimize such effects through advertising.

- Local population increases due to the project itself probably will be moderate, totaling an estimated 280 new residents (including dependents) across the State, exclusive of in-migration. These increases could have significant local consequences within the NANA region, however, (e.g., an estimated 70-75 new residents in Kotzebue, exclusive of in-migrants).

Task 4 - Fiscal Impacts

- The total amount of tax revenues that the State is likely to receive for the Red Dog Mine project has been estimated to be approximately $9 to $16 million per year during the years 1988 to 1991, and approximately $12 to $20 million per year after 1991 (in 1983 dollars). This estimate is reasonably made and is consistent with current Alaska tax statutes. It is necessarily speculative, however, due to the profits based nature of the taxes involved, the current absence of mining license tax regulations in Alaska and the possibility that the project sponsors' actual tax liability may be based on unitary taxation principles in the future.

- An interest-free loan to Cominco of $135 million (with a 10-year deferment of payments, to be followed by a 20-year repayment period), for construction of the mine access road and port facility, could represent a direct net cost to the State of approximately $100-$120 million (1983 dollars).

- Increases in State and local program costs due to project-caused population increases could be moderate, though not insignificant at the local level. Such costs would depend largely on the extent to which the project induced speculative in-migration into the State and into the NANA region.

Task 5 - Cominco/NANA Contractual Agreement

- The agreement appears to contain no provisions which would alter this report's assessment of the fiscal and economic impacts of the project.

Task 6 - Effects on State Bonding Capacity

- Industrial development bond (revenue bond) financing of the project infrastructure, including the access road and the port facility, would not, in itself, adversely affect the State's bonding capacity.

VI. Report of the Department of Community and Regional Affairs

A. Examination of Regional Government Structure

B. Evaluation of Regional Socio-Economic Impacts

C. Regional Dependence on State and Federal Appropriations

D. Comments and Recommendations

E. Appendices

RED DOG ANALYSIS
Task Items C.1, 2, 3 and 4)

Department of Community and Regional Affairs
Municipal and Regional Assistance Division

February 21, 1984

I. TASK C-1: Examine the present and future relationship between the North Slope and project participants.

TASK C-2: Evaluate potential separation of mine properties from the North Slope Borough.

II. TASK C-3: Evaluate impact of the project on the region of influence with regard to labor, transfer payments, taxation, etc.

III. TASK C-4: Review the extent to which the economy of the region (NANA area of influence) is financed by State and federal appropriations.

IV. General Comments and Recommendations

Appendix A: list of analysis assumptions

Appendix B: results of Department of Community and Regional Affairs Developments Assessment Model (CRADAM) as applied to the Red Dog Mine and the community of Kotzebue.

Appendix C: Bibliography

I. TASK C-1 and 2: 1.) Examine the present and future relationship between the North Slope Borough and project participants (Cominco and NANA. 2.) Evaluate potential separation of mine properties from the North Slope Borough.

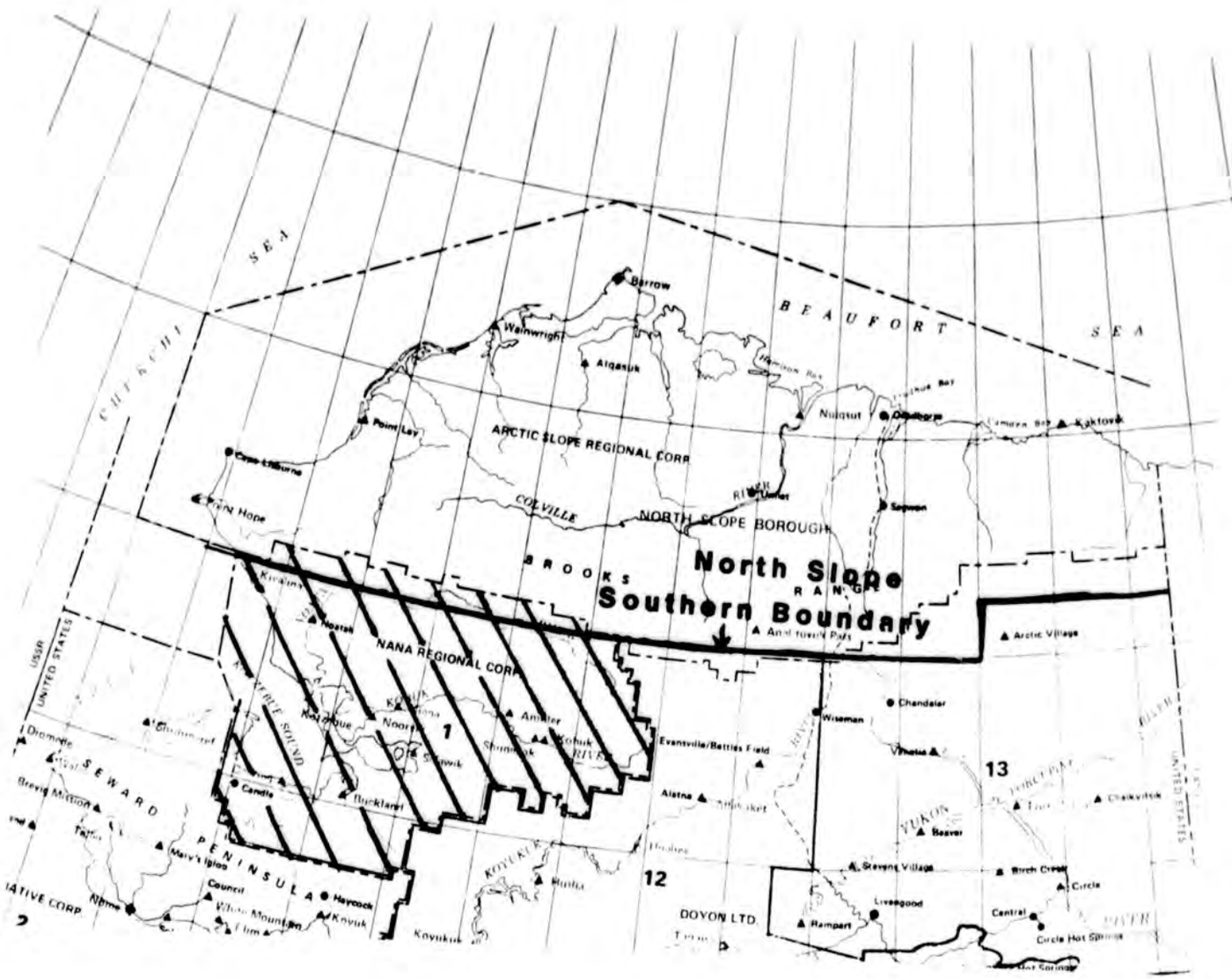
INTRODUCTION

The North Slope Borough encompasses the vast majority of the Arctic Slope Regional Corporation boundaries, and portions of the NANA and Doyon Ltd. regional corporation boundaries (see map 1). The NANA region is investigating the possibility of initiating the procedures for the incorporation of a borough coterminous with its corporation boundaries.

The section of the NANA region which is within the North Slope Borough boundaries contains a highly mineralized area. This mineralized territory includes the Red Dog Mine. It is essential to the formation of the NANA borough that it have the Red Dog Mine within its boundaries so as to provide an adequate economic base for the borough.

The Red Dog Mine and the surrounding NANA territory lying within the North Slope Borough has no population nor has it been assessed for Borough property taxes. The Borough Assessor visited the area this fall, but has not arrived at a tax assessment. This territory has not received any Borough services.

For the past year, representatives of the NANA Corporation have been discussing with the North Slope Borough the matter of detaching the portion of the NANA corporation territory remaining within the North Slope Borough. Up to this time a resolution of this issue has not been achieved between the two entities. It is the intention of the NANA Corporation to formally request that the North Slope Borough initiate detachment procedures for the territory in question at a November 30th meeting in Kotzebue.


North Slope
Southern Boundary
BEAUFORT SEA
CHUKCHI SEA
ARCTIC SLOPE REGIONAL CORP
NORTH SLOPE BOROUGH
NANA REGIONAL CORP
BROOKS RANGE
COLVILLE RIVER
SEWARD PENINSULA
DOYON LTD.
USSR
UNITED STATES
Barrow
Wainwright
Atqasuk
Point Lay
Point Hope
Nuiqsut
Kaktovik
Sagwon
Umiat
Kivalina
Noatak
Kotzebue
Noorvik
Shungnak
Kobuk
Ambler
Buckland
Candle
Diomede
Brevig Mission
Mary's Igloo
Council
Nome
Haycock
Koyuk
Kotzebue Sound
Evansville/Battles Field
Alatna
Wiseman
Chandalar
Arctic Village
Beaver
Stevens Village
Birch Creek
Circle
Livengood
Rampart
Central
Circle Hot Springs
Chalkyitsik
YUKON
1
12
13

MAP 1

The following narrative has two purposes. The first section gives a historical perspective on the creation of the North Slope Borough and the formation of the Arctic Slope Corporation and NANA boundaries. The second section explains the alternative procedures for the detachment of that portion of the NANA region remaining within the North Slope Borough.

HISTORICAL PERSPECTIVE

In Inupiat people of the Arctic Slope and NANA Region have inhabited Alaska for thousands of years. Throughout this vast homeland, Inupiat language and lifestyles are remarkably similar. Flexibility and adaptability have been the keystones to the Inupiat success in this harsh region. Their social organization promoted cooperative effort and community sharing, and this, combined with mobility, adaptability regarding diet, and sophisticated techniques of travel, hunting, and survival, produced enduring cultural traits that persist in modified form to the present day. It is this sense of cooperation that has fostered the current negotiations between the NANA region and the North Slope Borough over the detachment of the Red Dog Mine area from the North Slope Borough.

North Slope Borough

A petition proposing the incorporation of a first class North Slope Borough was received by the Local Affairs Agency on April 4, 1971. On May 7, 1971, the agency notified the representative of the petitioners - the Arctic Slope Native Association - that the petition was accepted. The Commission conducted a public hearing on the petition in Barrow on December 2, 1971. The Commission approved the petition on February 25, 1972. Following the Commission's decision, an election was conducted, resulting in the incorporation of the North Slope Borough on July 1, 1972.

In arriving at the decision to approve the petition to incorporate the North Slope Borough, the Local Boundary Commission identified the

territory which would meet the standards for borough formation. The Commission found that the boundaries of the proposed organized borough conformed generally to the natural geography of the area proposed for incorporation.

The North Slope Borough petitioners proposed the incorporation of the entirety of a geographically distinct area of the State approximately bounded on the north and west by the Arctic Ocean, Beaufort and Chukchi Seas, on the south by the mountains cresting the Brooks Range. The most easterly boundary observes the State of Alaska-United States of American/Yukon Territory-Canada border.

The southerly boundary more precisely follows latitude 68°00'N from the State of Alaska Chukchi Sea boundary in an easterly direction to the point of intersection with longitude 146°00'W. At this point, the proposed boundary is extended northerly to its intersection with latitude 68°30'N from which point it follows latitude 68°30'N in an easterly direction to the State of Alaska/Canada border.

In rendering its decision, the Commission was further aware that the Congress of the United States, in the Alaska Native Claims Settlement Act of 1971 (Public Law 92-203), had required the Secretary of the Interior to form Regional Corporation in Alaska whose boundaries conformed to those of the existing Native Associations, that Congress had designated the Arctic Slope Native Association, and had characterized it as "Point Hope-Barrow," and that, in fact, the Arctic Slope Native Association did embrace the area comprehended by the petition, with the relevant provision of the Act, providing as follows:

> "For purposes of this Act, the State of Alaska shall be divided by the Secretary within one year after the date of enactment at this Act into twelve geographic region, which each region composed as far as practicable of Natives having a common heritage and sharing common interests. In the absence of good cause shown to the contrary, such regions shall approximate the areas covered by the operations of the following existing Native Associations."

On July 1, 1972, the North Slope Borough became the regional government for the entire Alaska Arctic region, with an elected mayor (three year term), a seven member assembly, and a seven member school board. As home rule borough it has assumed all legislative powers not prohibited by State law and allowed by its charter. Mandatory powers are: taxation, education; and planning, platting and zoning. The following powers were transferred to the Borough in an April 1974 election; 1) streets and sidewalks; 2) sewers and sewage treatment; 3) water course and flood control facilities; 4) health services and hospital facilities; 5) telephone systems; 6) light, power and heating utilities; 7) transportation systems; 8) water; 9) libraries; 10) garbage and solid waste collection and disposal services and facilities; 11) housing and urban renewal, rehabilitation, and development; 12) preservation, protection and maintenance of historical sites, buildings and monuments. Areawide police powers were transferred to the Borough in a July 1976 election.

Regional Corporation Boundaries

As previously noted, Sec. 7(a) of the Alaska Native Claims Settlement Act states that within one year of the date of enactment of the act, that the Secretary of the Interior would divide the State of Alaska into twelve geographic regions. Each region was to be composed of Natives having a common heritage and sharing common interests. This section of the Act continues to identify the twelve regional Native associations the geographic regions are to follow. The Arctic Slope Native Association (Barrow, Point Hope) and the Northwest Alaska Native Association (Kotzebue) regions are specifically identified.

The formation of the regional corporation's boundaries was not completed until the end of 1972. During the time that the regional boundaries were being defined, the North Slope Borough was incorporated. Consequently, the incorporation of the Borough prior to the establishing of the corporation boundaries resulted in the inclusion of the Red Dog Mine territory within the North Slope Borough boundaries.

It was not clear until the creation of the regional boundaries was completed whether the community of Point Hope and the lands in the vicinity of Point Hope would be in the NANA or Arctic Slope regions. An election conducted in Point Hope settled the issue, as residents voted to be part of the Arctic Slope Region.

DETACHMENT PROCESS

As previously stated, the northern portion of the NANA region is within the North Slope Borough. Unless this territory is detached from the Borough, it is doubtful that the NANA region will have a sufficient economic base from which to finance the management of a borough government. The following section examines the process by which the territory can be detached from the North Slope Borough.

Detachment Process

There are two alternative approaches to initiating a detachment petition. The first approach (local action) initiates a petition that would be presented, if approved by the Local Boundary Commission (Commission), for a vote by the residents of the territory proposed for detachment. A simple majority would effect the detachment. As there are no residents in the northern section of the NANA region to be detached from the North Slope Borough, the local action process is not an alternative.

The second approach (legislative review) requires the petition to be presented, if approved by the Commission, to the Alaska Legislature for its final approval. However, both types of petition have a limited number of ways in which they can be initiated. In 19 AAC 10.470, it stated that a petition may be initiated by:

1. The governing body of a municipality whose boundaries are to be changed;

2. The governing body of an organized borough in which the territory is located;

3. At least 10 percent of the registered voters residing in the territory to be annexed or detached, in the municipality to be dissolved, or in each municipality emerged or consolidated;

4. The Commissioner.

The first and second means of initiating a detachment petition are both applicable to the North Slope Borough as it is the municipality whose boundaries are to be changed. The third means of initiating a detachment petition is not applicable in the detachment of the Red Dog Mine territory as there are no residents in the territory proposed for detachment. Consequently, the detachment process must be initiated either by the North Slope Borough or the Commissioner of the Department of Community and Regional Affairs.

Legislative Review Process

The legislative review process has established procedures for initiating and conducting a detachment (19 AAC 10.450-.620). The following describes the process:

Department Review

In accordance with 19 AAC 10.520, the Department must review the petition and brief to determine that they are substantially in proper form and contain the factual information required. If the Department determines that the petition and brief are sufficient, the petition will be submitted to the Local Boundary Commission. In addition, the Department prepares a report to the Commission on the proposed action.

Commission Review

Upon receipt of the petition from the Department, the Commission will establish a time and place for public hearing(s) concerning the

proposed boundary change. The public hearing would be held in or near the territory proposed for detachment. In this instance, public hearings might be held in both the North Slope Borough and the NANA region. In accordance with 19 AAC 10.225-.250, the Commission will review the detachment petition through the application of the established standards for detachment of territory from organized boroughs.

Commission's Recommendation

Following the public hearing, the Commission will either deny or approve the petition. The Commission does have the authority to amend the boundaries proposed for detachment. If the Commission approves the petition, with or without amendments, it will forward its recommendation to the Legislature.

Legislative Review

The Commission's recommendation must be submitted to the Legislature within the first ten days of legislative session. After 45 days from the date of the Commission's recommendations submittal to the Legislature, the proposed boundary change becomes effective unless there is a concurrent resolution passed by both houses of the Legislature in opposition to the proposed boundary change.

Borough Incorporation

It should be noted that 19 AAC 10.170(c) and 19 AAC 10.240(b) state that the Commission will not consider a petition for incorporation of an area located partially or wholly within an organized borough until the petitioners have submitted, and the Commission has approved, a petition for detachment of the area from the borough.

If it is the intention of the NANA region to petition for the formation of a borough, which will include the area to be detached from the North Slope Borough, the timing of the sequence of events is crucial.

SUMMARY

A quick review of the sequences of events identifies why the Red Dog Mine is within the North Slope Borough. The 1972 incorporation of the North Slope Borough was completed several months prior to the establishing of regional Native corporation boundaries. The final land selections for the Arctic Slope Regional Corporation and the NANA Corporation were made during the 1975-76 period.

It is unclear at this time, if the area containing the Red Dog mining project will be detached from the North Slope Borough. However, it is obvious that the detachment will be a factor in the decision to proceed with the development of the project given the uncertain future taxation policies of the North Slope Borough.

The formation of the NANA Borough is dependent upon the detachment of this property from the North Slope Borough. Various organizations and leaders have supported the concept of borough formation in this area, given a tax base of this nature.

I. TASK C-3: Evaluate impact of the project on the region of influence with regard to labor, transfer payments, taxation, etc.

For the purposes of this analysis, the region of influence was taken to be the incorporated boundaries of the NANA Regional Native Corporation. Where relevant, the region was further divided into two major components: Kotzebue and the outlying villages (ten). Some further focus was placed on the communities of Kivalina and Noatak which are most closely located to the project.

The impacts here discussed include:

- regional employment (direct/secondary; resident/nonresident)
- population (resident/nonresident; Kotzebue/outlying villages)
- per capita (household) income
- area service needs (schools, medical, public safety, governmental, etc.)
- transfer payments (state, federal, etc.)
- cultural

EMPLOYMENT (AND UNEMPLOYMENT)

Existing employment patterns. A baseline description of existing employment patterns will first be presented, followed by an assessment of the likely affects of employment resulting from development of the Red Dog Mine.

It is important to note that the existing regional economy is, to a large degree, a reflection of the continuing subsistence relationship to

the land maintained by a large number of the region's residents. Consequently, a number of accepted measures of "employment" or "occupation" are simply not valid when applied to the activities pursued by the NANA resident population. In particular, the use of U.S. Census measures of employment, and unemployment, is limited primarily to providing some indication of the proportion of residents who participate more directly in the region's "wage earning" economy.

Another measure of unemployment, the State's unemployment roles, reflect only those numbers of individuals who are actively seeking "wage earning" employment and are subsequently picked up by the tracking system provided by the State's job service programs. A rough calculation based on the 1980 U.S. Census information available for the outlying villages in the region indicated generally that less than 3-5% of the population were employed in "full-time" wage-earning jobs. Another 5-10% held "half-time" jobs and another 25-40% found some "part-time" employment during the year.

It should be noted that a large number of the above full and half-time jobs were teaching jobs; often occupied by non-Native persons. There are about 300-500 full-time-equivalent jobs in the outlying villages and about 250 of these jobs are education/profession related (including librarians, teacher aides, etc.). The next largest providers of employment are local government and federal programs.

In Kotzebue, based on the 1980 Census, there are about 500 full-time jobs, about 150 half-time jobs, and about 400 part-time jobs. It is estimated that there are about 600-800 full-time-equivalent jobs in the Kotzebue area. Of the full-time jobs, about 250 positions are connected with the administration and provision of services (i.e., NANA; Maniilaq, State, federal and local agencies). Another 150 jobs are connected with School District operations (both administration and teaching).

Combining the above employment estimates for Kotzebue and the outlying villages indicates a regional full-time-equivalent employment of

approximately 1,200. A recent labor market study performed by Darbyshire and Associates for NANA estimated a total of 1,400 full-time-equivalent jobs in the region. That report also projected that, in the absence of the Red Dog project, there would be essentially no growth in the regional employment opportunities over the next ten years. Our review of available materials substantiates that assumption.

Estimated Red Dog Mine Employment. Figures 1 and 2 present employment estimates for the Red Dog project (onsite), including estimates of NANA resident employment. Figure 1 breaks out the employment for each of the construction and production phases, while Figure 2 combines the workers associated with these two phases to indicate the total number of jobs for a given period of time. Figure 2 includes some employment information for the early exploratory drilling activities which have already taken place (1982).

During the construction phase, it is estimated that the NANA resident workforce will rise from 35% of the total workforce at the beginning of actual construction (25 residents), to a figure of more than 50% (100 residents) during the peak of construction. Two other studies of resident employment (Darbyshire, 1982; Waring, 1983) are less optimistic and project a resident employment of 33% throughout the construction phase. The higher employment estimates proposed in this report result from a consideration of the construction phase job descriptions as provided by Cominco; the aggressive approach being taken by various training/placement agencies; the positive attitude of the residents (Berger and Associates, 1983; Cultural Dynamics, Ltd., 1983); and previous resident employment experience with the Alaskan Pipeline Project (Naylor and Gooding, 1978).

Two years before actual production begins, Cominco will begin to employ a number of managerial/technical personnel for the Red Dog Project. Many of these positions will simply transfer from other Cominco operations. At any rate, NANA residents are not likely to participate directly in this "pre-production" labor force until about a year before startup, at which time a number of entry level professions

FIGURE 1

ESTIMATED RED DOG MINE EMPLOYMENT
CONSTRUCTION AND PRODUCTION PHASES

TOTAL WORKFORCE AND NANA RESIDENT WORKFORCE
(excluding Anchorage office)

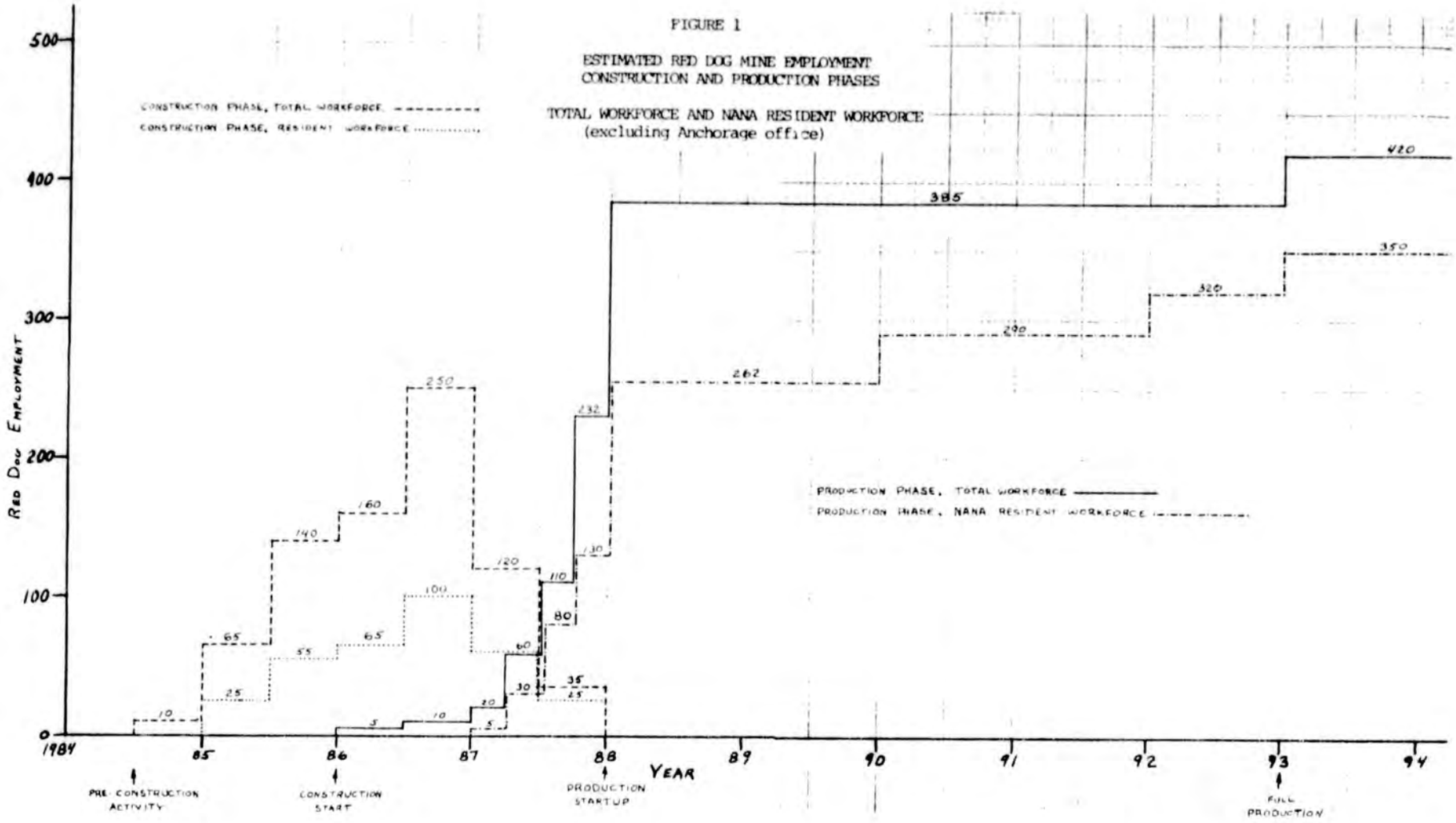
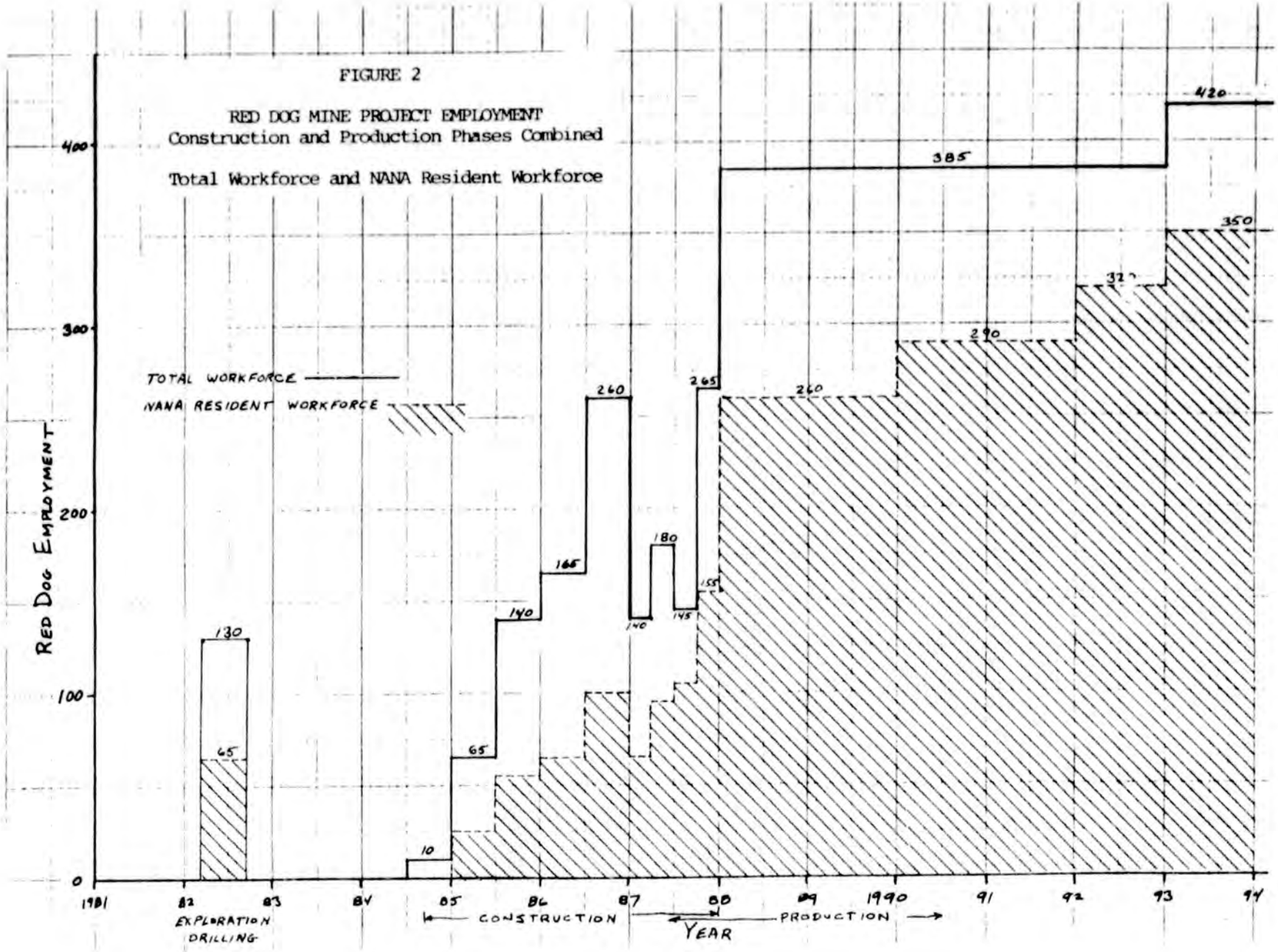


FIGURE 2

RED DOG MINE PROJECT EMPLOYMENT
Construction and Production Phases Combined

Total Workforce and NANA Resident Workforce



will be required to assist in the mobilization of the plant (assistant operators, administrative assistance, etc.). At that time, NANA residents in the slowly growing production workforce should represent about 25% (5 residents) of the total production mobilization workforce. However, that number should quickly grow over the course of the last preproduction year, reaching a value of about 66% (262 NANA residents) at the time of production startup.

This number for resident employment at startup was again derived by an inspection of the individual job descriptions provided by Cominco, considering the available labor force and assuming the successful implementation of planned vocational training programs. This estimate is higher than the value of 42% assumed in the Draft EIS for the project (Waring, 1983), which was reportedly provided by Cominco. It is most likely that actual resident employment at startup (1988) will fall somewhere between these two values.

As a rough guess, 80 of the above 262 residents in the startup workforce would come from the villages of Kivalina and Noatak (40 from each community), with the remainder of jobs evenly distributed throughout the region by population (Kotzebue, 90; outlying villages, 90).

It is assumed that the proportion of resident employment will continue to increase slowly over the course of mining operations. Notable increases in resident employment should occur at about two years into production as resident graduates from trade and vocational schools come into the labor force. Again, after four to five years from startup, another increase in local employment should take place as residents obtain advanced degrees in technical fields, assisted by Cominco scholarship funds (up to $30,000 per year). A final jump in resident employment should occur when the mine steps up to full operation in year six. Most of the new jobs at that time should be obtainable by NANA residents. At that time, NANA residents should represent over 80% of the total workforce.

Further increases in the proportion of resident hire should occur slowly over the life of the mine. It is possible that NANA could achieve its stated goal of 100% resident employment; however, no time frame is here assumed.

Secondary Employment Estimates: Because of the fully enclaved nature of the proposed project, there should be virtually no direct employment away from the site (other than in Anchorage). However, there should be a substantial number of support service jobs generated as a result of the mine operations and the generally increased affluence of the population. Most of these secondary jobs will occur in Kotzebue, although there should be some small increases in service and construction employment in the outlying villages.

As many as 150 secondary jobs should occur during the transition from project construction to project operation. This number will quickly diminish to 100 within a year or two of startup, finally stabilizing between 50 and 100 jobs as the local economy absorbs the transient activity of the new development. NANA residents should capture most of the secondary employment resulting from the mine, although there are certain to be at least a small number of nonresidents who find work in Kotzebue, particularly during the construction/early production phases.

POPULATION

The current population of the NANA region is approximately 5,200. Of these, approximately 4,500 are Native (86%). The population of Kotzebue is estimated to be 2,400, of which 1,800 (79%) are Native.

Table B.1, Appendix B, presents a projection of the population of Kotzebue as it would be expected to grow without the Red Dog development, and as it would grow as a result of developing the mine. The variance between the "base case" and the "operations" case is the estimation of the effect of the mine's presence. According to this scenario, Kotzebue's population would jump by about 125 people (5%)

during the construction phase, and increase another 125 (10% total) during initial production phases. Many of these people would be current NANA residents that will have moved into Kotzebue, perhaps as many as 75% of the total number of inmigrants. Therefore, the net effect of the mine on the population within the region as a whole should not be significant.

INCOME

According to the 1980 Census, the mean average household income in the region varies from $8,000 to $20,000 between the outlying villages, and is about $30,000 in Kotzebue.

On the basis of earlier (Summer 1983) Cominco employment estimates, annual gross payroll was initially estimated at about $23 million (372 employees) during the construction phase, $13 million during operating years one through five, and about $13.4 million dollars from year six onwards (424 employees).

Since that time, employment estimates for the construction phase have been revised considerably downwards; however, revised payroll estimates were not included with the updated information. To provide a rough estimate of direct income during the construction phase, it is assumed that actual construction payroll will be reduced in proportion to the revised reduction in construction workforce. On this basis, it is assumed that the construction phase payroll will peak at about $15.5 million (250 employees), averaging about $9 million a year for the overall construction phase (143 full-time-equivalent employees). On this same basis, the payroll during the first five project years is estimated to be about #12 million (385 employees), and would increase to about $13.4 million for years six onwards (420 employees).

It is difficult to assess what portion of these wages will go to NANA residents, who will first tend to occupy lower paying positions, particularly during the construction stage. It is here estimated that

during construction an average of approximately $4 million dollars a year will be paid in gross wages to residents.

Again, during the initial phases of production, NANA residents will largely be occupied at the lower end of the wage scale. Of the $12 million annual Cominco gross salary, it is estimated that initially about $7 million will go to about 260 NANA residents. This number would increase constantly over time as NANA residents moved into professional and technical positions with the mine.

AREA SERVICE/FACILITIES IMPACTS

Because of the stringent requirement that the Red Dog be a fully enclaved development, there are not expected to be substantial additional demands placed upon the regions service delivery.

The Department's development impact model (CRADAM, Appendix B) was applied to the Kotzebue/Red Dog development. The facility needs component is driven by the Demographic component already discussed above. In brief summary, the additional 100 jobs which will occur in Kotzebue, and accompanying overall population increase of some 10%, should not stress existing facilities (i.e., schools, public safety, fire, electrical, etc.) in the near future, and do not represent a significant planning component in comparison to the increase in population which would occur with or without the project. One possible exception is the present water system which is reported to be operating at near to full capacity.

It is likely that many mine workers from the outlying villages would wish to pass through Kotzebue while traveling between home and the mine. Depending upon the policy that NANA/Cominco develop concerning the air chartering of mine workers, this could result in a significant impact to several service delivery sectors. However, it is not possible to predict at this time the level of increased service delivery.

The outlying villages are also likely to require some increased social service delivery, at least transiently, in the wake of a degree of social disruption that will accompany the region's sudden increase in affluence (about 30% in regional income; Waring, EIS) and the introduction of an absentee-parent lifestyle that will occur in many village homes with workers at the mine. No attempt is made here to place a dollar value on the increase in social service delivery.

TRANSFER PAYMENTS

It was not possible in the time permitted for this study to link in a logical manner the potential increase in regional affluence to a possible decrease in State, federal and private transfer payments going into the region. Even before considering the possible effects of the mine's wages within the economy, there is a phenomenon presently occurring in program use which remains unexplained by the servicing agencies. Interviews with the State's Department of Health and Social Services indicated that the Department's two main transfer payment programs (i.e., AFDC, food stamps) have shown an unexplained dramatic 50% decrease in use the last two years.

The total transfer payments into the NANA region in 1980 amounted to $11,517,363, or $6,274,254 federal; $4,203,609 State; and $679,500 in private funds (Darbyshire, 1982). It was reported that the two distributions of the Permanent Fund Dividend were followed by periods of marked decrease in State program use. It is certainly likely that the continued incomes derived from mine wages in the extended family will have some positive effect on reducing transfer payments.

III. TASK C-4: **Review of the extent to which the economy of the region (NANA area of influence) is financed by State and federal appropriations.**

The primary source of information relevant to this task has been the documentation prepared by Darbyshire and Associates (1982) for the NANA Coastal Resource Service Area - Coastal Management Plan (CMP) in conjunction with follow-up interviews with Darbyshire staff responsible for producing these documents.

Figures presented in the CMP were cross-checked with a recent House Research Agency document (DeVries and Pomeroy, 1982) which examined the distribution of State appropriations by Election District. Since the Kotzebue Election District also includes the communities within the North Slope Borough, the Borough's annual financial reports were used to subtract out the bulk of State appropriations to the Arctic Slope Region, leaving an approximation of State appropriations going into the NANA region.

The CMP figure for State Appropriations (1980) were $31,482,815. The alternative method produced a figure of $32,500,000. This figure does not include the State's capital budget which varies radically from year to year for a given region. The capital budget appropriations for the Kotzebue Election District for FY '81 and FY '82 were respectively 20 and 50 million dollars.

Federal funds going to the NANA region in 1980 totaled about 24 million dollars - private transfer payments totaled about $700,000.

Important findings reported in the CMP documents included:

"The combined federal and State revenues are, by far, the most imports important source of demand on all three levels of the regional economy. Of the $63 million earned in the total NANA region, State and federal revenue sources support (i.e., directly

and indirectly) approximately $55.5 million (88%), while private sources support the remaining $7.8 million;"

- "State revenues to education, construction, social services and so on alone support 31.5 million (50%) of the total income earned throughout the NANA region;"

- "Mining and exploration activities are the largest private contributors to the economic base of the outlying villages (8%);" and

- "The largest single contributing source to the regional economy are the State revenues supporting schools and local government throughout the NANA region."

III. General Comments and Recommendations

With regard to the fulfillment of the NANA/Cominco agreement, there are several unstated policies, or potential policies, which could have significant effects on the distribution of the impacts of the Red Dog Mine development:

- One possible policy that may need to be clarified is the air charter transfer of residents from outlying communities (or other Northwest Alaska communities) to the mine site and back. The frequency of visit and duration of stay of these transients through the City of Kotzebue will play a determining factor in the total impact of the project upon the service delivery provided by the city, including transient housing, police and containment facilities, the recreational/entertainment economy, etc.

- Another policy, which will probably become highly sensitive, is the actual distribution of jobs among and within the communities throughout the region. NANA could develop a formula that would provide increased economic leverage for the more economically depressed villages, or a policy could be established strictly on a per capita basis, or the policy could be one of laissez faire. At any rate, existence or lack of existence of such a policy will be a determining factor in the ultimate distribution of the economic product of the Red Dog Mine in the NANA region.

- It might be advisable for some of the smaller communities to establish rotating labor pools through which all eligible residents could participate directly in the Red Dog's workforce. This would also provide increased flexibility in relation to subsistence lifestyles.

- Beyond training and placement, the various critical agencies in Kotzebue should be preparing for an extended service of counseling in support of residents who will be experiencing industrial employment for the first time.

Appendix A

Analysis Assumptions

A. The Red Dog mine construction and production schedules, as provided by Cominco in its engineering reports, will be essentially adhered to with regard to time and labor force requirements.

B. The goals of the NANA/Cominco operating agreement (N/C Agreement) of October 1982 will be aggressively pursued with regard to hiring and operating policies (goal = 100% local employment within 12 years of mine startup). That is, the several agencies and committees responsible for the training and placement of NANA residents will have a substantial effect (within several years) on the skills available in the local labor force and the placement of those skills at the minesite. Within five years of startup, resident skills will include increasing numbers of "professional occupations" as residents matriculate through the proposed scholarship program (up to $30,000 per year).

C. More specifically, regarding the phasing of local hire, it is assumed that, within two years, an additional 30-40 residents would become eligible for placement at the mine as a result of trade school/vocational training offered in Kotzebue. These people would probably move into positions vacated by residents moving up the scale of positions at the mine site, as they progress through on-the-job experience. Another 15-30 local residents would become eligible for professional range jobs (geology, lab technicians, etc.) at the completion of university level education. Finally, it is assumed that the jobs resulting from the planned increase in production at year six will be taken almost entirely by residents, that is, 30 more jobs.

D. In accordance with the N/C agreement, the Red Dog development will be as strictly isolated in its effects as possible; that is, fully enclaved.

E. NANA/Cominco will make special efforts to "broadly advertise" both the enclave and resident hire aspects of the Red Dog operation, thereby discouraging speculative inmigration into the region, and into Kotzebue in particular. However, it is assumed that a certain degree of speculative inmigration will still occur in anticipation of employment in secondary (mine support and service sector industries) and in anticipation of filling job vacancies which will occur as presently employed residents take positions with the mine. In particular, this will probably result in a temporary acceleration of intraregional migration, as people gravitate into the regional service center of Kotzebue; however, no estimate as to the degree of this movement has been assumed for the purposes of this analysis.

F. It is assumed that there will be some impact on service provision in Kotzebue as a result of resident mine employees preferring to travel through Kotzebue on the way to their home villages after their two-week stint at the mine.

G. The actual secondary employment multiplier applied to Kotzebue as a result of the Red Dog operations is assumed to be 0.5 for both the construction and production phases.

H. There will be a very small increase in secondary employment in the outlying villages as a result of the generally increasing affluence of the population. It is assumed that all such employment opportunities will be absorbed by the resident populations.

I. On the basis of several recent regional attitude surveys, and the precedent of NANA resident employment on the Alaskan pipeline project, it is assumed that there is a strong desire amongst NANA residents to get a job at the mine and keep it.

J. The residents of Kivalina and Noatak may be offered some degree of preference in hiring in compensation for the disruptive physical presence of a mine and road in their proximity. Otherwise, it is

assumed that attempts will be made to distribute employment opportunities evenly throughout the region.

K. Lacking more direct information, the anticipated annual gross payrolls during construction and production were taken from the draft Environmental Impact Statement (EIS) for the project (Socioeconomic section; Kevin Waring).

L. Levels of annual State financing of the regional and local economies were derived through a cross referencing of the NANA region draft Coastal Management Program document; a House Research Agency document of Appropriation by Election District (which includes the North Slope Borough); and the Annual Reports of the North Slope Borough.

M. The 1983 population of Kotzebue is assumed to be 2,400 which is the number arrived at after extended discussion between the City and the Census Bureau (which had placed the number at 2,054). The present City Planner has initiated a statistical survey of the community and preliminary results indicate a community population possibly as large as 2,900. The NANA region population is assumed to be approximately 5,200, reflecting the increased number in Kotzebue.

N. A number of specific baseline assumptions have been made in order to run the Department's CRADAM development assessment computer model (facilities needs component). These values, which are listed in Appendix B, were determined on the basis of information provided by the City of Kotzebue.

APPENDIX B

Community and Regional Affairs Development Assessment Model
Kotzebue/Red Dog Project

CRADAM is an interactive computer model which projects community response to specific development projects over a 20-year period. The model is community oriented and, therefore, is not directly applicable to projections for the NANA region as a whole. It has been applied in this case to the community of Kotzebue in its relationship to the prospective Cominco/Red Dog Mine development. Two components of the model have been run in this case: a demographic projection, and a facilities needs projection (which is driven by the demographic component's output). Tables B.1 and B.2 present the results of two elements of the demographic components: population and school age population. The results of the facilities needs component are extensive and are not reproduced here.

Specific assumptions for the demographic run included:

- Fully enclaved development project
- Construction start: January 1986
- Production start: February 1988
- Current annual rate of population increase: Kotzebue, 0.2%
- Construction phase, total workforce: 250
- % of these skilled labor: 62%
- Production phase, total workforce: 384 (onsite)
- % of these skilled labor: 67%
- Secondary employment multiplier: 0.5
- Average household size: 4.7
- Current population, by age cohorts: 0-4, 275; 5-9, 286; 10-14, 235; 15-19, 262; 20-24, 224; 25-29, 274; 30-34, 190; 35-39, 127; 40-44, 117; 45-49, 117; 50-54, 76; 55-59, 37; 60-64, 53; 65 and over, 123; total: 2,396
- Current effective unemployment: 50%

Specific assumptions for the facilities needs computer run include:

- Municipal acreage: 3,200
- Industrial acreage: 20
- Residential acreage: 200
- Elementary school (square feet): 50,000
- High School (square feet): 55,000
- Police department (square feet): 20,000
- Police vehicles: 6
- Fire department (square feet): 22,000
- Fire vehicles: 4
- Medical facilities (square feet): 40,000
- Residential buildings: 570
- Remaining Municipal buildings (square feet): 250,000
- Electrical demand (kwh/capita/day): 18
- Water demand (gallons/capita/day): 100
- Proposed residential density (units/acre): 8

Outputs from the computer run include:

- Total population estimates for the 20-year period (base case, development and production phases (table B.1)
- Number of school aged children for the 20-year period (table B.2)
- Number of high school students for the 20-year period
- Number of elementary students for the 20-year period

- Elementary school floor space demand
- High school floor space demand
- High school floor space surplus/deficit
- Police department floor space demand
- Police vehicle demand, surplus, deficit
- Fire department floor space demand, surplus, deficit
- Fire department vehicle demand, surplus, deficit
- Medical facility floor space demand, surplus, deficit
- Hospital beds required

- Municipal space requirement
- Average daily water demand
- Average daily electrical demand
- Residential housing demand
- Residential acreage demand

Table B.1

Demographic Projections
Kotzebue Population (base case, construction, operation)

Year	Base Case	Construction	Operations
0 (1983)	2396		
1	2429		
2	2483	2608	
3	2553	2681	
4	2637		2879
5	2646		2698
6	2751		2803
7	2808		2857
8	2997		3049
9	3138		3190
10	3293		3344
11	3460		3509
12	3226		3436
13	3840		4057
14	4454		4679
15	4285		4502
16	4534		4744
17	4804		5022
18	5096		5313
19	5410		5623

Table B.2

Demographic Projections
School Aged Children (base case, construction, operations)

Year	Base Case	Construction	Operations
0 (1983)	783		
1	794		
2	812	852	
3	834	876	
4	862		945
5	865		886
6	899		920
7	937		958
8	979		1000
9	1026		1046
10	1076		1097
11	1131		1152
12	1190		1211
13	1255		1276
14	1325		1346
15	1400		1421
16	1482		1494
17	1570		1591
18	1665		1686
19	1768		1789

APPENDIX C

Bibliography

Darbyshire and Associates, 1983, Job Availability and Labor Market Relations for the NANA Region.

Darbyshire and Associates, 1982, NANA Coastal Resource Area - Coastal Management Plan.

Waring, Kevin, 1983, Draft Environmental Impact Statement for the Red Dog Project.

Cultural Dynamics, Ltd., 1983, Chukchi Sea Sociocultural Systems Baseline Analysis.

Berger, Louis and Associates, 1983, Present State of Well-Being in Two Selected Regions of Alaska.

Maniilaq Association, 1982, NANA Regional Strategy.

DeVries, Anne and Pomeroy, Deb, 1982, Election District Breakdown of FY '81 and FY '82 Operating and Capital Budgets.

North Slope Borough, 1981-82, Annual Financial Reports, FY '81 and FY '82.

Oral Communications:

Matt Conover, November 1983, Planning Director, Maniilaq

Carol Dellahanty, November 1983, Planner, City of Kotzebue

Jake Rogers, November 1983, Assistant Administrator, Northwest Arctic School District

VII. Report of the Department of Transportation and Public Facilities

A. Review of Cominco's Road Design and Cost Estimates

B. Review of Cominco's Port Design and Cost Estimates

C. Alaskan Extractive Resource Projects

D. Qualification Matrix for State Transportation Projects

E. Impact of the Jones Act

F. Synopses of Two Canadian Mining Projects with Joint Public / Private Sector Participation

MEMORANDUM

State of Alaska
Department of Transportation & Public Facilities

TO: Robert Venusti
Deputy Director
Design and Construction

DATE: November 10, 1983

FILE NO:

TELEPHONE NO:

FROM: Ronald E. Olmstead, P.E. ROO
Assistant Construction Chief
Aviation Design and Construction

SUBJECT: Red Dog Mine Project

A. Review of Cominco's Road Design and Cost Estimates

At your request, I have reviewed preliminary conceptual engineering data and cost estimates furnished by Cominco Alaska, Inc. for various roadway alternates from proposed port facilities north of Kotzebue to the Red Dog Mine. Data reviewed included the following:

REPORT	AUTHOR
Red Dog Mine Access Ground Transportation Study	R & M Consultants, Inc.
Preliminary Hydrology Report (Appendix 1)	R & M Consultants, Inc.
Geotechnical Report (Appendix 2)	R & M Consultants, Inc.
Preliminary EIS Red Dog Mining Site U.S.	EPA Region 10
Engineering Report on the Red Dog Project Vol 1 & Vol 2	Cominco Engineering Services
Engineering Estimate for the Red Dog Project Vol 1 and Vol 2	Cominco Engineering Services

ENGINEERING ANALYSIS

I. ROUTE SELECTION

From an engineering perspective, major items which should be considered in route selection for this region are as follows:

o Minimize alignment length

o Consider material site availability and haul

o Consideration of future maintenance, including drifting snow

o Consideration of construction problems and scheduling

- o Maintain fill section to the extend possible, avoiding problems associated with cuts in permafrost areas, especially on side hills

- o Minimize environmental disturbance

- o Minimize potential problems with drainage, ground water flow and and aufeis

- o Minimize roadway alignment on ice rich, high moisture content silts, organics, and poor route soils conditions

- o Avoid known areas of soil instabilities and/or movement

- o Efficient use of fill, especially in areas of mineral material shortage

- o Bridge siting

- o Future or proposed route expansion

- o Land ownership

Analysis of data furnished by Cominco Alaska, Inc. indicate that routes were selected and evaluated based on criteria similar to that mentioned above. The data utilized is preliminary in nature, however, with limited field verification and must be viewed as such. Alternate routes were delineated utilizing on U.S.G.S. mapping expanded to a 1" = 2000' scale for the plan portion of plan-profile sheets. Route alignments and profiles were plotted on these sheets utilizing the above mentioned criteria and engineering geometrics developed for the proposed routes.

II. Design Geometrics

Design criteria developed for the proposed roadway are as follows:

Design speed	30 mph
Road width	30 feet
Maximum grade	4%
Minimum radius	400 feet
Passing turnouts	2 mile intervals
Fill depth	6.5 feet based on thermal considerations
Alternate fill	2 feet minimum on 3 inches rigid insulation
Design vehicle	GVW 443,000 lbs
Maximum tandem axle loading	109,500 lbs

Roadway width and maximum grades are conservative due to the size of the design vehicle. Under normal usage conditions, a roadway width of 28 feet or even less may be adequate, with maximum desirable roadway grades up to 5% on rolling or 7% in mountainous terrain.

The fill depth of 6.5 feet assumes some thaw into the existing terrain, thus some settlement will result depending on soil type. This method is consistent with existing practice, with the final depth/depths selected being dependent on soil groupings or 'terrain units" and foundation conditions. The final typical sections developed for the roadway design would be a major engineering decision for the project with the governing factor being allowable thaw into the subgrade. The 6.5 foot fill depth is considered adequate for preliminary engineering purposes. In reality, it could be expected that depths would vary, with lesser depths being utilized should actual soil conditions warrant or deeper sections utilized should more protection be required in other locations. The alternate insulated fill section consisting of 2 foot of fill placed on 3 inches of rigid insulation board was utilized to a very limited extent in the preliminary analysis (approximately 1.3 miles total length in the preferred route) and appeared to be utilized primarily through vertical curve areas where it was desired to reduce the depth of fill for short stretches of roadway. This method of construction has been tested and utilized for heavy haul vehicles on the Trans Alaska Pipeline System with some success. Final design should consider carefully the exact placement and bedding methods for insulation.

III. Quantities

Fill quantities were computed utilizing the 6.5 foot of fill, or alternate section and providing for addition fill material for those sections going into and out of vertical curve locations and cross slope areas, utilizing factors developed for that purpose. Haul distance was determined by plotting material sites, selected by limited field examination and aerial photo interpretation. Drainage structures, types and sizes were developed based on drainage size and other hydraulic considerations. All data furnished by Cominco Alaska, Inc. was examined and appeared to be adequate for preliminary quantity determination.

IV. Cost

Cost figures for the proposed roadway were initially developed by R & M Consultants and provide the basis for those cost figures presented by Cominco Alaska, Inc. Base-line cost figures developed for major bid items are as follows:

Item	Estimated Cost
Embankment (c.y.)	$9.20 c.y.
Cubic Yard-mile (c.y.m.)	$1.30 c.y.m.
Drainage culverts (ea)	
24"-120" dia.	$6,400 - 61,200 ea.
Bridge (l.f.)	$1,800 - 5,760 l.f.
Insulation	$0.80 bd. ft.
Turnouts	Approx. $5000/mile

Cost estimates prepared for the state for the proposed 170 mile route from Kotzebue to Chicago Creek indicate estimated embankment costs of $10.00 c.y. with haul being estimated at $1.00 per c.y.m. after the first two miles. At a much smaller scale, embankment costs for the current Kotzebue Airport Improvements Project was bid at $6.74 c.y. Embankment costs at the new Buckland Airport was bid at $13.50 c.y., with similar type embankments running $4.00 c.y. in Fairbanks.

Culverts were estimated to be 80 l.f. in length with sizes from 24" to 120" in diameter being estimated. Estimated costs appear reasonable based on review of available bid tabs.

Bridge costs were checked with the DOT/PF bridge design section in Juneau and also appear to be reasonable estimates.

Costs not included in the original base line cost estimates by R & M consultants were additional costs for processing surfacing material, mobilization and de-mobilization costs, royalties on borrow material, engineering and contingencies. I have attached sheets summarizing the estimated costs for all the proposed routes. The preferred route estimated costs prepared by Cominco appear to be reasonable estimated roadway construction costs.

V. Comments and Conclusions

Methodology utilized for preliminary route selection and cost estimates appear to be reasonable and consistent with other state preliminary route selection efforts. The data presented by Cominco is based on very limited field efforts. It would be expected that substantial refinement would be made to the selected alignment and design assumptions after centerline drilling, material site exploration and evaluation and other design level field work is completed.

MEMORANDUM State of Alaska

TO: Robert Venusti
Deputy Director
Design and Construction

DATE: November 22, 1983

FILE NO:

TELEPHONE NO: 452-1911

FROM: Ronald E. Olmstead, P.E.
Assistant Construction Chief
Aviation Design and Construction

SUBJECT: Red Dog Mine Project

B. Review of Cominco's Port Design and Cost Estimates

At your request, I have reviewed preliminary conceptual engineering data and cost estimates furnished by Cominco Alaska, Inc. for proposed port facilities north of Kotzebue. Data reviewed included the following:

REPORT	AUTHOR
Preliminary EIS Red Dog Mining Site U.S.A.	EPA Region 10
Engineering Report on the Red Dog Project Vol. 1 & Vol. 2	Cominco Engineering Services
Engineering Estimate for the Red Dog Project Vol. 1 & Vol. 2	Cominco Engineering Services

The proposed recommended port facility for the Red Dog Mine is composed of 3 major component parts:

1. Deep Water Dock Facility (off shore)
2. Shallow Water Dock (on shore)
3. Concentrate Storage Facility at Mile 2.5 (Roadway Borrow Site)

My review consisted primarily of listing major items/quantities taken from the Cominco Alaska, Inc. reports and "backing into" the engineers estimate as independently as I could to confirm the estimated costs. My comments for each major division are as follows:

I. SITE DEVELOPMENT

Cost figures utilized for the port site development are the same as those utilized for the roadway portion of the project. Using Cominco's estimated quantities of 63,500 c.y. of fill for the pad on shore and a 7 foot fill height works out to approximately a 5.5 acre site.

02-001A(Rev. 10/79)

It was assumed by Cominco that the concentrate storage site at 2.5 mile would be graded during borrow operations from construction of the roadway.

II. BUILDINGS

Estimated costs for the concentrate storage building were taken from the 1983 Means estimating guide and projected for Anchorage, then the remote siting as shown on the attached sheets. The median unit price given was utilized. The smaller buildings were estimated at $250.00 s.f. which may be slightly high but are currently being utilized by our staff, for estimating purposes

III. SHALLOW WATER DOCK

The Means estimating guide was utilized for the sheet piling. The remaining estimated costs were judgement calls.

IV. CONCENTRATE HANDLING (SHORE BASED)

Equipment costs were obtained from N.C. Machinery, FOB the factory, with exception of the lightering barge, and loading equipment which were estimated, along with miscellaneous costs shown.

V. DEEP WATER DOCK

Per ton costs for modification of a used tanker were obtained from Todd Shipyards in Seattle. I was unable to obtain a figure for a used tanker, however a review of costs supplied for new steel modifications make the tanker costs estimated, seem not unreasonable. The remaining costs were estimated by judgement.

VI. CONCENTRATE HANDLING (DEEP WATER DOCK)

Equipment costs were obtained from N.C. Machinery, FOB the factory. The remaining costs were estimated.

VII. SUPPLIES HANDLING EQUIPMENT

Some equipment costs were obtained from N.C. Machinery, others were estimated. The fuel pipeline costs were taken from in house bid tabs from Galena. The pipeline consists of two lines, one nestled inside the other.

VIII. SERVICES

The estimated costs for generator sets were obtained from N.C. Machinery. It was estimated that the cost of the units in place and operating would be approximately twice the costs of the bare bones units at the factory.

IX. ACCOMODATIONS

It was assumed that the construction camp utilized during construction of the road would be utilized, thus some costs were allotted to refurbish it, by Cominco.

X. COMMENTS AND CONCLUSIONS

Estimated costs for the proposed scheme appear reasonable. They are somewhat less than those proposed for the proposed facility at Port Blossom. Port Blossom costs were estimated at approximately $34,861,000 for Phase I and $51,458,000 for Phase II for a total of $86,319,000. In addition, facilites on shore were estimated at $14,932,000. Concepts between the two are substantially different, with Port Blossum having a structural dock to deep water vs. an island with lightering required. Depending on the states involvement, it is recommended that thorough conceptual review be performed. Other items that may need additional consideration depending on overall use of the facility are:

1. Air Port Facilities
2. CFR Vehicles/Facilities
3. Land Requirements
4. Storage Facilities
5. Security

C. Alaskan Extractive Resource Projects

Lost River Mine: The U.S. Bureau of Mines estimates the size of the Lost River flourspar-tin deposit near the community of Lost River on the Seward Peninsula, to be in excess of 10 million tons. The current market value per ton of tin ore is $9,660. The mine has the potential of exporting 304,000 tons of tin, flourite, and tungsten annually. Transportation infrastructure required to mine development is a 60 mile extension of the Nome-Teller Road that will tie into the proposed Nome port for exporting the ore out of the region.

Slate Creek Asbestos: Asbestos reserves at Slate Creek are believed to range from 50 to 100 million tons. Doyon Corporation is actively pursuing development of this deposit and have estimated that the most likely level of production would be 150,000 tons per year. The current market value per ton of asbestos is $600. Transportation requirements for development of a mine is a 43 mile road to connect to the Taylor Highway near Chicken.

Delta Belt: Large high grade copper deposits have been located near the Robertson River, southeast of Delta Junction. Anaconda Copper, Resource Associates of Alaska and Cook Inlet Native Corporation have done exploratory drilling. Production estimates vary from 250,000 to 1,000,000 tons annually with an estimated project life of 50 years. The current market value per ton of copper is $482. A 90 mile extension of the Alaska Railroad would provide access to the copper deposits as well as providing service to the Delta Agriculture Project.

Dry Creek Deposit: Dry Creek has been identified as being a large lead deposit with lesser amounts of copper, zinc, silver and gold. Production potential is estimated to be approximately 68,000 tons of lead ore annually, which would provide an annual revenue of approximately $11 million. Widening the existing 21 mile road to 18 feet and a 15 mile extension of the road would provide adequate access to the deposit.

Lignite-Kantishna: The Kantishna antimony deposit has an estimated production potential of 33,000 tons per year. In addition, 1981 production of placer gold deposits was 3,000 oz. The estimated annual revenue resulting from development of the antimony deposits is $12.5 million. Access to the mine area would consist of a 75 mile road from the Parks Highway near Lignite. It has been proposed that this access road could also serve as an alternative route for Denali National Park visitors.

Bonanza Creek: Tungsten deposits of unknown quality and quantity at Bonanza Creek are owned by Doyon Ltd. Based on the limited information, it is assumed that yearly concentrate production could be 6,540 tons, with an estimated annual revenue of $1.3 million. Construction of a 24 mile gravel road from the Dalton Highway would provide access to the deposit.

Ambler Mining District: There are two major copper mine areas that have been identified in the Ambler Mining District. The Kennecott Area consists of two large deposits, the Arctic Mine with deposits of approximately 37 million tons and the Ruby Mine with deposits of approximately 4 million tons. The Anaconda Area consists of two deposits, the Sun Mine with deposits of approximately 25 million tons and the Smucker Mine with deposits of approximately 10 million tons. Bear Creek Mining Company has estimated that the Arctic Mine alone has the capability of producing 400-500,000 tons per year with an estimated mine life of 20 years. The best estimate of the value of the known resources in the ground is $18 billion. Long-term jobs, as a result of development, are estimated to be 1,350 by the year 2000 and 2900 in the post 2000 time frame.

In addition to the copper deposits, NANA Development Corporation currently has a jade mine in operation which has a limited production rate because of the lack of an adequate transportation system. Several alternative access routes have been examined for both rail and road. In addition to the necessary road or rail construction, a port on the

coast would be required in either the Krusenstern area or along the coast of the Seward Peninsula.

Chandalar Mining District: Extensive gold and silver deposits are present in the Chandalar Mining District; 100 placer lode claims, 2 operating mines and one ore processing mill currently exist in this area. Estimated gold production of known deposits is 3,000 oz. per year, with potential annual revenues of $1.2 million. Construction of a 65 mile road would provide access to supplement the existing 4,500 foot runway.

Chicago Creek Coal: Coal in this area is known at four locations. These include the Chicago Creek Mine, Kugruk (Wallin) Mine, Superior Mine, and an 1.5 million tons of fairly low quality coal. Coal development at site has been considered as a means of reducing heating costs in the villages of Kotzebue, Buckland, Deering, and the mining and reindeer herding activities at Candle. The cost of heating by coal would equate to a $.51 per gallon fuel oil price. The current price per gallon of fuel oil (in the NANA Region) is $2.40. Therefore, development of the resources at Chicago Creek is viewed as being economically justified. The transportation infrastructure required is a 170 mile road from Chicago Creek to Kotzebue. This road would also facilitate access to several other mineral resources that are located in close proximity to the route (uranium, placer gold, lead, zinc, silver, molybdenum).

Pt. Lay-Cape Lisburne Coal: There are several occurrences of coal deposits throughout the northwestern section of the State. On-shore sources for the Cape Beaufort area, 55 miles south of Pt. Lay, are calculated to be 35 million tons of inferred resources. Within a 50 mile radius of Pt. Lay, there are several deposits that appear to be of the best quality. Total indicated resources are 236 million tons and 2,769 million tons of inferred resources. The Corwin-Thetis mines, 80 miles from Pt. Lay, have indicated deposits of 49 million tons and 848 million tons of inferred deposits.

The Arctic Slope Regional Corporation has indicated that a mine in the Cape Beaufort Area could produce approximately 100,000 to 200,000 tons per year and be in production in 3 years. The use of coal is forecasted to reduced heating costs in Northwest Alaska by about $10 million per year. The Alaska Power Authority has determined that the quality and quantity of the coal resources make it economically feasible to barge coal as far south as Unalakleet. To facilitate development of the resources, the preferred transportation needs would be the development of a resource export and coal loading port capable of handling 500 ton coal barges. In addition, a road transportation network to link various coal deposit sites to a common corridor to the coast should be considered.

Lik Deposits: The Lik lead and zinc deposits are located 12 miles north of Red Dog and owned by GCO Minerals. If a transportation corridor was established, it would take 6 years to bring a mine into production. Estimated annual production would be 150,000 tons. Transportation infrastructure requirements are a road to the coast and a port facility to deliver the ore to market. The most likely scenario is linkage to the access developments at Red Dog.

Twin Mountain: There are significant tungsten deposits located in the Twin Mountain Area. additionally, several placer gold mines are in operation at Van Curlers Bar. Houston Oil and Minerals, Inc. has been conducting exploration work in the area and, to date, ore grades and tonnages are unavailable. The current market value per ton of tungsten is $200. Access to the Twin Mountain area would require construction of a 62 mile extension of the Chena Hot Springs road.

ALASKAN EXTRACTIVE RESOURCE PROJECTS

NAME	RESOURCE TYPE	LOCATION	POSSIBLE TIME	COST ESTIMATE
Lost River Mine Extension of the Nome-Teller Road from Teller-Wales (60 miles), via Brevig Mission, Lost River Mine and Tin City	Flourspar, Tin	Seward Peninsula	* 2000	$30.9 million
Slate Creek Asbestos Development Extension of the Taylor Highway near Chicken (43 miles)	Asbestos	Between Delta Junction and Eagle	1987	$33 million
Delta Belt Rail Extension Extension of the Alaska Railroad (90 miles)	Copper, Lead, Zinc	Southeast of Delta Junction near the Robertson River	1986	$643 million
Dry Creek Deposit 15 mile road extension	Lead, Copper, Zinc, Silver, Gold	35 miles east of Ferry (North of Healy)	2000	$9 million
Lignite-Kantishna 76 mile road construction	Antimony, Placer Gold	Adjacent to Denali Park	2000	$64 million
Bonanza Creek 24 mile road construction	Tungsten	200 miles northeast of Fairbanks	2000	$15 million

*Timeframe has not been forecasted. Year 2000 has been arbitrarily set.

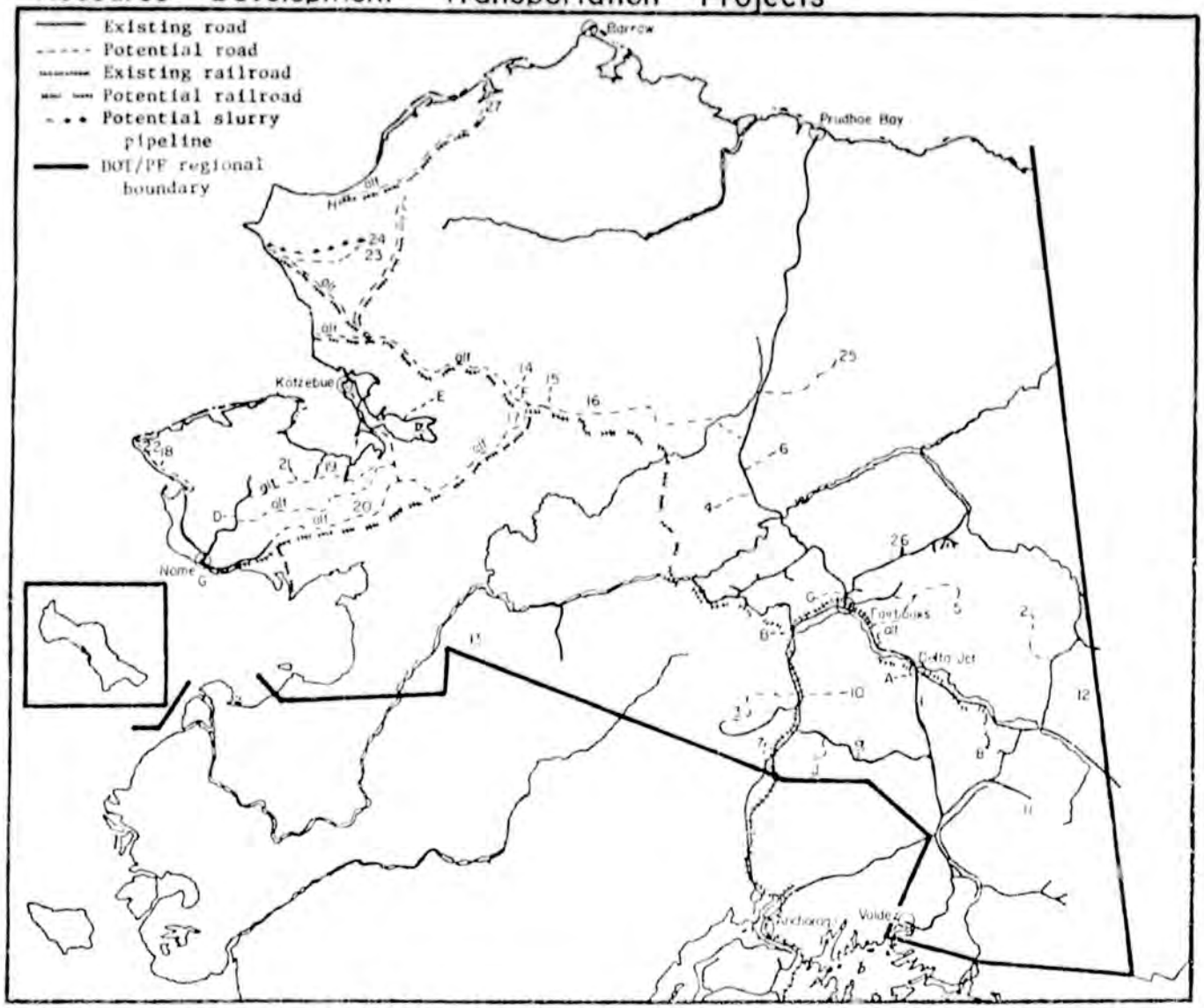
ALASKAN EXTRACTIVE RESOURCE PROJECTS

NAME	RESOURCE TYPE	LOCATION	POSSIBLE TIME	COST ESTIMATE
Ambler Mining District	Zinc, Copper, Silver, Gold, Jade, Lead	160 miles northeast of Kotzebue	2000	
I Haul Road System				
a) Ambler to Cape Krusenstern (225 miles)				Ia) $350 million
b) Ambler to Golovin Bay (322 miles)				Ib) $315 million
c) Ambler to Nome (434 miles)				Ic) $613 million
d) Ambler to Prudhoe Bay Haul Road (203 miles)				Id) $275 million
II Rail Transportation System				
a) Ambler to Nenana (390 miles)				IIa) $800 million
b) Ambler to Cape Krusenstern (225 miles)				IIb) $450 million
c) Ambler to Nome (434 miles)				IIc) $786 million
d) Ambler to Cape Darby (322 miles)				IId) $622 million
Dalton Highway to Chandalar Mining District	Gold, Siver	Coldfoot to Toblin Creek	2000	$39.7 million
65 mile road construction				

ALASKAN EXTRACTIVE RESOURCE PROJECTS

NAME	RESOURCE TYPE	LOCATION	POSSIBLE TIME	COST ESTIMATE
Kotzebue to Chicago Creek Road Construction (170 miles)	Coal	15 miles west of Candle	1990	$204.1 million
Pt. Lay-Cape Lisburne Coal Port Construction of a port to access several large deposits	Coal	Cape Beaufort area	2000	$100 million
Twin Mountain 62 mile extension of the Chena Hot Springs Road	Tungsten		2000	$40 million
Sithylemenkat Road 39 mile road construction	Tin, Tungsten	170 miles northeast of Fairbanks	2000	$23 million

Resource Development Transportation Projects



Possible Mining Sites

1. Jarvis Creek
2. Slate Creek
3. Kantishna
4. Sithylemenkat
5. Twin Mountain
6. Bonanza Creek
7. Golden Zone
8. Delta Belt
9. Denali (Valdez Creek)
10. Dry Creek
11. Orange Hill
12. Tarus
13. Illinois Creek

Ambler District

14. Smucker
15. Arctic Camp
16. Picnic Creek
17. Bornite

Seward Peninsula

18. Lost River
19. Chicago Creek
20. Granite Mountain
21. Hannum Lode
22. Tin City

Noatak District

23. Red Dog
24. Lik

25. Chandalar District

Circle Mining District

26. Nome Creek Uranium

27. Pt. Lay-Cape Lisburne Area Coal

OTHER DEVELOPMENT

A. Delta Creek Ag & Forestry area
B. Menana-Totchaket Ag & Forestry area
C. Goldstream Ag & Forestry area
D. Pilgrim Hot Springs Geothermal Development and Ag area
E. Stillvitchaq--Selawik Lake Ag & Forestry area
F. Ambler Ag area
G. Nome Port Development
H. Pt. Lay-Cape Lisburne Port Devl.
J. Susitna Hydro Access Roads

D. Qualification Matrix for State Transportation Projects

QUALIFICATION MATRIX with scoring feature
check highest category

ISSUE	HIGH ←				→ LOW
Type of major state benefit	Includes royalty payments	Includes taxes	Includes direct economic	Includes indirect economic	No benefit
State investment payback period for royalties/taxes	Less than 5 years	5 - 10 years	10 - 15 years	15 - 20 years	over 20 years
State investment payback period for economic benefits	Less than 5 years	5 - 10 years	10 - 15 years	15 - 20 years	over 20 years
Degree of state investment being considered	Less than 20% of transportation facility	20 - 40% of transportation facility	40 - 60% of transportation facility	60 - 80% of transportation facility	over 80% of transportation facility
Project viability as related to payments to third parties (royalties)	No payment to 3rd party	State requirement reduced by 0 - 30% if payment eliminated	State requirement reduced by 30 - 60% if payment eliminated	State requirement reduced by 60 - 99% if payment eliminated	No state requirement if payment to 3rd party reduced or eliminated
Transportation need other than resource development	Provides new highly needed service	Replaces existing inadequate service	Provides new convenient service	Replaces existing service with more convenient service	No effect
Area effected by facility	Provides full statewide service	Provides partial statewide service	Provides regional service	Provides local service only	Provides no service
Bonding authority to provide support (regional or municipal)	Yes, tolls/fees to be collected (revenue bonds)	Commited to create bonding authority	May create bonding authority	Not feasible to create bonding authority	Not willing to create bonding authority
Potential to support future resource development	Commitments already made	High potential	Some potential	Low potential	No potential
Facility open to public	Yes, no charge	Yes, but only for commerce	Yes, with tolls or fees	Yes, but only for commerce with tolls or fees	Not open to public
Ground work: EIS, permits, ROW	Yes, all permits etc. in hand no state work required	Commitment to obtain permits, no state work required	Asking for partial state involvement	All work must be done by state	No cooperation

RED DOG PROJECT: Relationship of the Jones Act

The Jones Act, established in 1920 as an amendment to the Shipping Act of 1916, restricts the shipment of American goods between U.S. ports to vessels built in the U.S. and operated by U.S. crewmembers.

Cominco/NANA intends to use foreign-built, owned and operated ships to transport the ore to destinations in Canada, Japan, and Europe. They have proposed using the port at Red Dog as a public port and backhauling fuel and cargo for the NANA region on their ships that have off-loaded the ore in Vancouver. However, goods destined for the NANA Region are now normally purchased in the Pacific Northwest, U.S.A. and the Jones Act would preclude routing of ships from the U.S. west coast ports to Vancouver. There are two options available to circumvent the shipping restrictions.

One alternative is for goods normally purchased in the Lower 48 for shipment out of Seattle to Northwest Alaska, to be purchased instead in Canada and shipped direct to the Red Dog port from Canadian ports. This option, therefore, creates an incentive for Alaskans to spend their money on Canadian goods rather than U.S. goods. The goods may actually be cheaper in Canada. In fact, Cominco's evaluation of the use of the Red Dog port as a regional port indicates that the transportation costs of fuel purchased and shipped from Vancouver are $30 cheaper per ton than fuel purchased and shipped from Seattle. However, there is a potential political issue regarding the expenditures of Alaskan dollars in a foreign country, for goods readily available in the U.S.

The second alternative is to make use of a provision of the Jones Act (known as the Third Proviso), which allows for intermodal transporting of American goods into foreign countries. This option would allow for rail shipments from the U.S. to Vancouver where the goods would be transferred onto the Cominco ships and backhauled to

the Red Dog port. There currently is a bill in Congress that will eliminate the Third Proviso which would, therefore, eliminate this alternative.

Another shipping aspect that relates to the Red Dog project is Senate Bill 1624, Cargo Preference Legislation. This bill is currently being discussed in Congress and is backed by Senator Stevens. SB 1624 proposed to require that 50% of all U.S. bulk exports be transported on U.S. flag carriers. The State of Alaska DOT&PF has expressed to Senator Stevens their opposition to the cargo preference requirements. DOT&PF contends that the high costs of using U.S. flag carriers would severely impact potential exports and place Alaska at a competitive disadvantage relative to other Pacific Rim exporters.

If Senate Bill 1624 is enacted into law, Cominco/NANA would be required to ship their ore on U.S. flag carriers and the transportation costs of freight for both the Red Dog Project and NANA Regional goods that are backhauled on the ships serving the Red Dog Project, are forecasted to increase.

F. Synopses of Two Canadian Mining Projects with Joint Public / Private Sector Participation

Two resource development projects that evolved through joint public/private sector participation are summarized in this report:

1. Northeast Coal Development

2. Pine Point Mines Ltd.

Three companies, Societe Quebecois d' Exploration Miniere (SOQUEM), Elf Aquitane and the Potash Company of Saskatchewan (PCS), were also looked at. However, though they represent cases of investment by the public sector in mineral developments, the nature of this investment was viewed as being far removed from the Red Dog proposal and, therefore, not applicable to the purpose of this report.

1. NORTHEAST COAL DEVELOPMENT

Located at the Peace River coal field in British Columbia. The size of the northeast coal deposit is estimated to be 8 billion tons. The center of the deposit is located approximately 78 miles southwest of Dawson Creek (the nearest highway and railway lines) and 400 miles from the Port of Vancouver.

In 1975, the Provincial Government of British Columbia, which owned substantial coal reserves, decided that development of these resources was the economic priority of the government. Approximately $15 million was spent by the government on 77 studies relating to the mine and its potential impact.

Three main parties have participated and have an interest in the development of the mine. They are the Provincial Government who owns the resources; the Federal Government which has an interest in the regional economic policy, is owner of the national railway (CN Rail), has jurisdiction over ports and their development, and has

constitutional responsibility for international trade; and private industry that has expertise in mine development.

In June 1980, the Provincial Government informed major coal producers that the Province would develop the rail and highway systems, organize a town at the site, provide power transmission facilities, and negotiate with the Federal Government for construction of a terminal facility if the producers would develop the mine. No tax or royalty concessions were offered, freight rates would be commercially negotiated with a special rate prevailing until 1989, and complex cost recovery techniques would be developed to meet a sales contract and then the necessary infrastructure would be put in place.

In January 1981, two companies, Quintette Coal Ltd. and Teck Corporation, negotiated contracts with the Japanese steel industry for an annual supply of 7.7 million tons of coal. The price was negotiated at $76.00 and $76.50 per ton, plus escalation, with deliveries commencing in December, 1983.

The development responsibilities among the three parties consisted of the following tasks:

Private Industry

1. Quintette Coal Ltd. would develop an open pit coal mine capable of producing 6.3 million tons per year.

2. Teck Corporation would reestablish operations at their Bullmoose Mine to be capable of shipping 1.7 million tons per year.

Provincial Government

1. The Highway Department would build a new 57 mile road and upgrade other area roads.

2. The Provincial railroad would build 80 miles of new track with two major tunnels (3.7 miles and 5.5 miles).

3. A new substation for electrical power would be constructed and 79 miles of new power lines installed.

4. The Province would establish a new community near the mine site to accommodate a population of 6,000 people.

Federal Government

1. The federally owned railway would upgrade 677 miles of its system.

Federal Government and Private Industry

1. A new coal terminal would be constructed, funded jointly by the Federal Government and private industry. The facility would be capable of handling 12 million tons of coal per year and berthing vessels up to 250,000 dwt.

Total capital expenditures for the project are estimated to be $3 billion. Approximately 10,000 permanent jobs have been created. The estimated present value of taxes and other government revenues resulting from this project is $1.7 billion over a 20 year project life. These revenues, which are shared by the Provincial and Federal Governments, consist of income taxes, mining taxes and coal royalties paid by the mining companies, as well as sales taxes on goods and services and the personal income taxes paid by construction and operating employees.

2. PINE POINT MINES

The Pine Point lead and ore deposit is located near the Great Slave Lake in the Mackenzie District of the Northwest Territory, Canada. Cominco Ltd. began staking the property in 1928 and in 1951 Pine Point

Mines Ltd. was formed with Cominco owning a 78% interest. In 1955, the estimate of the size of the deposit was 5 million tons or ore averaging 4% lead and 7% zinc. At that time, the company determined that it was impractical to develop a mine until adequate transportation facilities were established.

In 1955, The Deputy Minister of Northern Affairs advocated the construction of a railway, 438 miles long, from Grimshaw, Alberta, to the Great Slave Lake as a project of national interest and to serve the Pine Point Mine. In 1961 an agreement was reached between the Federal Government, Pine Point Mines Ltd., and the Canadian National Railway Company (CNRC). The agreement called for the Federal Government to construct the railway, the Northern Canada Power Commission to build a hyro plant for supplying power to the mining area, and for Pine Point Mines Ltd. to bring the mine into production. The mining company guaranteed shipments of 215,000 tons per year for 10 years to CNRC, and the cost of the hydro plant construction was underwritten by Pine Point Mines Ltd.

Mining operations began in 1963 with a planned production capacity of 5,000 tons/day. The railroad reached Pine Point in 1964 and ore shipments began in 1965. Additional mineral leases were acquired and in 1968 the company increased its concentrating capacity to 10,000 tons per day.

Following are the key points outlined in the agreement between the Federal Government, CNRC, Pine Point Mines, and Cominco:

1. CNRC agreed to complete construction of the 438 mile rail line by December 31, 1966.

2. Pine Point Mines Ltd. agreed to ship exclusively on the rail for 10 years at least 215,000 short tons per year at a rate of $7.75 per short ton (subject to any increase or decrease in rates). If more than 215,000 short tons were shipped in a

particular year, CNRC will credit the surplus to the mining company, and vice versa.

3. All rates that apply to the Point Point Mines Ltd. shall apply evenly to any new operations established along the rail route.

4. No mineral rights will be transferred to CNRC for lands leased by Cominco that are crossed by the railway.

5. All income taxes paid by Pine Point Mines Ltd. are subject to the "Income Tax Act" and all royalties paid to the government are established according to the Canada Mining Regulations.

As a result of the payment schedule established in the agreement, the capital costs for the new railroad line ($79 million) were paid off after 7 years of the mines' operation. Power costs were subject to an agreed surcharge. Public investment in the hydroelectric power plant has long since been amortized. The current production rate is 11,000 tons per day and the mine operation and production is expected to continue for at least another 10 years. There are a total of 640 employees at Pine Point Mines with Pine Point community members having the second highest per capita income rate in the Northwest Territory.

VIII. Report of the Division on Land and Water Management Department of Natural Resources

A. Summary of DLWM Involvement in Red Dog Project

B. Outline of Topics to be Considered in a Right-of-Way Agreement

C. Commissioner's Response to Cominco and GCO Minerals Right-of-Way Applications

MEMORANDUM State of Alaska

TO: John Sims, Director
Office of Minerals Development
Department of Commerce and
Economic Development

DATE: February 23, 1984

FILE NO:

TELEPHONE NO: 465-2400

FROM: Esther C. Wunnicke
Commissioner
Department of Natural Resources

SUBJECT: Red Dog Project

I am responding to your recent request for comments from the Department of Natural Resources on the proposed Red Dog project. I am strongly supportive of the proposed development and offer the Department's resources in your review.

To encourage optimum eventual development in the area, all landowners and users must cooperate in providing for multiple industrial use of rights-of-way, development areas, and tidelands. We have proposed a reciprocal use agreement that would cover tidelands, the port and uplands, rights-of-way, material uses, and other matters of public concern. The attached memoranda to you from the Northcentral District staff of the Division of Land and Water Management indicate our concerns about the right-of-way and other development areas.

I strongly urge that affected landowners and users be brought together soon to discuss reciprocal use. The Department will be prepared for preliminary discussions within two weeks and has so informed NANA. We have been assisted by the Attorney General's Office in drafting a reciprocal use agreement.

In the executive summary I have noted a few points that I would recommend rewording. I am sending my suggestions under separate cover.

Thank you for requesting the Department's involvement. My staff and I are available if you have any further questions.

Attachments

02-001A (Rev. 10/79)

MEMORANDUM State of Alaska

DEPARTMENT OF NATURAL RESOURCES - DIVISION OF LAND AND WATER MANAGEMENT
NORTHCENTRAL DISTRICT - 4420 AIRPORT WAY, FAIRBANKS, ALASKA 99701

TO: John Sims
Director, Office of Minerals Dev.
Dept. of Commerce & Economic Dev.

DATE: November 18, 1983

FILE NO:

THRU: Jerry L. Brossia
District Manager

TELEPHONE NO: 479-2243

FROM: Michael E. Vediner
Natural Resource Officer
Classification & Coordination

SUBJECT: Summary of DLWM Involvement in Red Dog Project

Initial involvement of this division in the Red Dog project dates to August, 1982 with receipt of a ROW application from GCO Minerals to develop their Lik deposit. In January, 1983 Cominco applied for a different ROW to develop Red Dog.

In response to this potential for multiple facilities and in support of CZM mandates Commissioner Wunnicke issued the following general policy statements to both GCO and Cominco:

1. The State of Alaska will authorize the development of a single transportation corridor. The route will be public and available to multiple use by other future resource developments in the region. As a public route, reciprocal right-of-way agreements must be acquired wherever private or corporate ownership is encountered.

2. Tideland (and associated upland) port development will also be available to support multiple users such as oil and gas, coal exploration, or support services development.

3. Local concerns, particularly subsistence use must be accommodated to the maximum extent possible.

4. One EIS should be produced that considers all potential options. To this end, the research data collected by both companies should be available to all participating agencies.

For the project proposed by Cominco the division anticipates issuance of tideland lease(s), tideland permit(s), right-of-way permit, material sales, water appropriation certificates, dam safety permits, and possibly, instream flow reservation. To date only the right-of-way application has been received and at the request of the other state reviewing agencies further action is awaiting completion of the EIS.

We will be working closely with OMB on permit coordination regarding the CZM consistency determination. OMB has indicated that a single determination to cover all permits may be possible.

02-001A(Rev. 10/79)

Several issues have been identified by this division that through the EIS process remain unresolved, particularly with respect to your task force objectives and possible direct state involvement. These are summarized below.

1. Land ownership status was not considered in assessing the regional, multiple use perspective, during the EIS process. As a result the preferred (southern) alternative crosses a variety of land owners and terminates at tidewater on native corporate land. Since the applicant is in partnership with the native corporation they obviously have no objections.

   From the Department of Natural Resources' stated objective of one, multiple use, public road however the ownership status is of greater concern. Certainly we can insist on reciprocal rights-of-way for the primary road but upland facility land needs for possible future developments are not readily obvious. By comparison the northern (GCO) alternative crosses and terminates on public owned land. In fact the northern port site location is within the only stretch of accessible, unencumbered, public land along the northwest coast.

   If the state builds the road we may well consider a route that traverses a national monument and ends on private land as a greater barrier to public, multiple use than the number of bridge crossings, particularly since the environmental concerns of river crossings can be mitigated by appropriate construction techniques.

2. Both Cominco and GCO have investigated the preliminary engineering and costs associated with road construction. Their costs per mile vary from $1.5M to $800K, respectively, even though both roads are designed to support 222,000 pound loads. These cost differences are significant when considering state funded construction. The shorter southern route costs less to build for any given set of standards. Yet in absolute costs GCO could build their northern route for less than Cominco could build their southern route. Two questions that arise are: would state construction follow state highway standards and are the cost factors more important than land availability?

3. Design of port facilities should emphasize availability to other users. Items such as location of artifical islands and upland facilities should allow easy access to multiple users.

B. Outline of Topics to be Considered in a Right-of-Way Agreement

MEMORANDUM State of Alaska

DEPARTMENT OF NATURAL RESOURCES - DIVISION OF LAND AND WATER MANAGEMENT
NORTHCENTRAL DISTRICT - 4420 AIRPORT WAY, FAIRBANKS, ALASKA 99707

TO: John Sims, Director
Department of Commerce
Office of Minerals Development
Fairbanks

DATE: December 20, 1983

FILE NO: Red Dog

TELEPHONE NO: 479-2243

FROM: Jerry Brossia
District Manager

SUBJECT: Red Dog R/W

This memorandum outlines topics that should be considered in a Rightof-Way agreement for the Red Dog project. This information has not been reviewed by the Commissioner's office; therefore, these topics are considered as a draft. This information will also need to be reviewed by the Department of Law prior to meeting with NanaCominco.

We have been actively meeting with the Attorney General in Fairbanks and hope to receive further policy guidance from him and the task force in the near future.

In order to complete a Right-of-Way agreement it is necessary to determine land ownership for the entire route. There may be a variety of land owners along the proposed road (ie. National Park Service, Nana, Kivalina, Native Allotments, or mining claims). This review is currently underway and should be complete by late January 1984.

The RightofWay with Nana should include the following sections:

1. General discussion of grant
   a. Purpose
   b. Definitions
   c. Location
   d. Third parties interests.
2. Reciprocal agreements with Nana
3. Late comers' user agreements
4. Port and tideland use
5. Upland expansion for industrial purpose.
6. Availability of road use
   a. Industrial
   b. Public
   c. Subsistence

02-001A(Rev. 10/79)

7. Alignment/realignment for engineering or environmental purposes

8. Mitigative measures

   a. Environmental
   b. Maintenance

9. Liability

10. Indemnification of State

11. Bonding

12. Insurance

13. Books/Accounting record access

14. Reservations

   a. State
   b. Nana

15. Compliance with Notice to Proceed and Stop Work

16. Forfeiture/Breaches

17. Termination Plans

Other Items:

Land Exchanges

Cost Reimbursement Schedules (if State financed)

Toll Charges

Nana has been advised, on December 20, 1983, that we are willing to discuss the R/W with them. Don Argestinger will contact me to set up a time.

cc: Jim Barnette
Tom Hawkins
Esther Wunnicke

C. Commissioner's Response to Cominco and GCO Minerals Right-of-Way Applications

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

POUCH M
JUNEAU, ALASKA 99811
PHONE: (907)465-2400

March 9, 1983

Mr. W. D. Tonking
Executive Vice President
GCO Minerals Company
P. O. Box 4258
Houston, TX 77210

Mr. H. M. Giegerich
President and General Manager
Cominco Alaska
5660 "B" Street
Anchorage, AK 99502

Dear Mr. Tonking:

The Department of Natural Resources has now received applications and supporting documentation for rights-of-way from both Cominco Alaska and GCO Minerals Company to connect mineral deposits in the Western Delong Mountains with tidewater. We are pleased to see the significant effort that is underway to develop these mineral resources with due regard for engineering and environmental concerns. As the Department's involvement in this project gets underway, it is appropriate to provide both companies with our position on several key issues.

1. The State of Alaska will authorize the development of a single transportation corridor. The route will be public and available to multiple use by other future resource developments in the region. As a public route, reciprocal right-of-way agreements must be acquired wherever private or corporate ownership is encountered.

2. Tideland (and associated upland) port development will also be available to support multiple users such as oil and gas, coal exploration, or support services development.

0-J9 LH

3. Local concerns, particularly subsistence use must be accommodated to the maximum extent possible.

4. One EIS should be produced that considers all potential options. To this end, the research data collected by both companies should be available to all participating agencies.

In consideration of these points and as an aid to the various agencies that will participate in this project a unified industry position is desirable. Since the primary objective of both companies is to ship mineral commodities, and consolidation of support facilities in the coastal zone is required under State law, you should strive to resolve any differences you may have and mutually support a common right-of-way and port site development.

The Department will be an active review agency during the EIS process and will be prepared to provide the requested permits and/or leases within six months of EIS adoption.

I am hopeful that these points provide better direction at the outset of this project and I look forward to a successful venture. We also will be available to meet with all involved parties in Anchorage at your earliest convenience.

Sincerely,

Esther C Wunnicke

Esther C. Wunnicke
Commissioner

cc: Commissioner Dan Casey, DOT/PF
Curt McVee, BLM
Bill Riley, EPA
Harris Saxon, Ely, Guess & Rudd
Jerry Brossia, NCDO
Tom Hawkins, DLWM
Don Argetsinger, NANA

IX. Appendices

Appendix A: Project Description from Preliminary Draft Enviromnmental Impact Statement

Appendix B: Red Dog Fact Sheet

Appendix C: Project Permitting Time-Line

Appendix D: Permit Flow Chart

Appendix E: Base Metal Markets (Cu, Pb, Zn): Alaskan Opportunities (Paper by Gordon H. Laurie, Cominco, Ltd.)

Appendix A: Project Description from Preliminary Draft Enviromnental Impact Statement

INTRODUCTION

Development of the Red Dog mining project would involve an open pit lead/zinc mine located 131 km (82 mi) north of Kotzebue. The ore would be crushed and the metallic sulfides concentrated in a mill near the mine site, with the concentrates transported to the coast for shipment to market. While the deposit has not yet been fully defined by geologists, at least 77 million Mg (85 million tons) of ore exist. The ore contains approximately 5.6 percent lead, 17.1 percent zinc, 75 g/Mg (2.4 oz/ton) silver and measurable levels of barite. The project has a potential life of at least 40 years under expected production rates, with the possibility of extension if additional ore is found. The mine would be developed in two phases. The "initial" phase of production would extend five years and produce approximately 434,450 Mg/yr (479,000 tons/yr) of combined concentrates (Table II-1). The "expanded" phase of production would extend from the sixth year of development through the life of the project. Approximately 683,878 Mg/yr (754,000 tons/yr) of combined concentrates would be produced during this phase (Table II-1).

The mine, tailings pond, mill, power plant, worker housing and water reservoir would all be located within a 8,975 ha (22,176 ac) parcel of private land in Red Dog Valley. The port site would also be on private land if located at VABM 28, but on public land if located at Tugak Lagoon. The transportation corridor would be almost totally on public land.

PROJECT COMPONENTS AND OPTIONS

In reviewing this document, it is important that the reader understand the relationship among the terms "component", "option" and "alternative". The project has several components, each one a necessary part of an entire viable mining project (e.g., the mine, mill site, tailings pond*, transportation system, port site, etc.). For each component there may be one or more options (e.g., a northern or a southern transportation corridor option). An alternative is a combination of options (one for each component) that constitutes an entire functioning project.

Table II-1

CONCENTRATE PRODUCTION SCHEDULE

Daily Production (Average Amount/Day)	Initial Production Rate		Expanded Production Rate	
	Mg[1]	Tons	Mg[1]	Tons
Ore	2,721	3,000	5,079	5,600
Lead Concentrate	204	225	308	340
Zinc Concentrate	907	1,000	1,515	1,670
Barite Concentrate	127	140	127	140
Tailings*	1,678	1,850	2,766	3,050
Annual Production				
Ore	958,700	1,057,000	1,779,534	1,962,000
Lead Concentrate	71,650	79,000	107,933	119,000
Zinc Concentrate	317,450	350,000	530,595	585,000
Barite Concentrate	45,350	50,000	45,350	50,000
Tailings	524,250	578,000	1,095,656	1,208,000

[1] 1 Mg (megagram) = 1.102 tons
1 ton = 0.907 Mg

Source: Cominco Alaska, Inc.

* Defined in Glossary.

The EIS scoping process initially identified at least two, and often several, options for each component. The process by which this large number of options was screened to reduce the number to a manageable level, and the ultimate project alternatives were selected, is described in detail in Chapter III. The following description of each project component, therefore, addresses only those component options which were ultimately retained and are specifically addressed in at least one of the three action alternatives.

Mine

The Red Dog deposit is located on a side hill on the main fork of Red Dog Creek. The immediate topography generally consists of rolling hills with wide valleys. The zone of mining influence would impact the main stem of Red Dog Creek (Fig. II-1).

The outcropping ore body and its geological configuration dictate that a conventional underground mine would not be feasible. Open pit mining would require overburden (waste rock) removal from the surface of the ore body, followed by drilling and blasting of the ore in benches within an open pit. Overburden material not suitable for mill processing would be stockpiled near the tailings pond.

The mine pit would be developed in two stages: preproduction followed by production mining. During preproduction, overburden would be removed from the pit, and access roads, pit ramps and the initial benches would be established. Unmineralized waste would be used for road and tailings dam construction. Mineralized waste would be stockpiled in a catchment area above the tailings pond. During preproduction, it is estimated that a total of 1,242,000 Mg (1,365,000 tons) of material would be removed.

Ore production rates are an important economic factor and are normally based on the extent of services and the estimated quantities of concentrates that would be accepted in the markets. Initial production mining would involve the annual extraction of 958,700 Mg (1,057,000 tons) of ore. On an initial operating basis, an average of 2,721 Mg (3,000 tons) of ore would be

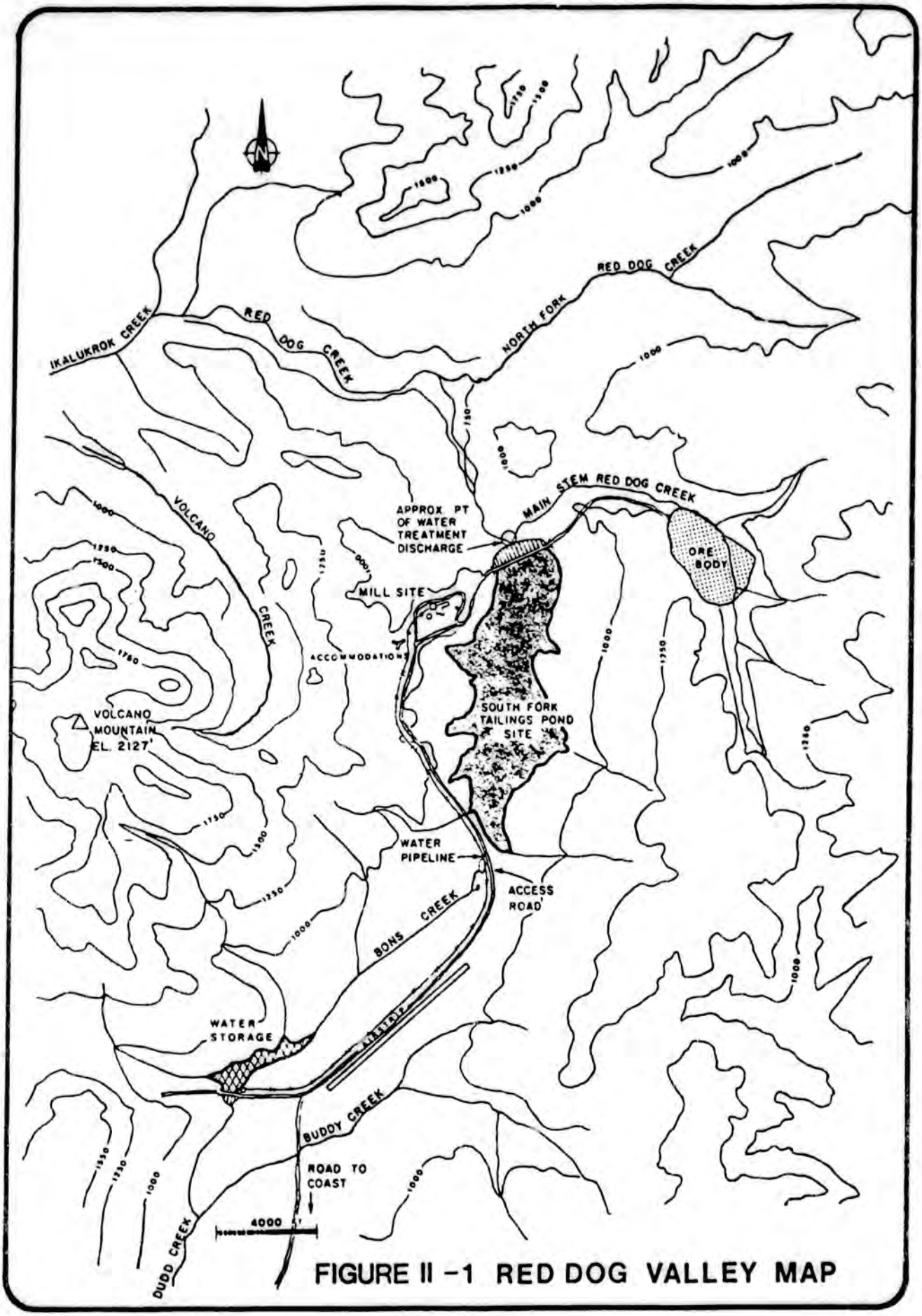


FIGURE II -1 RED DOG VALLEY MAP

sent each day to the concentrator (mill) for upgrading (Table II-1). Drilled and blasted ore would be loaded into mine type trucks using front-end loaders. The mine trucks would transport the ore to a crushing facility adjacent to the mill. The same loaders and trucks would be used to transport low grade ore and waste materials to stockpiles at the tailings pond.

The open pit would be designed to optimize ore recovery with due consideration given to protection of the Red Dog Creek watershed adjacent to the pit area (Fig. II-2). Pit slopes would be designed at 35 degrees and would be confirmed by rock mechanics design. Benches would be 7.6 m (25 ft) high and access ramps 18.3 m (60 ft) wide at an eight percent grade. The initial pit would be approximately 244 m (800 ft) in diameter and would contain seven benches down to the 297 m (975 ft) elevation. The final pit could be 853 m x 305 m (2,800 ft x 1,000 ft) in area and contain up to 28 benches to the 152 m (500 ft) elevation.

A diversion ditch would be constructed between Red Dog Creek and the open pit to collect runoff from the mine area. The ditch would initially intercept runoff from an approximate area of 0.65 km^2 (0.25 mi^2). The depth of the ditch would be sufficient to ensure that it would collect most of the ore zone runoff from the south side of the creek. If significant subsurface inflow from the creek occurred, a seepage cutoff wall would be added where necessary to block this inflow.

The drainage ditch would also collect surface erosion sediment originating from the open pit and the associated ore haul road to the mill. A pump station would route runoff from the open pit to the tailings pond. The ditch, collection sump and pump to the tailings pond would be sized for a 10-year recurrence 24-hour storm event. Adequate capacity would be allowed for winter icings and snow accumulation. The ditch would be cleaned of ice and erosion debris, if necessary, in late winter or spring to retain capacity for spring breakup and summer storm runoff.

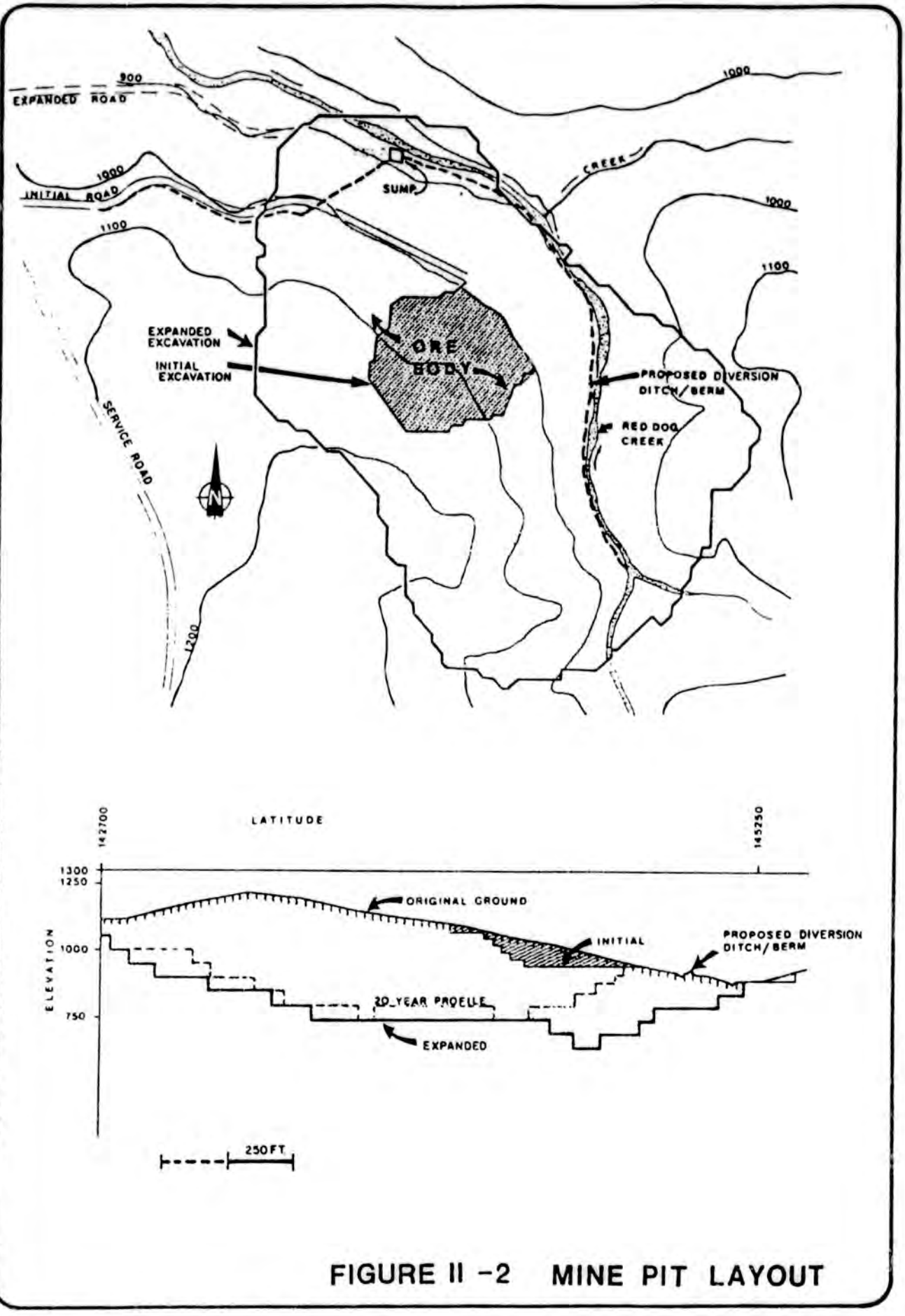


FIGURE II -2 MINE PIT LAYOUT

Tailings Pond

The location of the South Fork tailings pond in Red Dog Valley is shown on Figure II-1. A detailed diagram of the approximately 237 ha (585 ac) tailings pond facility is shown on Figure II-3. The tailings pond dam would be in the form of an impervious earth-filled structure with a spillway designed to maintain structural competency in the event of an overflow. The earth-filled dam would be constructed in stages. Prior to full production, the dam would be constructed to contain five years of production tailings. The dam would then be raised to its final elevation in stages which may take 15 years to complete. The top of the dam would be used as a road to haul ore from the pit to the mill complex.

Thickened tailings slurry from the mill concentrating process would contain about 60 percent solids by weight, with the liquid portion consisting of excess process water, dissolved minerals and residual reagents. The slurry would flow by gravity from the mill into the tailings pond. An internal process using a thickener would be used to return water directly to the mill process circuit as a step in minimizing process water loss. It is estimated that approximately 64 percent of mill process water could be recirculated directly in the mill in this way. Additional mill process water would be recycled from the tailings pond (25 percent) or from the freshwater source (11 percent). These recycle estimates are based upon water balance flowsheet data (Cominco Engineering Services, Ltd., 1983). Tailings in the form of a sand slurry would be deposited behind the dam.

Red Dog Creek tributaries with known metal content of toxic concentrations would continue to drain into the tailings pond for treatment, as would precipitation-related runoff. Diversion structures and ditches would be built to control or prevent excess surface drainage of uncontaminated water into the tailings pond. The surface water would be routed into the Bons Creek drainage, thus reducing the amount of water accumulating in the tailings pond. Chemical treatment and metals removal of tailings pond water would take place in a treatment plant prior to discharge to the presently minerals-contaminated Red Dog Creek. A seepage contingency dam would be con-

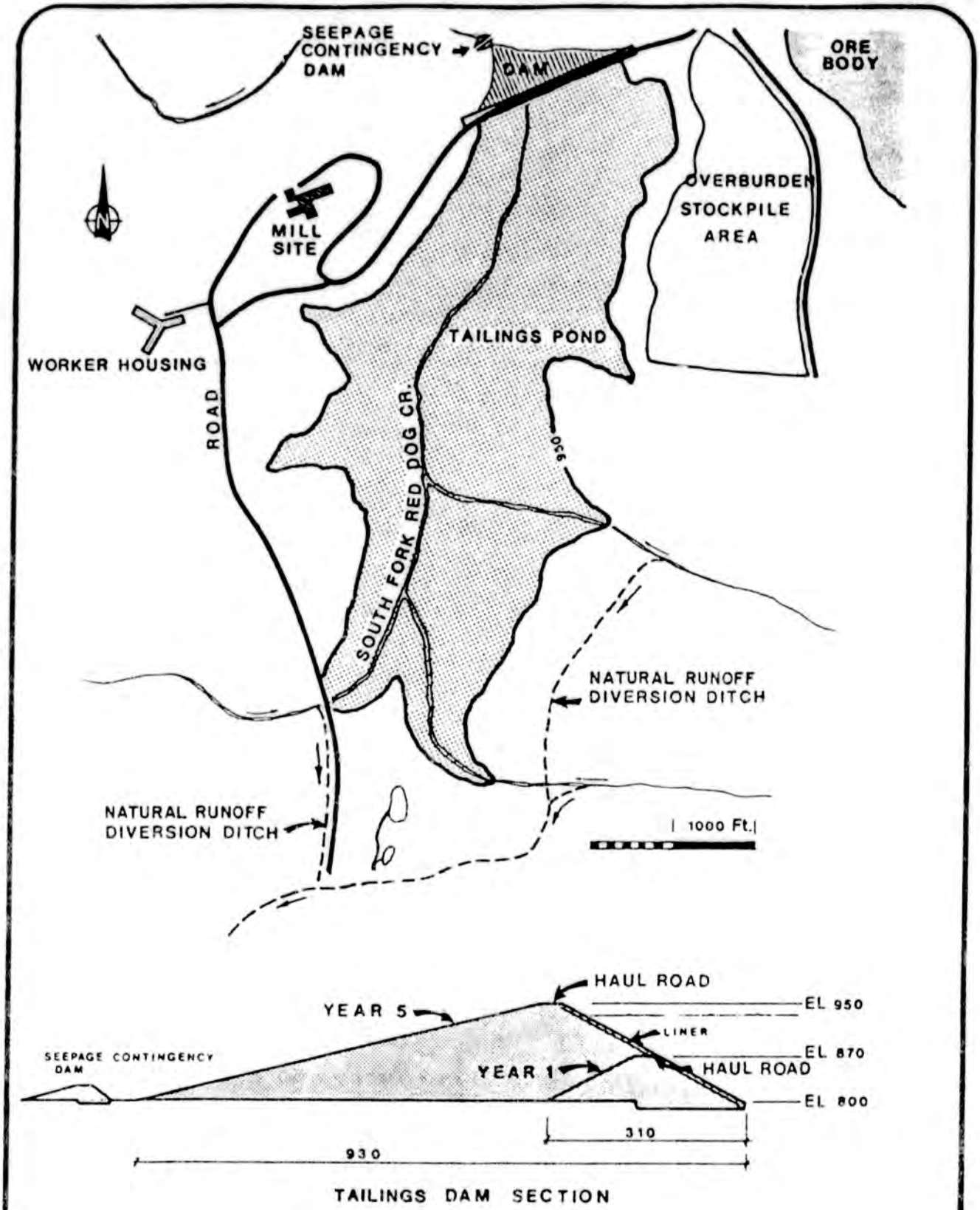


FIGURE II -3 SOUTH FORK TAILINGS POND

structed downstream of the main tailings pond dam to collect any seepage and return it to the tailings pond.

Mill

Proximity to the mine and tailings pond were determining factors in mill location. The proposed mill site would be on a small hill of bedrock outcrop located opposite the ore body on the northwest side of the South Fork tailings pond (Fig. II-1). This site would be located within the pond catchment area so that tailings slurry could flow by gravity from the concentrator complex to the tailings pond. In addition, worker housing facilities would be located within a reasonable distance of the mill site so that waste heat produced in the power generation process could be used to heat the accommodations.

The proposed mill complex is shown on Figure II-4. The approximately 14 ha (35 ac) complex would include a water treatment plant, a diesel-based power plant, fuel storage and distribution facilities, and a vehicle maintenance/warehouse structure in addition to facilities integral to the milling process.

The project would use a selective flotation milling process to concentrate valuable minerals. The flotation process would consist of three major steps: size reduction, selective mineral concentration and moisture reduction of the concentrates. During the milling process, lead, zinc and barite minerals would be separated and concentrated, while the residual tailings slurry containing waste rock would be directed to the tailings pond. Silver complexes with the lead and zinc concentrates in the milling process, and would be separated out later during smelting.

After grinding, the ore would be suspended in a water slurry and transported to flotation cells (tanks) where the valuable minerals would be separated from waste materials in a froth flotation process. In this process, valuable minerals adhere to air bubbles that rise to the surface of the tanks and are removed. To make the process work efficiently, it is necessary to

FIGURE II – 4 MILL SITE FACILITIES

add air and various reagents. The reagents either aid flotation of valuable components or suppress flotation of waste material. This allows the bubbling and frothing action to float different ore minerals selectively so that metal concentrates can be produced. The ore minerals would be separated as sulfide concentrates of lead and zinc, with barite recovered in the last stage of the process as barium sulfate. Waste would include silicate minerals and small concentrations of sulfides.

Following separation of the ore minerals from waste rock, dewatering of the concentrates would take place using lead and zinc thickeners, followed by filtration and thermal drying. Wherever possible, waste heat from the diesel-based power generation would be used for drying the concentrates.

No reduction of sulfides to base metals or other changes in the chemical composition of ore minerals would take place in the concentrator or at the project site. The upgraded lead and zinc concentrates (which would also contain silver) would be shipped to smelters outside of Alaska for processing to refined metals. Barite concentrate would be dried and bagged locally for possible use in formulating oil well drilling mud.

The mill would be a major consumer of water and, as such, recirculation of process water would be used to the fullest extent possible. In addition to concentrate thickeners, a tailings thickener would be used to recycle water, thus decreasing the volume of tailings slurry produced. This would decrease the amount of water that would have to be treated, and would reduce annual water demand by approximately 49 million ℓ (13 million gal).

Reagents are an integral part of mill operation and sufficient quantities for a year's operation would be stored at the mill site. Reagents to be used for the Red Dog project are shown in Table II-2. These materials would be supplied in annual shipments and stored in a secure area at the port site.

The zinc ($ZnSO_4$) and copper ($CuSO_4$) sulfates used as conditioners in flotation would be handled in polylined and sealed palletized cartons of approximately 0.9 Mg (1 ton) capacity. These materials could be compatibly stored together and their toxic environmental hazards are well known.

Table II-2

RED DOG CONCENTRATOR REAGENTS

	Initial Production		Expanded Production	
	Mg/yr	tons/yr	Mg/yr	tons/yr
Zinc sulfate ($ZnSO_4$)	480	529	1,401	1,544
Copper sulfate ($CuSO_4$)	480	529	2,505	2,761
Sodium cyanide (NaCn)	96	106	299	330
Methylisobutyl carbinol (MIBC)	48	53	199	220
Sodium isopropyl xanthate	480	529	1,766	1,947
Sodium cetylsulfonate (EC-111)	72	79	148	163
Sulfuric acid (H_2SO_4)	959	1,057	3,002	3,309
Hydrated lime [$Ca(OH)_2$]*	2,396	2,642	9,018	9,941
Polyacrylamide flocculant* (Percol 730)	5	6	5	6

* Note: Part of the lime and all of the flocculant supply would be used in the wastewater treatment process.

Sodium cyanide (NaCn) is a toxic reagent and must, at all times, be stored and handled in isolation from other chemicals, particularly those which are acidic in nature, including the sulfate salts. This material would be shipped in 102 kg (225 lb) sealed drums on pallets. The reagent is essential to the metallurgical process as a depressant of iron minerals.

Methylisobutyl carbinol (MIBC) is an aliphatic liquid alcohol which has only a moderate solubility in water. It is moderately toxic to aquatic life and com-

parable in this respect to most intermediate molecular weight liquid alcohols. This chemical would be shipped in 181 kg (400 lb) steel drums and could be safely stored with the other chemicals.

Sodium isopropyl xanthate is an essential sulfide mineral collector in the flotation process, and is very toxic in the environment. It would be shipped in approximately 0.9 Mg (1 ton) sealed, palletized containers which preferably would be stored apart from acidic materials. A potential problem with xanthate is that it may deteriorate from prolonged contact with moisture and then would require disposal as it would be unusable as a reagent.

Sodium cetylsulfonate (EC-111) is a paste-like surface active agent used for barite flotation that has only a moderate solubility in water. It is essentially non-toxic and has been approved for use in food applications. This material would be shipped in 181 kg (400 lb) steel drums on pallets and would be compatible with all other reagents.

Sulfuric acid (H_2SO_4) is a hazard to aquatic life by virtue of pH reduction effects. Because of its liquid nature, spills would be difficult to contain and the chemical could have long lasting impacts on vegetation recovery unless lime were applied as a neutralizing agent. Sulfuric acid would be stored at the port in an isolated, berm-protected bulk tank and hauled to the mine in acid standard tank trailers of 24,227 ℓ (6,400 gal) capacity.

Lime would be used as a pH modifier in the mill flotation process and in the wastewater treatment plant. It is only toxic in concentrations which result in high alkalinity and would be relatively safe to manage in the hydrated form. It would be shipped and stored in heavy-wall plastic bags of about 1.8 Mg (2 tons) capacity. There would be no constraints on its storage with other reagents.

Polyacrylamide flocculant (Percol 730) is a slowly water soluble, high molecular weight, acrylamide-based polymer that would be used as a solids settling aid in the wastewater treatment plant. This material is relatively non-toxic. It would be shipped in 23 kg (50 lb) sacks on pallets and must be

protected from temperature extremes in storage or its effectiveness might deteriorate.

The mill would produce lead, zinc and barite concentrates. Lead and zinc concentrates would be shipped to the port site in covered gondola-type trailers while barite would be moved in sealed containers on flat bed units.

The mill would operate on a continuous, round-the-clock basis for an estimated 350 days per year. Initial and final mill production rates are shown in Table II-1. Concentrates would be transported from the mill site to the main storage terminal at the port site in truck/trailer units. Approximately nine to 12 daily truck trips to the seaport would be required to handle the estimated daily production rate. Six weeks' production of concentrates could be stored at the mill to allow for transportation delays during periods of bad weather, when the roads were unsafe for travel, or if transportation activities were temporarily suspended to protect subsistence activities or animal migrations.

Worker Housing

A campsite or hotel-style facility would be constructed a reasonable distance from the mill site complex. The actual location of the accommodations would be more specifically defined during the detailed design stage of the project in accordance with Mining Safety and Health Administration (MSHA) regulations that mandate specific criteria for worker safety and comfort.

Approximately 225 to 250 full-time employees would comprise the project site workforce at any given time. Workers would be scheduled on a rotation of approximately two weeks on and two weeks off so the total project workforce would be twice that figure. The projected mine/mill workforce breakdown would be as follows:

Miners/Mill Operators	50 percent
Mechanics/Electricians	15 percent
Support	15 percent
Supervisory/Management	20 percent

Water Supply

The mill would be a major consumer of water so a guaranteed year-round water source would be essential to the project. Wells would not be feasible since the permanently frozen ground prohibits free-flowing water aquifers. An approximately 25 ha (63 ac) water storage reservoir located on Bons Creek at the south end of Red Dog Valley would serve as the water supply (Fig. II-5). A rock-filled dam would be constructed on bedrock foundation near the existing airstrip, and a pipeline would follow the existing road system to the mill site. The reservoir would also serve as a domestic water supply. It would have a capacity of 1,462 dam^3 (1,185 ac-ft) of water to meet an expected total daily consumption rate of 1,136 ℓ/min (300 gal/min) for all the mine area facilities.

Power Generation

For the concentration of minerals to take place, a large amount of power would be expended in grinding to achieve a fineness which allows adequate liberation of lead sulfide, zinc sulfide and barite particles from waste particles. On an average basis, electric power at a rate of 19.3 kWh/Mg (17.5 kWh/ton) of mill feed would be required for the grinding process. In order to meet this and other support facility demands, a dedicated power plant would be necessary. The Red Dog project would consume approximately 10.2 MW, and an 18 MW diesel-based power plant would be installed to allow for down time of some generators.

It was desirable to minimize both the loss of waste heat and air pollutant discharge by designing a system whereby waste heat would be used for concentrate drying, with the dryer exhaust treated in a scrubber or other type of pollutant control device. Diesel fuel storage and distribution facilities would be provided at the mill site. Fuel storage units (capacity of 4,800 bbls) would periodically be replenished from the main fuel depot at the coast by tanker trucks or by ore trucks specially fitted with tanker units.

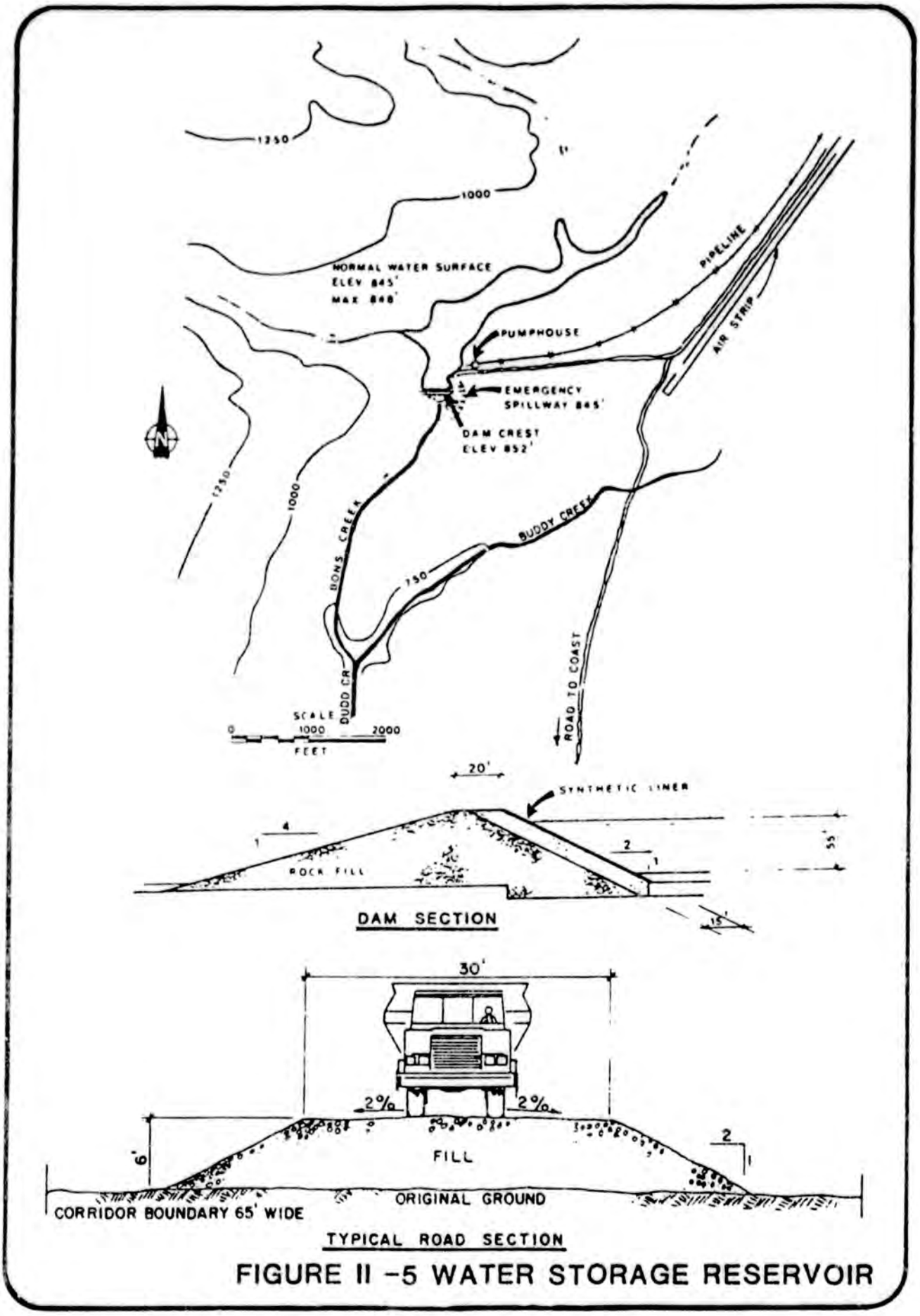


FIGURE II -5 WATER STORAGE RESERVOIR

Transportation Corridor

A transportation corridor would link the Red Dog Valley mine facilities with the Chukchi Sea coast. Two corridor options are included in the alternatives: a northern and a southern corridor (Fig. II-6). For the first 11.8 km (7.4 mi) the two corridors follow a common alignment. At a point near Dudd Creek, the northern corridor swings westward across the Wulik, Kivalina and Asikpak River drainages to a port site near Tugak Lagoon 24 km (15 mi) northwest of Kivalina. At Dudd Creek the southern corridor continues southwest along the flanks of the Mulgrave Hills to a port site near VABM 28, approximately 25.6 km (16 mi) southeast of Kivalina. The topography of both corridors would be gentle enough to handle railroad grades. Both corridors have therefore been laid out to accommodate a railroad at some future time.

Northern Corridor

The northern transportation corridor would be approximately 117.0 km (73.1 mi) long and would require the construction of six major (greater than 30.5 m [100 ft]) multiple-span bridges, seven minor bridges and approximately 300 culverts. The route would traverse the main stems of Ikalukrok Creek, and the Kivalina, Wulik and Asikpak Rivers (Fig. II-6). It would cross approximately 12 streams which contain fish.

Southern Corridor

The southern transportation corridor would be 89.9 km (56.2 mi) long and would require the construction of one major bridge, four minor bridges and approximately 182 culverts. The corridor would cross tributaries of the Wulik, Noatak and Omikviorok Rivers near their headwaters, and would generally stay at a higher elevation than the northern corridor until its terminus at the VABM 28 port site (Fig. II-6). It would cross approximately 11 streams which contain fish.

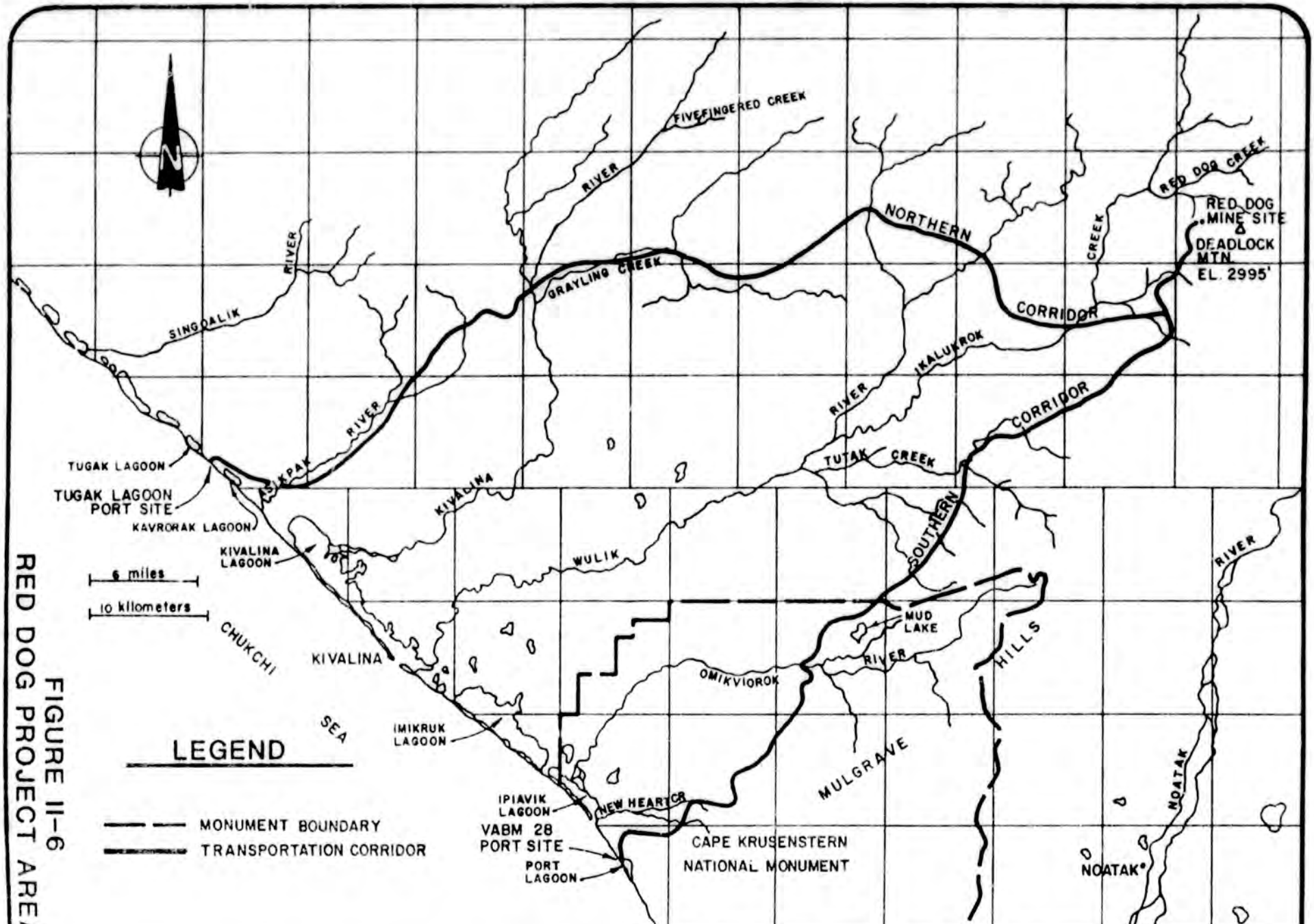


FIGURE II-6
RED DOG PROJECT AREA

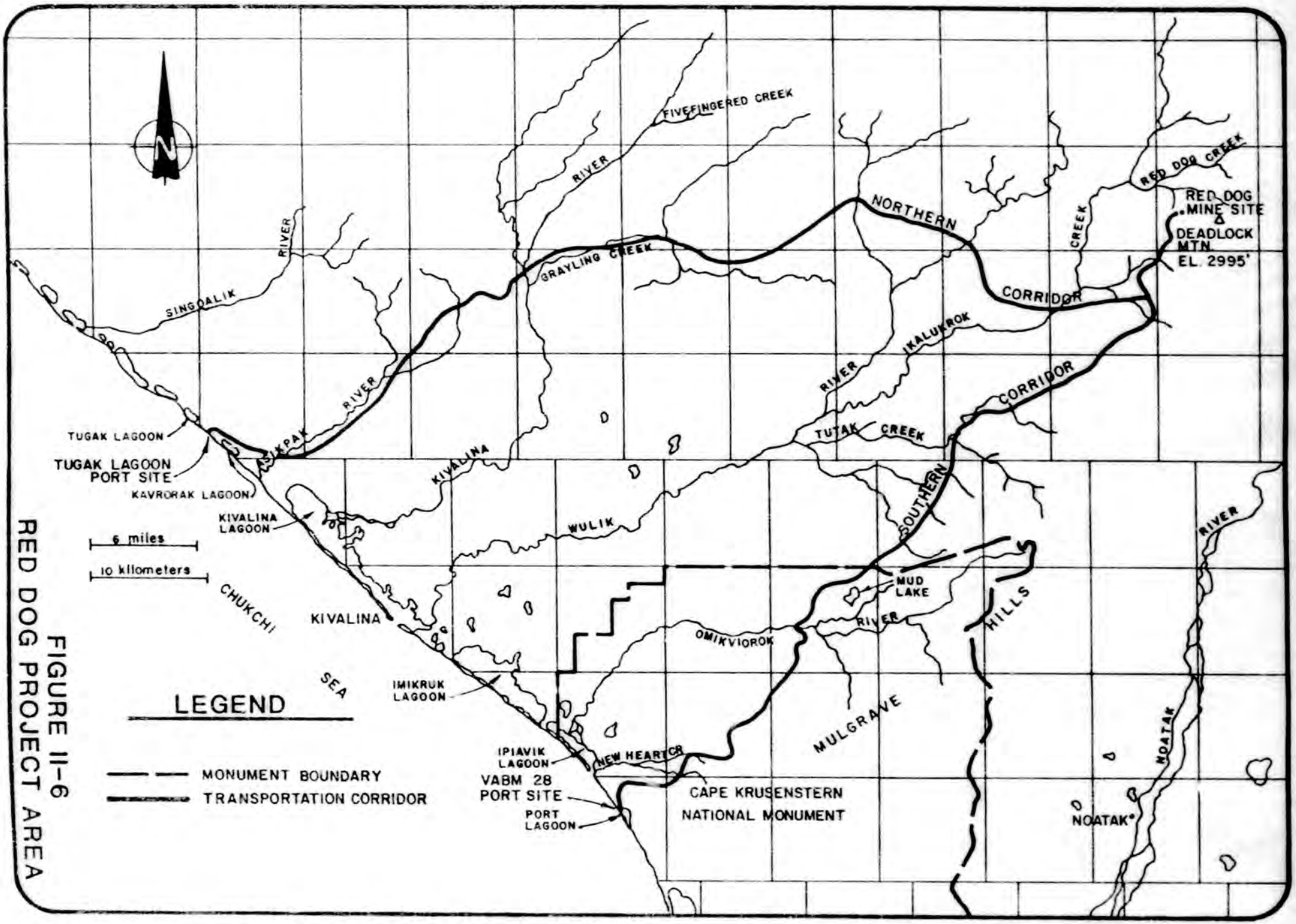


FIGURE II-6
RED DOG PROJECT AREA

Road Transportation System

The road haulage system would be comprised of a gravel surfaced road and double truck/trailer haulage units similar to normal highway vehicles, but over-sized. The roadbed or subbase would be composed of granular fill 2.0 m (6.5 ft) thick to prevent degradation of permafrost. The majority of the fill needed for construction would come from quarry sources as few gravel sources have been located along the corridors.

The top surface of the road would be 9 m (30 ft) in width as shown in Figure II-5. Turnouts and passing places would be provided along the route. Curvature and grade would generally be limited to 10 degrees and three percent, respectively, to permit eventual construction of a railroad. Bridge structures and culverts would be designed to accommodate year-round concentrate haulage by combined truck/trailer units. A truck and a trailer would weigh approximately 103 Mg (114 ton) and 90 Mg (108 ton), respectively, or 201 Mg (222 tons) for one combined truck and trailer unit. Nine to 12 daily truck/trailer round trips to carry concentrates to the port site would be required for the first five years at initial production rates. Following proposed expansion of production after five years, daily trips would average between 16 and 20.

Inbound freight would likely be containerized, though some specialized trailers such as tanker units (to haul fuel oil to the mill site) would be required. Periodic maintenance of the roadway would be necessary, thus requiring a full complement of road maintenance and repair equipment.

Port Site

Though operations at the mine would continue year-round, activity at the deep-draft port site would be limited to the receipt of supplies and fuel during the summer sealift, and the shipment of concentrates from late June until early October. Climatic constraints on shipping activities thus require that adequate storage facilities for concentrates, fuel and other supplies exist at the port site. Using an all-weather road, it is estimated that eight

and a half months of concentrate storage capacity would be required at the port site.

Schematics of the approximately 20 ha (50 ac) proposed port site facilities are shown on Figures II-7 and II-8. Depending upon the type of transfer facility (described below), fuel would be stored either onboard the "offshore island" or in tanks on land at the port site. In either case, a year's supply would be kept there to serve as the main fuel depot for the project. Fuel would be periodically hauled to the mine site as required. A short causeway/dock structure would be required to receive incoming freight and supplies, and for transfer of the concentrates for shipment.

Only emergency and temporary ship loading crews would be housed at the port site. A small accommodation complex would be provided to support activities during the summer shipping season. Domestic sewage would be collected and treated using a package treatment facility before discharge into the sea. A small diesel-based 1.5 MW power plant would be required to operate conveyor equipment and life support facilities. In addition to the facilities located immediately at the coast, the main concentrate storage building would be located approximately 4.0 km (2.5 mi) inland, adjacent to the transportation corridor. This structure would be constructed on an excavated borrow site* to minimize habitat destruction, and to take advantage of foundation materials and protection from the wind.

Transfer Facility

Two methods to transfer concentrates from the port site storage facility to ocean going vessels are included in the alternatives: a short causeway/lightering* transfer system and a short causeway/offshore island transfer system. Both systems would use a 122 m (400 ft) causeway/dock structure as an interface between the shore and the concentrate loading vessels or offshore island. The causeway/dock structure would extend to the 4.6 m (15 ft) water depth. Concentrates would be transferred by conveyor belt

* Defined in Glossary.

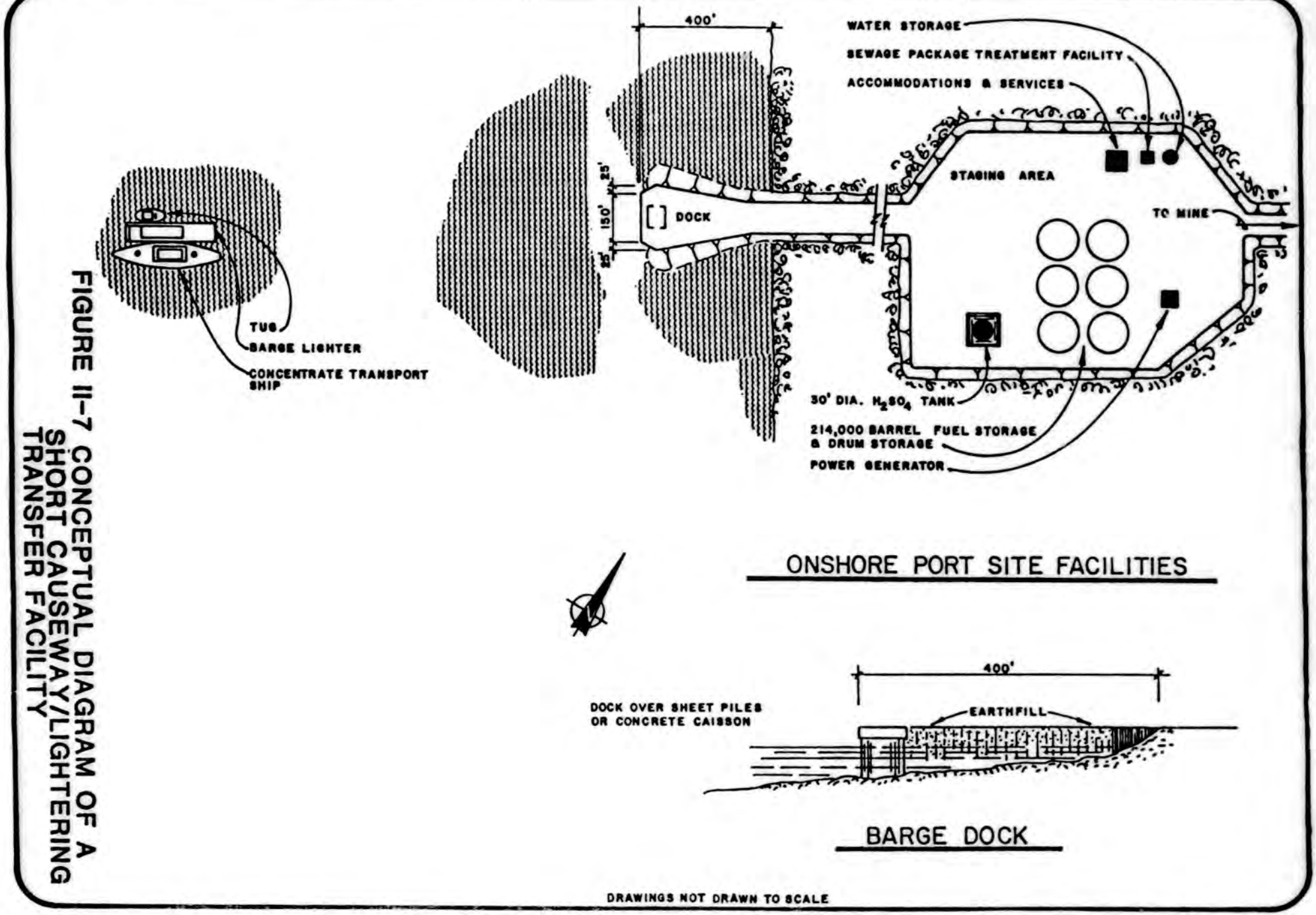


FIGURE II-7 CONCEPTUAL DIAGRAM OF A SHORT CAUSEWAY/LIGHTERING TRANSFER FACILITY

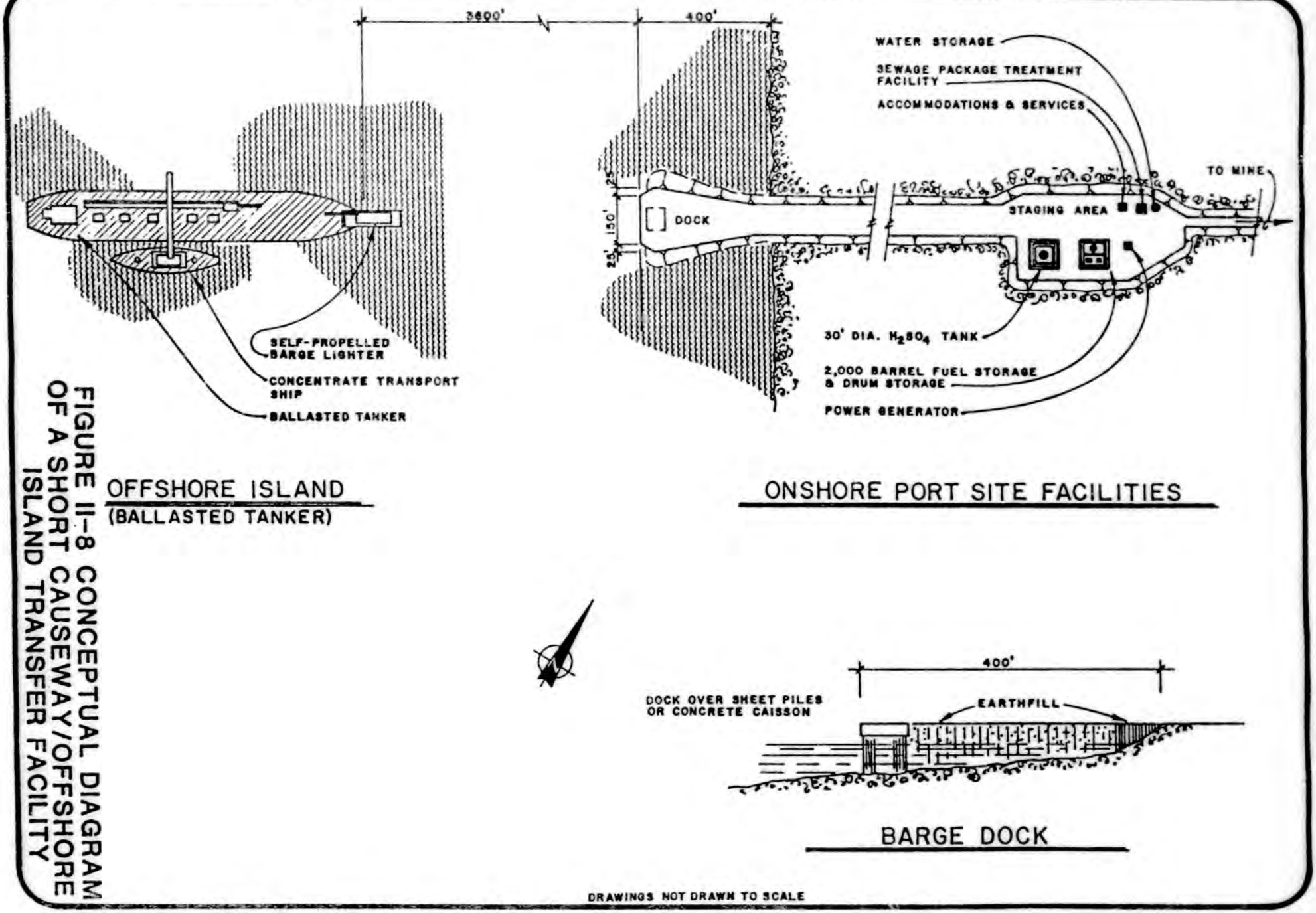


FIGURE II-8 CONCEPTUAL DIAGRAM OF A SHORT CAUSEWAY/OFFSHORE ISLAND TRANSFER FACILITY

from a storage building, along the causeway, to a barge loader structure mounted on the dock face.

The causeway structure would be constructed of sheet pilings with solid earth fill (Fig. II-7). It would be suitably capped and faced to allow lighter* barges to tie up at its seaward face. Depending on the transfer facility option selected, lighter barges ranging from 907 to 4,535 Mg (1,000 to 5,000 tons) would be used.

Short Causeway/Lightering System

This transfer method would use two 4,535 Mg (5,000 ton) lighters and two support tugs to transfer concentrates from the dock directly to the side of a moored ocean going bulk-handling ship. The ocean going vessel would load concentrates with clam shell cranes, though rough sea conditions might make this transfer method unreliable. Winter shelter for the two large-capacity lighters and their tugs would be provided in a coastal lagoon located adjacent to the port facilities.

Short Causeway/Offshore Island

This transfer method would use a 226,750 Mg (250,000 ton) surplus oil tanker with an ice-strengthened hull which would be ballasted to the bottom perpendicular to shore (Fig. II-8). The landward end of the tanker would be in approximately 7.6 to 8.5 m (25 to 28 ft) of water and the seaward end in 10.6 to 12.1 m (35 to 40 ft) of water. Depending upon the port site selected, the landward end of the tanker would be approximately 1,213 m (4,000 ft) from shore. This 305 m (1,000 ft) tanker "island" would serve as an offshore dock for the smaller, ocean going bulk carriers. The tanker would be large enough to accommodate storage of concentrates, fuel and supplies. Onboard concentrate storage capacity would be sufficient to load three to five ocean going bulk carriers.

---

* Defined in Glossary.

The bow of the ship would be modified to accommodate a 907 Mg (1,000 ton), self-unloading lighter which would discharge directly by conveyor belt into the ship (Fig. II-8). Only one self-propelled lighter would be needed to transport concentrates because of the storage capacity onboard the tanker. Shelter for the single, smaller lighter could be provided in the lee of the tanker if necessary during bad weather. Winter shelter would be provided in a coastal lagoon adjacent to the port site. If ice conditions were suitable, winter transfer of concentrates to the tanker island might be accomplished by trucks driven directly over the ice.

Transfer of concentrates from the ballasted tanker to bulk carriers would be accomplished using moveable conveyors between ships which would be loaded from storage by a clam shell bucket. Similar to the shore-based system, conveyors would be covered, and the end of the loader would be fitted with a telescoping spout or "elephant's trunk", to direct the concentrate into the receiving ship's hold below deck level. Conveyor return belts would be brushed in an enclosure to prevent losses to the sea. Sealed barite containers would be loaded by crane.

Fuel Storage

Location of the major fuel storage depot for the project would depend upon the transfer facility selected. For the short causeway/lightering option a full year's supply of fuel for the project, as well as fuel to meet the annual needs of the region's villages, would be stored in tanks on land at the port site. The fuel would be lightered to the dock from ships moored offshore. Storage capacity would be approximately 214,000 bbls with about 56 percent of that (120,000 bbls) being for the project. Fuel would be hauled to the mine area facilities by tanker truck as needed during the year. It would be distributed to the villages from the port site using the same smaller barges as used presently by local barge services to navigate the rivers.

For the offshore island option, the same amount of fuel would be transferred directly into the ballasted tanker and stored in tanks aboard the ship. It would be moved to shore year-round through a buried 10 to 15 cm (4 to

6 in) pipeline designed to withstand wave and ice forces and scour in the surf zone. The pipeline would be pressure tested for leaks prior to fuel transfers. Fuel would be stored at the port site to a capacity of approximately 2,000 bbls. It would then be transported to the mine area facilities by tanker truck as needed. Regional village fuel would be distributed by barges directly from the tankers.

DEVELOPMENT SCHEDULE

As is the case with any endeavor in the Arctic, the critical factor affecting the development schedule is the limited shipping season (generally July through September). Within these confines and assuming a project start-up date of January 1985, key periods in the development schedule are discussed below.

Construction equipment for road building activities would be landed at the port site during the summer of 1985. This equipment would be idled until freeze-up occurred prior to moving inland to the first borrow site. From January to July of 1986, a road would be built inland from the first borrow site, as well as back to the port site.

The first major construction sealift of equipment and materials would be made in the 1986 shipping season. The equipment for constructing the main road, as well as the mining equipment, would be brought in at that time. A 100-person barge-mounted camp would be located in a lagoon at the port site to support construction activity during the same sealift. A small 20-person "fly-in" construction camp would be set up at the Red Dog mine site.

In January of 1987 the main road would be completed from the port site to Red Dog Valley. Construction equipment to prepare the mill site, as well as mining equipment to begin development work, would then be moved to the site. Additional camp facilities (for 50 people) would also be moved over the road to the Red Dog site at that time. Mine development would continue through 1987 to the time of production mining start-up in early 1988. Suit-

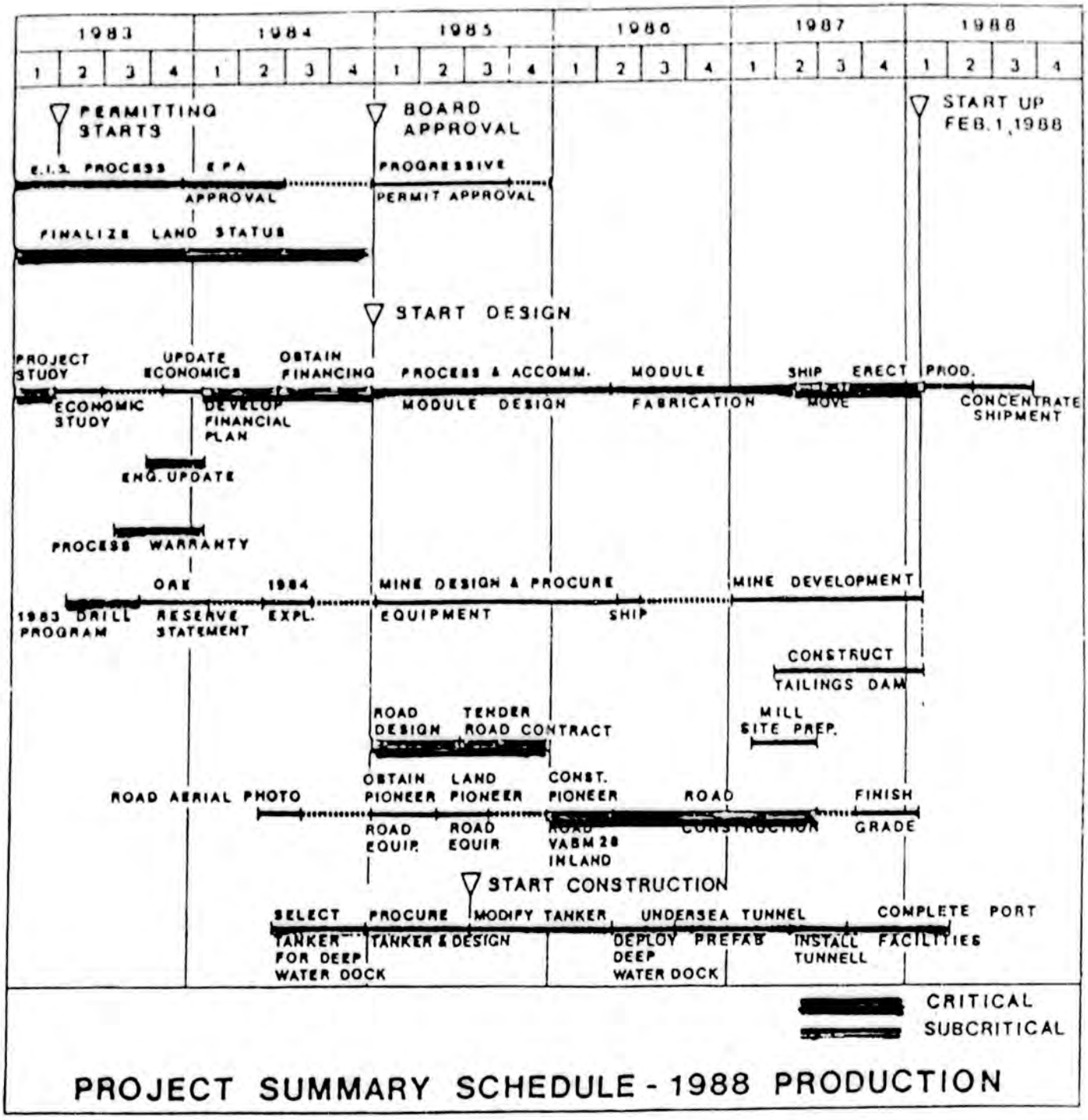
able mine waste would be used to construct the tailings pond dam during this period. To the extent that schedule constraints would allow, initial mine work would be carried out by permanent crews so that fully trained personnel would be available by the commencement of full operation.

A permanent dockface (in 3 m [10 ft] of water) and short causeway would be constructed prior to the 1987 sealift. This facility would be used to offload ore concentrator and worker housing modules, as well as other mine equipment. During the 1987 sealift the worker housing modules would be the first to be moved to the mine site. These living quarters would be commissioned as quickly as possible for use by construction crews, and later by operating personnel during the project start-up period. In this manner, the additional expense of a larger construction camp would be avoided.

During the summer and early fall of 1987, the concentrate storage building and other port site facilities would be constructed. If the offshore island transfer facility were approved, the modified tanker would be towed to the site and ballasted to the bottom during the 1987 shipping season.

During the period September to December 1987, the concentrator complex modules at the mine site would be joined and services installed. The facilities would be ready for commissioning (start-up) in December. Once commissioned, operations would commence in February 1988. Construction activities would be completed prior to the 1988 sealift. Construction surplus and equipment would be shipped out at that time.

The first movements of concentrates to market would probably be during the 1988 shipping season, though this would depend on project financing and the status of world-wide lead and zinc markets.



PROJECT SUMMARY SCHEDULE - 1988 PRODUCTION

RED DOG FACT SHEET

November 1983

1.0 LOCATION

A. Orebody/Mill Complex

The orebody is located 55 miles from the Chukchi Sea, east-northeast of Kivalina at the based of Deadlock Mountain; and 90 miles north of Kotzebue. Red Dog is approximately 440 air miles northwest of Fairbanks.

B. Seaport

The proposed location of the seaport is in the vicinity of VABM-28 about 17 miles southeast of Kivalina on the Chukchi Sea.

2.0 CLIMATIC DATA

Temperature (°F):	Summer -- mean daily	maximum	66
		minimum	35
	Winter -- mean daily	maximum	3
		minimum	-21
	Extremes		75 to -60

Precipitation* -- 11 inches.

NOTE: The above information has been extracted from the Climatic Atlas for Noatak.

* Recent measurements at the site indicates precipitation in the order of 18 inches per year.

3.0 EXPLORATION HISTORY

The first report of mineralization in the Red Dog area was in a 1970 U.S. Geological Survey open file report. Further exploration done by the U.S. Bureau of Mines provided a more detailed description of mineralization significance in a press announcement in the fall of 1975. Cominco American geologists explored the area and staked claims on adjoining areas soon after the USBM announcement.

4.0 EXPLORATION CAMP

Cominco American has operated temporary camps on land adjoining the Red Dog deposit every summer since 1976 with 25-50 employees.

5.0 OWNERSHIP

At different times there have been numerous federal, state, regional, and corporate claims to land adjoining the Red Dog deposit. As of February 5, 1982, Cominco American Incorporated and the NANA Regional Corporation reached agreement for evaluation and potential development of the deposit by Cominco American, with NANA retaining a carried interest.

6.0 GEOLOGY AND ORE RESERVES

A program of core drilling in 1981 defined a deposit estimated to contain, as calculated in place without mining dilution, 85 million tons of 17.1% zinc, 5.0% lead and 2.4 ounces/ton silver. The tons and grade are inferred from 14,700 feet of drilling in 39 holes, generally located on grid spacings of 400 feet in north-south and east-west directions, and are calculated to include contiguous mineralization averaging more than 3% zinc/lead. In 1982 CAI drilled an additional 14,600 feet in 32 holes to further define the orebody on a 200 foot grid spacing. This work confirmed the 1981 results. The 1983 drill program includes additional infill drilling for metallurgical testwork as well as diamond drilling in the Hilltop deposit one-half mile to the south of the main deposit.

The deposit is nearly flat-lying and suitable for open-pit mining, with upper portions exposed at the surface. The deposit in a north-northwesterly direction is approximately 4,400 feet long, varying in width from 200 feet up to 1,400 feet and is commonly 100 feet in thickness.

Current information ranks the Red Dog zinc-lead-silver deposit among the largest deposits of its type in the world. Although the orebody has not been completely defined, current reserves and mining plans gives a mine life of 50 years.

7.0 ENVIRONMENTAL ISSUES AND PERMITTING

In anticipation of the regulatory requirements applicable to the project development, environmental baseline studies were initiated in 1981 and continued through to the end of 1982. This comprehensive program of work included an evaluation of water quality and hydrology, fresh water and marine biology with emphasis on fish resources, archaeology and cultural values, terrestrial biology, socioeconomics and subsistence uses in all areas potentially affected by project components. In addition, metereological monitoring at the mine site commenced in 1982 and will continue as the project progresses.

7.0 ENVIRONMENTAL ISSUES AND PERMITTING (continued)

The findings from these studies have played an important role in regulatory planning, the development of a the project, and the designing of facilities and operating plans which are consistent with the social and economic objectives of NANA and the communities of the region. Therefore, the project as currently envisioned satisfies engineering, economic and environmental criteria to ensure its acceptance by the regulatory agencies and the NANA people.

Since the project is classed as a "major federal action" under criteria of the National Environmental Policy Act (NEPA), an Environmental Impact Statement (EIS) is necessary and work on its preparation was initiated in January, 1983 under the Environmental Protection Agency (EPA). This is expected to be completed in the spring of 1984. It will contain an overall impact assessment of the project alternatives with specific endorsement of the facilities to be constructed. Simultaneous with the development of the EIS, applications will be made for key permits requiring substantial lead times to obtain. Once the EIS is complete, the way is cleared for the issuance of the various federal and state permits required for both construction and operation according to the present project schedule.

8.0 PROJECT COSTS AND SCHEDULE

Project costs through to the end of 1983 are estimated to be $19 million. Capital outlays for constructing the project are expected to be in the $300 to $500 million range.

Construction could take 2 to 2-1/2 years with operation beginning in 1988. The actual beginning of construction will depend on world economic conditions, ability to complete detailed engineering design, and the completion of the environmental permit process.

9.0 CONSTRUCTION TECHNIQUES

Early engineering studies established that the cost of conventional on-site construction of the concentrator and related facilities at Red Dog would be expensive. Current engineering studies are based on the concept of modularization wherein completed building blocks are fabricated away from the site where access to a large and relatively inexpensive work force is possible. The success of modular projects for Alaskan North Slope Oil and elsewhere in the world clearly indicate cost and schedule advantages to this construction technique. For Red Dog, portions of the process plant and accommodations would be built outside of Alaska (where the constraints of Arctic construction would not apply), be barged to the Red Dog port, transported

9.0 CONSTRUCTION TECHNIQUES (continued)

inland to the mine on specialized transporter vehicles and then placed on their respective foundations. Buildings or service facilities that are not equipment intensive, such as warehouse and repair shops, will be site erected using conventional construction techniques.

10.0 EMPLOYMENT

The operation is expected to generate approximately 400 jobs involving a cross-section of mining, milling, maintenance, managerial and administrative skills. In keeping with NANA's desire to avoid the establishment of a townsite near the mine, a hotel-type accommodation complex will be used to serve a rotational work force which will transport from the local villages or Kotzebue to the site.

11.0 MARKETS

There are zinc and lead smelters in several Pacific Rim countries where concentrates from Red Dog could be sent. Cominco Ltd.'s Trail, B.C. smelter is one consideration, while Japanese smelters present other possibilities. European smelters are also being considered.

12.0 PRODUCT USES

a) Zinc is a shiny, bluish-white metal with two major industrial uses: galvanizing and die-casting. Galvanizing is a zinc coating which is a very effective rust prevention agent for use in products such as chain-link fencing, steel siding, household products, automobile bodies, structural steel coatings, and marine hardware. In the die-casting process, molten zinc is injected or poured into a metal mold where it hardens. Products such as plumbing fixtures, power tools, carburetors, and electrical appliances are typical applications.

b) Lead is a metal with many industrial uses, the largest one being storage batteries for all types of vehicles. Other uses include an anti-knock additive to gasoline, lead shielding, and cable coverings. Lead is also mixed with other metals to make various products such as solder, munitions and for use in making fine crystal tableware and glaze for pottery.

c) Silver is used in various industries and in many products, the largest user being photographic industry where it is employed to coat film as well as in the development of film. As a precious metal, it is used for jewelry, silverware, tableware, and ornaments. It is also used in surgery and dentistry.

13.0 PRODUCTION SCHEDULE

Years	FEED TONS Day	FEED TONS Year	FEED GRADE % Pb	FEED GRADE % Zn	CONCENTRATE TONS/YR Pb	CONCENTRATE TONS/YR Zn	CONCENTRATE TONS/YR Total	DESIGN Tons/Day
1 to 5	3,000	1,057,000	6	21	79,000	350,000	429,000	3,400
6 +	5,600	1,962,000	5	19	119,000	585,000	704,000	6,300

14.0 WORK SCHEDULES -- OPERATIONS

a) All employees:

-- 7 days per week

b) Mine:

-- 10 hours per shift, 2 shifts per day, 700 shifts/year

c) Concentrator:

-- 12 hours per shift, 2 shifts per day, 700 shifts/year

d) Power Plant:

-- 12 hours per shift, 2 shifts per day, 730 shifts/year

e) Seaport:

-- 12 hours per shift, 2 shifts per day, 240 shifts/year
Summer operation.
-- 12 hours per shift, 1 shift per day, 60 shifts/year
Winter operation.

15.0 MINE FACILITIES

	Length feet	Width feet	Height feet	Wt. tons	Plan Area Sq. Ft.
Primary Crusher Module	66	32	62	600	2112

16.0 CONCENTRATOR

Modules	Length feet	Width feet	Height feet	Wt. tons	Plan Area Sq. Ft.
Grinding	132	67	73	1390	8844
Regrind	104	67	73	870	6968
Flotation(3)	150	68	83	1700	10200

16.0 **CONCENTRATOR** (continued)

	Length feet	Width feet	Height feet	Wt. tons	Plan Area Sq. Ft.
Dewatering	136	64	71	1220	8704
Drying	79	40	61	500	3160
Power Plant(3)	136	71	55	1600	9656
Subtotal				7280	47532
Conventional Construction					
Water Treatment Plant	78	65	56	--	5070
Workshop	109	67	47	--	6970
Warehouse (incl. space under modules)	--	--	--	--	50600
Changehouse (1)	136	64	--	--	8700
Offices (2)	--	--	--	--	10000
Vehicle Repair	200	80	--	--	16000
Subtotal					97340

NOTES: (1) Changehouse is part of dewatering module.
(2) Office space allowed for in modules.
(3) May be reduced in size at the detail design stage.

17.0 **CONCENTRATE STORAGE -- MILL SITE**

Dome Structure 180 ft. diameter x 70 ft. high for Zn (adequate for 6 weeks storage).
Dome Structure 100 ft. diameter x 42 ft. high for Pb (adequate for 6 weeks storage).

18.0 **MISCELLANEOUS MILL SITE FACILITIES**

Fuel Storage	2 x 200,000 USG
Fresh Water Storage	350,000 USG
Coarse Ore Storage	10,000 ton

19.0 **THICKENERS**

Pb	45 ft. dia.
Zn	110 ft. dia.
Tailing	125 ft. dia.
Water Treatment	90 ft. dia.

20.0 **POWER SYSTEM**

Demand:	Average	7825 kW
	Peak	9630 kW

20.0 POWER SYSTEM (continued)

Generators:	Main	Emergency
Number of units	6	3
Cylinders/unit	8	12
BHP -- full load	4225	
Kw -- full load/unit	3000	500
-- total installed	18000	1500
RPM	720	1800
Voltage	4160	480

21.0 ACCOMMODATIONS

Modules	Length feet	Width feet	Height feet	Weight tons
Living (4 modules)	144	55	50	1150 x 4
Communal	164	78	50	1400
Services	130	78	50	1100
TOTAL				7100

Facilities

- 111 single rooms
- 112 single (or 56-2 room suites), 8 two-roomed suites
- Dining capacity -- 235 people
- Gymnasium -- 90' x 78' x 24' high

AREA	SQ. FT.
Building Services	7,500
Storage	10,900
Laundry	1,100
Accommodations	59,150
Commons	39,370
Dining & Serving	3,520
Kitchen	1,600
Kitchen Storage	1,280
Administration	2,300
Infirmary	960
Gymnasium	7,000
Changerooms & Sauna	2,850
Hobby Rooms	3,800
Commissary	800
Lounges	1,970
Library	400
Radio/Communications	400
Post Office	140
Janitors' Rooms	420
TOTAL AREA	145,460

22.0 LAND TRANSPORTATON

a) Route from mine to VABM 28 through Cape Krusenstern National Monument:

Distance 57 miles
Elevation @ Mine + 1030 ft.
Elevation @ Port + 10 ft.
Maximum grade 4%
Road Width 30 ft.
No. of bridges -- 5
Passing lanes @ 2 mile intervals

b) Concentrate Haulage Trucks

Years 1 to 5 -- 4 - 700 HP tractors each with 2 side-dump or end dump Trailers each with a 36 cu.yd. capacity.

Years 6 + -- 6 units as per above.

23.0 PORT

a) Shallow Water Dock

Sheetpile dock face in 10' water depth
Earthfill causeway 400' long

b) Deepwater Dock

(i) Ship ballasted to seabed in 35' water depth with storage capacity for: 71,000 tons of Zn concentrate
38,000 tons of Pb concentrate
9,400,000 USG of Fuel
Deck storage for 400 - 8'x8'x20' containers

(ii) 1000 ton self-propelled lighter barge -- summer operation

c) Shore Facilities

(i) Truck dump pad and barge loading facility.

(ii) Sulphuric acid storage tank (155,000 USG) and truck loading facility.

(iii) Fuel transfer tank (50,000 USG) and truck loading facility.

(iv) Accommodations for 20 - left over construction camp.

23.0 PORT (continued)

c) Shore Facilities

(v) Small 250 kW power plant.

(vi) Small storage building: 40' x 40'.

d) Facilities at Mile 2.5

(i) A-frame structure 180' x 912' x 80' high to store 55,900 tons of Pb concentrate and 247,900 tons of zinc concentrate.

(ii) Small 250 kW plant.

24.0 WATER SYSTEM

Fresh Water Consumption

- Process -- Avg. = 328,320 USGPD
- Process -- Max. = 864,000 USGPD
- Domestic -- Avg. = 34,560 USGPD
- Domestic -- Max. = 208,800 USGPD

Recycled Water Consumption = 2,645,280 USGPD

Fresh Water Supply

- Bons Creek Reservoir
- Drainage area -- 3.7 sq.mi.
- Daily usage -- 362,880 USGPD
- Dependable yield (based on 3 consecutive drought year @ 25% annual mean) -- 481,000 USGPD
- Dam height -- 37 ft. (30' for minimum storage)
- Dam crest length -- 280 ft.
- Total storage -- 630 ac.-ft.
- Live storage -- 246 ac.-ft.
- Dam crest elev. -- 852 ft.
- Normal water surface elev. -- 845 ft.

Fresh Water Facility Specs.

- Floating raft -- 16 ft. x 9 ft.
- Pumps: Type -- Vertical turbine
  No. -- 2 operating and 1 standby
  HP -- 75 each pump

24.0 WATER SYSTEM (continued)

Fresh Water Facility Specs. (continued)

- Pipeline: Material -- high density polyethelene (SCLAIR)
  Length -- 18,000 ft.
  Diameter -- 10 in. to main storage tank
  Heat Tracing -- 110 volt
  Insulation -- 2 inch styrofoam

Fresh Water Tank

- Elevation -- 1,030 ft.
- Dimension: Diameter -- 46 ft.
  Height -- 30 ft.
- Volume -- 350,000 USG

25.0 TAILING SYSTEM

	% Solids	Volume
Tailing -- from process to thickener	17	2,203,000 USGPD
-- from thickener to pond	60	298,000 USGPD
-- recycle - thickener overflow	0	1,905,000 USGPD

Tailing Embankment:

- Height -- 150 ft.
- Length -- 2,200 ft.
- Fill Volume -- 255,000 cu.yd. starter dam (2 million cu.yd. to Elev. 950)

Tailing Impoundments @ 950 Elev.

- Area -- 25,472,000 ft^2
- Volume -- 29,860 ac.-ft.

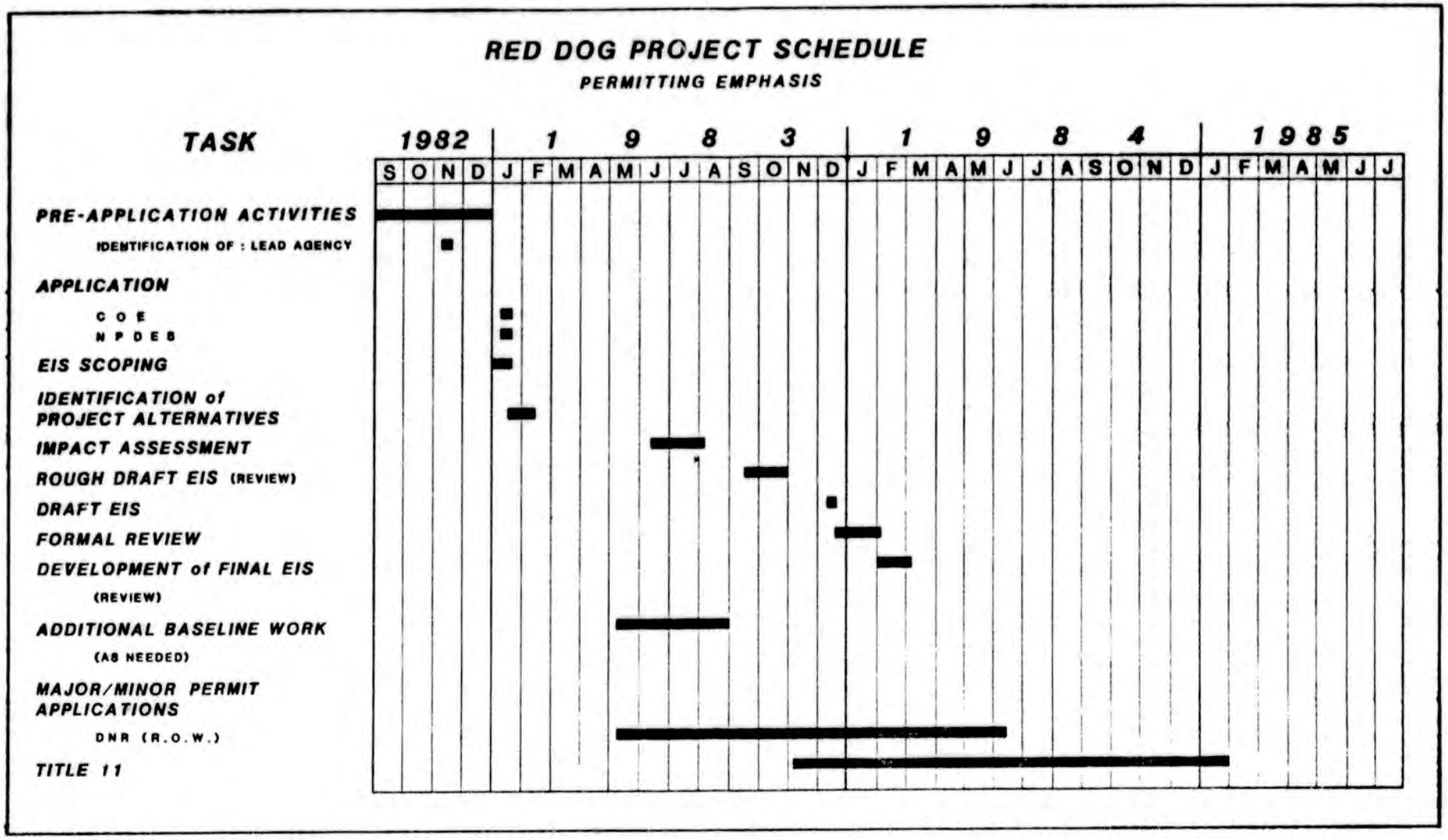
Tailing Thickener -- 125 ft. dia.

Tailing Facility Specs.

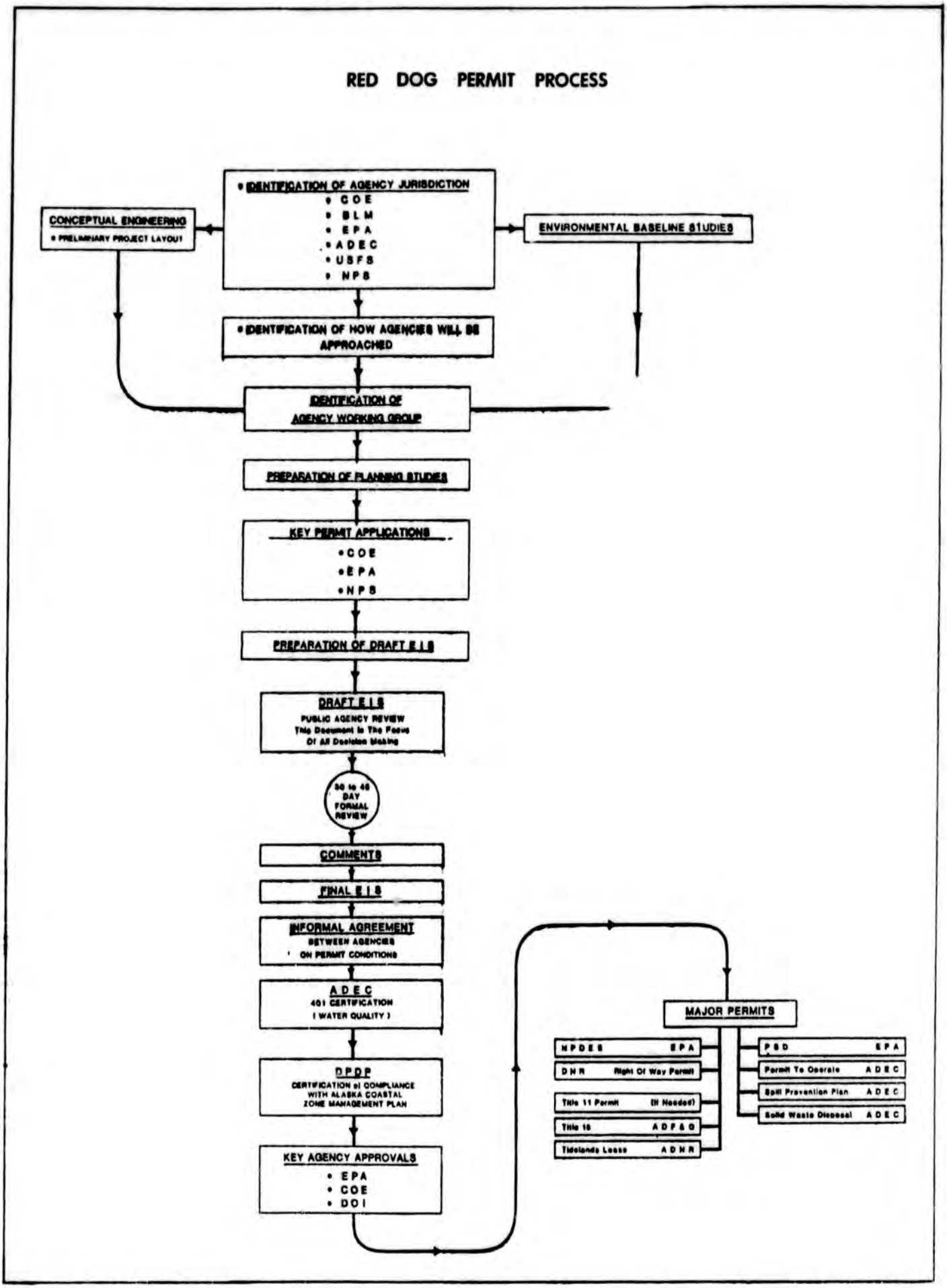
- Tailing line: Material -- H.D.P.E. (SCLAIR series 80)
  Length -- 3,500 ft.
  Diameter -- 6 inches
  Insulation -- 2 inches styrofoam
  Heat tracing -- 110 volt

RD05/b

IX.C. Appendix C: Project Permitting Time-Line


RED DOG PROJECT SCHEDULE
PERMITTING EMPHASIS
TASK
1982
1983
1984
1985
S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J
PRE-APPLICATION ACTIVITIES
IDENTIFICATION OF : LEAD AGENCY
APPLICATION
C O E
N P D E S
EIS SCOPING
IDENTIFICATION of PROJECT ALTERNATIVES
IMPACT ASSESSMENT
ROUGH DRAFT EIS (REVIEW)
DRAFT EIS
FORMAL REVIEW
DEVELOPMENT of FINAL EIS
(REVIEW)
ADDITIONAL BASELINE WORK
(AS NEEDED)
MAJOR/MINOR PERMIT APPLICATIONS
DNR (R.O.W.)
TITLE 11

Appendix D: Permit Flow Chart



Appendix E: Base Metal Markets (Cu, Pb, Zn): Alaskan Opportunities (Paper by Gordon H. Laurie, Cominco, Ltd.)

Presented at:
Alaska Miners Association
Eighth Annual Convention
"Alaskan Minerals for Pacific Rim Markets"

October 19-22, 1983
Anchorage, Alaska

Cominco Ltd./Suite 1500-120 Adelaide St. West/Toronto, Ontario M5H 1T1/Canada/Tel. (416) 869-1850

BASE METAL MARKETS (Cu, Pb, Zn), :ALASKAN OPPORTUNITIES

(Long Abstract)

Metals Market Research

By: G.H. Laurie/Cominco Ltd.

Alaska appears to be on the verge of becoming one of the world's important mineral suppliers. In the case of base metals, Cominco's Red Dog discovery is already recognized as being a very major future zinc and lead producer. Geologists have high expectations for other discoveries of commercially viable copper, lead, and zinc mines. The question addressed in this paper is how do these Alaskan opportunities match the world's future needs for copper, lead, and zinc.

Examination of the historical demand in the Western World for these three base metals brings us to the conclusion that all are in a state of maturity with saturation of use occurring in the developed nations. Growth in consumption will more and more depend upon the increases in the living standards of the newly industrializing countries. Fortunately for the Alaskan resources, the economies in the Pacific Rim have shown substantial growth. Long-term prospects in this area of the world look promising.

Copper consumption in the Western World grew at a rate of about 4½% per year from 1960 to the energy disruption of the mid 1970's. We expect that the resumption of demand growth will be in the order of 1½% once the economies of the world recover but that this will mean the 1979 consumption peak will not be regained until the mid 1980's. After the mid 1980's we expect increasing Western World consumption and mine exhaustion to create a demand of over 150,000 tonnes/year of new mine production. Copper prices have weakened since 1979/80 and we, along with most forecasters, have revised our long-term expectations. World-wide distribution of copper concentrates will be influenced as some of the LDC's establish smelter/refinery facilities and consume their domestic mine production.

Lead consumption in the Western World grew at about 3½% per year from 1960 to 1973 but is expected to show a resumed growth of only about 1% in the future. The peak consumption of 4.2 million tonnes in 1979 is not expected to be reached again until near the end of this decade. Mine production of lead has continued at approximately 2.5 million tonnes since 1973 whereas lead metal from secondary sources increased from near 1.0 million tonnes in 1973 to close to 1.9 million tonnes in 1979 and since then has dropped back to approximately 1.5 million tonnes during the current recession. It is difficult to predict the need for new lead mine production due to the uncertainties of secondary lead. However, it is safe to say that without the introduction of any new significant

end-uses for lead the mines which are brought into production to satisfy zinc and silver requirements will provide enough new lead as a co-or by-product to satisfy needs. In this regard, the Red Dog property, which has a zinc to lead ratio of 3½ to 1, better matches the expected new mine zinc and lead needs than higher ratio lead properties.

Zinc consumption in the Western World grew at approximately 4.8% per year from 1960 to 1973 where it peaked at about 4.8 million tonnes. With economic recovery, a growth rate of near 2% per year should see the 73 and 79 peaks in consumption re-established in the mid to late 1980's starting from the current level of near 4.2 million tonnes. Future new mine demand, to satisfy consumption growth and mine exhaustions, is estimated to be somewhat less than 150,000 tonnes per year after about 1985. Zinc prices have weakened since the 1973/74 bullish period and the 1979/80 highs but, with expected reasonable balance between demand and supply, longer term strengthening is expected. World-wide demand for concentrates should result in the need for future supplies from Alaska.

GHL:hmw
October 7, 1983

BASE METAL MARKETS (Cu, Pb, Zn)

: Alaskan Opportunity

By: G.H. Laurie/Cominco Ltd.

Market Overview

The world shall continue to need base metals and from our analysis there is an opportunity for Alaska to become an important supplier of copper, lead and zinc concentrates. Markets for these materials will depend upon the overall growth of the world's economy, the specific requirements for capital and consumer goods, and the availability of competitive concentrate supplies.

Slides

- OECD IPI
2. • Growth in IP & Major Metal Consumption
3. • Metal Prices & Ind. Bus. Cycle

Note: The slides marked (MMRS) are taken from "Metals Analysis and Outlook" published by Metals & Minerals Publication Ltd.

Metals consumption growth has often been related to various industrial production indexes rather than to overall GNP-type of economic growth measurements[1,2,3]. As our western world's growth has progressed an increasing proportion of the GNP has been from the service sectors with corresponding less growth from the basic industrial sectors. Therefore, as our industrial societies have matured the rate of new capital investment for plants has tended to decline. Furthermore, various measures show a declining relationship between metals consumption and overall industrial production as substitute materials are used and as end uses make more efficient use of the materials of construction. Another factor which negatively affects the need for mined metal is the increased recycling of scrap. This movement towards

more secondary metal has been supported by both the conservation and environmental priorities of the last number of years.

Offsetting the above trend to a state of maturity for the basic industries in the developed nations of the world, is the exciting prospects for the emerging developing nations[4]. Many of these are the markets that can be served by suppliers adjacent to the Pacific. I recently reviewed economic growth forecasts made by a major USA research group. Their data pointed out the following differences for the period up until year 2000.

Slide

4. • Zinc Consumption by Region

Area	GNP Growth
Western Europe	2.3%
Eastern Europe	2.3%
North America	2.8%
Latin America	4.3%
Africa	4.2%
Asia and Far East	3.9%
Total World	3.0%

Other forecasts will be different depending on the respective views of economic opportunities or problems. However, I don't know of one forecast that doesn't indicate the maturing of the current industrial countries with lower basic materials consumption growth rates and considerably higher rates for the newly developing countries - despite their balance of

payments and other economic problems.

Our company, like most in the mining business, assesses the current concentrate supply and also makes judgements on future supply requirements due to consumption growth and mine exhaustions. This expected demand on the mines will be met by some expansions and by new mines. The main interest in this meeting is obviously what new mines can be found and opened in Alaska. Cominco has one we feel will be economically viable, other companies are equally optomistic and still others are no doubt going to find suitable economic deposits.

	Demand on the Mines		
	Consumption (Growth)	+ Closures	= Total
Cu	100	60	160
Pb	nil	10/15	10/15
Zn	60	70	130

A major consideration we have in assessing our opportunities is where do we believe our potential mine is on an estimated cost-curve of the Western Worlds' mines for any particular metal[5]. With the current and expected future economic growth we firmly believe any proposed operation should be in the lower half and preferably the lower third of the cost-curve. To some extent new mines which open may act in a predatory manner and hasten the death of marginal producers.

Slide

5. • Cost-curve

To rank the opportunities for future mines for copper, lead and zinc one's crystal ball must assess the consumption demand, the competitive mines (both existing and those known to be likely new entrants and those expected to be near reserve or economic exhaustion),

and the competition from secondary supplies. I personally have no difficulty in ranking the three metals based on what I know and what my crystal ball tells me. All other factors being equal I would first want to find a good zinc mine, next a quality copper mine would be attractive, and finally if I felt I had a really low cost producer I would deal with a lead mine.

The factors which lead me to my choice are:

1) Known ore bodies - I feel there are a good number of copper deposits in the world that have a good chance to be reasonably low-cost producers. There are fewer zinc ore bodies in the same category as far as I can see. Lead is rapidly becoming a by-product of zinc and will come to market as zinc requirements are met.

2) Depletions/exhaustions - It is difficult to get a definitive picture of this factor but it appears there may be more of the existing large zinc bodies coming closer to exhaustion over the next 20 years than is the case for copper - time will tell.

3) Consumption - The growth rates we predict for all three metals are very modest and we all hope we are proven to be overly conservative. However, I

believe our forecasts of zinc at 2%, copper at 1.5% and lead at 1% are in the right order. Of the above base metals, zinc is expected to continue to have the smallest part of its supply as secondary metal.

4) Ownership - The zinc industry currently is, and is expected to remain, more in the hands of free enterprisers than is the case for copper. We believe this supports a better long-term pricing structure - in particular, as metal stock levels can be kept in better balance [6].

Slide

6 Metal Stocks & Metal Prices

Despite my preferences as outlined above it goes without saying that any mine, whether a copper, lead or zinc mine, that is determined to be a low-cost producer is likely to be brought into production.

Copper Markets

The recognition that copper is a mature metal should not be taken too negatively. It can be said it is our oldest mature metal but one which continues to fulfill mans' needs with renewed bursts of consumption as new technologies such as electricity implant new life. The slides I have gathered for you today give you some idea of the consumption patterns, mined production and prices for copper.

Slides

7. • Cu Mine Production
8. • WW Copper Consumption
9. • Consumption/Prod. & Stocks
10. • Copper Prices
11 Copper Prices with Highs/Lows

Slides on Copper - here [7-11]

The events which are likely to affect the opportunities for any future copper properly in Alaska are:

- the cost influences of remote locations with or without state infrasturucture support;
- overall supply needs for United States demands;
- new smelters built by previous suppliers of concentrates; and
- the expansion of the copper industry in Chile and other known regions possessing good copper properties.

Any new domestic world-class copper operation that may be developed in Alaska would help offset the decline of the USA copper industry. The reduction of concentrate shipments from the Phillipines to Japan with the start-up of the Phillipine smelter creates an opportunity for new concentrate suppliers - especially as there seems to be a relatively over capacity of copper smelters in the world. The expansion of Chile's copper industry which some claim has a goal of nearly 2 million tonnes capacity will, on the other hand, have a negative overall effect on the copper industry and in particular if world over-capacity is the result.

The copper concentrate suppliers and the smelter customers as outlined by the World Bureau of Metal Statistics are more or less as follows:

- Africa supplies to Western Europe and Japan
- Canada supplies to Western Europe, South Korea, Taiwan, and Japan

- South America supplies to Western Europe, South Korea, Taiwan and Japan
- Australia supplies to Japan
- South East Asia supplies to Western Europe, South Korea, Taiwan and Japan
- USA supplies to Japan

Lead Markets

Lead is also a very old metal which has benefitted by easy extraction and fabrication. Again we have an example of a mature metal which regained vigour with technological break-throughs such as the lead-acid battery and the internal combustion engine and its ignition system with the use of high octane fuels. Currently this metal is in a stable stage with some uses actually in decline. The most significant changes have been the growth of the recycled lead supply and, somewhat related, the tendency for lead to have become a by-product of zinc and silver production. The slides shown of lead's historical supply, demand and prices give you some insight into leads future.

Slides

12. • Lead Production - Metal
    - Mine
    - 2nd
13. • WW Consumption
14. • Pb Prices
15. • Pb Prices with Highs/Lows
16. • Prices & Stocks

Slides on Lead - here[12-16]

The shipment of lead concentrates as outlined by the WMBS shows significant movements as follows:

- Africa supplies to Western Europe, North America, and Japan
- Canada supplies to Western Europe and Japan
- South America supplies to Western Europe, North America and Japan

- Australia supplies to Western Europe and Japan.

Zinc Markets

Compared to both copper and lead, zinc is a much younger metal. The significant role zinc plays in protecting steel in a sacrifical manner ensures the continuing need for a large part of the metal supply being new mined metal, as scrap recovery from this use is minimal. The market discipline of zinc suppliers coupled with somewhat better market support is emphasised by the relatively low level of metal stocks. This fact and other trends are shown in the following slides:

Slides

17.• Zinc Mine Production
18.• WW Zinc Consumption
19.• Zn Price
20.• Zn Price & Highs/Lows
21.• Prices & Stocks

Slides of Zinc - here[17-21]

The most significant fact about the zinc market has been the rapid decline of the USA zinc industry over the 1970's and since the economic downturn of 1979/80. Since it's heyday in the late 1960's/early 1970's the US zinc industry has been reduced to about 1/4 to 1/3 of its maximum. Although consumption has also declined it still remains the largest market in the Western World. Cominco Alaska's planned entry into the world's zinc markets will help reverse the domestic supply situation.

Zinc concentrate movements as reported by the WBMS are as follows:

- Africa supplies to Western Europe
- Canada supplies to Western Europe, USA and Japan
- South America supplies to Western Europe, USA and Japan
- Australia supplies to Western Europe and Japan

Prices

The presentation today is not focused on prices for metal. Cominco's long-range price forecasts are confidential and furthermore my group are currently deeply involved in our annual up-date forecast so I am without firm numbers in any case.

Of greater value I believe, are some qualitative comments about the mine returns realized for concentrates. The treatment charges negotiated for metal concentrates are quite variable as each concentrate is in fact an unique product with different advantages and disadvantages. The location of the concentrate is also a factor in its price (via differing treatment charges as well as different transportation etc. costs). I am told by our concentrate sales people that the factors that enter into the determination of treatment charges are as follows:

- Concentrate quality
  - low quality concentrate will result in higher treatment charges.
- Smelter customer location
  - if far away and without alternate near-by concentrate this will normally result in lower treatment charges (i.e. the smelters have to compete).
  - close by smelters will use their location to obtain somewhat higher treatment charges.
- Smelter capacity
  - if the world's smelter capacity is in surplus (i.e. concentrates in relative shortage) this will result in lower treatment charges.
  - if the world's smelter capacity is in shortage this will result in higher treatment charges.
- Mine location
  - for northern mines or any others that have restricted shipping seasons the extra costs involved in storage by the receiving smelter will either be reflected by higher treatment charges or the seller would tend to have to cover the financing charges directly.

Conclusions

- From what I have been told Alaska is proving to be a valuable storehouse of needed mineral resources
- Despite high infrastructure costs it appears various deposits will become economic mines. This may be positively assisted by the development of the state's transportation system.

- Being located on the Pacific Rim will be beneficial as larger growth of metal consumption is forecast for many countries bounding the Pacific.
- World-class deposits of the base metals copper, lead and zinc will become viable mines if they are able to establish low operating costs.
- It appears the opportunities to supply can be ranked zinc, first; copper, second; and lead, third.

GHL:hmw

October 18, 1983

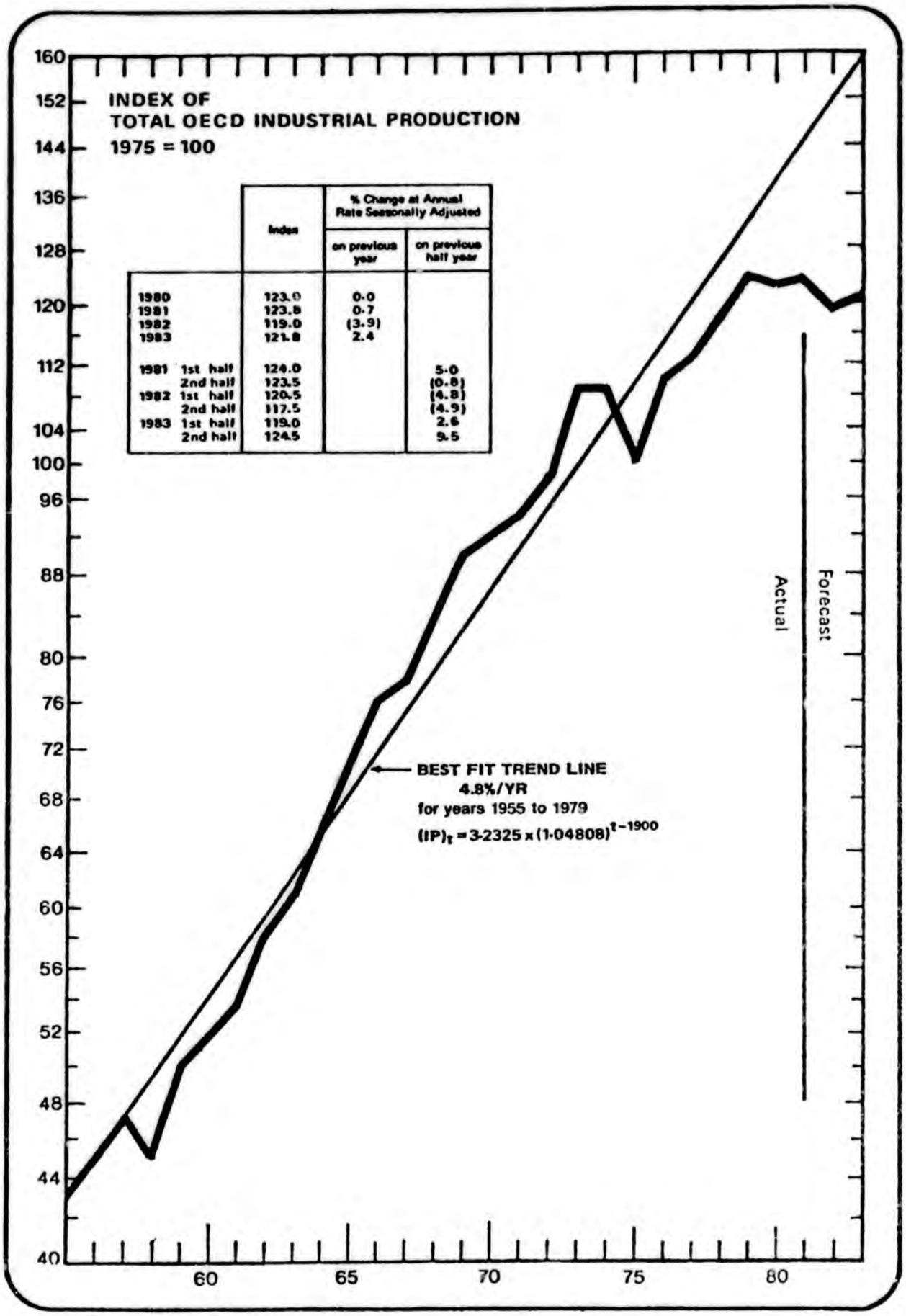
BASE METAL MARKETS (Cu, Pb, Zn)

: ALASKAN OPPORTUNITIES

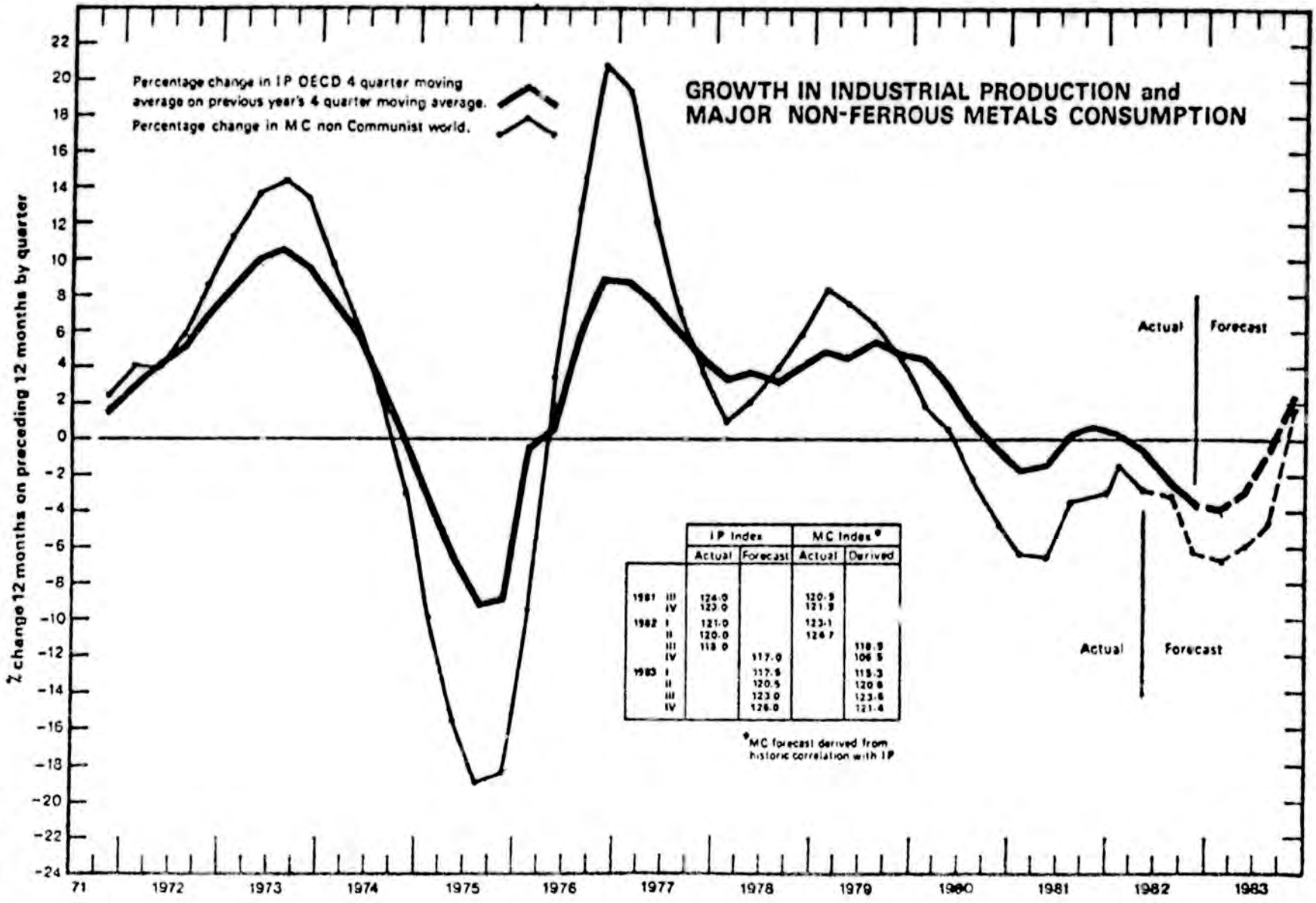
By: Gordon H. Laurie
Cominco Ltd.

PRESENTATION SLIDES

1. Index of Total OECD Industrial Production
2. Growth in Industrial Production and Major Non-Ferrous Metals Consumption
3. Metal Prices and Industrial Business Cycle
4. Zinc Consumption by Region
5. Western World Zinc Mines Cumulative Production[2] VS. Costs[1]
6. Metal Stocks and Metal Prices
7. Copper Mine Production
8. Western World Copper Consumption
9. World Refined Copper Consumption less Production Commercial Stocks
10. Copper Prices - Cathode Settlement
11. LME Cash Wirebar Copper Price in 1983 US $ Per Lb*
12. Western World Lead Mine Production
13. Western World Lead Consumption
14. LME Lead Price
15. LME Cash Lead Price in 1983 US $ Per Lb
16. Lead Metal Prices + Stocks
17. Western World Zinc Mine Production
18. Western World Zinc Consumption
19. LME Cash Zinc Price
20. LME Cash Zinc Price in 1983 US $ Per Lb
21. Zinc Metal Prices + Stocks


INDEX OF
TOTAL OECD INDUSTRIAL PRODUCTION
1975 = 100
Index
% Change at Annual Rate Seasonally Adjusted
on previous year
on previous half year
1980 123.0 0.0
1981 123.8 0.7
1982 119.0 (3.9)
1983 121.8 2.4
1981 1st half 124.0 5.0
2nd half 123.5 (0.8)
1982 1st half 120.5 (4.8)
2nd half 117.5 (4.9)
1983 1st half 119.0 2.6
2nd half 124.5 9.5
BEST FIT TREND LINE
4.8%/YR
for years 1955 to 1979
$(IP)_t = 3.2325 \times (1.04808)^{t-1900}$
Actual
Forecast
160
152
144
136
128
120
112
104
100
96
88
80
76
72
68
64
60
56
52
48
44
40
60
65
70
75
80

SLIDE 1
(MMRS)

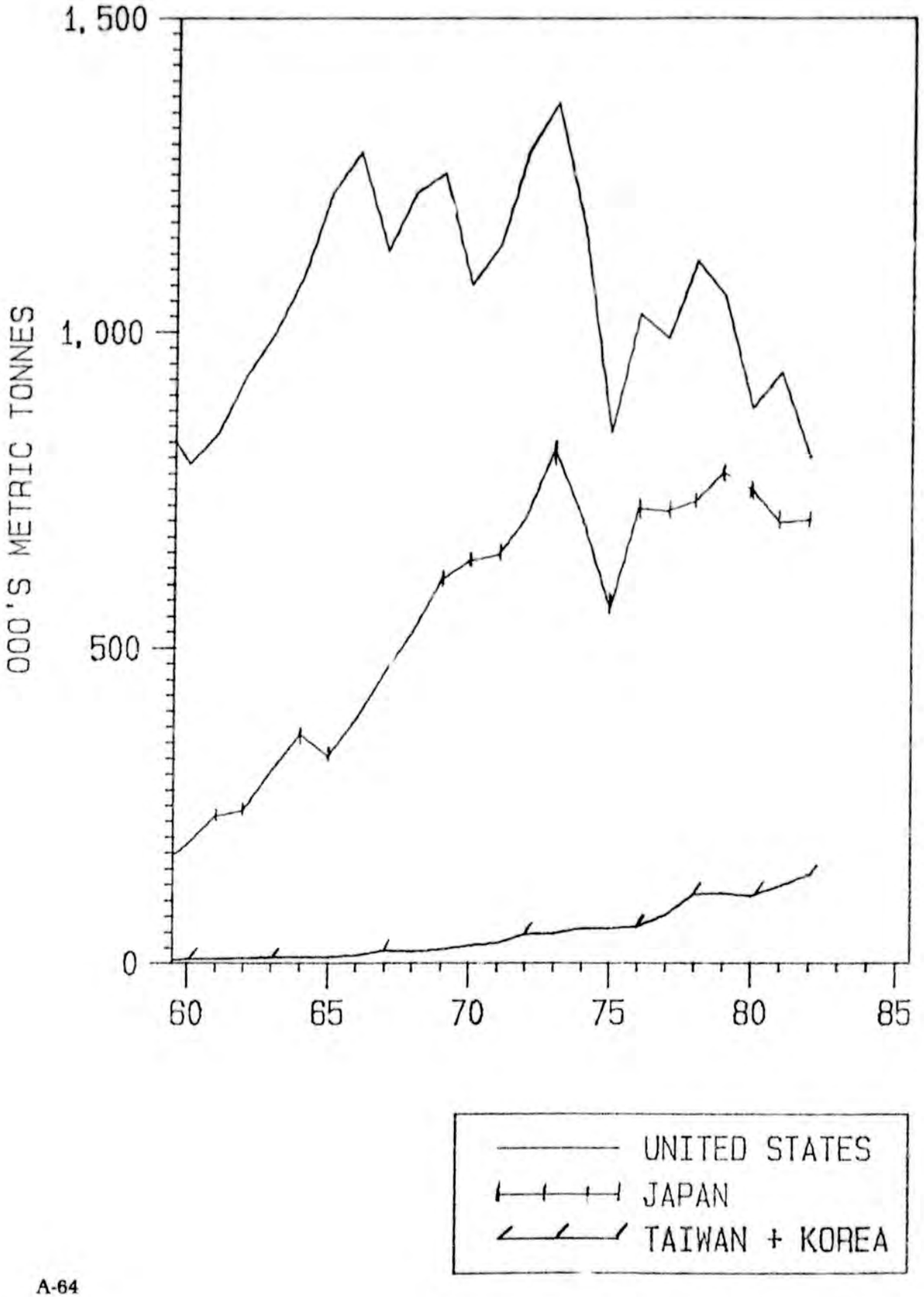

GROWTH IN INDUSTRIAL PRODUCTION and
MAJOR NON-FERROUS METALS CONSUMPTION
Percentage change in IP OECD 4 quarter moving average on previous year's 4 quarter moving average.
Percentage change in MC non Communist world.
% change 12 months on preceding 12 months by quarter
22
20
18
16
14
12
10
8
6
4
2
0
-2
-4
-6
-8
-10
-12
-14
-16
-18
-20
-22
-24
71
1972
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
Actual
Forecast
Actual
Forecast
IP Index
MC Index*
Actual
Forecast
Actual
Derived
1981 III 124·0 120·9
IV 123·0 121·9
1982 I 121·0 123·1
II 120·0 126·7
III 118·0 118·9
IV 117·0 106·5
1983 I 117·5 115·3
II 120·5 120·8
III 123·0 123·6
IV 126·0 121·4
*MC forecast derived from historic correlation with IP

SLIDE 2
(MMRS)

METAL PRICES AND INDUSTRIAL BUSINESS CYCLE
INDUSTRIAL PRODUCTION INDEX
% change 12 months on preceding 12 months by quarter
METAL PRICE INDEX, 4 quarter moving average by quarter
BUSINESS CYCLE as measured by percentage changes in TOTAL OECD INDUSTRIAL PRODUCTION INDEX (left-hand scale)
CONSTANT MONEY U.S. DOLLAR METAL PRICES INDEX (1963 = 100), Major non-ferrous metals comprising LME prices for Cu/Pb/Sn/Zn and free market Al price expressed in U.S. dollars, Weighted by 1963 consumption, Deflated by quarterly US GNP deflator (right-hand scale)
Historical
Forecast
1966
1968
1970
1972
1974
1976
1978
1980
1982

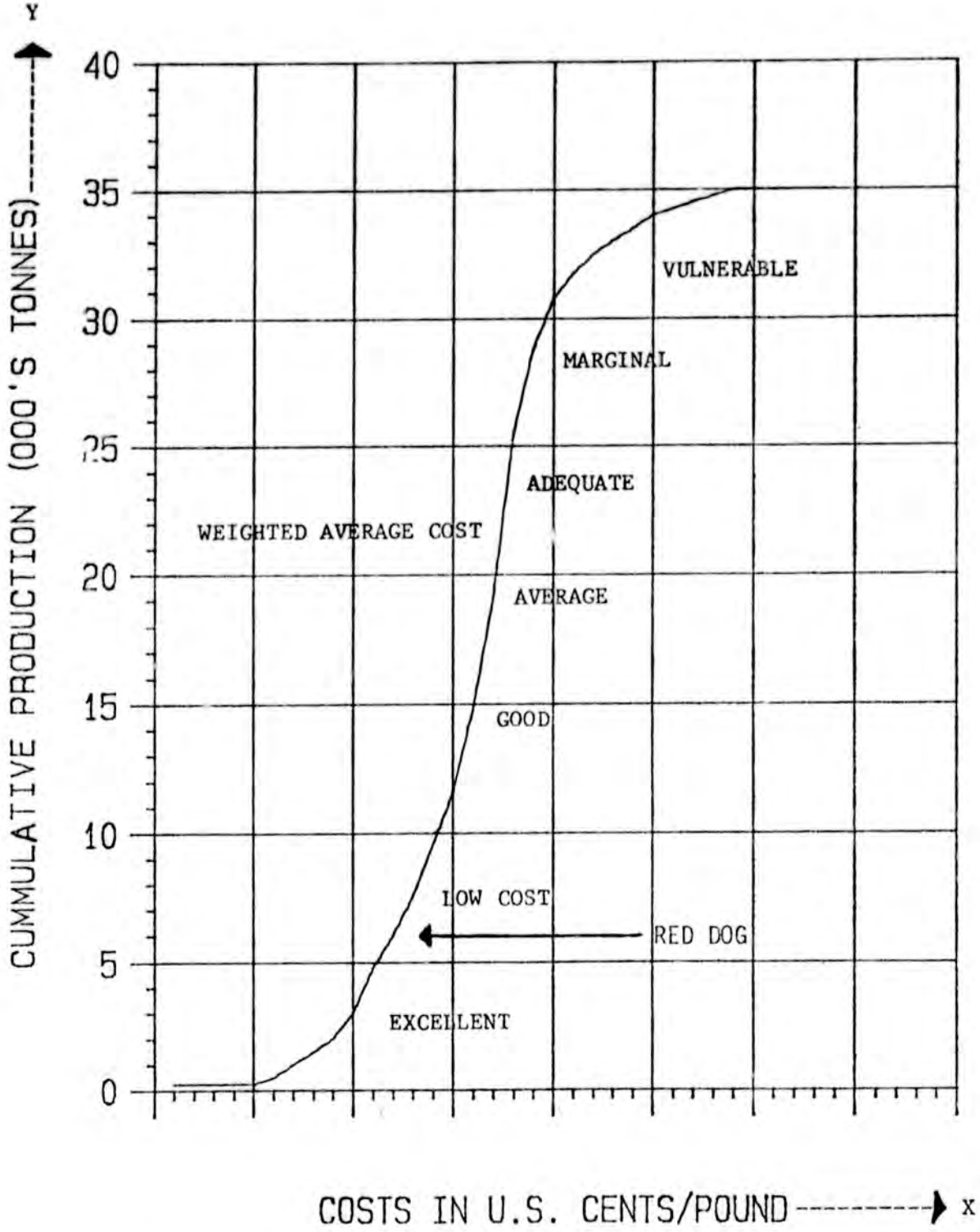
SLIDE 3
(MMRS)

ZINC CONSUMPTION BY REGION



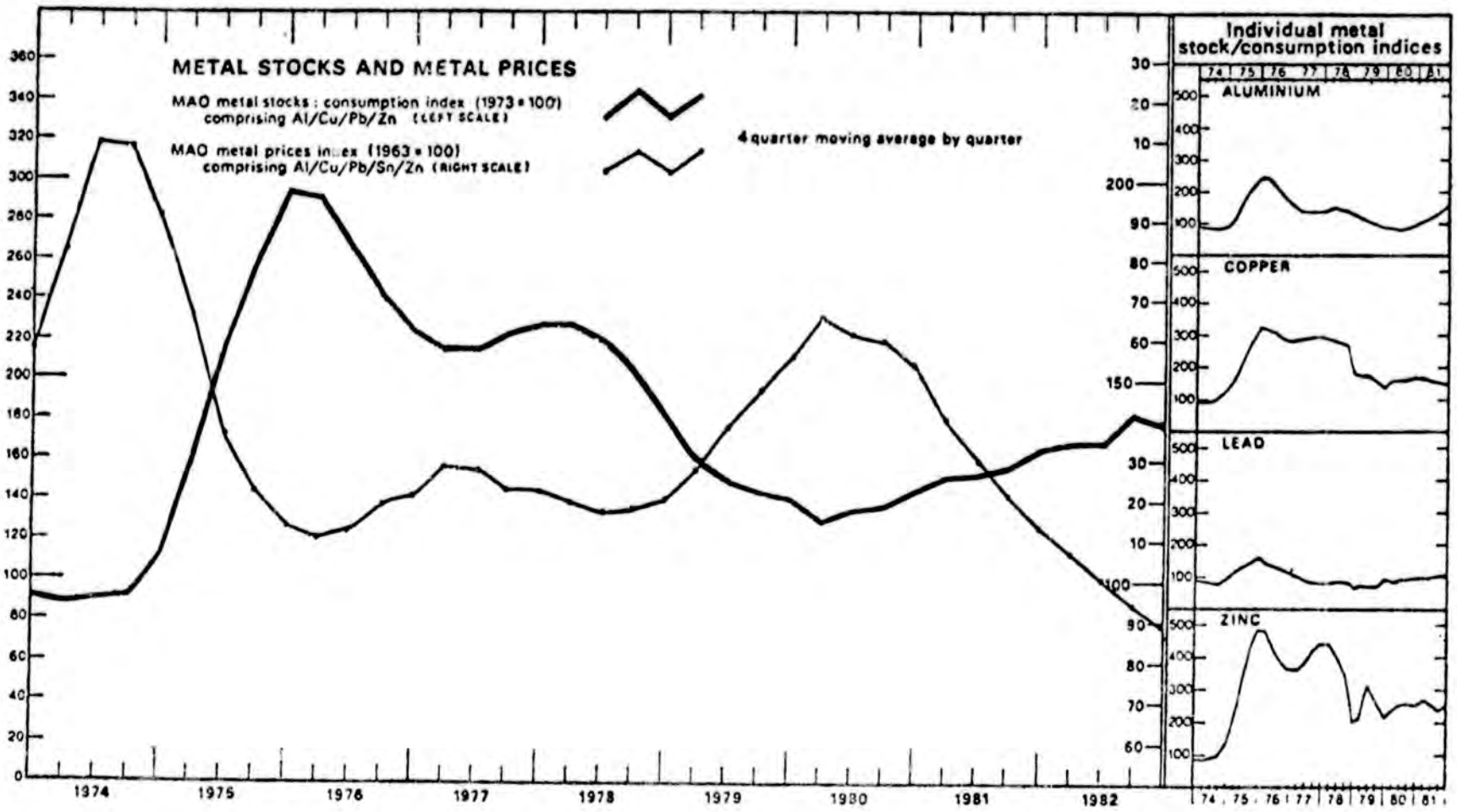
SLIDE 4

WESTERN WORLD ZINC MINES
CUMULATIVE PRODUCTION[2] VS. COSTS[1]



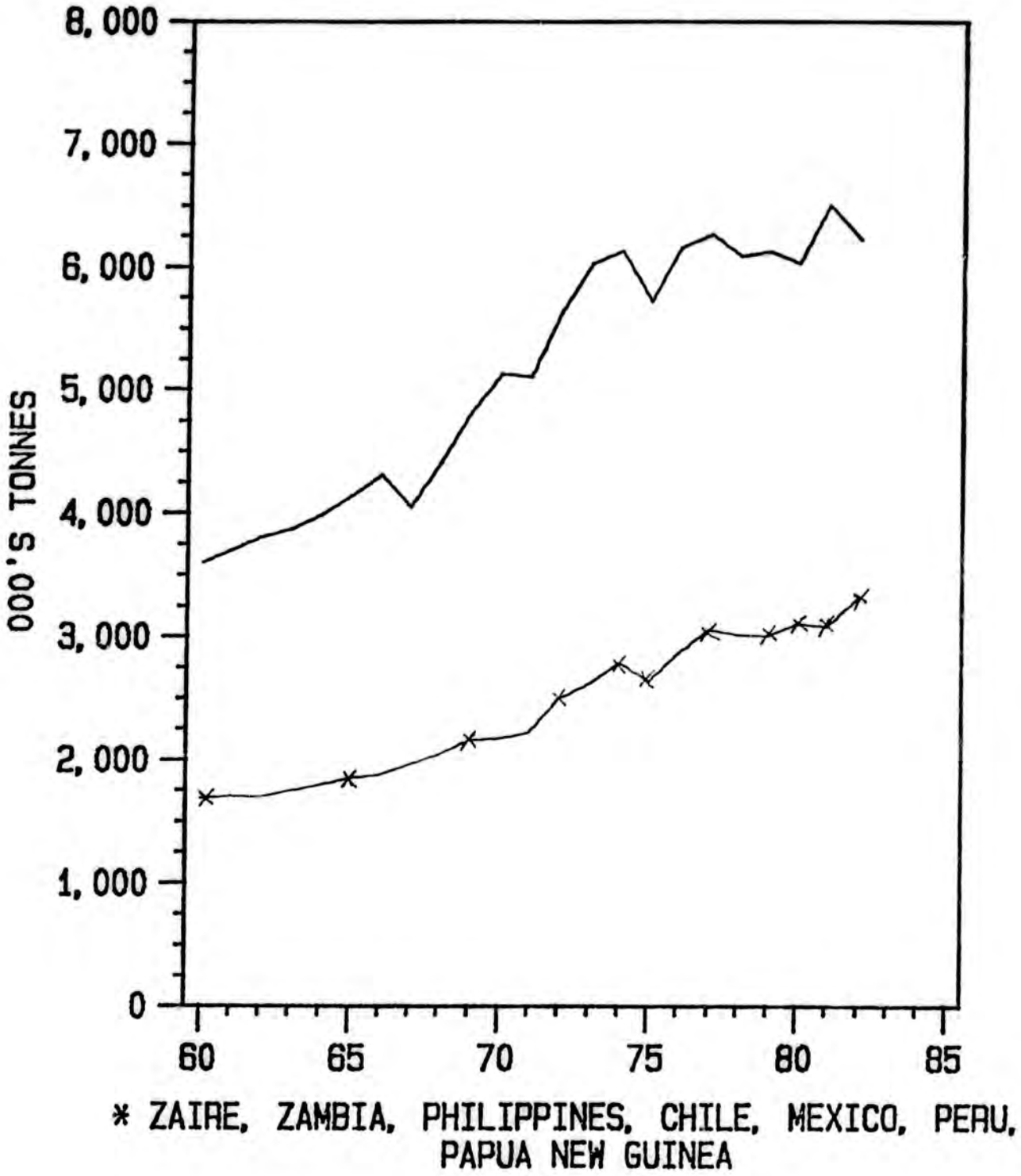
1) including depreciation and delivery to market.

2) represents X% of total Western World = Y thou. tonnes.


METAL STOCKS AND METAL PRICES
MAO metal stocks : consumption index (1973 = 100) comprising Al/Cu/Pb/Zn (LEFT SCALE)
MAO metal prices index (1963 = 100) comprising Al/Cu/Pb/Sn/Zn (RIGHT SCALE)
4 quarter moving average by quarter
Individual metal stock/consumption indices
ALUMINIUM
COPPER
LEAD
ZINC
1974
1975
1976
1977
1978
1979
1980
1981
1982

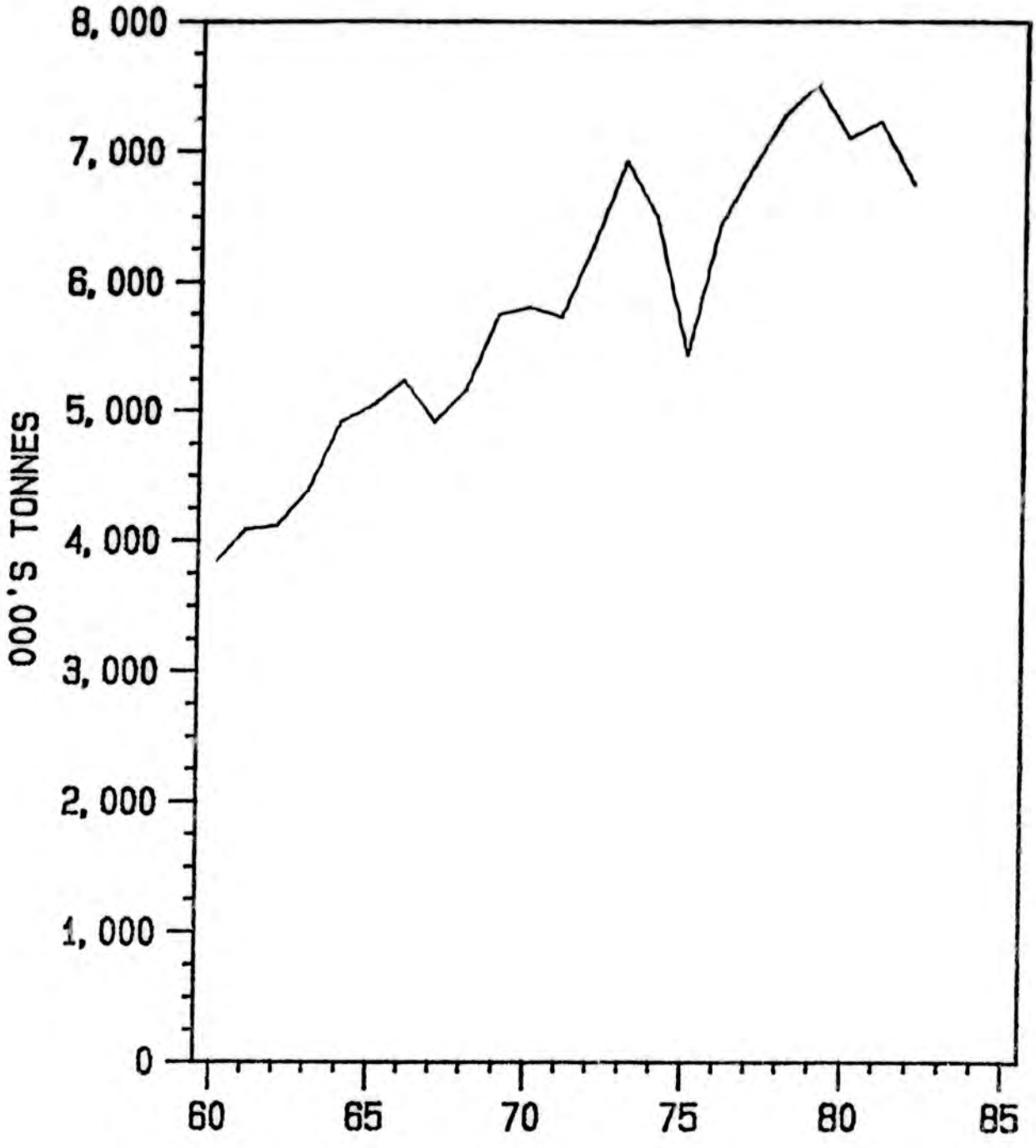
SLIDE 6 (MMRS)

COPPER MINE PRODUCTION

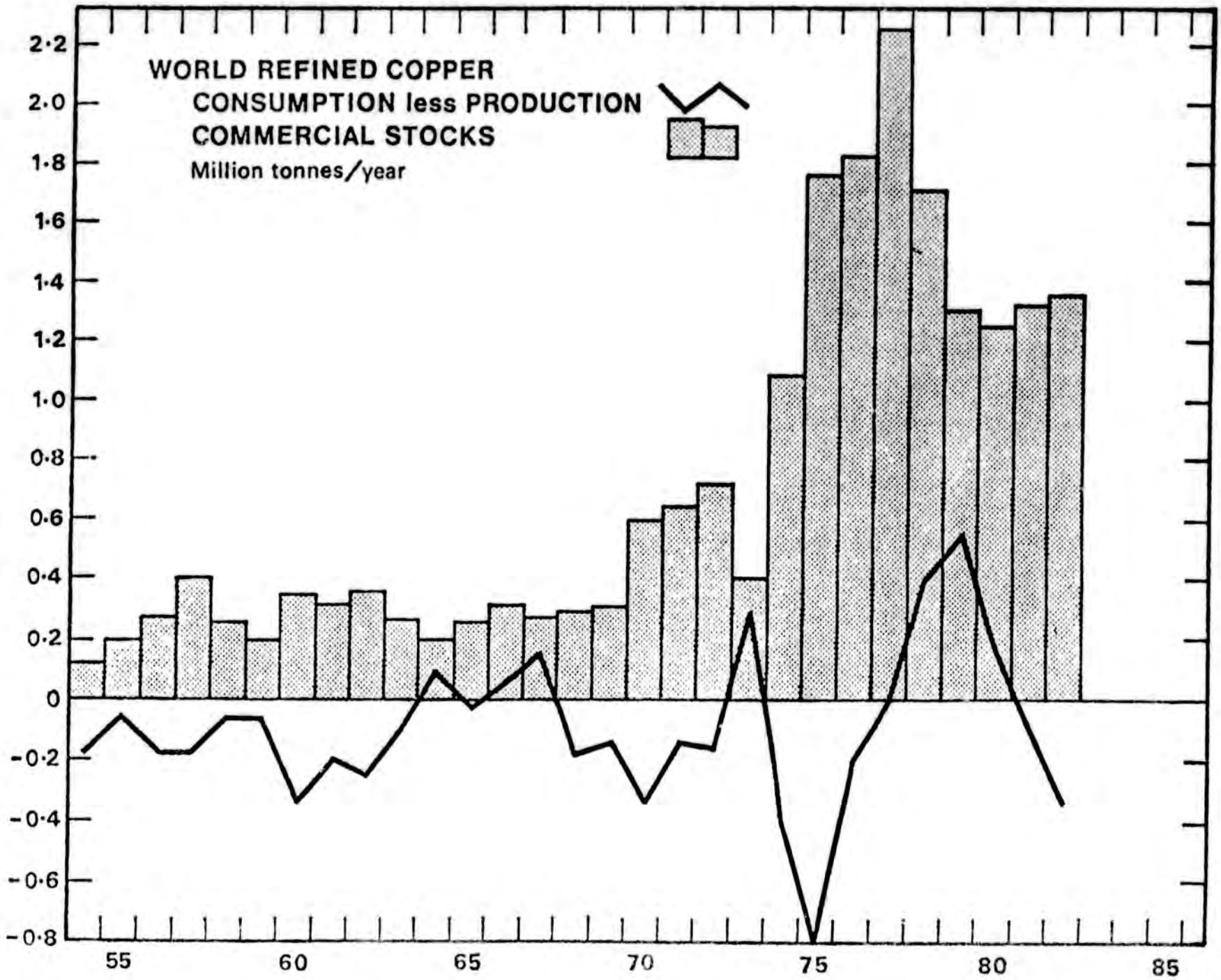


SLIDE 7

WESTERN WORLD COPPER CONSUMPTION

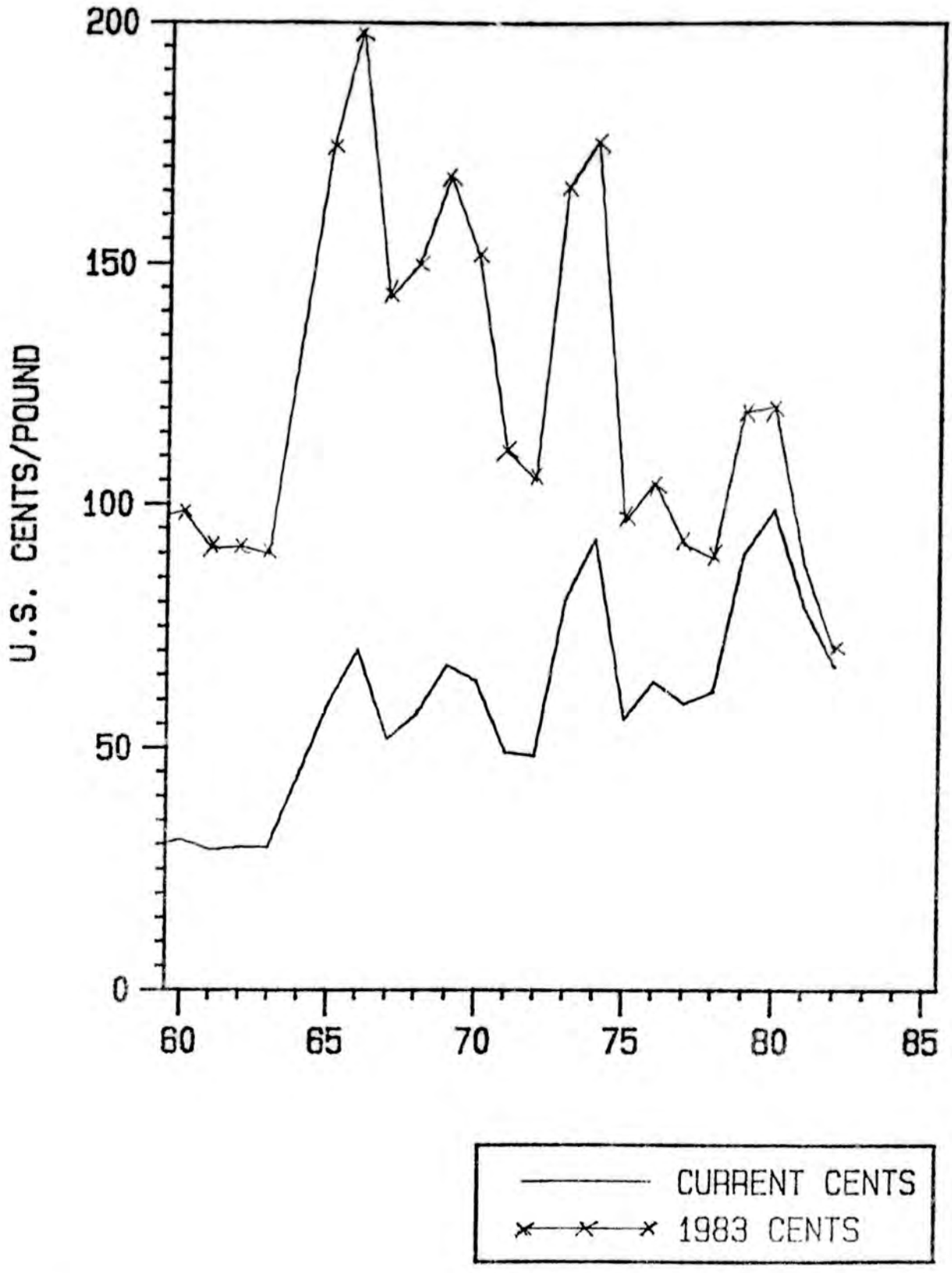


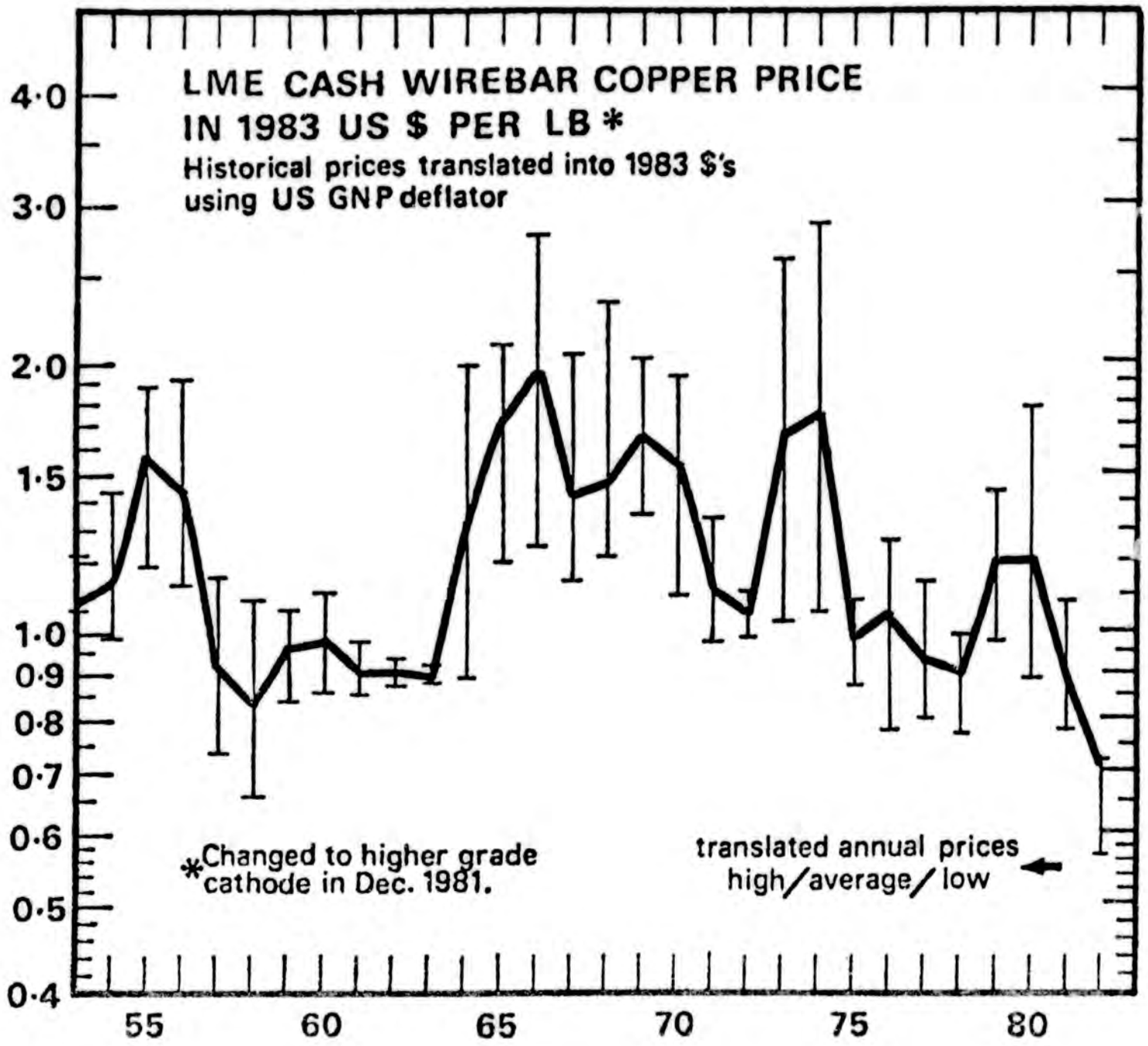
SLIDE 8



SLIDE 9 A-69
(MMRS)

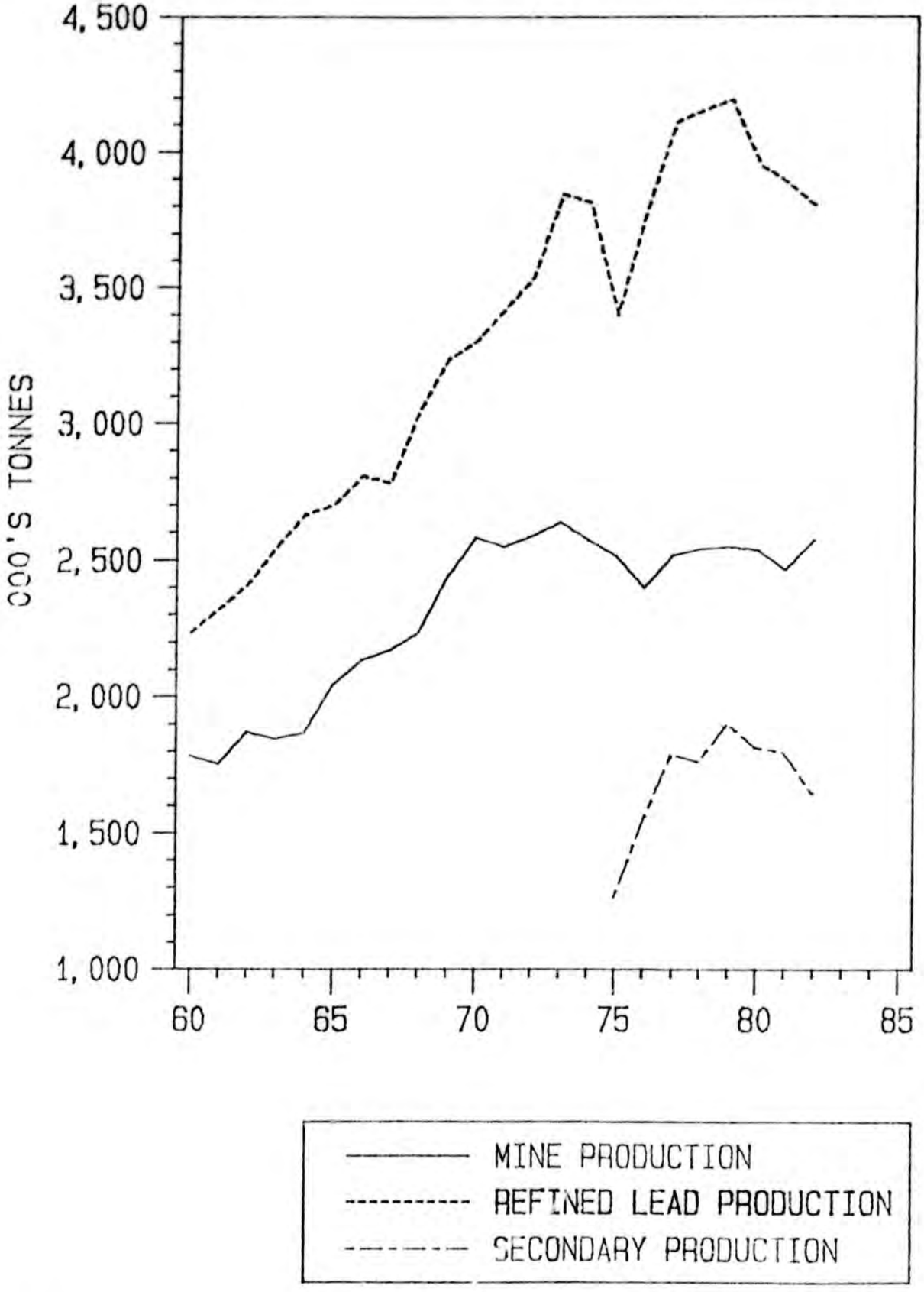
COPPER PRICES - CATHODE SETTLEMENT





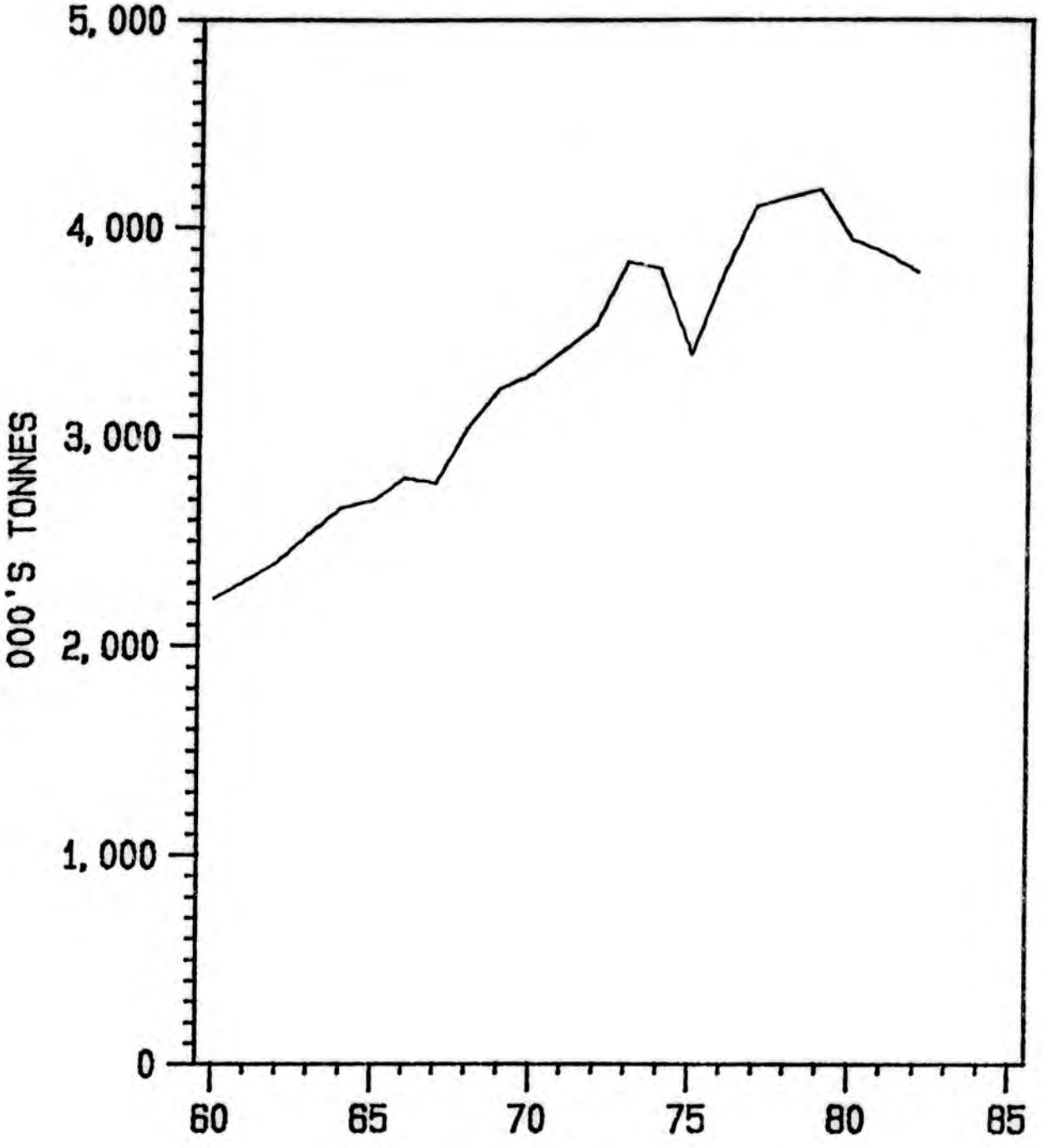
SLIDE 11
(MMRS)

WESTERN WORLD LEAD MINE PRODUCTION



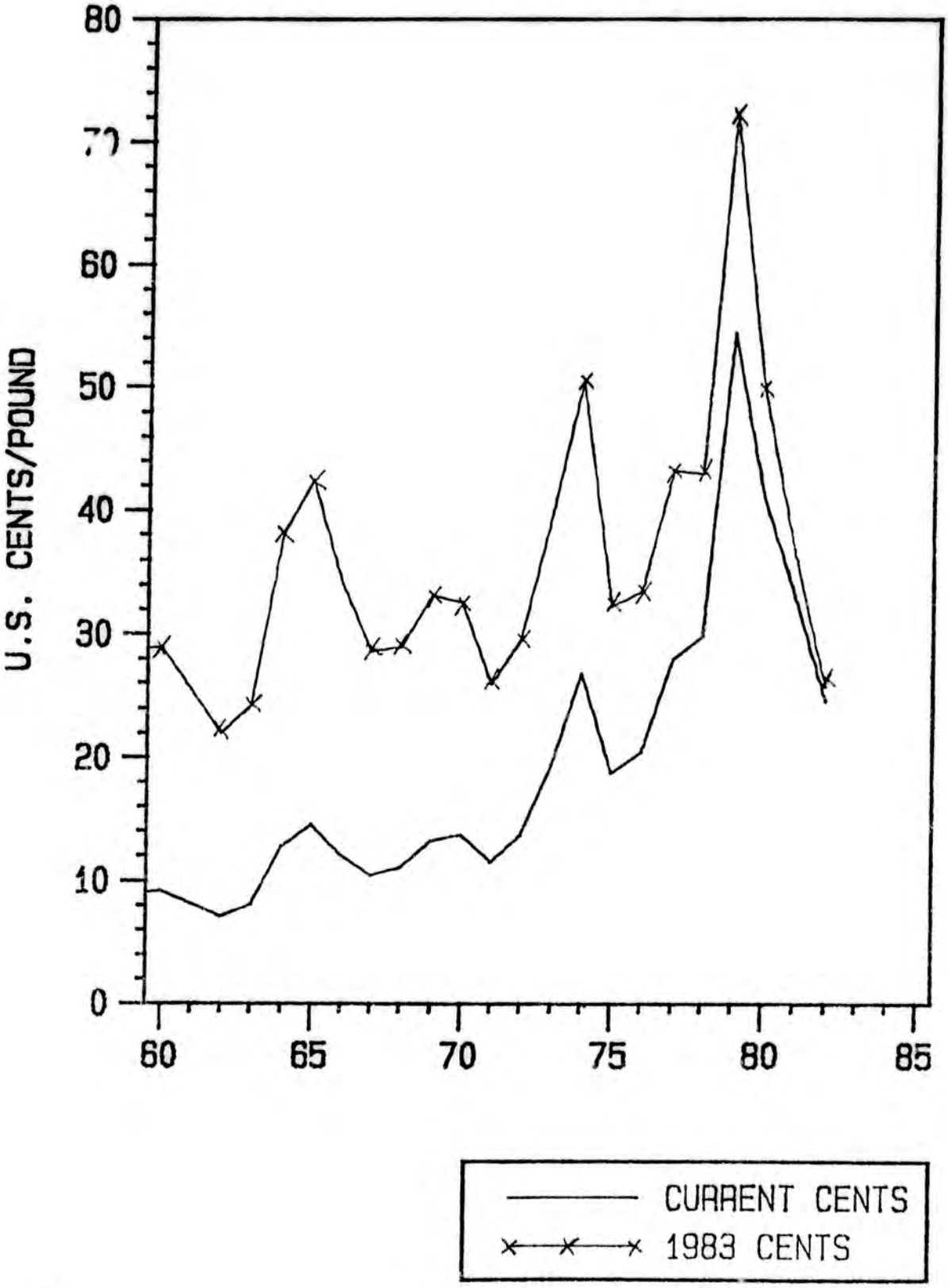
SLIDE 12

WESTERN WORLD LEAD CONSUMPTION

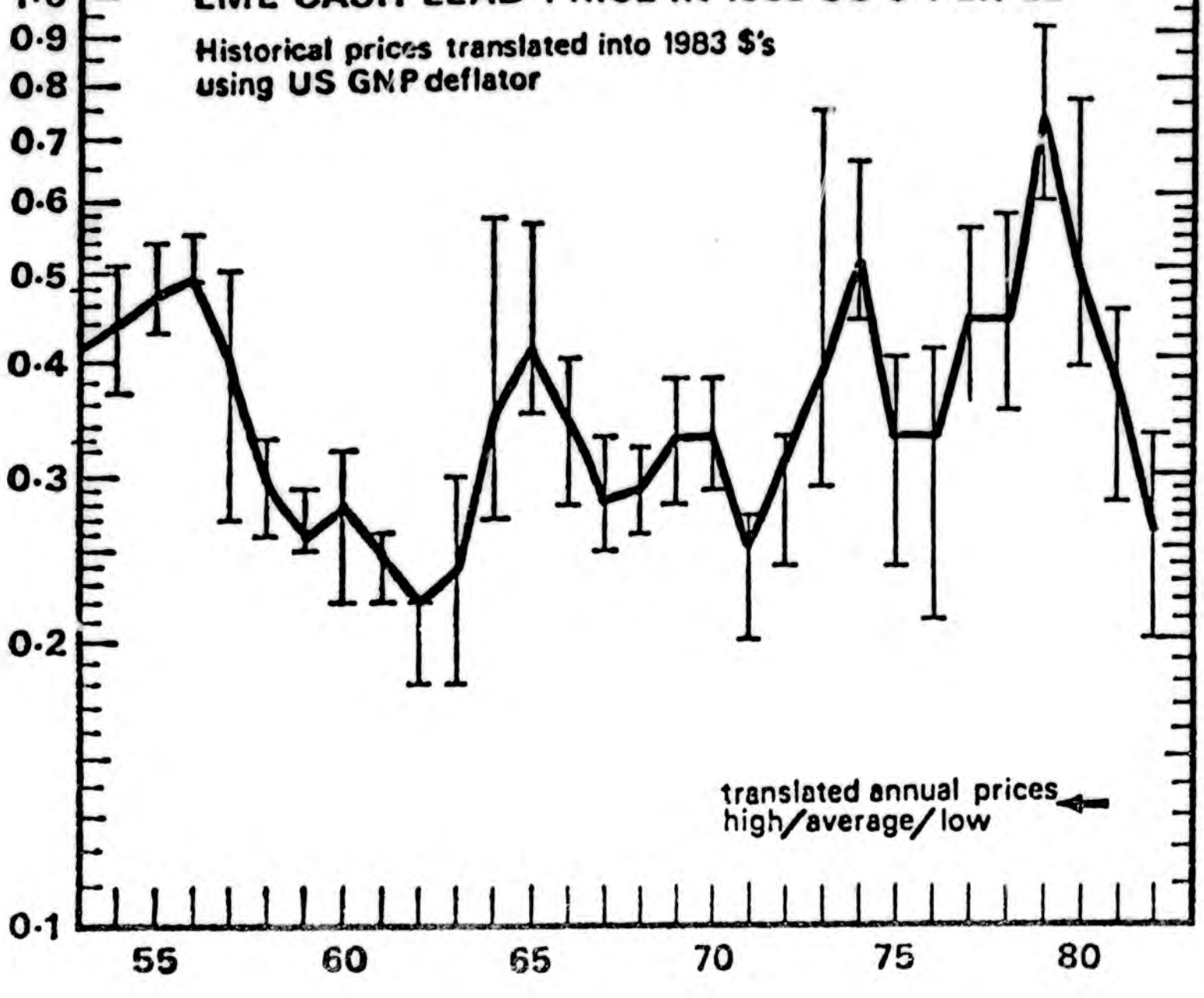


SLIDE 13

LME
LEAD PRICE

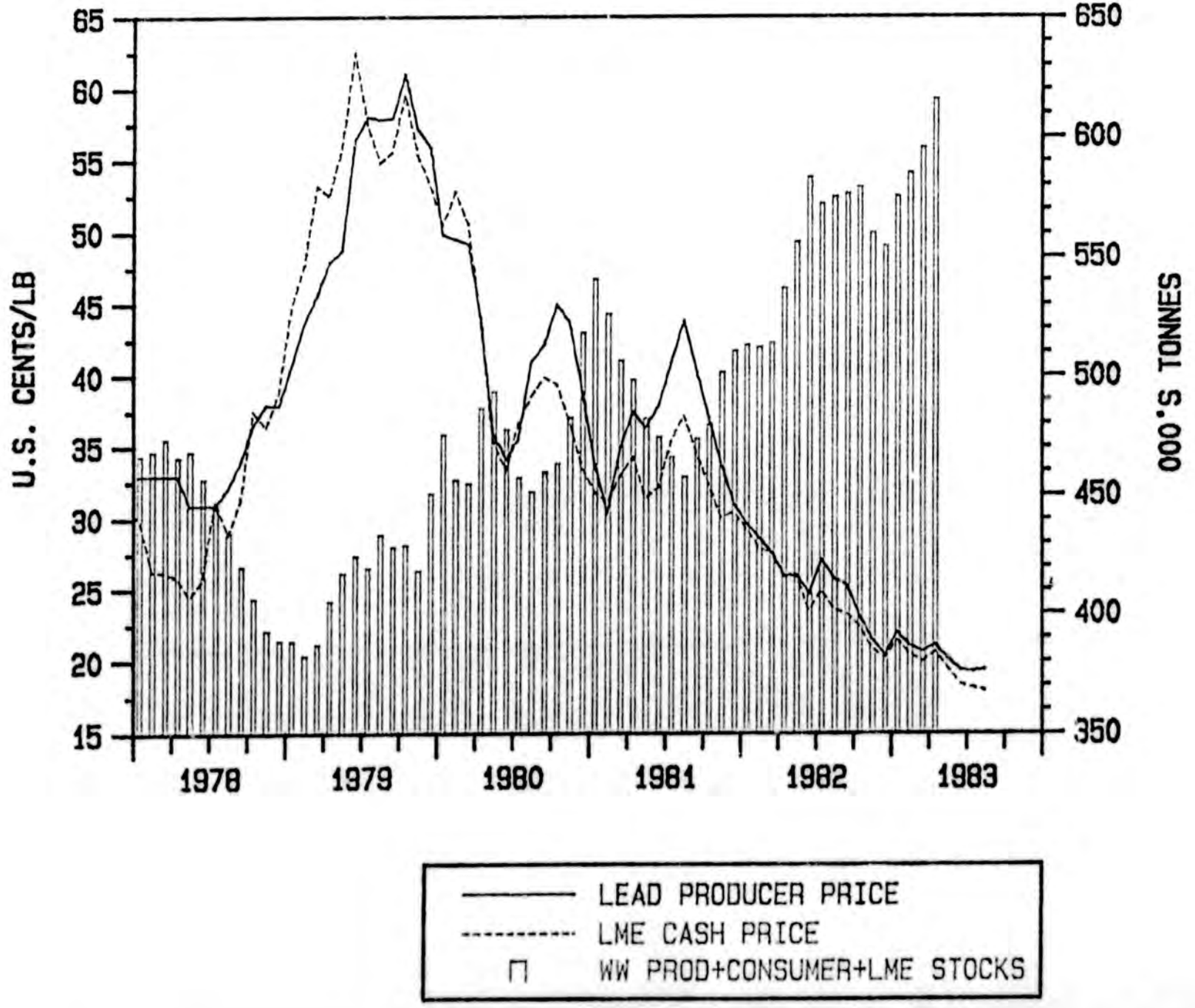


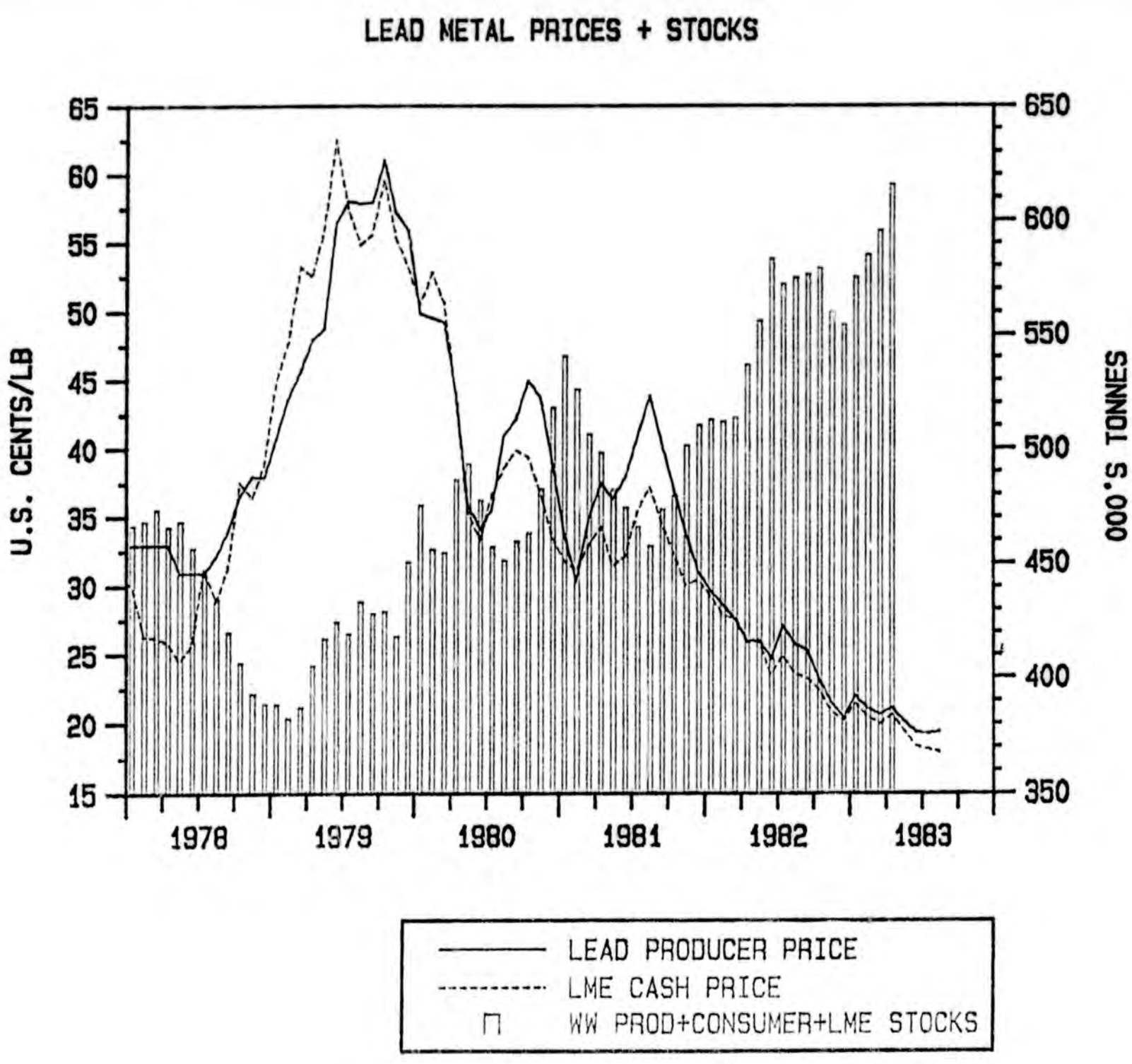
SLIDE 14



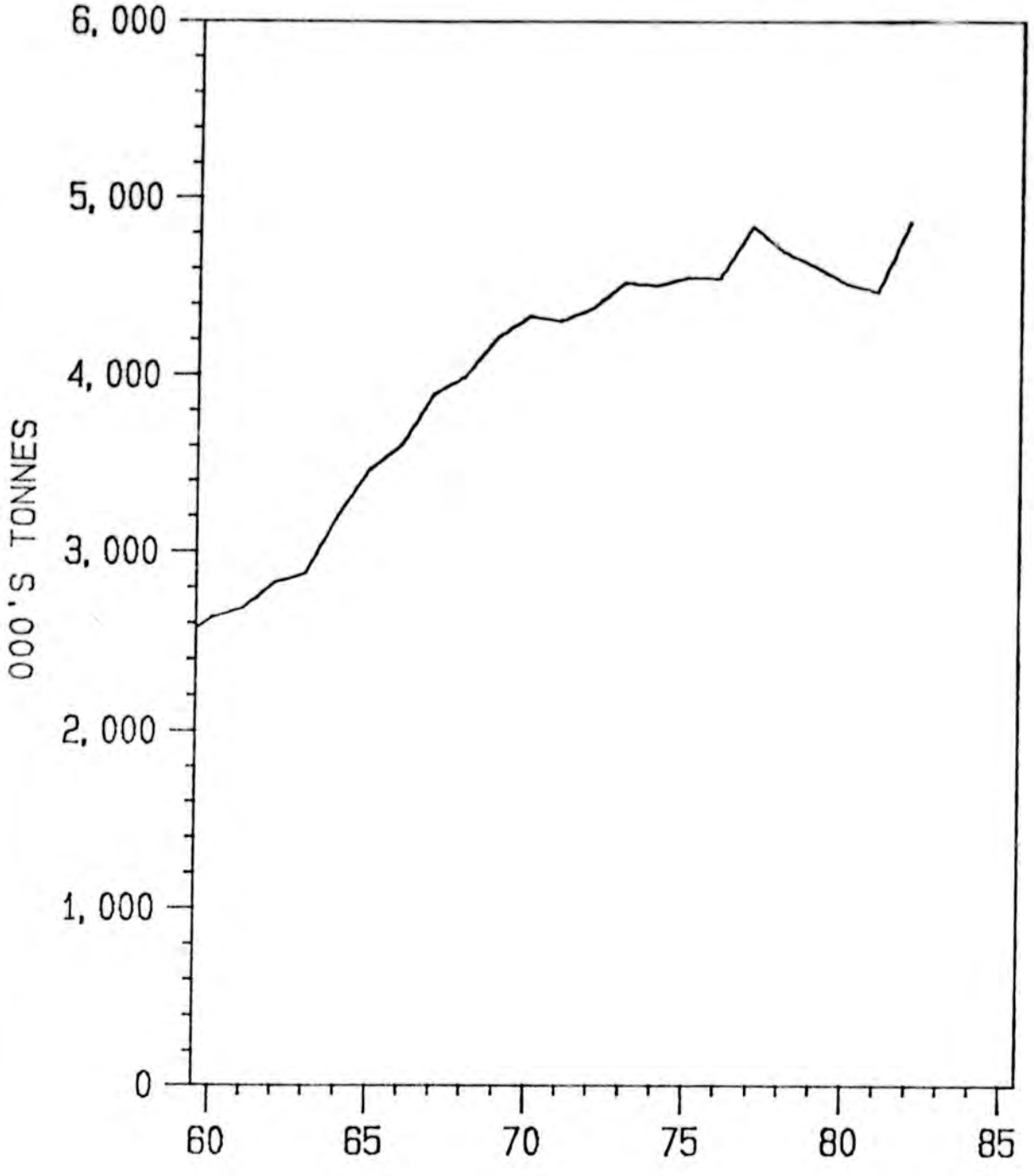
SLIDE 15
(MMRS)

LEAD METAL PRICES + STOCKS



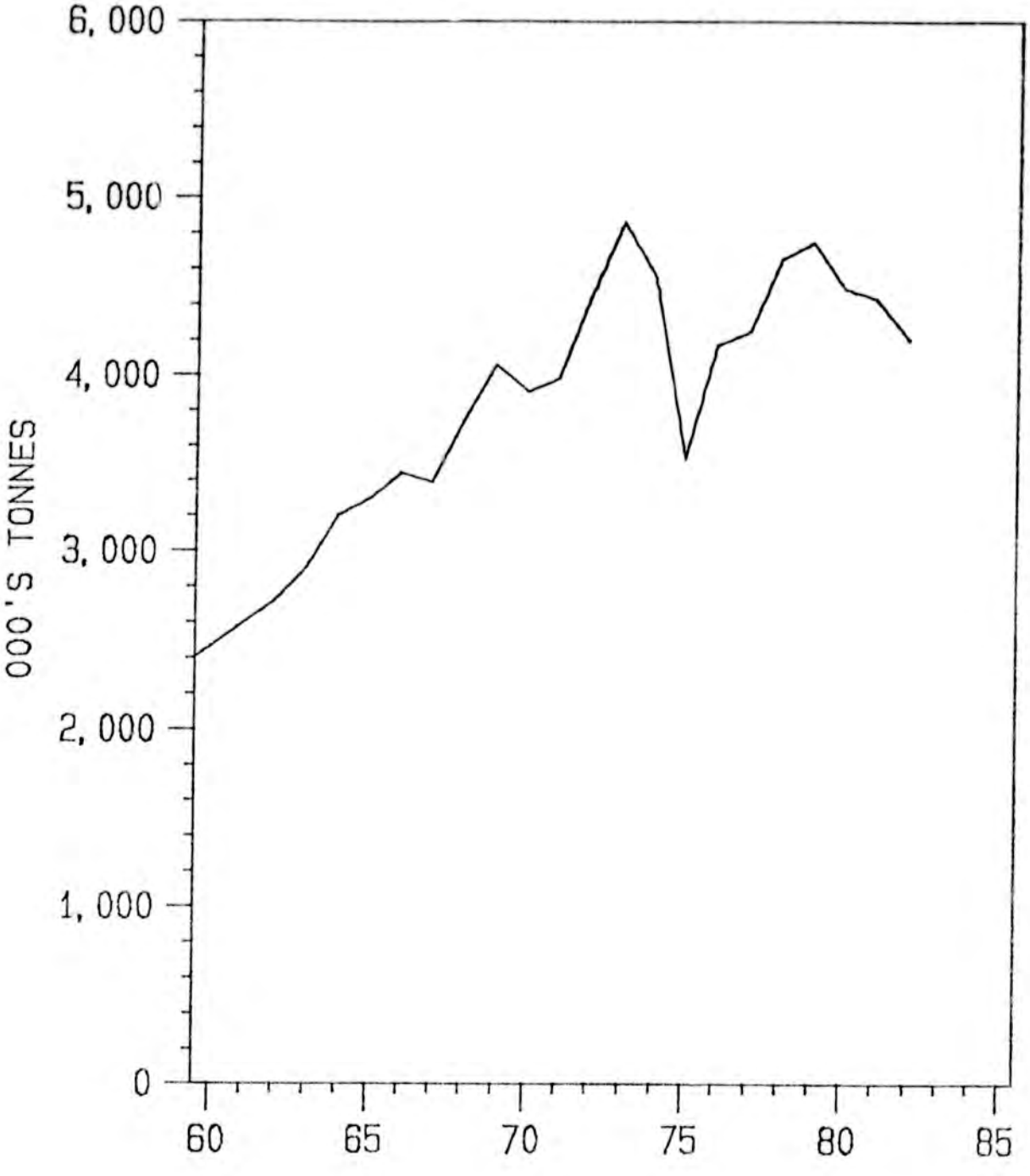

LEAD METAL PRICES + STOCKS
U.S. CENTS/LB
65
60
55
50
45
40
35
30
25
20
15
000'S TONNES
650
600
550
500
450
400
350
1978
1979
1980
1981
1982
1983
LEAD PRODUCER PRICE
LME CASH PRICE
WW PROD+CONSUMER+LME STOCKS

WESTERN WORLD ZINC MINE PRODUCTION

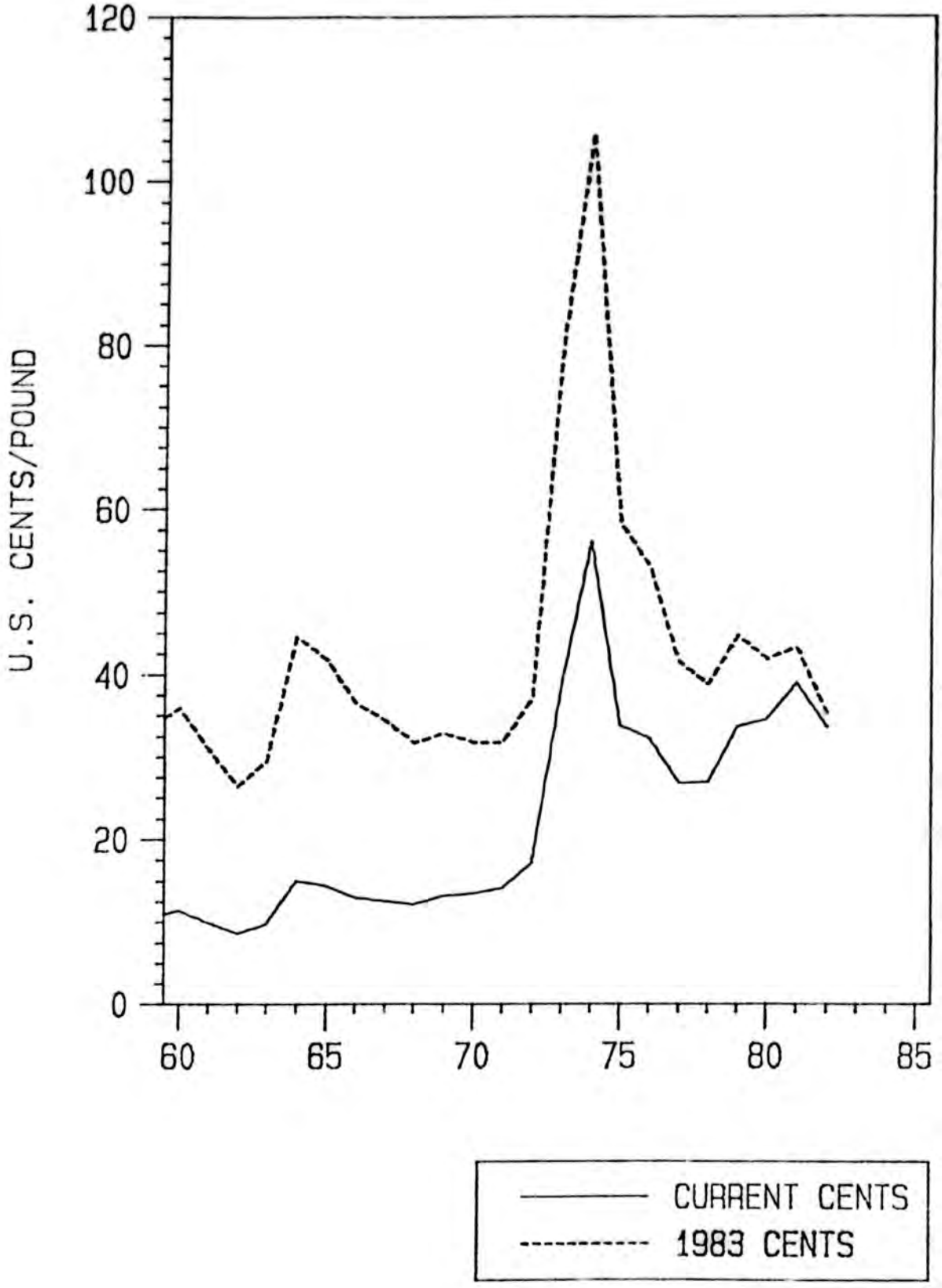


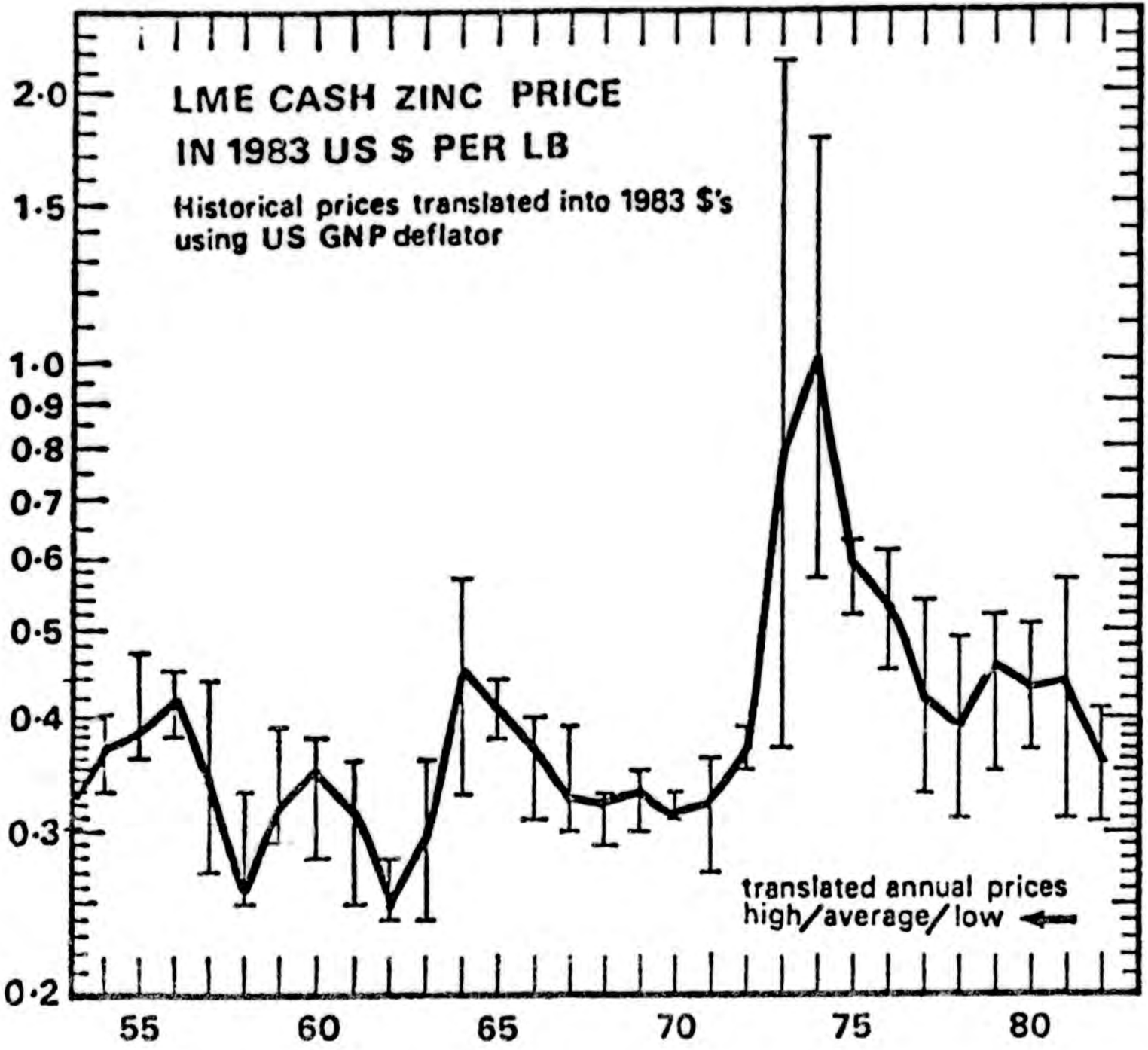
SLIDE 17

WESTERN WORLD ZINC CONSUMPTION

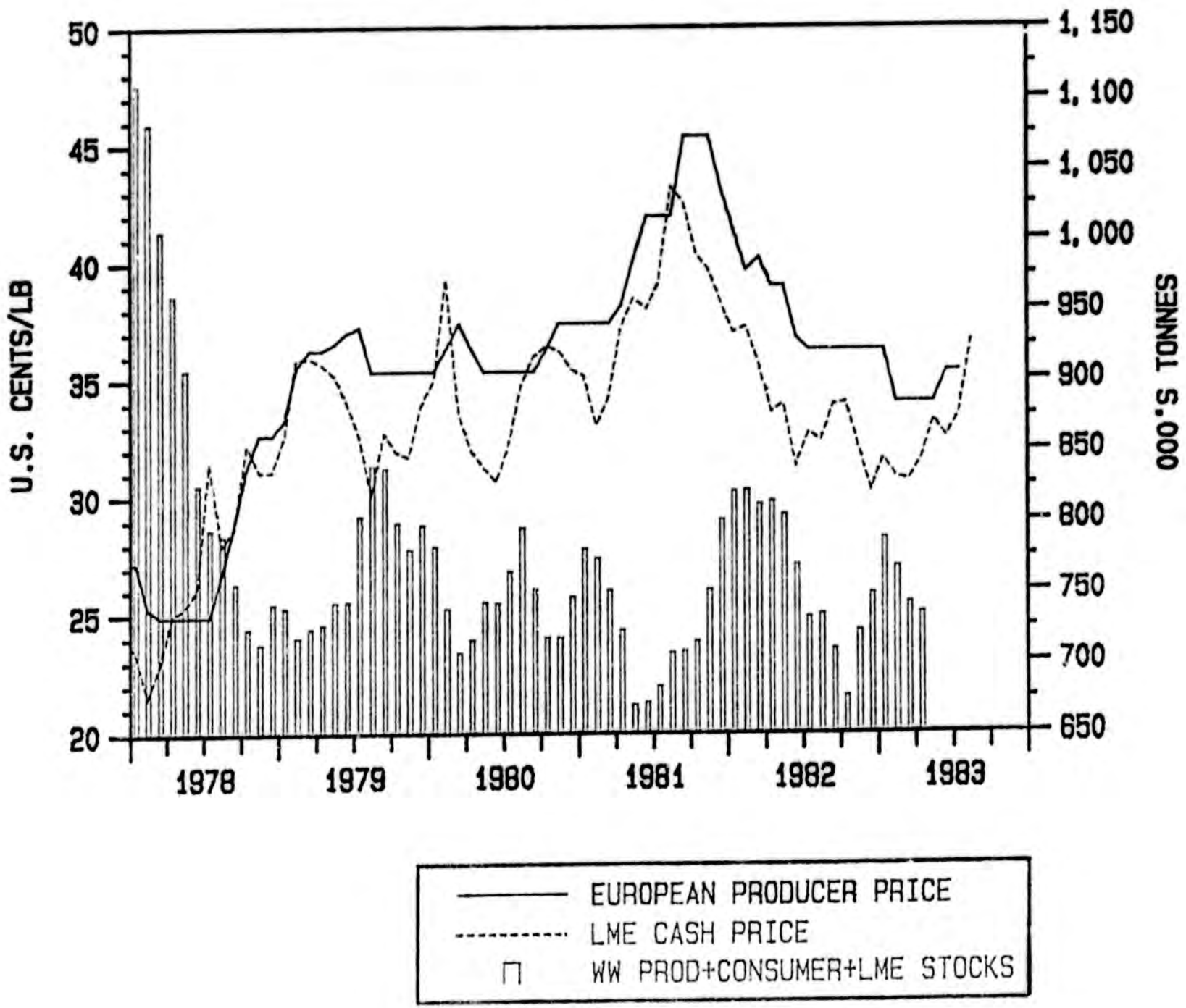


LME CASH ZINC PRICE




LME CASH ZINC PRICE
IN 1983 US $ PER LB
Historical prices translated into 1983 $'s using US GNP deflator
translated annual prices high/average/low
2·0
1·5
1·0
0·9
0·8
0·7
0·6
0·5
0·4
0·3
0·2
55
60
65
70
75
80

ZINC METAL PRICES + STOCKS



SCOMM

#50:12

3/20

COMMITTEE REPORT

HOUSE

(5)

~~1/14/85~~
1/16/85

FURTHER: Finance

Date: 1/11/85

The Committee on Special House Committee on State Loans has had HB 4

"An Act relating to debt of the state, its agencies, and municipalities; and providing for an effective date."

under consideration and recommends:

[X] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

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

and recommends it do pass

[ ] AND attaches a "Letter of Intent" [X] New Fiscal Note Sup 32 [ ] Zero Fiscal Note Attached

[ ] reports it back without recommendation

[ ] referred to the _____ Committee

MEMBERS SIGNING DO PASS

NO [signature]

DEBOING [signature]

FULLER [signature]

MEMBERS HAVING OTHER RECOMMENDATIONS:

[signature]

CHAIRMAN

Berrier
3/19/85

Original sponsors: Uehling and Gruenberg

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 4 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to debt of the state, its agencies, and municipalities; and providing for an effective date."

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

* Section 1. AS 37.15.110 is amended to read:

Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE. There is created <u>within the Department of Revenue</u> a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, and the commissioner of revenue. If a member of the committee is absent or otherwise unable to act, the member's designee [IN THE DEPARTMENT] shall act as a member of the committee in the member's place.

* Sec. 2. AS 37.15.130 is amended to read:

Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. <u>(a)</u> The commissioner of <u>revenue</u> [COMMERCE AND ECONOMIC DEVELOPMENT] is the chairman of the state bond committee [AND THE COMMISSIONER OF REVENUE IS THE SECRETARY]. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent record of its proceedings. All records and correspondence of the committee shall be kept in the office of the commissioner of revenue.

<u>(b) The committee may meet and transact business by electronic media if</u>

<u>(1) public notice of the time and locations where the</u>

meeting will be held by electronic media has been given in the same manner as if the meeting were held in a single location;

(2) participants and members of the public in attendance can hear and have the same right to participate in the meeting as if the meeting were conducted in person; and

(3) copies of pertinent reference materials, statutes, regulations, and audio-visual materials are reasonably available to participants and to the public.

(c) A meeting by electronic media as provided in this section has the same legal effect as a meeting in person.

(d) For the purposes of this chapter public notice of 24 hours or more is adequate notice of a meeting of the committee at which the issuance of bonds is authorized.

* Sec. 3. AS 37.15.140 is amended to read:

Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. (a) The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, sale, and delivery of bonds issued on behalf of the state.

(b) The state bond committee shall prepare an annual report to be submitted to the governor and legislature before January 31 of each year. The report must show (1) all outstanding debt of debt issuing entities of the state; (2) the anticipated impact on the finances and credit of the state, including the effect on long-term debt capacity and creditworthiness resulting from that debt; (3) which long-term debt is tax supported and which is supported only by revenues attributable to the project being financed by the debt; (4) all long-term capital lease obligations of the state; (5) the volume of short-term debt issued and retired during the year by debt issuing entities of the state; (6) specific identification of each issue for which the

state has pledged some form of indirect support for the debt including any moral obligation of the state to support the debt; (7) future bonding and debt capacity implications of legislation enacted in the previous legislative session; and (8) the recommended debt issuance capacity of the state for the next two years following the year of the report. The committee may require that any information needed to prepare the report be furnished by debt issuing entities of the state at a time determined by the committee. The state bond committee shall publicize the existence of the report submitted under this section and shall make the report available to the public upon request.

(c) The state bond committee may develop written policies concerning debt of the state.

(d) The committee may develop written informational guidelines for management of debt of municipalities of the state and debt of instrumentalities of the state authorized to issue tax exempt obligations.

(e) The policies and guidelines developed under (c) and (d) of this section shall include bidding procedures, and bid awards and compensation for financial service.

(f) The state bond committee shall request the debt issuing entities of the state to (1) prepare and submit to the committee by January 31 of each year a calendar of all debt proposed to be issued during the calendar year showing the amount and type of the debt and the month in which issuance is proposed, and (2) prepare and submit monthly a report showing all proposed changes to the calendar submitted.

(g) In this section the term "debt issuing entities of the state" includes the state, each agency or instrumentality of the state authorized to issue tax exempt obligations, and each municipality of

the state.

(h) In this section the term "debt" means (1) long-term bonded indebtedness secured by the full faith and credit of the government unit, (2) long-term bonded indebtedness secured by a mortgage or lien on specific properties or receivables, (3) short-term notes, (4) warrants, and (5) capital lease obligations; but "debt" does not include debt owed within the debt issuing entity or to another debt issuing entity.

* Sec. 4. AS 37.15.150 is amended to read:

Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SERVICES. The state bond committee may appoint an executive director who may with approval of the committee select and employ additional staff as necessary. Employees of the committee are in the partially exempt service under AS 39.25.120. If the [STATE BOND] committee considers it necessary and advisable, it may procure architectural or engineering, fiscal agent or municipal investment, legal and other expert or specialized services at reasonable and customary fees to assist it in accomplishing the most advantageous sale of the state bonds. The fees may be paid from the proceeds of the sale or advanced from the contingency fund in the office of the governor or otherwise.

* Sec. 5. AS 39.25.120(c) is amended by adding a new paragraph to read:

(19) employees of the state bond committee.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date

REQUEST
Bill/Resolution No: HB 4
Title: Debt of State, Agencies, and Municipalities
Sponsor: Uehling
Requestor: Special Loans Committee
Date of Request: January 22, 1985

FISCAL DETAIL
Agency Affected: Department of Revenue
Program Category Affected:

BRU, Program of Subprogram(s) Affected:
Treasury

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	50.0	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	50.0	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	50.0	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	50.0	-	-	-	-

POSITIONS:

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

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker MTB
Division: Treasury
Phone: 465-2350
Date: January 22, 1985

Approved by Commissioner: Mary K. Shields
Agency: Department of Revenue
Date: 1/23/85

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

HB 4
Fiscal Note Analysis

Funds for development of policies and informational guidelines by State Bond Committee financial advisor.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM March 1[illegible], 1985

SUBJECT: Sectional Analysis of HB 4
State debt

TO: Representative John Sund

FROM: Billy G. Berrier
Director
Division of Legal Services

You have requested a sectional analysis of House Bill 4 relating to state, agency and municipal debt.

Section 1 amends AS 37.15.110 to locate the state bond committee within the Department of Revenue. Current law does not have a specific provision on this.

Section 2 amends AS 37.15.130 to make the commissioner of revenue instead of the commissioner of commerce and economic development chair of the state bond committee. It also allows meetings by electronic media if there is at least 24 hours public notice, if the public may participate as if the meeting were conducted in person and if copies of relevant materials are available to the public. This meeting has the same legal effect as a meeting in person.

Section 3 amends AS 37.15.140 relating to the duties of the state bond committee.

(a) the amendment clearly specifies the duty to adopt the authorizing resolution and prepare the documents needed for a bond sale applies only to state bonds.

(b) requires the committee to prepare an annual report to the governor and legislature and sets out a nonexclusive list of matters the report must contain. The committee may require information needed for the report from all debt issuing agencies of the state. (Debt issuing agencies are defined in subsection (g)). It also requires publishing

existence of the report and that the report itself must be available to the public on request.

(c) requires the state bond committee to develop written policies concerning debt of the state itself. This requirement does not include agency or municipal debt.

(d) requires that for agency and municipal debt the committee must develop written informational guidelines.

(e) requires that both the policies under (c) and the guidelines under (d) include recommended level of debt, debt management, bidding procedure and awards and compensation for financial services.

(f) requires the committee to request municipalities and agencies which issue debt to submit a calendar of debt proposed to be issued during the calendar year showing amount and type and to submit a monthly report of changes to the calendar.

(g) defines debt issuing entities of the state to include the state, the agencies and municipalities.

(h) defines debt as long term general obligation bonds, long term lien bonds, short term notes, warrants and capital lease obligations. The term does not include inter-agency or municipal-state debt.

Section 4 amends AS 37.15.150 to allow the committee to have employees who are in the partially exempt service under AS 39.25.120.

Section 5 amends AS 39.25.120 to add employees of the state bond to the list of partially exempt employees.

Section 6 provides an immediate effective date.

BGB:ojb
J12/081

ANCHORAGE
DOWNTOWN
DISTRICT TWELVE

AIRPORT HEIGHTS
CITY VIEW
DOWNTOWN
FAIRVIEW
GOVERNMENT HILL
INLET VIEW
SOUTH ADDITION

Alaska State Legislature

House of Representatives

Representative
RICK UEHLING

MEMBER
HOUSE FINANCE COMMITTEE
HOUSE SPECIAL COMMITTEE
ON STATE LOANS
HOUSE FINANCE SUBCOMMITTEE ON
ADMINISTRATION, REVENUE
AND THE GOVERNOR'S OFFICE

MEMORANDUM

Date: March 9, 1985

To: Representative Sund, Chair
House Special Committee on State Loans

From: Representative Rick Uehling

Subject: House Bill 4 ," An Act relating to the debt of the State, its agencies, and municipalities; and providing for an effective date."

The following is an outline of the background and provisions of HB 4:

The Background

As a part of the work of the House Special Committee on State Loans of the 13th Legislature, the Committee examined a recent report to the Legislative Budget and Audit Committee by the Government Finance Research Center entitled "A review of the Debt Management and Debt Capacity of the State of Alaska." The House Special Committee on State Loans held a major hearing in Anchorage, at which Wesley Hough, Manager of the Government Finance Research Center and the author of the report, presented it to the Committee.

The report makes a series of recommendations concerning the State's Debt Management practices. In addition, the report speaks specifically to the General Obligation Debt capacity of the State. HB 4 is an attempt to institute many of the report's recommendations for managing State Debt.

During the last Session a similar bill passed the House 40-0 but died in Senate Rules in the last days of the Session.

There has been a growing concern on the part of both the Legislature and the public with the amount of debt that is being incurred by the State of Alaska. As the State looks to financing many large projects that are important to the State, the capacity of the State to issue General Obligation bonds becomes an increasingly important factor. Additionally, a great deal of attention has focused on the

1526 K STREET • ANCHORAGE, ALASKA 99501 • (907) 274-4256
POUCH V • JUNEAU, ALASKA 99811 • (907) 465-4821

"debt issuing entities" of the State, the municipalities and agencies which are authorized to incur debt.

This attention has focused on the Alaska Housing Finance Corporation and the North Slope Borough which together have issued almost four times the amount of State General Obligation debt.

While the debt that is incurred by the Alaska Housing Finance Corporation (AHFC) is supported by mortgage revenues, and the debt of the North Slope Borough is supported by the property tax revenues of the borough, there remain concerns about the State's ultimate moral obligation. Furthermore there is the overriding question of at what point the growing debt issuance of the AHFC and the North Slope Borough will negatively impact the overall capacity of the State to issue debt.

HB 4 contains four major provisions:

1. The Chair of the State Bond Committee would be changed from the Commissioner of Commerce and Economic Development to the Commissioner of Revenue.

2. The State Bond Committee would be responsible for a yearly report to the Legislature and the Public on the State's bonded indebtedness. HB 4 states very specifically what the report will contain.

3. The State Bond Committee would be required to issue written policies and guidelines for the management of State debt and local debt.

4. The State Bond Committee would be responsible for coordinating a calendar of State-wide debt issuance.

While HB 4 contains many of the provisions called for by the GFRC report, it does not provide for some of more controversial recommendations such as a ceiling on municipal debt or new provisions controlling the School Debt Retirement Program. It is a first step towards the Legislature recognizing the need to maintain an active role in the management of the debt issuance of the State, its municipalities and agencies.

The Provisions.

Section 1 AS 37.15.110

The State Bond Committee is placed for Administrative purposes within the Department of Revenue. It currently does not exist within a Department. The State Bond Committee would retain its current three members: The Commissioner of Revenue, the Commissioner of Commerce & Economic Development and the Commissioner of Administration.

Section 2 AS 37.15.130

The Commissioner of Revenue replaces the Commissioner of Commerce & Economic Development as the Chair of the State Bond Committee.

This section also provides at the request of the Department of Revenue, provisions allowing for meetings to be held by electronic means and a special provision allowing 24 hour notice of a meeting for the purpose of authorizing the issuance of bonds. These provisions are substantially the same as those concerning meetings of the Board of Directors of AHFC.

Section 3 AS 37.15.140

a) The words "issued on behalf of the State" have been added to existing statute in order to clarify that the statute relates only to bonds issued on behalf of the State and does not pertain to municipalities.

b) The State Bond Committee is required to prepare an annual report to the Legislature and the Governor outlining the current status of outstanding State Debt before January 31st of each year. Material to be included in the report is very specific in accordance with the recommendations of Wesley Hough of the Government Finance Research Center.

The report must show:

1) All outstanding debt of the debt issuing entities of the State including the municipalities and those entities authorized to issue tax exempt bonds such as AHFC.

2) The anticipated impact of that debt on the finances and credit of the State including the effect on the State's long term debt capacity and credit worthiness.

3) Which long term debt is tax supported and which long term debt is supported by revenues attributable to the project being financed.

4) All long term capital lease obligations of the State.

5) The volume of short term debt issued and retired by the debt issuing entities of the State.

6) Specific identification of each debt issuance for which the State has pledged some form of indirect support for the debt including any moral obligation of the State.

7) Future bonding and debt capacity implications of legislation enacted in the previous legislative session.

8) The recommended debt capacity of the State for the two years following the year of the report.

Additionally, the State Bond Committee is required to publicize the existence of the report and that copies be made available to the public.

c) The State Bond Committee shall develop written policies concerning the debt of the State.

d) The State Bond Committee shall develop written informational guidelines for the management of debt for the municipalities and the debt issuing entities of the State authorized to issue tax exempt obligations.

e) These policies and guidelines shall include recommended level of debt, debt management practices, bidding procedures and awards, and compensation for financial service.

f) The State Bond Committee will develop a statewide debt issuance calendar by January 31st of each year. The Bond Committee will require the debt issuing entities of the State to submit a calendar of all debt proposed to be issued including the amount and type of debt, and the month in which it is to be issued. The calendar will be updated on a monthly basis.

g) For drafting purposes "Debt issuing entities of the State" is defined as the State, each agency or instrumentality of the State authorized to issue tax exempt obligations and each municipality of the State.

h) For the purposes of this section, "Debt" is defined as:

1) Long-term bonded indebtedness secured by the full faith and credit of the government unit (general obligation bonds).

2) Long-term bonded indebtedness secured by a mortgage or lien on specific properties or revenues (revenue supported bonds).

3) Short term notes.

4) Warrants.

5) Capital lease obligations.

Debt does not include inter-agency debt or debt owed from one debt issuing entity to another. This definition has been provided to us by Wesley Hough of the Government Finance Research Center.

Section 4 AS 37.15.150

The State Bond Committee is given the authority to appoint an executive director and hire staff as necessary.

Section 5 AS 39.25.120

Employees of the State Bond Committee are in the partially exempt service.

Section 6

HB 4 has an immediate effective date.

(b) The commissioner of revenue may

(1) invest and reinvest the principal of the funds;

(2) sell, exchange, convey, transfer, or otherwise dispose of investments of the funds by private contract or at public auction;

(3) vote upon a stock, bond, or other security; give a general or special proxy or power of attorney with or without power of substitution; exercise a conversion privilege, subscription right, or other option and make payments incidental to it; consent to or participate in a corporate reorganization or other change affecting corporate securities, delegate discretionary power, pay an assessment or charge in connection with the delegation; and generally exercise any of the powers of an owner with respect to stocks, bonds, securities, or other investments held in the funds;

(4) make, execute, acknowledge, and deliver documents of transfer and conveyance and instruments necessary or appropriate to carry out the powers granted;

(5) register investments held in a fund in the name of the board having the power to approve investments for a fund;

(6) do all acts whether or not expressly authorized which are considered proper for the protection of the investments held in the funds. (§ 4 ch 182 SLA 1978)

Chapter 15. State Bonding Act.

Article

1. General Obligation Bonds (§§ 37.15.010 — 37.15.220)
2. Bond Anticipation Notes (§§ 37.15.300 — 37.15.390)
3. International Airports Revenue Bonds (§§ 37.15.410 — 37.15.550)

Article 1. General Obligation Bonds.

Section

10. Full faith and credit for general obligation bonds
12. Continuing debt service appropriation
15. Committee shall publish notice of existing state indebtedness before election
20. Manner and amounts of sale
30. Interest rate and maturity
40. Sale of bonds
50. Redemption
60. Form and registration of bonds
70. Place of payment
80. Signatures and seal
90. Terms and conditions
100. Trustee
110. Creation and membership of state bond committee
120. Regulations
130. Officers, records and proceedings
140. Duties of state bond committee
150. Committee may employ special services
155. Prohibited bidding on bonds and anticipation notes
160. Contents of resolution
170. State bond committee to certify annual principal, interest, and reserve requirements
180. Remedies of bondholders
190. Negotiability
200. Bonds as legal investments
210. Refunding bonds
215. Official statements
220. Short title

Sec. 37.15.010. Full faith and credit for general obligation bonds. The full faith, credit and resources of the state are hereby pledged to the payment of the principal of and interest and redemption premium, if any, on all general obligation bonds of the state authorized pursuant to art. IX, § 8 of the constitution. (§ 1 ch 175 SLA 1960; am § 1 ch 104 SLA 1967)

Collateral references. — 63 Am.Jur.2d, Public Funds, §§ 23-32. 64 Am.Jur.2d, Public Securities and Obligations, § 1 et seq.

81A C.J.S., States, §§ 250-262.

Funding or refunding obligations as subject to conditions respecting approval by voters, 97 ALR 442.

Validity of bond issue in excess of amount permitted by law within authorized debt, tax or voted limit, 175 ALR 823.

Sec. 37.15.012. Continuing debt service appropriation. The amounts required annually to pay the principal, interest, and redemption premium on all issued and outstanding general obligation bonds of the state are appropriated on July 1 of each year from the general fund to the state bond committee to make all required payments of principal, interest, and redemption premium. (§ 1 ch 100 SLA 1981)

Opinions of attorney general. — This section does not represent an unconstitutional dedication of public funds under § 7, art. IX, of the state constitution, as that section of the constitution contains an implied exception for bond obligations. November 30, 1982, Op. Att'y Gen.

Sec. 37.15.015. Committee shall publish notice of existing state indebtedness before election. (a) Before a general or special election in which a bond issue is offered for ratification, the state bond committee shall publish a notice of existing state bonded indebtedness at least once a week for three consecutive weeks in a newspaper of general circulation in each of the four judicial districts of the state. The first notice shall be published at least 20 days before the date of the election. A notice shall contain

(1) the current total bonded indebtedness of the state,

(2) the cost of the debt service on the current indebtedness.

(b) Neither the failure to publish the notice of existing state bonded indebtedness nor a defect in the publication affects the validity of the bond issue offered for ratification or of a general or special election in which a bond issue is offered for ratification. (§ 2 ch 50 SLA 1964; am § 1 ch 8 SLA 1969)

Collateral references. — Effect of inclusion in call for election, or in proposal for bond issue submitted to people, of unauthorized method of payment or retirement, 93 ALR 362.

Bonds issued by state officer or board payable solely out of proceeds of obligations of political subdivisions pledged as within constitutional or statutory provisions which impose a limit on state indebtedness or require consent of electors, 100 ALR 1114.

Mistake, ambiguity, or omission in statement as to indebtedness, in call for

election or proposal for bond issue, as affecting validity of election or bonds issued pursuant thereto, 116 ALR 1258.

Effect of delay after authorization by voters on power of governmental unit to issue bonds, 135 ALR 768.

Validity, within authorized debt, tax, or voted limit, of bond issue in excess of amount permitted by law, 175 ALR 823.

Sec. 37.15.020. Manner and amounts of sale. The state bond committee shall sell the bonds of each authorization in the amounts or series and at the times which it finds are for the best interests of the state and its inhabitants. (§ 1 ch 175 SLA 1960)

Sec. 37.15.030. Interest rate and maturity. Each issue or series of bonds shall bear interest at an effective rate over the life of the bonds not to exceed 11 percent a year or that rate of interest which is 110 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. The bonds shall mature in not more than 30 years from date of issue, unless a longer period is specifically authorized by statute. (§ 1 ch 175 SLA 1960; am § 2 ch 104 SLA 1967; am § 1 ch 92 SLA 1970; am § 1 ch 29 SLA 1976; am § 1 ch 85 SLA 1980; am § 1 ch 110 SLA 1982)

Effect of amendments. — The 1980 amendment substituted "10" for "eight" preceding "percent a year" at the end of the first sentence.

The 1982 amendment substituted the language beginning "11 percent a year" for "10 percent a year" at the end of the first sentence.

Collateral references. — Right to call governmental bonds in advance of their maturity, 109 ALR 988.

Sec. 37.15.040. Sale of bonds. Before selling an issue or series of bonds, the state bond committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received. (§ 1 ch 175 SLA 1960; am § 3 ch 104 SLA 1967; am § 1 ch 43 SLA 1969)

Sec. 37.15.050. Redemption. The state bond committee may determine whether the bonds are subject to redemption before their fixed maturities and may fix the premium for and all other terms of the redemption. No bond may be subject to redemption before its fixed maturity date unless the right to so redeem the bond is expressly mentioned on the face of the bond. (§ 1 ch 175 SLA 1960; am § 4 ch 104 SLA 1967; am § 1 ch 26 SLA 1968; am § 7 ch 143 SLA 1968)

Collateral references. — 81A C.J.S., ...tes, § 261.

Funding or refunding obligations as subject to conditions respecting limitation

of indebtedness, 97 ALR 442.

Validity of bond issue in excess of amount permitted by law within authorized debt, tax or voted limit, 175 ALR 823.

Sec. 37.15.060. Form and registration of bonds. An issue or series of bonds may be issued in coupon form payable to bearer or in fully registered form, and bonds in coupon form may be made registrable as to principal or principal and interest, as determined by the state bond committee. (§ 1 ch 175 SLA 1960; am § 2 ch 26 SLA 1968)

Sec. 37.15.070. Place of payment. The state bond committee may fix the place or places of payment of the principal, interest and redemption premium, if any. (§ 1 ch 175 SLA 1960; am § 5 ch 104 SLA 1967)

Sec. 37.15.080. Signatures and seal. (a) Each bond shall be signed on behalf of the state by the governor and attested by the lieutenant governor, which signatures may be facsimile signatures. The seal of the state shall be impressed, imprinted or otherwise reproduced on each bond. Each interest coupon attached to the bond shall be signed by the facsimile signatures of the governor and lieutenant governor. If an officer whose signature appears on the bonds or coupons ceases to be an officer before delivery of the bonds, the signature is, nevertheless, valid and sufficient for all purposes, as if the officer had remained in office until delivery.

(b) A signature required on a bond issued by a political subdivision of the state may be a facsimile signature. (§ 1 ch 175 SLA 1960; am § 6 ch 104 SLA 1967)

Collateral references. — Printing, lithographing, or other mechanical signature on public bonds, coupons, or other pecuniary obligation, 94 ALR 768.

Sec. 37.15.090. Terms and conditions. Each issue or series of bonds shall be issued under and subject to the terms, conditions, and covenants providing for the payment of the principal and the interest and other terms, conditions, covenants, and protective provisions safeguarding the payment as found reasonably necessary by the state bond committee for the most advantageous sale. The terms, conditions, and covenants may include the setting aside and maintaining of certain reserves to secure the payment of principal and interest. (§ 1 ch 175 SLA 1960)

Collateral references. — Effect of inclusion in call for election, or in proposal for bond issue submitted to people, of unauthorized method of payment or retirement, 93 ALR 362.

Power of legislature to add to or make more onerous the conditions or limitations prescribed by Constitution upon incurring public debts, 106 ALR 231.

Power and discretion of officer or board authorized to issue bonds of governmental unit as regards terms or conditions to be included therein, 119 ALR 190.

Sec. 37.15.100. Trustee. If the state bond committee finds it necessary to accomplish the most advantageous sale of the bonds, the committee shall select a trustee for the owners and holders of the bonds or for the safeguarding and disbursement of the proceeds of the sale of the bonds for the use and purpose for which issued, and shall fix the rights, duties, powers, and obligations of the trustee. (§ 1 ch 175 SLA 1960)

Sec. 37.15.110. Creation and membership of state bond committee. There is created a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, and the commissioner of revenue. If a member of the committee is absent or otherwise unable to act, the member's designee in the department shall act as a member of the committee in the member's place. (§ 2 ch 175 SLA 1960; am § 7 ch 104 SLA 1967; am § 81 ch 218 SLA 1976)

Sec. 37.15.120. Regulations. The state bond committee may adopt regulations for the performance of its duties and may designate by resolution one of its members to perform any act necessary to effectuate its duties not required by statute to be performed by the state bond committee in meeting or by resolution, or by another officer of the state. (§ 2 ch 175 SLA 1960; am § 8 ch 104 SLA 1967)

Sec. 37.15.130. Officers, records and proceedings. The commissioner of commerce and economic development is the chairman of the state bond committee and the commissioner of revenue is the secretary. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent record of its proceedings. All records and correspondence of the committee shall be kept in the office of the commissioner of revenue. (§ 2 ch 175 SLA 1960; am § 82 ch 218 SLA 1976)

Collateral references. — Personal liability of officers to holders of invalid public money obligations, 87 ALR 273.

Sec. 37.15.140. Duties of state bond committee. The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, sale, and delivery of bonds. (§ 3 ch 175 SLA 1960)

Sec. 37.15.150. Committee may employ special services. If the state bond committee considers it necessary and advisable, it may procure architectural or engineering, fiscal agent or municipal investment, legal and other expert or specialized services at reasonable and customary fees to assist it in accomplishing the most advantageous sale of the bonds. The fees may be paid from the proceeds of the sale or advanced from the contingency fund in the office of the governor or otherwise. (§ 3 ch 175 SLA 1960)

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
(907) 465-4920

AGENDA

TUESDAY, 3/12/85, 3:30 p.m.
Room 124 (House Judiciary)

* HB 4 "An Act relating to debt of the state, its agencies and municipalities; and providing for an effective date."

* HB 16 "An Act relating to loans or grants for mobile home relocation; and providing for an effective date."

* HB 146 "An Act relating to housing loans for the permanently disabled."

* HB 204 "An Act making a special appropriation to the Alaska housing finance revolving loan fund for housing loans for the permanently disabled; and providing for an effective date."

* HB 217 "An Act relating to interest rates; and providing for an effective date."

THURSDAY, 3/14/85, 3:30 p.m.
Room 124 (House Judiciary)

Continuation of HB 4, HB 16, HB 146, HB 204, HB 217.

For more information, contact JOHN HARTLE

465-4919
Capitol Room 411

* Indicates first public hearing.

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

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

March 12, 1985

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

Dear Representative Sund:

At the request of your staff, I would like to offer the Department of Revenue's comments on HB 4, "An Act relating to debt of the state, its agencies, and municipalities."

The bill addresses an important subject -- the issuance, management, and oversight of state and municipal debt. A strong point of the legislation is its assurance of a focal point for the accumulation of information regarding State and local debt.

I would like to point out that the Department of Revenue is now providing the two main informational items required by the bill. The Treasury Division now disseminates a monthly debt calendar to all issuers of public debt in the state. Within weeks, executive, legislative, and municipal officials will receive an annual report on State, State agency, and municipal debt.

It also may be of interest that the provisions for electronic meetings of the State Bond Committee effectively are contained in HB 140, which provides blanket authorization for State agencies to engage in such meetings.

The Department does have reservations about certain provisions of HB 4. One is a degree of ambiguity about what constitutes "debt of the state."

More importantly, the Department is concerned about the issuance of debt guidelines by the State Bond Committee. While the desire for guidelines is understandable, the Department believes they may raise certain problems, to wit:

1. with respect to municipalities, the State may not have constitutional authority to sanction debt issuance,

albeit in a manner lacking any legal compulsion;

2. such sanctions might imply some degree of State responsibility for the debt; with municipal and agency debt levels so high, the State should be very careful that the State does not project to bondholders any responsibility for debt beyond whatever legal liability it has;

3. issuers might place great confidence or reliance on the State and guidelines might be adhered to ritualistically by some less sophisticated borrowers or for political reasons; public determination of municipal agendas for capital improvements could be unduly impaired; with some communities experiencing rapid growth, guidelines could be a relatively inflexible and, for the State Bond Committee, politically untenable manner of addressing rapidly growing infrastructure needs;

4. if an issuer should issue bonds in defiance of guidelines, the bonds could suffer at the hands of the rating agencies or markets; and

5. State Bond Committee sanction of bond issuance might give the impression that the State is obliged to fully fund certain municipal aid programs, particularly school debt payments.

The Department wonders if it might be more useful to disseminate debt information to issuers rather than issue guidelines. An example would be Credit Overview, a publication of Standard & Poor's that describes in detail the methods and criteria that agency uses in rating debt. To a large extent, these are the "guidelines" that matter. Such dissemination would avoid greater entanglement of the State in the responsibility for municipal debt.

Sincerely,

Milt Barker

Milt Barker
Deputy Commissioner

MB/gb
85-33

ANCHORAGE
DOWNTOWN
DISTRICT TWELVE

AIRPORT HEIGHTS
CITY VIEW
DOWNTOWN
FAIRVIEW
GOVERNMENT HILL
INLET VIEW
SOUTH ADDITION

Alaska State Legislature

House of Representatives

Representative
RICK UEHLING

MEMBER
HOUSE FINANCE COMMITTEE
HOUSE SPECIAL COMMITTEE
ON STATE LOANS
HOUSE FINANCE SUBCOMMITTEE ON
ADMINISTRATION, REVENUE
AND THE GOVERNOR'S OFFICE

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

Dear Representative Sund,

At the request of your staff I would like to comment on the March 12th letter by Deputy Commissioner of Revenue , Milt Barker, regarding HB 4 " An Act regarding the debt of the State, its agencies and its municipalities ".

I would like to begin by stating that the Department of Revenue has changed its position regarding this Legislation. As the previous chair of the House Special Committee on State Loans I worked each step of the way with former Commissioner Heath to develop legislation that would be responsible public policy. It has come as a shock that the new Commissioner of Revenue has taken the position that the Dept. of Revenue does not support HB 4.

In reviewing the Commissioner's letter I am forced to question whether the Commissioner fully understands the the provisions of HB 4.

The Commissioner begins by stating that, the Department does have reservations about HB 4. "One is a degree of ambiguity about what constitutes 'debt of the State'". This is my point exactly. There is currently a great deal of concern about the debt issuances of agencies and municipalities within the State of Alaska. Ambiguity about what constitutes "debt of the State" exists currently. HB 4 attempts to place additional information in the hands of the Legislature and the public regarding "the State's debt issuance."

The Commissioner goes on to state that "The Department is concerned about the issuance of debt guidelines by the State Bond Committee," and raises five specific points.

I would like to begin in responding to the Commissioner's five points by stating that HB 4 does not require the issuance of vague "debt guidelines," but instead, requires " informational guidelines for the management of debt of municipalities of the State." These informational guidelines would include "recommended level of debt, debt management, bidding procedures, and bid awards, and compensation for financial service."

1526 K STREET • ANCHORAGE, ALASKA 99501 • (907) 274-4256
POUCH V • JUNEAU, ALASKA 99811 • (907) 465-4821

With regard to point number one, no where in HB 4 is the State Bond Committee given the authority to sanction or not sanction the debt issuance of the municipalities. I am well aware of the constitutional questions which would surround such a requirement.

With regard to point number two, the Commissioner believes that "such sanctions might imply some degree of State responsibility for the debt." If HB 4 provided for State Bond Committee sanctioning of municipal debt, this argument might have some merit. However, HB 4 does not provide such sanctions. Furthermore, although it may be the Commissioner's belief that the State now has no moral obligation for the debt issuances of the municipalities, this is a matter of some discussion and debate.

With regard to point number three, first, the existence of "less sophisticated borrowers" is evidence of the need for informational guidelines. Secondly, no where in HB 4 are "municipal agendas for Capital Improvements" addressed. Third, the State Bond Committee would have full authority to write the informational guidelines as flexibly as it pleased.

With regard to point number four, the question of bonds issued in defiance of State Bond Committee guidelines and their fate in the market, is one of what constitutes good public policy.

With regard to point number five, once again I would like to reiterate that no where in HB 4 is the State Bond Committee given the authority to sanction or not sanction the issuance of municipal debt.

In closing I would like to state that HB 4 is, I believe, a necessary step the Legislature must take in order to protect the State's interest in the bonded indebtedness of its agencies and municipalities.

Cordially,

Rick

Rep. Rick Uehling

GOVERNMENT
FINANCE
RESEARCH
CENTER
MUNICIPAL FINANCE
OFFICERS ASSOCIATION

"A Review of Debt Management and Debt Capacity for the State of Alaska"

Presentation of report written for the Legislative Budget and Audit Committee to the House Special Committee on State Loans.

October 19, 1983

Wesley C. Hough, Manager
Government Finance Research Center (GFRC)
Municipal Finance Officers Assoication (MFOA)

I. Overview of GFRC Report's Scope

II. Alaska State-level Debt
- o classification of long-term debt by type:
  - tax-supported general obligation
  - revenue-supported
  - moral obligation
- o market performance of State general obligation bonds
- o investor perceptions of the State's creditworthiness

III. Recommended Changes in State Debt Management
- o expanded role for State Bond Committee
- o supervision of moral obligation bonds
- o capital financing plan
- o use of generally accepted accounting principals

IV. Local Government Debt
- o profile of local borrowers, market performance
- o State reimbursement of school construction costs
- o state oil production property tax policy
- o municipal bond bank

V. Local Government Debt Management
- o alternative programs for state involvement
- o ceiling on locally issued debt
- o expanded role for municipal bond bank

VI. State Debt Capacity
- o determinants of debt capacity
- o methodology for assessing debt capacity

CFRC Debt Study Recommendations

1. State Bond Committee

a) Oversight responsibilities of the State Bond Committee should include all State-level debt.

b) Committee Chairman should be Commissioner of Revenue or Director of O.M.B., as they are actually involved in the State's Debt Management.

c) Membership of State Bond Committee should be expanded to include the Commissioner of Community and Regional Affairs and the head of a debt issuing agency (AHFC, AIDA, etc.).

d) State Bond Committee should have a full time professional staff person who is an expert in public finance.

e) State Bond Committee should require annual financing plans from each authorized issuer of bonds.

f) The State Bond Committee should prepare an annual profile of outstanding debt and monitor its impact on the State's fiscal condition.

g) State Bond Committee should develop written debt management guidelines.

2. Debt Capacity:

To preserve State's credit worthiness the State should keep its debt service-to-revenue ratio to 5%, and the State should keep maturities within the known and predictable range of State revenues (we could go to as high as 10%, but we would face tradeoffs against other spending priorities and it could result in a lowering of the State's AA rating).

3. Moral Obligation Bonds:

a) Where possible, use of the moral obligation should be avoided. The moral obligation should be a privilege not a right. State Bond Committee should make the determination.

b) Existence of the Permanent Fund provides comfort to bondholders that the State would be able to meet its moral obligation (even though not presently permitted by the Constitution), so any attempt to erode the principal of the Fund should be avoided.

4. Capital Financing Plan:

a) A plan linking a capital financing plan to our long range capital improvement plan is necessary.

b) The State should consider bringing its accounting system into conformance with Generally Accepted Accounting Principles (GAAP).

5. Local Government Debt Management

a) The State should take the lead in implementing programs that encourage the prudent use, and guard against the misuse, of local debt issuance.

b) The State should take steps to improve the market performance of the Municipal Bond Bank and use of the Bond Bank by all localities should be encouraged.

c) The State should develop a two-tiered ceiling on local debt issuance, based on per capita amounts of debt and as a percentage of property values.

d) The current State program to subsidize school construction should be replaced.

6. General Debt Management:

a) Financial advisors and bond counsel should be paid on a flat fee basis rather than as a percentage of the bond issue to avoid any conflicts between the advice and payment for advice.

b) Greater use of competitive bidding versus negotiated sales should be used when possible. For example: AHFC issues.

c) Bonds should be bid on the basis of true interest cost, not net interest cost, as is presently done.

CHAPTER 1

EXECUTIVE SUMMARY

The changing nature of tax-exempt borrowing, including the shift from traditional tax-supported government bonds to revenue-backed bonds, the rise and volatility in interest rates, the reliance upon individual investors in contrast to institutional lenders, and changes in federal law concerning various aspects of tax-exempt financing, has resulted in states generally being more attentive to debt management and debt policy. This study of State debt management comes at a propitious time. While the past growth of tax-exempt borrowing by issuers bearing the Alaska name has been rapid and sizeable, new programs and proposals before the legislature indicate that the demand for new spending and borrowing is far from sated. At the same time, recent reductions in the market price for petroleum and the unpredictability of its future supply and price raise uncertainties about the level and viability of the principal source of governmental revenues that directly or indirectly supports many of Alaska's borrowing and spending programs.

The interdependence of the Alaskan economy and its oil wealth creates a paradox for assessing the State's debt management and debt capacity. Oil revenues have enabled the State and local governments to borrow at unusually high levels -- in terms of per capita amounts of debt -- and have provided the financial security required by investors in the State's bonds. It is the reliance on these same oil revenues, however, that is the principal weakness of the Alaska credit as a long-term issuer of tax-exempt bonds and that makes assessment of the State's future debt capacity very difficult.

To be effective, debt management must join the capital needs of the State and its constituent governmental units with the ability to achieve bond market access on affordable terms. Market access is a function of debt capacity, debt burden, and perceived ability to pay; it is also conditioned importantly by the overall forces that shape borrowing needs nationally and the willingness of investors to supply funds. The private credit market, where public debts are sold, decides what borrowers will be accommodated and at what cost -- from a fluctuating but always limited pool of lendable funds. While Alaska is concerned first and foremost with the cost and availability of credit for its own needs, Alaska bonds compete with other governmental obligations from all parts of the country. The terms offered Alaska borrowers by the marketplace are strongly influenced by the volume and quality of competing claims from other borrowers. Hence, it is in Alaska's interest to offer a well-structured, high-quality security in order to obtain funds, and to obtain them at acceptable interest rates.

Effective debt management must also provide State and local issuers and the State's debt managers with the flexibility to react quickly and responsibly to changes in the financial markets. That the tax-exempt bond market is highly

sensitive to changes in the federal tax code was obvious in late 1982 as the pendency of the bond registration requirement brought a flood of issues to market. Now, as a result of this legislation, the primary and secondary market acceptance of an issuer's securities will in part depend on a timely, accurate and efficient transfer process (discussed on pages 35-36). Changes in other federal tax provisions can also sharply affect the demand for tax-exempt bonds. Chapter Two includes a survey of the tax acts of 1981 and 1982, and their impacts on the municipal bond market. These changes, like volatility in interest rates, are factors over which the State has little control. However, a responsible and flexible debt management program places the State in the best position to respond effectively to events that may affect the State's borrowing.

State-Level Debt

The evidence presented in this study shows that Alaska debt has grown from 0.7 to 1.8 percent of annual national tax-exempt bond market volume since 1970. The rising market share accorded Alaska bonds has been the result of an increase in the State's annual volume of new debt issues from $134 million to $1.4 billion between 1970 and 1982. Chapter Three documents the increase in borrowing and includes a profile of the major State debt issuers. Of all State-level issuers in Alaska, the Alaska Housing Finance Corporation has issued the largest amount of public debt -- over 62 percent of State-level debt and and over 44 percent of all State-wide debt (including local government obligations) outstanding -- and is the State's most frequent and best-known borrower.

At a time when we have seen the national credit rating agencies downgrade the credit rating of many states, Alaska can be proud of its rating upgrade over the past 10 years from a Baa to an AA credit. Credit analysts and the market itself have recognized the quality of Alaska's bonds as an investment. The evidence shows that Alaska now trades on par with such strong AA credits as Connecticut and Ohio. Chapter Four presents the results of our study of the State's past market experience. The data show that Alaska has consistently experienced lower borrowing costs than other states with similar ratings. Evidence to support this comes from the lower underwriting spreads, larger number of bids, and the lower interest rates on Alaska bonds as compared to those of other states of similar high quality.

State Bond Committee

In spite of the strong past performance of the State's bonds, the mid-1980s is a good time for the State of Alaska to broaden and strengthen the role of the State in debt management and oversight, particularly through the State Bond Committee (see pages 157 to 160). Recent fluctuations in the worldwide price of oil and the decline of Prudhoe Bay oil production within the ten-year range have alerted investors to the "boom and bust" nature of the Alaskan economy. These two events will be important factors behind the ability of the State to issue further debt in the coming years. One major role for a newly

reconstituted State Bond Committee would be oversight of the State's total indebtedness. It is not intended that the State Bond Committee supplant the activities or authority of independent agencies and corporations; however, it is vital that the State annually review and assess its debt position -- including within that review all State-level debt -- relative to the State's debt capacity and priorities for future public investment.

In order to carry out its expanded scope of activity, the State Bond Committee should be restructured. The chairmanship should reside in a senior-level fiscal official -- such as the Commissioner of Revenue or the Director of the Office of Management and Budget -- who is actively involved in the State's debt management. The Commissioner of Commerce and Economic Development is the Committee's present chair. Expanding the membership to include a representative from the governing board of a State corporation, and the Commissioner of Community and Regional Affairs would emphasize the interrelationship of the State, its agencies, and local government in the debt management area. To assist in fulfilling its expanded duties, the Committee should be staffed full-time by a professional in the field of public finance.

The Committee should be given the responsibility to take a global view of the State's debt-related activities in a formal manner, not in the loose, informal way that is presently said to exist. The State may wish to require that each entity of the State which is authorized to issue bonds annually file a debt financing plan with the State Bond Committee. From these plans a master debt issuance schedule may be compiled to inform and assist all debt issuers in the State. The schedule could be updated monthly or on an "as-needed" basis as financing plans change. The State Bond Committee should also annually prepare a comprehensive profile of outstanding debt and monitor its impact on the State's fiscal condition. Special attention in this review should be paid to the level of the State's contingent liabilities, such as moral obligation debt, and changes in the growth and composition of local debt.

It is advised that the State develop written debt management guidelines that include several criteria for evaluating the desired and affordable level of debt issuance in lieu of a legislative ceiling on debt issuance. The State Bond Committee should be responsible for implementing these guidelines by reviewing each State-level bond issue before it is brought to market. The Committee's only power in this regard would be to defer or veto an issuance because the security structure or sources of repayment are inadequate or the issue jeopardizes the financing plans or creditworthiness of the State. Likewise, if the State wishes to maintain its present interest rate ceiling on the issuance of bonds, it is preferable to set such a ceiling administratively rather than legislatively.

Debt Capacity and Affordability

The analysis of debt capacity is addressed in Chapter Seven. Comparisons of State debt with that of other states indicates that Alaska is an "outlyer" with extremely high ratios of debt per capita and debt per $1,000 of personal

income. Therefore, it is necessary to look in-depth at the State's revenue sources to assess its capacity for further debt issuance. Determination of the affordable level of general obligation debt essentially depends upon the State's ability and willingness to pay debt service now and in the future on any amounts borrowed. For the immediate future, Alaska's debt capacity will be determined by the amount of general fund revenues that the State wishes to allocate to the payment of debt service and the preservation of the permanent fund. Thus, short-term affordability depends exclusively on the fluctuating level and uncertain future of oil revenues as long as the State's source of funds to repay debt is tied to this single source. In the longer term, when the State's oil wealth has subsided, the ability of Alaska to issue debt will depend upon the stability and breadth of the State's economy. Without its extensive petroleum resource base Alaska will become much more like other states and analysis of its debt capacity will follow the traditional steps outlined in pages 196 to 206.

The methodology for evaluating Alaska's short-term debt affordability is presented on pages 218 to 222. If the State maintains its current ratio of debt service to revenues at the five percent level and continues to issue debt with maturities within the known and predictable range of State revenues, the State's creditworthiness will be preserved. If the State wishes to have debt service comprise a larger share of the State budget (to a maximum of 10 percent), debt capacity would be increased -- although this would force trade-offs against other State spending priorities and possibly result in a decline in the State's AA credit rating. Through 1990, the State's general obligation debt capacity is estimated to range from $252 million to $1.2 billion, depending upon the level of current revenues the State decides to commit to the payment of debt service.

Because of the frequent changes in petroleum prices and their impact on State revenues, the affordability analysis along the lines presented in this report must be continually updated. Revisions should take place at least quarterly when the Department of Revenue releases long-range revenue forecasts and whenever the State issues general obligation debt. Such analysis will provide the State Bond Committee with important information to be used in formulating future debt issuance plans.

Even though the affordability of revenue bonds is principally determined by the adequacy of the revenue stream pledged to repayment of the bonds, along with the market's acceptance of the securtiy structure behind the bonds, revenue bonds indirectly affect the State's debt capacity. To the extent that revenue bonds are supported by a pledge of the State's moral obligation, or their issuance creates an oversupply of bonds bearing the Alaska name in the marketplace, the State's ability and willingness to carry debt will be affected.

Use of Moral Obligation Bonds

We do not see the possibility of entirely eliminating the use of the State's moral obligation pledge in the case of all Alaska financings. Where it is possible to avoid its use, such as in the case of Alaska Housing Finance Corporation

bonds, it should be avoided. The moral obligation pledge should not be treated as a right, available to most State issuers, as it is at present. Rather, it should be considered a privilege, an indication to the bond market that, after close scrutiny, the State believes the project meets public policy objectives and is financially sound. The State Bond Committee should have the responsibility for determining the necessity of the moral obligation to an agency's borrowing program, and its potential impact on the State's creditworthiness.

If moral obligation debt increases at a time when overall State revenues are stable, are growing at a rate less than the growth in contingent liabilities, or are declining, the moral obligation burden may encumber the State's credit capacity. Such an occurance would make general obligation debt more costly and, therefore, less affordable due to weaker credit quality. Hence, the importance for including contingent debt in the State Bond Committee's annual review of the State's outstanding debt.

If it were not for the Permanent Fund, the limited sources of State revenue would cause investors to discount the moral obligation pledge heavily. The mere existance of the Permanent Fund provides comfort to bondholders that the State would be able to meet its moral obligations, if necessary, even though such action is not constitutionally permitted and would require a change in law. Any attempt to erode the principal of the Fund, or to otherwise weaken its position should, therefore, be avoided.

Capital Financing Plan

Demonstrating keen fiscal management and attention to capital financing and debt management is especially important to Alaska because of the uncertainties surrounding State revenues. The State must wisely allocate scarce resources to its developing economy in a manner that balances capital investment with the return on that investment yielding a diverse and broadened economy that will be able to maintain the public infrastructure put in place. Accordingly, the need for a capital financing plan linked to a comprehensive capital improvement plan is evident. (see pages 165 to 174)

The quality of financial reporting is an important element in a capital financing plan and to the complete debt management picture. While Alaska's financial reporting is complete, it does not conform to generally accepted accounting principles (GAAP). States that use an accounting system that conforms to, and is consistent with, GAAP benefit in several ways (see pages 174-175). It is recommended that the State consider converting its annual financial reports to GAAP. Such action will provide the State with vital information on its financial condition, encourage the State to take a global view of outstanding debt, improve financial management, and will be looked upon favorably by investors in the State's bonds.

General Debt Management

Specific debt management practices being used in the State could be improved. The State and its agencies recognize the importance of securing professional advice on debt issuance. However, financial advisors and bond counsel are typically compensated based on a percentage of the amount of bonds sold. Tying the advisor's compensation to the amount of bonds sold or the successful delivery of the bonds builds in an unnecessary risk of conflict of interest. The State should review its method of compensation for financial advisory services and seek arrangements that do not encourage conflicts between the advice and the payment for the advice. In this regard, a flat fee -- such as a base retainer and hourly rates -- is to be preferred over a fee based upon the amount of bonds issued. (see pages 185 to 190).

There is a place for both negotiated and competitive techniques for selling bonds in a debt management and debt marketing strategy. The approach which is judged to provide the greatest market reception and lowest interest cost should be followed. While each bond issue is unique, it appears that some bond issues presently being sold by negotiation by the State, for example, those of the Alaska Housing Finance Corporation, would be candidates for a competitive sale. (see pages 182 to 184).

Neither the State Bonding Act nor the State statutes regarding municipal debt specify the method by which effective interest rate on a competitive bond sale must be determined. However, the State and most municipalities have chosen to use the net interest cost (NIC) method to compare alternative bids at competitive sale. This method may not be in the best interests of the State because the winning bid on a NIC basis does not necessarily result in the lowest true interest cost (TIC) -- a measure of the "true" cost of borrowing money that takes into account the time value of money. We recommend that the State Bond Committee review the current rules that govern the award of the State's competitive general obligation bond issues, and that municipalities be encouraged to do so as well, with a view toward awarding bond issues on the basis of TIC. (see pages 179 to 181).

Local Government Debt

Local governments in Alaska have issued approximately 29 percent of all State-wide debt. The analysis of local government borrowing in Chapter Five indicates that the bonds of Alaska's localities sell at yields significantly above the average for the overall market. Furthermore, the evidence indicates that yields on the North Slope Borough's debt are vastly higher than the average for other Alaska municipalities. The most significant comparison of local and State bond issuance is the markedly higher underwriting cost on local issues. Compared to other states, local governments in the Alaska rely on general obligation bond financing at twice the national rate. Given the high levels of debt that have been issued by the State's localities, the much higher than average interest costs of Alaska's local debt, and the loss to the State of revenues from taxes levied by certain localities to pay the annual debt service on their debt, the State may wish to analyze further local bond market experience and State policies regarding local debt management. The State

should take the lead in implementing programs that encourage the prudent use and guard against the misuse of local debt issuance.

Currently the State is being short-changed by those localities that levy a high amount of taxes on oil production property in order to finance debt service. Because taxes paid to the locality are credited towards State property tax liability, this represents a direct revenue loss to the State. It is, therefore, in the State's interest to address the absolute level of debt issuance by its localities. It is recommended that the State develop a two-tiered ceiling on local debt issuance, based on per capita amounts of debt and a percentage of property value.

Specific State-level programs which can assist local borrowers and improve local debt management are covered in pages 136 to 141. In evaluating alternative State policies, the State must consider both the direct budgetary costs of the programs and the indirect effects on the State's own credit worthiness, and the amount of autonomy the State wishes its localities to enjoy. A resonable compromise between encumbering the State's debt capacity and providing greater financial assistance to local governments would be to expand the role of the Municipal Bond Bank. Our review of the Bank's market performance indicated that, compared with other state bond banks, the Alaska Bond Bank has the potential for saving as many as 50 basis points in borrowing cost by undertaking an active national marketing effort. The State should review the present security structure behind the Bank's bonds with the view toward improving their market reception by taking advantage of the State's high creditworthiness.

The State's present program to subsidize the cost of school construction is an expensive undertaking; however, its cost could be minimized through attention to the cost of the project and to the means of financing during the Department of Education's approval process. Further alternatives include the issuance of State general obligation bonds in lieu of local school construction bonds, and requiring the Municipal Bond Bank to issue all school construction debt.

Exhibit 2.4

Credit Ratings of Alaska Issuers

Issuer	Moody's Rating	S&P's Rating
State General Obligation	Aa	AA-
International Airports Revenue Bonds	A	A
AHFC-Home Improvement Loans	A	A-
Home Mortgage Revenue	Aa	AA-
Housing Mortgage Revenue	Aa	AA
Insured Mortgage Program	A	A
Veterans Housing	Aa	AA
AIDA	A	A-
Municipal Bond Bank	A	A
ASHA	A	A
University of Alaska	Baal	NR
Medical Facilities Authority	Baal	BBB-
Anchorage	Al	A
Fairbanks	A	BBB+
Fairbanks North Star Borough	A	A
Greater Anchorage Area Borough	Al	A
Sitka City and Borough	Baal	NR
Homer	Baa	NR
Juneau City and Borough	Baal	NR
Kenai Peninsula Borough	A	A
Ketchikan	Baal	BBB
Ketchikan Gateway Borough	Baal	BBB
Kodiak	Baa	NR
Kodiak Island Borough	Baal	BBB
Matanuska-Susitna Borough	A	BBB+
North Slope Borough	A	BBB+
Petersburg	Baal	NR
Valdez	A	A

Table 3.2

Volume of New Tax-Exempt Bond Issues

Alaska, 1970 - 1982

(dollar amounts in millions)

Year	Total New Issues Number	Total New Issues Amount	General Obligations Amount	General Obligations Percent of Total	Revenue Bonds Amount	Revenue Bonds Percent of Total
1970	24	$134.3	$ 88.1	66%	$ 46.2	34%
1971	24	135.5	107.5	79	28.0	21
1972	23	150.3	104.9	70	45.3	30
1973	28	222.0	130.5	59	91.5	41
1974	20	161.4	79.5	49	81.9	51
1975	32	279.9	182.7	65	97.2	35
1976	24	284.9	170.9	60	114.0	40
1977	25	1659.6	155.4	9	1504.2	91
1978	27	552.2	264.3	48	287.9	52
1979	19	591.1	198.8	34	392.3	66
1980	11	809.7	340.8	42	468.9	58
1981	16	501.8	150.6	30	351.2	70
1982	42	1397.5	885.9	63	511.6	37

Source: Public Securities Association

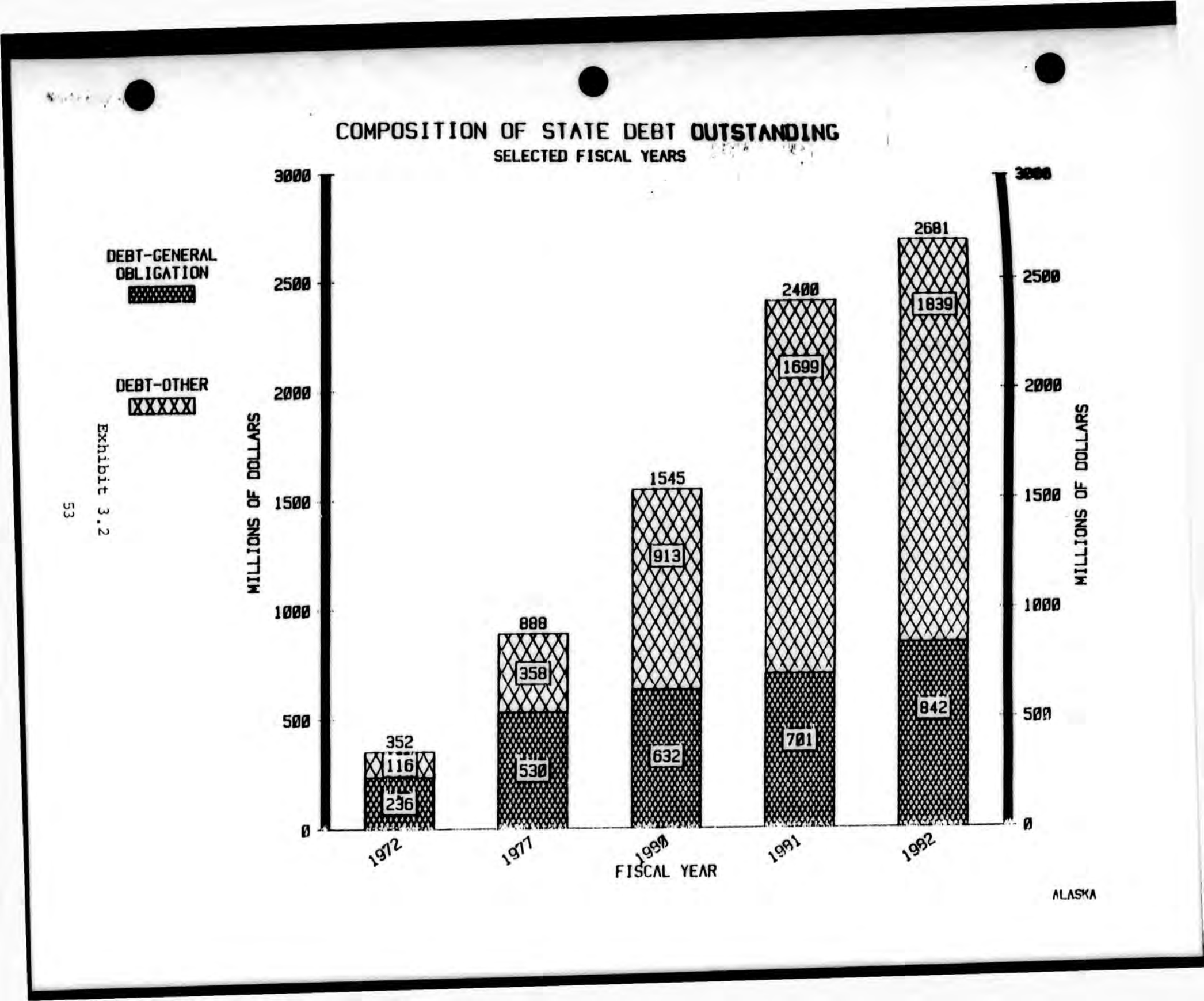

COMPOSITION OF STATE DEBT OUTSTANDING
SELECTED FISCAL YEARS
DEBT-GENERAL OBLIGATION
DEBT-OTHER
MILLIONS OF DOLLARS
3000
2500
2000
1500
1000
500
0
352
116
236
888
358
530
1545
913
632
2400
1699
701
2681
1839
842
1972
1977
1990
1991
1992
FISCAL YEAR
ALASKA

Exhibit 3.2

TOTAL STATE DEBT OUTSTANDING BY ISSUER

(DOLLARS IN 000'S AS OF APRIL 1, 1983)

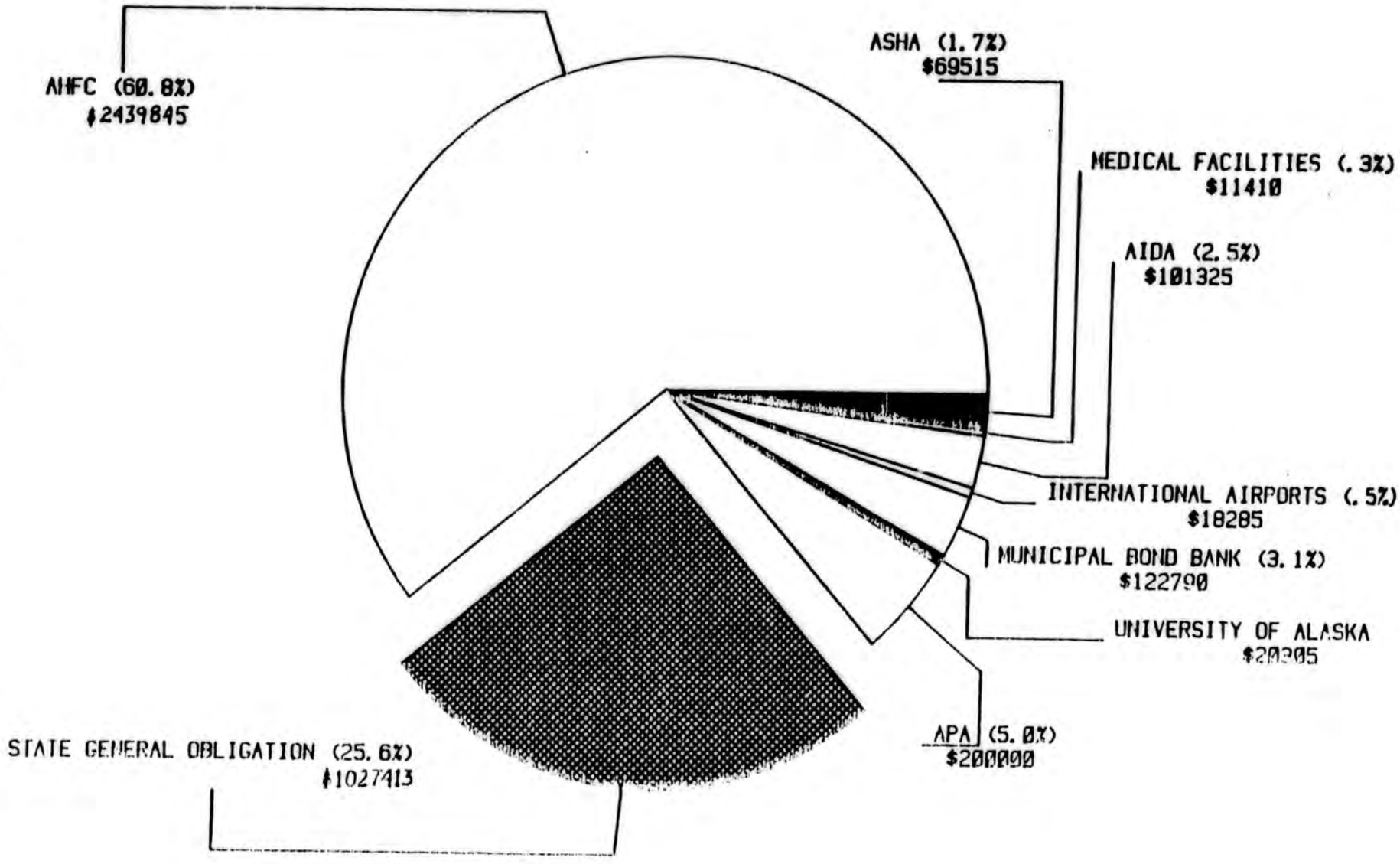


Exhibit 3.3

ALASKA

Table 3.5

State of Alaska
Total Public Debt Outstanding
(000s)

Issuer	Amount Outstanding as of 6/30/82	Amount Issued 6/30/82 to 6/1/83	Total[1] Outstanding	Percent of State-Level Debt	Percent of State-Wide Debt
STATE LEVEL					
State General Obligation	$ 842,413	$185,000	$1,027,413	24.8%	17.7%
Alaska Housing Finance Corp.	2,004,845	560,000	2,564,845	62.0	44.2
Alaska Power Authority	200,000	-0-	200,000	4.8	3.5
Municipal Bond Bank	94,805	26,985	122,790	3.1	2.1
Alaska Industrial Development Auth.	77,875	23,450	101,325	2.5	1.7
Alaska State Housing Agency	67,125	2,390	69,515	1.7	1.2
University of Alaska	20,305	-0-	20,305	0.5	0.5
International Airports	18,285	-0-	18,285	0.4	0.4
Medical Facilities	11,410	-0-	11,410	0.2	0.2
State Development Corporation	50	-0-	50	0.0	0.0
TOTAL STATE LEVEL OUTSTANDING			$4,135,938	100.0%	
LOCAL LEVEL					
Municipal G.O.	$1,316,300	N/A	$1,316,300		22.7%
Municipal Revenue	347,536[2]	N/A	347,536		5.8
TOTAL LOCAL LEVEL OUTSTANDING			$1,663,836		
TOTAL STATE-WIDE OUTSTANDING			$5,799,774		100.0%

1/ This column does not account for debt retired between 6/30/82 and 4/1/83.
2/ FY 1981 Figure from Moody's Investors Service.

Table 3.16

State of Alaska Classification of Outstanding Debt
(amounts in millions)

	Amount Outstanding June 30, 1982	Amount Retired	Amount Issued	Amount Outstanding May 30, 1983	Percent of State-Level Debt
Direct Debt					
General Obligation Debt	$842.2	$81.2	$185.0	$946.2	23.5%
Alaska State Housing Auth.					
Lease-Revenue Bonds	67.1	3.7	-0-	63.4	1.6
University of Alaska	20.3	1.1	-0-	19.2	0.5
NET TAX-SUPPORTED DEBT	$929.8	$86.0	$185.0	$1,028.8	25.6%
Indirect Debt (moral obligation)					
Alaska Housing Finance Corp.					
State Guaranteed Veterans Housing	-0-	-0-	$175.0	$175.0	4.3%
Insured Mortgage Bonds	$963.3	$ 10.6	-0-	952.7	23.6
Home Improvement Loan Bonds	15.0	-0-	-0-	15.0	0.4
Alaska Industrial Devel. Authority	77.9	3.3	23.4	98.0	2.4
Alaska Power Authority	200.0	-0-	-0-	200.0	5.0
Alaska Municipal Bond Bank	95.8	2.9	27.0	119.9	3.0
Alaska State Devel. Corporation	11.4	0.3	-0-	11.1	0.3
Low Income Housing Bonds	-0-	-0-	2.4	2.4	0.0
Indirect Debt (special obligation)					
International Airport Authority	18.3	0.8	-0-	17.5	0.5%
TOTAL INDIRECT DEBT	$1,381.8	$ 17.9	$227.8	$1,591.6	39.5%
TOTAL DIRECT AND INDIRECT STATE DEBT	$2,311.6	$103.9	$412.8	$2,620.4	65.1%
Other State-Level Debt					
Alaska Housing Finance Corp.					
State Assisted Mortgage Bonds	$675.0	-0-	$200.0	$875.0	21.7%
Housing Mortgage Program Bonds	96.2	$ 2.2	-0-	94.0	2.3
Home Mortgage Bonds	200.0	-0-	185.0	385.0	9.6
Second Mortgage Bonds	27.0	-0-	-0-	27.0	0.6
Fairbanks Residential Mortgage	28.3	-0-	-0-	28.3	0.7
TOTAL OTHER STATE-LEVEL DEBT	$1,026.5	$ 2.2	$385.0	$1,409.3	34.9%
TOTAL STATE-LEVEL DEBT	$2,388.1	$106.1	$797.8	$4,029.7	100.0%

Table 5.1

Estimated Alaska Municipal Debt

(Millions)

Fiscal Year	Amount of Revenue and G.O. Debt Issued	Amount Outstanding G.O.	Amount Outstanding Rev.	Revenue Debt Outstanding as % of Total
1971	78.7	$ 30.9	$ 56.3	19.6%
1972	88.9	279.2	81.0	22.5
1973	46.8	319.9	70.3	18.0
1974	85.3	395.1	77.6	16.4
1975	120.2	415.8	94.8	18.6
1976	70.1	452.5	99.4	18.0
1977	220.8	514.1	215.7	29.6
1978	178.2	449.5	277.7	38.2
1979	320.9	731.6	286.3	28.1
1980	250.0	809.4	316.0	28.1
1981	277.7	1,030.2	347.4	25.2
1982	515.0	1,316.2	N/A	N/A

Source: U.S. Department of Commerce, Bureau of the Census, Governmental Finances, various years, and Moody's Investors Service, Inc. Municipal Bond Record, 1983.

Table 5.2
State of Alaska
Local Government Debt

City/Borough	General Obligation Debt Outstanding 7-1-82[1]	Revenue-Supported Debt Outstanding[2] 12-31-81	Moody's Rating[3]
North Slope	$587,400,000	-0-	A
Anchorage	261,010,000	$236,660,000	A1/Baa
Kenai Peninsula	98,999,603	-0-	A
Valdez	84,460,000	9,200,000	A
Fairbanks North Star	83,158,350	35,000,000	A/Aa
Matanuska-Susitna	65,218,090	-0-	A
Juneau	27,904,000	146,000	Baa1
Kodiak Island	20,042,372	-0-	Baa1
Sitka	17,486,200	5,168,000	Baa1
Ketchikan Gateway	14,495,000	-0-	Baa1
Fairbanks	11,915,000	36,400,000	A
Ketchikan City	8,110,000	12,567,000	Baa1/Baa
Bristol Bay	3,895,000	-0-	NR
Kenai	3,695,000	280,000	NR
Palmer City	3,629,401	-0-	NR
Unalaska	3,500,000	456,000	NR
Kodiak City	3,250,000	4,295,000	Baa
Petersburg	2,995,000	2,526,000	Baa1
Homer City	2,877,000	1,096,000	Baa
Nenana	2,725,000	-0-	NR
Wrangell	2,578,000	612,000	NR
Skagway	1,826,325	-0-	NR
Cordova	1,673,200	1,611,000	NR
Haines	923,310	-0-	NR
Haines City	805,000	-0-	NR
Bethel	585,000	-0-	NR
Nome	507,872	960,000	NR
Seldovia	430,000	55,000	NR
Dillingham	73,000	231,000	NR
Craig	37,498	93,000	NR
Totals	$1,316,294,221	$347,356,000	

NOTES: 1. From Department of Community and Regional Affairs, Alaska Taxable 1982.

2. From Moody's Investors Service, Moody's Municipal and Government Manual 1983, and Department of Community and Regional Affairs.

3. When two ratings are given, the first applies to general obligation debt, and the second to the majority of revenue bonds.

NR = Not Rated.

Table 5.3

Municipal Debt Rat_os

City/Borough(population)	G.O. Debt Per Capita	Debt as % of Assessed Value
North Slope *	$77,781	7.10%
Anchorage *****	1,278	2.46
Kenai Peninsula ***	3,064	4.45
Valdez *	22,864	4.97
Fairbanks North Star ****	1,146	2.78
Matanuska-Susitna ***	2,508	5.42
Juneau **	1,267	2.69
Kodiak Island **	1,576	4.58
Sitka *	2,127	4.15
Ketchikan Gateway **	1,166	2.17
Fairbanks ***	463	1.12
Ketchikan City *	1,043	2.58
Bristol Bay *	3,064	4.45
Kenai *	706	1.80
Palmer City	1,438	3.93
Unalaska *	1,821	4.76
Kodiak City *	553	1.00
Petersburg *	985	2.32
Homer City *	993	1.85
Nenana *	5,046	30.39
Wrangell *	1,085	2.94
Skagway *	2,312	3.21
Cordova *	747	1.44
Haines *	499	1.30
Haines City *	746	0.23
Bethel *	159	0.41
Nome *	148	0.32
Seldovia *	590	2.26
Dillingham *	40	0.11
Craig *	62	0.17
Statewide Average	$ 4,648	3.75%

Moody's Local Debt Medians

	Population		
*****	200-300,000	361	2.1%
****	50-100,000	391	1.8
***	25-50,000	289	1.9
**	10-25,000	422	2.7
*	Under 10,000	600	3.2

Source: Department of Community and Regional Affairs, Alaska Taxable, Fiscal year 1982.

Table 5.4
State of Alaska
School Debt Outstanding
(as of April 1, 1983)

School District	Amount	Moody's Rating
A) Public Offerings[1]		
North Slope Borough	$197,235,000	A
Greater Anchorage Area Borough	138,665,000	A1
Fairbanks North Star Borough	101,475,000	A
Kenai Peninsula Borough	56,938,000	A
Matanuska-Susitna Borough	37,995,000	A
Valdez	27,685,000	A
City and Borough of Juneau	3,325,000	Baa1
Petersburg	2,995,000	Baa1
Greater Sitka Borough	1,560,000	Baa1
Kodiak Island Borough	375,000	Baa1
Ketchikan Gateway Borough	345,000	Baa1
	$568,593,000	
B) School Bonds Issued Through Bond Bank[2]		
City and Borough of Juneau	$ 35,205,000	Baa1
Matanuska-Susitna Borough	22,610,000	A
Kodiak Island Borough	11,810,000	Baa1
Bristol Bay Borough	3,785,000	Unrated
City of Wrangell	1,405,000	Unrated
City of Unalaska	975,000	Unrated
	$ 75,790,000	
Total School Debt Outstanding	$644,383,000	

NOTES: 1) Data through fiscal year 1981 from Moody's Municipal and Government Manual 1983, Moody's Investors Service. Fiscal Year 1981 to date from Public Securities Association data base.

2) Data from Mary J. Hughes, Foster & Marshall/American Express, Inc., Seattle, WA.

Table 7.1

Per Capita Total Outstanding State General Obligation Debt (1974-75 to 1980-81)[a]

State	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Alabama	$24.74	$26.63	$30.32	$35.74	$32.90	$33.27	$30.66
Alaska	1,035.64	1,143.02	1,299.04	1,448.78	1,651.49	1,579.31	1,700.97
Arizona	--	--	--	--	--	--	--
Arkansas	--	--	--	--	--	--	--
California	264.63	260.86	260.46	260.90	265.92	266.93	255.65
Colorado	--	--	--	--	--	--	--
Connecticut	702.04	778.95	774.89	759.33	735.62	703.76	738.39
Delaware	739.48	974.36	702.28	707.79	715.02	676.27	681.10
Florida	20.99	25.64	51.13	71.64	71.59	63.51	116.68
Georgia	26.52	65.93	73.36	100.89	97.33	100.15	94.94
Hawaii	933.20	1,178.85	1,305.11	1,482.16	1,468.61	1,470.22	1,357.08
Idaho	1.53	1.41	1.27	1.13	.99	.84	.73
Illinois	86.71	122.18	145.30	191.11	216.62	228.72	250.28
Indiana	--	--	--	--	--	--	--
Iowa	.90	.45	--	--	--	--	--
Kansas	--	--	--	--	--	11.76	11.67
Kentucky	106.47	100.79	95.52	90.36	84.73	76.95	72.09
Louisiana	189.85	248.87	329.90	373.48	415.66	453.95	560.38
Maine	262.35	260.47	253.55	250.62	240.79	226.52	229.83
Maryland	340.96	415.02	499.45	524.05	519.50	502.94	519.68
Massachusetts	344.78	518.87	555.38	558.47	574.64	567.00	573.58
Michigan	53.23	63.02	80.93	77.31	59.43	73.06	72.89
Minnesota	156.14	152.73	186.76	205.03	210.10	219.97	224.23
Mississippi	219.07	283.60	303.58	505.52	317.92	298.43	291.74
Missouri	12.13	11.00	15.39	15.00	13.58	12.96	16.45
Montana	--	9.79	9.64	8.94	8.58	8.26	7.82
Nebraska	--	--	--	--	--	--	--
Nevada	54.38	56.06	57.25	103.49	157.38	133.72	123.55
New Hampshire	171.17	211.30	263.41	278.56	298.64	274.15	352.88
New Jersey	209.62	208.33	230.07	235.23	249.31	251.69	257.60
New Mexico	18.81	14.93	20.91	15.56	14.88	17.75	17.39
New York	207.58	198.59	207.94	221.65	232.78	215.37	228.96
North Carolina	74.49	103.23	114.65	105.47	116.14	124.36	128.24
North Dakota	26.96	25.03	23.17	21.25	19.20	17.38	15.20
Ohio	161.27	181.87	185.82	196.00	210.73	212.24	219.27
Oklahoma	68.53	65.33	62.11	85.16	79.83	65.37	54.45
Oregon	732.12	859.05	1,009.28	1,220.00	1,428.88	1,717.32	2,074.76
Pennsylvania	256.80	292.66	326.37	327.27	332.44	326.31	328.33
Rhode Island	295.23	297.90	293.55	298.25	297.85	264.32	237.46
South Carolina	170.58	172.53	175.29	202.26	189.09	160.73	159.71
South Dakota	--	--	--	--	--	--	--
Tennessee	114.92	135.36	161.31	171.15	159.90	141.88	145.32
Texas	58.86	65.74	69.21	57.29	65.64	63.86	59.49
Utah	20.73	72.64	56.61	60.74	73.24	60.57	58.30
Vermont	544.99	532.93	523.68	478.84	502.32	466.30	527.52
Virginia	10.54	9.26	8.01	6.79	5.65	4.41	42.45
Washington	115.10	112.23	303.07	307.21	317.22	320.25	334.36
West Virginia	375.25	406.16	463.25	465.63	612.40	474.45	474.18
Wisconsin	133.57	194.38	259.92	304.68	343.26	362.25	362.93
Wyoming	--	--	--	--	--	--	--
Total U.S.	$158.88	$179.55	$198.93	$212.89	$220.04	$218.55	$229.31

a. Debt data from the U.S. Department of Commerce, Bureau of the Census, State Government Finances (series GF), various years. State general obligation debt is defined as all state-guaranteed debt for which states pledge their full faith and credit. Debt data measured as of June 30 of each fiscal year shown. Figures exclude debt issued by local governments, and debt issued by the District of Columbia.

Reprinted from : The Use of Tax-Exempt Bonds in California : Policy Issues and Recommendations, Legislative Analyst, Jon David Vasche, State of California, December 1982.

Table 7.2

Per Capita Total Outstanding State General Obligation and Revenue Bond Debt (1974-75 to 1980-81)[a]

State	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Alabama	$247.88	$267.71	$270.23	$268.22	$279.49	$265.38	$236.97
Alaska	1,872.88	2,044.06	2,246.53	2,744.65	3,355.98	3,861.39	5,824.03
Arizona	39.71	40.92	44.79	41.29	39.25	34.59	50.04
Arkansas	58.20	61.36	65.56	81.06	112.04	158.61	205.49
California	304.98	300.03	307.88	316.90	338.24	353.28	371.24
Colorado	48.20	48.77	74.61	114.73	153.75	159.40	240.44
Connecticut	943.57	989.66	1,021.38	1,064.98	1,152.79	1,248.13	1,407.59
Delaware	1,024.04	1,267.19	1,276.13	1,313.93	1,469.00	1,755.46	1,778.93
Florida	193.57	208.41	236.22	270.64	301.47	269.70	276.51
Georgia	233.21	259.62	252.33	265.17	267.87	257.70	247.26
Hawaii	1,342.02	1,479.02	1,664.36	1,878.24	1,854.48	1,931.83	1,889.50
Idaho	48.57	47.18	25.91	147.16	244.04	346.75	395.10
Illinois	250.33	299.48	360.92	457.72	509.21	549.76	603.71
Indiana	115.82	112.59	109.75	110.39	107.49	110.67	187.25
Iowa	44.28	43.49	42.70	78.19	128.45	130.79	151.36
Kansas	133.93	176.74	172.81	179.75	193.81	185.42	176.29
Kentucky	579.41	580.56	588.41	749.99	796.85	829.08	826.93
Louisiana	319.85	375.48	449.62	513.29	656.28	708.14	809.84
Maine	434.82	499.39	520.36	639.18	634.05	649.13	735.66
Maryland	509.12	610.56	737.33	914.57	889.64	830.70	933.99
Massachusetts	682.06	859.87	895.92	876.72	938.55	1,008.35	1,088.31
Michigan	183.20	206.87	213.50	234.25	272.13	314.98	377.12
Minnesota	222.40	256.90	309.48	439.94	461.51	507.70	585.34
Mississippi	261.00	326.66	339.79	538.35	347.11	323.30	313.71
Missouri	58.06	70.09	91.32	114.39	146.21	207.01	270.25
Montana	108.97	112.51	132.02	174.63	187.02	393.31	382.35
Nebraska	44.42	41.19	37.99	35.70	33.46	126.97	156.18
Nevada	87.80	87.15	86.12	369.91	494.39	660.79	656.33
New Hampshire	305.26	366.46	247.27	483.41	832.67	976.17	1,109.83
New Jersey	531.42	548.88	554.58	646.99	734.11	886.31	1,029.17
New Mexico	133.27	159.36	177.46	283.77	414.10	544.45	573.95
New York	811.21	1,137.00	1,119.93	1,261.99	1,302.29	1,346.48	1,400.80
North Carolina	113.56	129.73	146.26	139.66	197.53	215.48	226.99
North Dakota	98.92	108.32	103.42	124.70	199.07	335.80	322.19
Ohio	248.12	283.07	299.14	320.53	349.01	371.86	437.32
Oklahoma	346.70	342.11	334.14	388.47	522.46	504.38	559.06
Oregon	732.12	859.05	1,017.26	1,267.82	1,507.23	1,855.79	2,225.54
Pennsylvania	453.09	498.70	541.43	554.40	549.66	534.92	533.20
Rhode Island	494.13	546.39	686.31	924.35	1,267.92	1,544.98	1,810.18
South Carolina	331.26	368.28	457.25	607.48	542.33	621.11	779.00
South Dakota	99.15	133.58	335.56	560.15	841.50	1,035.18	1,010.64
Tennessee	185.44	224.66	280.52	319.21	317.04	306.24	319.41
Texas	158.07	165.61	166.00	162.70	172.16	173.50	179.61
Utah	73.73	122.92	114.06	220.63	287.53	367.61	380.96
Vermont	975.91	882.96	941.09	947.54	1,035.74	1,280.15	1,305.04
Virginia	138.58	140.73	170.68	242.56	319.95	360.32	394.40
Washington	357.01	338.76	382.28	380.98	385.84	387.51	425.25
West Virginia	589.38	640.81	720.36	746.06	871.61	931.53	944.06
Wisconsin	219.43	294.64	361.68	425.10	473.30	519.87	546.35
Wyoming	205.00	192.18	180.05	236.53	480.16	770.48	915.65
Total U.S	$339.68	$394.32	$418.14	$471.46	$509.20	$539.96	$588.06

a. Debt data from the U.S. Department of Commerce, Bureau of the Census, State Government Finances (series GF), various years. Debt data measured as of June 30 of each fiscal year shown. Figures exclude debt issued by local governments, and debt issued by the District of Columbia.

Reprinted from : The Use of Tax-Exempt Bonds in California : Policy Issues and Recommendations, Legislative Analyst, Jon David Vasche, State of California, December 1982.

Table 7.4

Total Outstanding State General Obligation Debt
Per $1,000 of Personal Income
(1974-75 to 1980-81)[a]

State	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Alabama	$5.30	$5.13	$5.32	$5.61	$4.70	$4.43	$3.73
Alaska	110.75	109.78	122.12	136.54	146.81	123.00	123.66
Arizona	--	--	--	--	--	--	--
Arkansas	--	--	--	--	--	--	--
California	39.72	35.71	32.48	29.29	26.41	24.34	21.44
Colorado	--	--	--	--	--	--	--
Connecticut	102.72	105.12	95.26	83.94	71.29	59.91	57.62
Delaware	112.76	136.78	91.68	84.00	75.87	65.19	61.34
Florida	3.65	4.13	7.46	9.39	8.32	6.98	11.48
Georgia	5.19	11.71	11.93	14.62	12.64	12.38	10.63
Hawaii	139.61	165.99	165.95	173.02	154.94	145.14	123.01
Idaho	.29	.24	.20	.16	.13	.10	.08
Illinois	12.67	16.51	17.93	21.44	21.99	21.68	21.62
Indiana	--	--	--	--	--	--	--
Iowa	.15	.07	--	--	--	--	--
Kansas	--	--	--	--	--	1.18	1.08
Kentucky	21.88	18.65	16.06	13.77	11.63	10.08	8.56
Louisiana	38.92	45.54	54.52	54.81	53.86	53.54	58.88
Maine	54.46	47.89	43.20	38.79	33.30	28.51	26.93
Maryland	52.57	58.68	65.35	61.23	54.26	47.96	45.28
Massachusetts	55.65	77.74	76.57	70.16	64.12	55.86	51.54
Michigan	8.87	9.35	10.68	9.15	7.40	7.33	6.76
Minnesota	26.62	24.24	26.16	25.97	23.66	22.56	20.82
Mississippi	53.68	62.11	59.48	89.59	50.73	45.25	39.38
Missouri	2.22	1.84	2.48	2.05	1.64	1.44	1.71
Montana	--	1.69	1.57	1.24	1.08	.97	.83
Nebraska	--	--	--	--	--	--	--
Nevada	8.08	7.52	6.87	10.88	14.84	12.43	10.67
New Hampshire	31.31	34.80	39.40	37.29	35.59	29.95	35.33
New Jersey	30.78	28.19	28.62	26.62	25.41	22.96	21.24
New Mexico	3.87	2.77	3.55	2.34	2.02	2.26	2.04
New York	31.72	28.40	27.61	26.86	25.42	20.93	19.97
North Carolina	15.02	18.85	19.31	15.90	15.79	15.87	14.83
North Dakota	4.39	4.23	3.80	2.77	2.32	1.98	1.49
Ohio	27.66	28.26	26.08	24.92	24.06	22.38	21.26
Oklahoma	12.98	11.28	9.59	11.63	9.54	7.15	5.31
Oregon	125.79	132.13	141.49	152.29	161.87	183.91	207.35
Pennsylvania	43.71	45.53	46.49	42.47	38.39	34.51	31.66
Rhode Island	51.47	47.40	42.74	39.06	34.49	27.89	23.39
South Carolina	36.50	33.30	30.74	32.18	27.31	22.06	19.87
South Dakota	--	--	--	--	--	--	--
Tennessee	23.66	25.27	27.56	26.02	21.81	18.33	17.20
Texas	10.52	10.54	10.01	8.68	7.45	6.67	5.54
Utah	4.20	13.33	11.11	9.16	10.04	7.90	7.01
Vermont	109.60	97.66	89.63	73.31	68.92	59.38	60.53
Virginia	1.81	1.46	1.14	.88	.65	.47	4.10
Washington	18.19	16.10	39.88	35.50	32.75	30.99	29.65
West Virginia	75.88	74.08	77.03	70.70	82.48	60.69	56.60
Wisconsin	23.80	31.70	37.99	40.36	40.16	38.65	36.17
Wyoming	--	--	--	--	--	--	--
Total U.S.	$26.79	$27.71	$27.98	$26.96	$24.90	$22.82	$21.86

a. Debt data from the U.S. Department of Commerce, Bureau of the Census, State Government Finances (series GF), various years. State general obligation debt is defined as all state-guaranteed debt for which states pledge their full faith and credit. Debt data measured as of June 30 of each fiscal year shown. Figures exclude debt issued by local governments, and debt issued by the District of Columbia.

Reprinted from : The Use of Tax-Exempt Bonds in California : Policy Issues and Recommendations, Legislative Analyst, Jon David Vasche, State of California, December 1982.

Table 7.5

Total Outstanding State General Obligation and Revenue Bond Debt
Per $1,000 of Personal Income
(1974-75 to 1980-81)[a]

State	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Alabama	$53.08	$51.57	$47.45	$42.12	$39.92	$35.36	$40.99
Alaska	200.29	196.31	211.19	258.67	298.34	300.73	423.42
Arizona	7.31	6.83	6.81	5.59	4.59	3.92	5.13
Arkansas	12.74	12.23	11.83	13.02	15.93	21.78	25.55
California	45.78	41.07	38.39	35.57	33.60	32.22	31.14
Colorado	7.94	7.38	10.33	14.11	16.73	15.86	21.44
Connecticut	138.06	133.55	125.56	117.73	111.73	106.25	109.83
Delaware	156.15	177.88	166.60	155.93	155.87	169.23	160.21
Florida	33.66	33.55	34.47	35.46	35.02	29.62	27.20
Georgia	45.65	46.10	41.03	38.41	34.78	31.77	27.68
Hawaii	200.77	208.25	211.63	219.25	195.65	190.71	171.26
Idaho	9.07	8.11	4.09	20.83	31.74	42.92	44.19
Illinois	36.59	40.48	44.53	51.34	51.70	52.12	52.16
Indiana	20.44	17.86	15.85	14.45	12.67	12.35	19.27
Iowa	7.34	6.87	6.11	9.68	14.75	13.94	14.45
Kansas	22.14	27.03	24.36	22.49	21.21	18.53	16.31
Kentucky	119.10	107.44	98.92	114.31	109.37	108.64	98.20
Louisiana	65.56	68.70	74.31	75.33	85.04	83.52	85.09
Maine	90.26	91.83	88.66	98.93	87.69	81.69	86.20
Maryland	78.50	86.33	96.48	106.86	92.91	79.22	81.38
Massachusetts	110.09	128.84	123.52	110.14	104.72	99.34	97.79
Michigan	30.50	30.69	28.18	27.73	28.99	31.58	34.95
Minnesota	37.92	40.77	43.35	55.73	51.98	52.08	54.36
Mississippi	63.96	71.53	66.58	95.41	55.39	49.02	42.35
Missouri	10.63	11.75	13.83	15.65	17.68	22.99	28.00
Montana	20.03	19.44	21.52	24.15	23.60	45.98	40.65
Nebraska	7.39	6.65	5.61	4.69	3.89	13.53	15.07
Nevada	13.04	11.69	10.33	38.91	46.62	61.41	56.70
New Hampshire	55.83	60.36	63.92	64.69	99.23	106.66	111.10
New Jersey	78.02	74.26	68.98	73.21	74.82	80.85	84.87
New Mexico	27.42	29.59	30.11	42.65	56.13	69.26	67.31
New York	123.95	162.61	148.73	152.90	142.19	130.86	122.17
North Carolina	22.90	23.68	24.64	21.06	26.85	27.49	26.24
North Dakota	16.11	18.32	16.94	16.24	24.00	38.31	31.52
Ohio	42.56	43.98	41.99	40.75	39.85	39.20	42.41
Oklahoma	65.69	59.06	51.62	53.04	62.42	55.19	54.55
Oregon	125.79	132.13	142.61	158.26	170.74	198.73	222.42
Pennsylvania	77.12	77.59	77.12	71.95	63.48	56.57	51.42
Rhode Island	86.15	86.94	99.93	121.05	146.82	163.02	178.29
South Carolina	70.88	71.09	80.20	96.66	78.33	85.24	96.91
South Dakota	19.39	26.28	57.27	83.73	112.04	132.08	114.48
Tennessee	38.17	41.94	47.93	48.53	43.24	39.58	37.81
Texas	28.26	26.56	24.01	20.98	19.64	18.13	16.74
Utah	14.93	22.56	19.03	33.25	39.42	47.94	45.83
Vermont	196.26	161.80	161.07	145.06	142.12	163.01	149.74
Virginia	23.85	22.15	24.36	31.25	36.97	38.27	38.11
Washington	56.43	48.61	50.31	44.03	39.83	37.50	37.71
West Virginia	119.17	116.88	119.79	113.28	117.39	119.17	112.70
Wisconsin	39.10	48.06	52.87	56.32	55.38	55.47	54.45
Wyoming	33.21	28.08	23.68	27.25	48.60	70.44	78.51
Total U.S.	$57.27	$60.85	$58.81	$59.71	$57.61	$56.39	$56.06

a. Debt data from the U.S. Department of Commerce, Bureau of the Census, State Government Finances (series GF), various years. Debt data measured as of June 30 of each fiscal year shown. Figures exclude debt issued by local governments, and debt issued by the District of Columbia.

Reprinted from : The Use of Tax-Exempt Bonds in California : Policy Issues and Recommendations, Legislative Analyst, Jon David Vasche, State of California, December 1982.

Table 7.14
Alaska State General Obligation Debt
Projected Ratio of Debt
Service to General Fund Revenues

Fiscal Year	Unrestricted General Fund Revenue (1) (millions)	Debt Service Committed as of Dec. 1982 (millions)	Debt Service Commitment as % of Unrestricted General Fund Revenue
1983	$3542	$143.6	4.05%
1984	2737	163.4	5.97
1985	2772	156.2	5.63
1986	2838	150.6	5.31
1987	2960	142.8	4.82
1988	2871	136.3	4.75
1989	3065	124.5	4.06
1990	2946	109.8	3.73
1991	2704	85.6	3.17
1992	2631	58.9	2.24
1993	2519	50.9	2.02
1994	2423	25.8	1.06
1995	2359	23.1	0.98
1996	2206	21.5	0.97
1997	2230	16.7	0.75
1998	2261	14.4	0.64
1999	2259	9.1	0.40
2000	2268	2.6	0.11

(1) March, 1983, 30th percentile projections of The Department of Revenue.

Table 7.15

Alaska State General Obligation Debt

Future Debt Capacity
Debt Service at 5 Percent of
General Fund Revenues
(millions)

Fiscal Year	(1) Unrestricted General Fund Revenue[1]	(2) Available for Debt Service[2]	(3) Debt Service Committed as of Dec. 1982	(4) Debt Service on future Borrowing[3]	(5) Additional Debt Service Capacity	(6) Future G.O Debt Capacity[4]	
1983	3542	-	143.6	-	0	0	
1984	2737	137	163.4	-	0	0	
1985	2772	139	156.2	-	0	0	
1986	2838	142	150.6	-	0	0	
1987	2960	148	142.8	-	5.2	35	
1988	2871	144	136.3	5.2	2.5	17	252
1989	3065	153	124.5	7.7	20.8	141	
1990	2946	147	109.8	28.5	8.7	59	
1991	2704	135	85.6	37.2	12.2	83	
1992	2631	132	58.9	49.4	23.7	161	
1993	2519	126	50.9	73.1	2.0	14	349
1994	2423	121	25.8	75.1	13.4	91	
1995	2359	118	23.1	88.5	0	0	
1996	2206	110	21.5	68.5	0	0	
1997	2230	111	16.7	83.3	11.0	75	
1998	2261	113	14.4	91.8	6.8	46	401
1999	2259	113	9.1	77.8	26.1	177	
2000	2268	113	2.6	95.2	15.2	103	
					1476	1002	

1 March 1983, 30th percentile projections of the Department of Revenue.

2 5 percent of column 1.

3 Assumes that debt equal to full capacity (column 6) is issued.

4 10-year bonds at 8.0 percent (AA-rated) level amortization debt service constant is .1472 (e.g., column 5 ÷ .1472 = column 6).

Table 7.16

Alaska State General Obligation Bonds

Future Debt Capacity
Debt Service at 10 Percent of
General Fund Revenues
(millions)

Fiscal Year	(1) Unrestricted General Fund Revenue[1]	(2) Available for Debt Service[2]	(3) Debt Service Committed as Dec. 1982	(4) Debt Service on future Borrowing[3]	(5) Additional Debt Service Capacity	(6) Future G.O. Debt Capacity[4]	
1983	3542	354	143.6	0	0	0	
1984	2737	274	163.4	0	110.6	729	
1985	2772	277	156.2	110.6	10.2	67	
1896	2838	284	150.6	120.8	12.6	83	
1987	2960	296	142.8	133.4	17.3	114	1215
1988	2871	287	136.3	150.7	0	0	
1989	3065	306	124.5	150.7	30.8	203	
1990	2946	295	109.8	181.5	2.9	19	
1991	2704	270	85.6	184.4	0	0	
1992	2631	263	58.9	184.4	16.7	110	
1993	2519	252	50.9	201.1	0	0	
1994	2423	242	25.8	201.1	15.1	99	395
1995	2359	236	23.1	212.9	104.1	686	
1996	2206	221	21.5	199.5	0	0	
1997	2230	223	16.7	186.9	19.4	128	
1998	2261	226	14.4	189.0	22.6	149	
1999	2259	226	9.1	211.6	5.3	35	564
2000	2268	227	2.6	186.1	38.3	252	
					4,059	2,674	

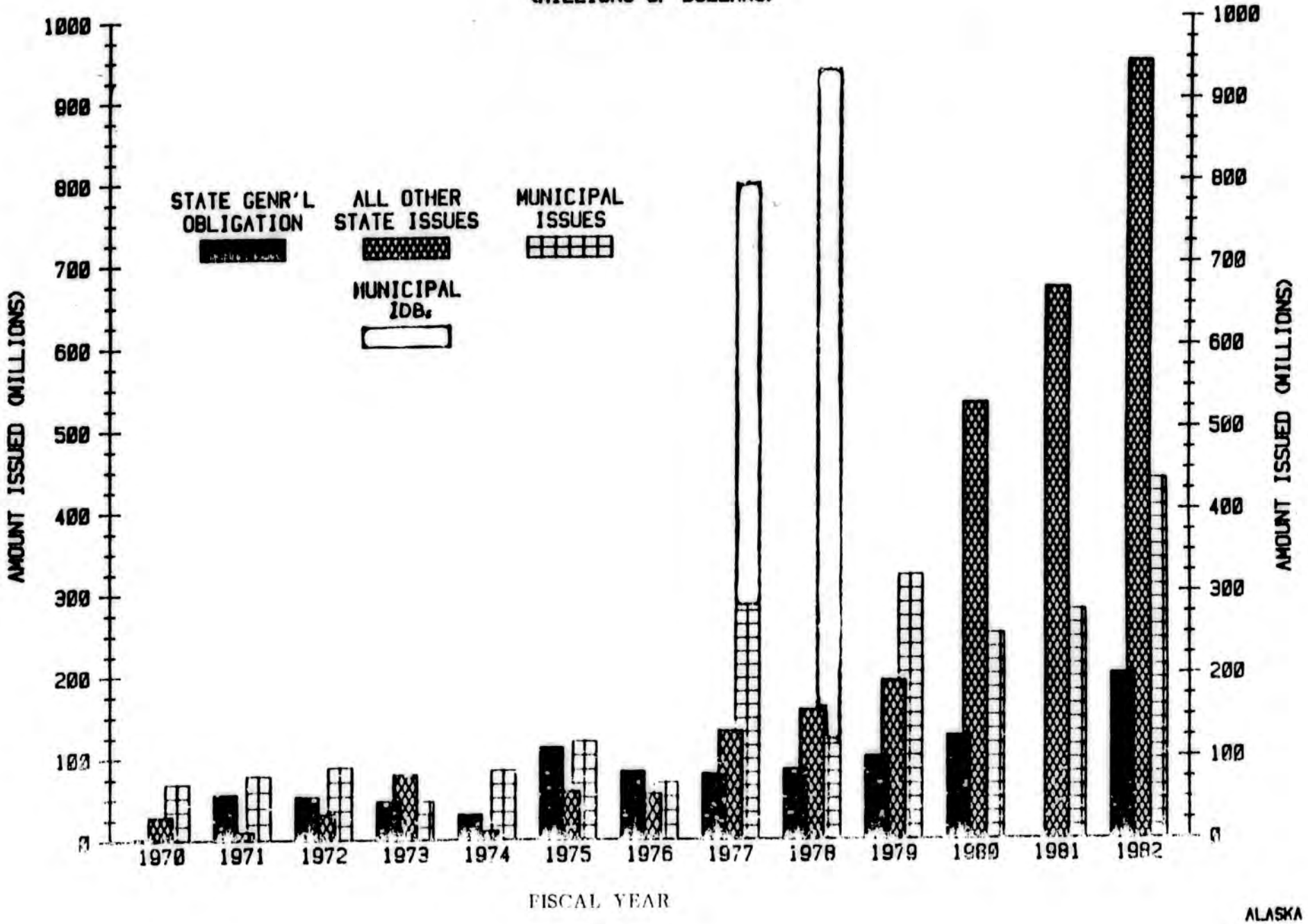
1 March 1983, 30th percentile projections of the Department of Revenue.

2 10 percent of column 1.

3 Assumes that debt equal to full capacity (column 6) is issued.

4 10-year bonds at 8.7 percent (A-rated), level amortization debt service constant .1518 (e.g., column 5 ÷ .1518 = column 6).

ANNUAL STATE DEBT ISSUANCE
1970 TO 1982
(MILLIONS OF DOLLARS)



ALASKA

(4) make, execute, acknowledge, and deliver documents of transfer and conveyance and instruments necessary or appropriate to carry out the powers granted;

(5) register investments held in a fund in the name of the board having the power to approve investments for a fund;

(6) do all acts whether or not expressly authorized which are considered proper for the protection of the investments held in the funds. (§ 4 ch 182 SLA 1978)

Chapter 15. State Bonding Act.

Article
1. General Obligation Bonds (§§ 37.15.010 — 37.15.220)
2. Bond Anticipation Notes (§§ 37.15.300 — 37.15.390)
3. International Airports Revenue Bonds (§§ 37.15.410 — 37.15.550)

Article 1. General Obligation Bonds.

Section
10. Full faith and credit for general obligation bonds
15. Committee shall publish notice of existing state indebtedness before election
20. Manner and amounts of sale
30. Interest rate and maturity
40. Sale of bonds
50. Redemption
60. Form and registration of bonds
70. Place of payment
80. Signatures and seal
90. Terms and conditions
100. Trustee
110. Creation and membership of state bond committee
120. Regulations
130. Officers, records and proceedings
140. Duties of state bond committee
150. Committee may employ special services
155. Prohibited bidding on bonds and anticipation notes
160. Contents of resolution
170. State bond committee to certify annual principal, interest, and reserve requirements
180. Remedies of bondholders
190. Negotiability
200. Bonds as legal investments
210. Refunding bonds
215. Official statements
220. Short title

Sec. 37.15.010. Full faith and credit for general obligation bonds. The full faith, credit and resources of the state are hereby pledged to the payment of the principal of and interest and redemption premium, if any, on all general obligation bonds of the state authorized pursuant to art. IX, § 8 of the constitution. (§ 1 ch 175 SLA 1960; am § ch 104 SLA 1967)

Revisor's note. — The following laws relate to issuance of general obligation bonds under the provisions of this chapter.

Ch. 170, SLA 1960, and ch. 50, SLA 1961, provide for the issuance of bonds in the amount of $23,000,000 for ferries and ferry facilities and roads and highways.

Ch. 171, SLA 1960, and ch. 54, SLA 1961, provide for the issuance of bonds in the amount of $1,500,000 for vocational education schools.

Ch. 172, SLA 1960, and ch. 64, SLA 1961, provide for the issuance of bonds in the amount of $2,000,000 for gymnasium and general utility facilities for the University of Alaska.

Ch. 173, SLA 1960, ch. 66, SLA 1961, and ch. 100, SLA 1962, provide for the issuance

of bonds in the amount of $2,500,000 for hospital construction and equipment matching funds.

Ch. 174, SLA 1960, and ch. 65, SLA 1961, provide for the issuance of bonds in the amount of $1,500,000 for state bush airfields.

Ch. 121, SLA 1962, provides for the issuance of bonds in the amount of $5,950,000 for construction of academic and related facilities at the University of Alaska.

Ch. 122, SLA 1962, provides for the issuance of bonds in the amount of $5,000,000 for certain elementary and secondary public schools.

Ch. 123, SLA 1962, provides for the issuance of bonds in the amount of $4,175,000 for trunk airports.

Ch. 157, SLA 1962, provides for the issuance of bonds in the amount of $2,200,000 for a vocational education school.

Ch. 57, SLA 1963, providing for the issuance of bonds in the amount of $2,200,000 for a vocational education school, affects ch. 157, SLA 1962, relating to the issuance of bonds for a vocational education school.

Ch. 48, SLA 1964, as amended by ch. 68, SLA 1966, and ch. 28, SLA 1967, provide for the issuance of bonds in the amount of $8,185,000 to meet the effects of the March 27, 1964, earthquake.

Ch. 94, SLA 1964, provides for the issuance of bonds in the amount of $2,000,000 for a branch of the Alaska Pioneers' Home at Fairbanks.

Ch. 118, SLA 1964, and ch. 96, SLA 1965, provide for the issuance of bonds in the amount of $5,000,000 for state buildings for use by the Department of Health and Welfare.

Ch. 86, SLA 1966, provides for the issuance of bonds in the amount of $900,000 to provide outdoor recreation facilities.

Ch. 121, SLA 1966, provides for the issuance of bonds in the amount of $2,285,000 for elementary and secondary public schools throughout the state.

Ch. 134, SLA 1966, provides for the issuance of bonds in the amount of $15,500,000 for state ferries and ferry facilities.

Ch. 165, SLA 1966, provides for the issuance of bonds in the amount of $16,900,000 for buildings for the University of Alaska throughout the state.

Ch. 166, SLA 1966, provides for the issuance of bonds in the amount of $10,500,000 for highways and roads in the state.

Ch. 167, SLA 1966, provides for the issuance of bonds in the amount of $11,500,000 for trunk, secondary and bush airports owned or operated by the state or its political subdivisions.

Ch. 168, SLA 1966, provides for the issuance of bonds in the amount of $5,000,000 for regional high schools throughout the state.

Ch. 73, SLA 1967, and ch. 142, SLA 1968, provide for the issuance of bonds in the amount of $5,000,000 and $11,200,000, respectively, for highways and roads in the state.

Ch. 91, SLA 1968, provides for the issuance of bonds in the amount of $2,000,000 for a branch of the Alaska Pioneers' Home in the Southcentral area.

Ch. 146, SLA 1968, provides for the issuance of bonds in the amount of $1,200,000 for public or other nonprofit community hospitals and other medical facilities at various locations in the state.

Ch. 167, SLA 1968, provides for the issuance of bonds in the amount of $8,800,000 for trunk, secondary and bush airports owned or operated by the state or its political subdivisions.

Ch. 207, SLA 1968, provides for the issuance of bonds in the amount of $10,000,000 for elementary and secondary public schools at various locations in the state.

Ch. 224, SLA 1968, provides for the issuance of bonds in the amount of $8,500,000 for buildings, facilities and utilities at the University of Alaska.

Ch. 226, SLA 1968, provides for the issuance of bonds in the amount of $18,000,000 for state ferries. This bond issue was not approved by the voters.

Ch. 227, SLA 1968, provides for the issuance of bonds in the amount of $3,000,000 for fish hatcheries in the state.

Ch. 147, SLA 1970, as amended by ch. 220, SLA 1970, provides for the issuance of bonds in the amount of $11,000,000 for capital improvements for water supply and sewerage systems.

Ch. 170, SLA 1970, provides for the issuance of bonds in the amount of $20,300,000 for certain elementary and secondary public schools within the state.

Ch. 173, SLA 1970, provides for the issuance of bonds for facilities at Anchorage and Fairbanks International Airports.

Ch. 180, SLA 1970, provides for the issuance of bonds in the amount of $3,000,000 for making capital improvements to Alaska Remote Housing Program.

Ch. 181, SLA 1970, provides for the issuance of bonds in the amount of $2,300,000 for making capital improvements to state recreational facilities.

Ch. 182, SLA 1970, provides for the issuance of bonds in the amount of $29,200,000 for making capital improvements to highways and roads in the state.

Ch. 183, SLA 1970, provides for the issuance of bonds in the amount of $8,600,000 for making capital improvements to state correctional buildings for use by the Department of Health and Welfare.

Ch. 190, SLA 1970, provides for the issuance of bonds in the amount of $5,600,000 for making capital improvements to mental health facilities, health and child care centers.

Ch. 221, SLA 1970, provides for the issuance of bonds in the amount of $5,500,000 for making capital improvements to highway maintenance facilities.

Ch. 222, SLA 1970, provides for the issuance of bonds in the amount of $10,000,000 for making capital improvements to certain airports in the state.

Ch. 223, SLA 1970, provides for the issuance of bonds in the amount of $21,000,000 for making capital improvements to the state ferry system.

Ch. 224, SLA 1970, provides for the issuance of bonds in the amount of $29,700,000 for making capital improvements to buildings, facilities, and utilities at the University of Alaska and community colleges.

Ch. 97, SLA 1972, provides for the issuance of bonds in the amount of $3,500,000 for the purpose of matching federal funds under the Hill-Burton hospital construction program.

Ch. 99, SLA 1972, provides for the issuance of bonds in the amount of $10,000,000 for paying the cost of capital improvements for highway construction.

Ch. 150, SLA 1972, provides for the issuance of bonds in the amount of $11,500,000 for paying the cost of capital improvements for civic, convention and community recreation centers and all-weather sports facilities. This bond issue was not approved by the voters.

Ch. 177, SLA 1972, provides for the issuance of bonds in the amount of $18,000,000 for paying the cost of capital improvements for the University of Alaska.

Ch. 194, SLA 1972, provides for the issuance of bonds in the amount of $24,000,000 for paying the cost of capital improvements for airports.

Ch. 195, SLA 1972, provides for the issuance of bonds in the amount of $16,000,000 for paying the cost of acquiring, constructing and equipping state-operated schools.

Ch. 201, SLA 1972, provides for the issuance of bonds in the amount of $20,000,000 for paying the cost of capital improvements for flood control and small boat harbor projects.

Ch. 202, SLA 1972, provides for the issuance of bonds in the amount of $33,000,000 for paying the cost of capital improvements for water supply and sewerage systems.

Ch. 2, SLA 1973, provides for the issuance of bonds in the amount of $11,500,000 for paying the cost of capital improvements for civic, convention and community recreation centers. This bond issue was rejected by the voters at the special election held March 6, 1973.

Ch. 62, SLA 1974, provides for the issuance of bonds in the amount of $2,700,000 for paying the cost of fire protection facilities.

Ch. 86, SLA 1974, provides for the issuance of bonds in the amount of $22,500,000 to fund port facilities development grants under ch. 85, SLA 1974.

Ch. 116, SLA 1974, provides for the issuance of bonds in the amount of $7,900,000 to pay the cost of library resource centers and community libraries.

Ch. 118, SLA 1974, provides for the issuance of bonds in the amount of $10,400,000 to pay the cost of trunk and secondary airport construction.

Ch. 122, SLA 1974, provides for the issuance of bonds in the amount of $37,300,000 to pay for highway, ferry and local service road and trail construction.

Ch. 132, SLA 1974, provides for the issuance of bonds in the amount of $10,900,000 to pay the state share under the Hill-Burton Act hospital construction program and for nursing homes.

Ch. 133, SLA 1974, provides for the issuance of bonds in the amount of $10,500,000 to pay the cost of fish and game management, development and enforcement facilities.

Ch. 135, SLA 1974, provides for the issuance of bonds in the amount of $7,515,000 to pay the cost of constructing and equipping Pioneers' Homes.

Ch. 142, SLA 1974, provides for the issuance of bonds in the amount of $40,337,000 to pay the cost of rural school construction.

Ch. 144, SLA 1974, provides for the issuance of bonds in the amount of $39,523,000 to pay the cost of capital improvements for the University of Alaska.

Ch. 124, SLA 1976, provides for the issuance of bonds in the amount of $7,100,000 for paying the cost of regional fire fighter training centers.

Ch. 131, SLA 1976, provides for the issuance of bonds in the amount of $59,290,000 for paying the cost of constructing, repairing, equipping and upgrading school facilities.

Ch. 168, SLA 1976, provides for the issuance of bonds in the amount of $6,660,000 for paying the cost of capital improvements to parks and recreation areas, and outdoor recreational, open space and historic properties projects.

Ch. 214, SLA 1976, provides for the issuance of bonds in the amount of $29,205,000 for paying the cost of capital improvements to fish and game management and development facilities.

Ch. 239, SLA 1976, provides for the issuance of bonds in the amount of $7,500,000 for paying the cost of construction and development of senior citizen housing.

Ch. 243, SLA 1976, provided for the issuance of bonds in the amount of $26,960,000 for paying the cost of capital improvements for the University of Alaska. This bond issue was rejected at the general election held November 2, 1976.

Ch. 247, SLA 1976, provides for the issuance of bonds in the amount of $53,360,000 for paying the cost of highway, ferry and local service road and trails construction.

Ch. 248, SLA 1976, provides for the issuance of bonds in the amount of $6,866,000 for paying the cost of airport construction and facilities.

Ch. 270, SLA 1976, provided for the issuance of bonds in the amount of $10,630,000 for paying the cost of constructing and major remodeling of justice facilities. This bond issue was rejected by the voters at the general election held November 2, 1976.

Ch. 271, SLA 1976, provides for the issuance of bonds in the amount of $31,000,000 for paying the cost of water supply and sewerage systems construction.

Two other major bonding laws which have been passed since statehood but which do not come under the provisions of this chapter are mentioned here for completeness:

Ch. 56, SLA 1961, provides for the issuance of negotiable revenue bonds of the University of Alaska in the amount of $6,750,000 for certain University of Alaska buildings.

Ch. 88, SLA 1961, as referred to in ch. 108, SLA 1962, and amended in ch. 80, SLA 1968, and ch. 173, SLA 1970, provide for the issuance of negotiable revenue bonds of the state in the amount of $19,925,000 for international airports.

In addition, the following session laws provide for negotiable revenue bonds: Ch. 43 SLA 1963 — $2,020,000 for acquiring, constructing and equipping a student dormitory and dining complex for the University of Alaska; ch. 109 SLA 1965 — $4,590,000 for acquiring, constructing and equipping two student dormitories, a dining facility and a food warehouse and preparation center; ch. 111 SLA 1969 — $4,000,000 for acquiring, constructing, etc., a campus activities center at the University of Alaska.

For legislative committee reports on (1) ch. 50, SLA 1961, relating to ferry bonds, see 1961 House Journal, pp. 223-224; (2) ch. 66, SLA 1961, relating to hospital bond standards, see 1961 House Journal, pp. 263-264; (3) ch. 65, SLA 1961, relating to bush airfield bonds, see 1961 House Journal, pp. 280-281; (4) ch. 183, SLA 1970 (SB 442 am FCC), relating to capital improvements to state correctional buildings, see 1970 Senate Journal, p. 574; (5) ch. 222, SLA 1970 (FCCS SB 431), relating to capital improvements to certain airports in the state, see 1970 House Journal, p. 1529; 1970 Senate Journal, p. 1276. For legislative committee report on capital improvement program, see 1960 House Journal, pp. 231-234, 253.

Am. Jur., ALR and C.J.S. references. — 43 Am. Jur., Public Securities and Obligations, §§ 151, 156 to 160.

Funding or refunding obligations as subject to conditions respecting approval by voters, 97 ALR 442.

Validity of bond issue in excess of amount permitted by law within authorized debt, tax or voted limit, 175 ALR 823.

81 C.J.S. States §§ 179 to 190.

Sec. 37.15.015. Committee shall publish notice of existing state indebtedness before election. (a) Before a general or special election in which a bond issue is offered for ratification, the state bond committee shall publish a notice of existing state bonded indebtedness at least once a week for three consecutive weeks in a newspaper of general circulation in each of the four judicial districts of the state. The first notice shall be published at least 20 days before the date of the election. A notice shall contain

(1) the current total bonded indebtedness of the state,

(2) the cost of the debt service on the current indebtedness.

(b) Neither the failure to publish the notice of existing state bonded indebtedness nor a defect in the publication affects the validity of the bond issue offered for ratification or of a general or special election in which a bond issue is offered for ratification. (§ 2 ch 50 SLA 1964; am § 1 ch 8 SLA 1969)

Editor's note. — Section 2, ch. 8, SLA 1969, provides: "This Act may not be construed as having changed the effect of AS 37.15.015 since this Act merely makes explicit that which was already intended before its enactment."

Legislative committee report. — For report on ch. 8, SLA 1969 (HB 79 am S), see 1969 House Journal, p. 186.

Sec. 37.15.020. Manner and amounts of sale. The state bond committee shall sell the bonds of each authorization in the amounts or series and at the times which it finds are for the best interests of the state and its inhabitants. (§ 1 ch 175 SLA 1960)

Am. Jur. reference. — 43 Am. Jur., Public Securities and Obligations, §§ 126 to 150.

Sec. 37.15.030. Interest rate and maturity. Each issue or series of bonds shall bear interest at an effective rate over the life of the bonds not to exceed eight per cent a year. The bonds shall mature in not more than 30 years from date of issue, unless a longer period is specifically authorized by statute. (§ 1 ch 175 SLA 1960; am § 2 ch 104 SLA 1967; am § 1 ch 92 SLA 1970; am § 1 ch 29 SLA 1976)

Effect of amendment. — The 1976 amendment substituted "eight per cent" for "seven per cent" in the first sentence.

Sec. 37.15.040. Sale of bonds. Before selling an issue or series of bonds, the state bond committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may

reject all bids received. (§ 1 ch 175 SLA 1960; am § 3 ch 104 SLA 1967; am § 1 ch 43 SLA 1969)

Sec. 37.15.050. Redemption. The state bond committee may determine whether the bonds are subject to redemption before their fixed maturities and may fix the premium for and all other terms of the redemption. No bond may be subject to redemption before its fixed maturity date unless the right to so redeem the bond is expressly mentioned on the face of the bond. (§ 1 ch 175 SLA 1960; am § 4 ch 104 SLA 1967; am § 1 ch 26 SLA 1968; am § 7 ch 143 SLA 1968)

Legislative committee report. — For legislative committee report on ch. 143, SLA 1968 (HB 707), see House Journal (1968), p. 836.

Am. Jur., ALR and C.J.S. references. — 38 Am. Jur., Municipal Corporations, §§ 408 to 482; 42 Am. Jur., Public Funds, § 1 et seq.; 43 Am. Jur., Public Securities and Obligations, §§ 24, 25, 260 to 270; 49 Am. Jur., States, Territories and Dependencies, §§ 66 to 71.

Funding or refunding obligations as subject to conditions respecting limitation of indebtedness, 97 ALR 442.

Validity of bond issue in excess of amount permitted by law within authorized debt, tax or voted limit, 175 ALR 823.

81 C.J.S. States § 189.

Sec. 37.15.060. Form and registration of bonds. An issue or series of bonds may be issued in coupon form payable to bearer or in fully registered form, and bonds in coupon form may be made registrable as to principal or principal and interest, as determined by the state bond committee. (§ 1 ch 175 SLA 1960; am § 2 ch 26 SLA 1968)

Am. Jur. reference. — 43 Am. Jur., Public Securities and Obligations, §§ 106 to 116.

Sec. 37.15.070. Place of payment. The state bond committee may fix the place or places of payment of the principal, interest and redemption premium, if any. (§ 1 ch 175 SLA 1960; am § 5 ch 104 SLA 1967)

Sec. 37.15.080. Signatures and seal. (a) Each bond shall be signed on behalf of the state by the governor and attested by the lieutenant governor, which signatures may be facsimile signatures. The seal of the state shall be impressed, imprinted or otherwise reproduced on each bond. Each interest coupon attached to the bond shall be signed by the facsimile signatures of the governor and lieutenant governor. If an officer whose signature appears on the bonds or coupons ceases to be an officer before delivery of the bonds, the signature is, nevertheless, valid and sufficient for all purposes, as if the officer had remained in office until delivery.

(b) A signature required on a bond issued by a political subdivision of the state may be a facsimile signature. (§ 1 ch 175 SLA 1960; am § 6 ch 104 SLA 1967)

Revisor's note (1971). — In this section "secretary of state" has been changed to "lieutenant governor" in conformity with the 1970 Alaska constitutional amendment

(SJR 2) changing the designation of that office.

Am. Jur. reference. — 43 Am. Jur., Public Securities and Obligations, § 108.

Sec. 37.15.090. Terms and conditions. Each issue or series of bonds shall be issued under and subject to the terms, conditions, and covenants providing for the payment of the principal and the interest and other terms, conditions, covenants, and protective provisions safeguarding the payment as found reasonably necessary by the state bond committee for the most advantageous sale. The terms, conditions, and covenants may include the setting aside and maintaining of certain reserves to secure the payment of principal and interest. (§ 1 ch 175 SLA 1960)

Am. Jur. reference. — 43 Am. Jur., Public Securities and Obligations, §§ 106 to 116.

Sec. 37.15.100. Trustee. If the state bond committee finds it necessary to accomplish the most advantageous sale of the bonds, the committee shall select a trustee for the owners and holders of the bonds or for the safeguarding and disbursement of the proceeds of the sale of the bonds for the use and purpose for which issued, and shall fix the rights, duties, powers, and obligations of the trustee. (§ 1 ch 175 SLA 1960)

Sec. 37.15.110. Creation and membership of state bond committee. There is created a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, and the commissioner of revenue. If a member of the committee is absent or otherwise unable to act, his designee in the department shall act as a member of the committee in his place. (§ 2 ch 175 SLA 1960; am § 7 ch 104 SLA 1967; am § 81 ch 218 SLA 1976)

Effect of amendment. — The 1976 amendment substituted "commissioner of commerce and economic development" for "commissioner of commerce" in the first sentence.

Sec. 37.15.120. Regulations. The state bond committee may adopt rules and regulations for the performance of its duties and may designate by resolution one of its members to perform any act necessary to effectuate its duties not required by statute to be performed by the state bond committee in meeting or by resolution, or by another officer of the state. (§ 2 ch 175 SLA 1960; am § 8 ch 104 SLA 1967)

Sec. 37.15.130. Officers, records and proceedings. The commissioner of commerce and economic development is the chairman of the state bond committee and the commissioner of revenue is the secretary. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent

record of its proceedings. All records and correspondence of the committee shall be kept in the office of the commissioner of revenue. (§ 2 ch 175 SLA 1960; am § 82 ch 218 SLA 1976)

Effect of amendment. — The 1976 amendment substituted "commissioner of commerce and economic development" for "commissioner of commerce" in the first sentence.

Sec. 37.15.140. Duties of state bond committee. The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, sale, and delivery of bonds. (§ 3 ch 175 SLA 1960)

Sec. 37.15.150. Committee may employ special services. If the state bond committee considers it necessary and advisable, it may procure architectural or engineering, fiscal agent or municipal investment, legal and other expert or specialized services at reasonable and customary fees to assist it in accomplishing the most advantageous sale of the bonds. The fees may be paid from the proceeds of the sale or advanced from the contingency fund in the office of the governor or otherwise. (§ 3 ch 175 SLA 1960)

Sec. 37.15.155. Prohibited bidding on bonds and anticipation notes. (a) No person who provides financial programming or marketing assistance to the state bond committee in connection with the issuance or sale of general obligation bonds, revenue bonds or bond anticipation notes of the state may bid on the bonds.

(b) The sale of general obligation bonds, revenue bonds or bond anticipation notes of the state to a person who is prohibited from bidding on the bonds or notes under (a) of this section is against public policy and the sale is void.

(c) In this section "person" means an individual, firm, agent, factor, intermediary, partnership, corporation, association, bond house, stockbroker or bond broker. (§ 1 ch 102 SLA 1974)

Sec. 37.15.160. Contents of resolution. The resolution adopted by the state bond committee shall

(1) fix the principal amount, denominations, date, maturities, place of payment, terms, right of redemption if any, form, conditions and covenants of the bonds;

(2) fix the date of sale and the form of the notice of sale; and

(3) provide if the notice is to be published elsewhere in addition to the publication required by § 40 of this chapter. (§ 3 ch 175 SLA 1960; am § 3 ch 26 SLA 1968)

Sec. 37.15.170. State bond committee to certify annual principal, interest, and reserve requirements. (a) Before January 1 of each year after bonds are issued, the state bond committee shall certify to the commissioner of administration the amount needed for the following

calendar year to meet principal, interest, and reserve requirements on all bonds or issues or series of bonds then outstanding.

(b) The commissioner of administration shall set aside these amounts or make the necessary provisions for the setting aside of these amounts so that there will be sufficient money to pay the principal and interest on the due date and to meet reserve requirements. (§ 4 ch 175 SLA 1960)

Sec. 37.15.180. Remedies of bondholders. The owner and holder of each bond or the trustee may by appropriate proceeding require and compel the transfer and payment of money as directed by this chapter. (§ 4 ch 175 SLA 1960)

Sec. 37.15.190. Negotiability. General obligation bonds of the state and the coupons attached to the bonds are negotiable instruments. (§ 5 ch 175 SLA 1960)

Am. Jur. and ALR references. — 43 Am. Jur., Public Securities and Obligations, §§ 161 to 165.

Negotiability of state warrants, 36 ALR 949.

Sec. 37.15.200. Bonds as legal investments. General obligation bonds of the state are legal investments for all state funds, or for funds under state control, and for all funds of a political subdivision of the state. (§ 5 ch 175 SLA 1960)

Sec. 37.15.210. Refunding bonds. (a) All or a part of the general obligation bonds of the state, or all or a part of each outstanding issue or series of bonds, may be refunded at or before maturity by the issuance of general obligation refunding bonds of the state if, in the opinion of the state bond committee, refunding is advantageous to and in the best interest of the state and its inhabitants. Money set aside as reserve to secure the payment of the principal and interest of bonds being refunded may be used to pay the principal and interest on these bonds or may be retained by the state to secure the payment of the principal and interest on the refunding bonds to be issued.

(b) Refunding bonds and the coupons attached to them are negotiable instruments. The effective rate of interest over the life of refunding bonds may not exceed seven per cent a year and the amount of premium which is paid to effect the redemption of outstanding bonds may not be considered in determining the effective rate of interest.

(c) Refunding bonds may be exchanged for the bonds being refunded or refunding bonds may be sold in the manner and at the prices which the state bond committee determines to be for the best interest of the state and its inhabitants either at public or private sale.

(d) The issuance of refunding bonds need not be authorized by the qualified voters of the state. The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, exchange or sale, and delivery of refunding bonds. The provisions of this

chapter relating to the terms, conditions, covenants, issuance, and sale of general obligation bonds of the state apply to refunding bonds except as otherwise specifically provided in this section. (§ 6 ch 175 SLA 1960; am § 2 ch 92 SLA 1970)

Am. Jur. reference. — 43 Am. Jur., Public Securities and Obligations, §§ 156 to 160.

Sec. 37.15.215. Official statements. To the extent practicable the official statements and other documentation issued in connection with an offering of state or local government securities shall comply with the guidelines of the Municipal Finance Officers Association or other nationally recognized guidelines. (§ 12 ch 168 SLA 1978)

Sec. 37.15.220. Short title. Sections 10 — 220 of this chapter may be cited as the State Bonding Act. (§ 7 ch 175 SLA 1960; am § 54 ch 127 SLA 1974)

Effect of amendment. — The 1974 amendment added "Sections 10 — 220 of" to the beginning of this section.

Legislative committee report. — For report on ch. 127, SLA 1974 (SCSHB 817 am S), see 1974 House Journal, p. 657.

Article 2. Bond Anticipation Notes.

Section		Section	
300.	Borrowing in anticipation of sale of bonds permitted	350.	Security for repayment of revenue bonds
310.	Issuance of notes	360.	Limitation on issuance of notes
320.	[Repealed]	370.	Use of proceeds from sale of notes
330.	Repayment of notes	380.	Sale of notes
340.	Security for repayment of general obligation bonds	390.	Execution of notes

Sec. 37.15.300. Borrowing in anticipation of sale of bonds permitted. When the state bond committee considers it in the best interests of the state, it may borrow money in anticipation of the sale of general obligation and revenue bonds, if

(1) the general obligation bonds to be sold have been authorized by law and ratified by a majority vote of the qualified voters of the state who vote on the question; or

(2) the general obligation bonds to be sold have been authorized by law for the purpose of meeting natural disasters, repelling invasion, suppressing insurrection, or defending the state in war; or

(3) the revenue bonds to be sold have been authorized by law; and

(4) money to be derived from the sale of general obligation and revenue bonds have been appropriated by the legislature. (§ 1 ch 42 SLA 1964; am § 1 ch 74 SLA 1964)

Sec. 37.15.310. Issuance of notes. The state bond committee shall issue notes for the amounts borrowed with a maturity date not to exceed

one year from the date of issue. All the notes are payable at a fixed place, on or before a fixed time, or at a fixed time, from the proceeds of the sale of bonds, in anticipation of which the original note or notes were issued, unless the bonds have not been sold by the maturity date of the notes. Interest on the notes is payable at a fixed place, on or before a fixed time, out of appropriations made for the payment of interest on general obligation notes or bonds of the state. (§ 1 ch 42 SLA 1964; am § 1 ch 127 SLA 1976)

Effect of amendment. — The 1976 amendment deleted "and the interest thereon" following "All the notes" near the beginning of the second sentence and added the third sentence.

Sec. 37.15.320. Issuance of new notes.
Repealed by § 3 ch 41 SLA 1967.

Editor's note. — The repealed section derived from § 1, ch. 42, SLA 1964; § 1, ch. 41, SLA 1967.

Sec. 37.15.330. Repayment of notes. Every note shall be payable from the proceeds of the next succeeding sale of bonds or from the proceeds of the sale of new bond anticipation notes. (§ 1 ch 42 SLA 1964)

Sec. 37.15.340. Security for repayment of general obligation bonds. Notes issued in anticipation of the sale of general obligation bonds and the interest thereon are secured by the full faith, credit, and resources of the state. (§ 1 ch 42 SLA 1964)

Sec. 37.15.350. Security for repayment of revenue bonds. Notes issued in anticipation of the sale of revenue bonds and the interest thereon are secured in the same manner as are the revenue bonds in anticipation of which the notes are issued. (§ 1 ch 42 SLA 1964)

Sec. 37.15.360. Limitation on issuance of notes. The total amount of such notes issued and outstanding shall at no time exceed the total amount of bonds authorized to be issued. (§ 1 ch 42 SLA 1964)

Sec. 37.15.370. Use of proceeds from sale of notes. The proceeds from the sale of the notes shall be used only for the purposes for which the proceeds from the sale of bonds may be used or to meet payment of outstanding bond anticipation notes. (§ 1 ch 42 SLA 1964)

Sec. 37.15.380. Sale of notes. Notes issued under this chapter shall be sold by the state bond committee in such manner and at such price or prices as it shall determine, at either public or private sale; however, no such note shall be sold for less than par and accrued interest or at an interest rate exceeding seven per cent a year. (§ 1 ch 42 SLA 1964; am § 3 ch 92 SLA 1970)

Sec. 37.15.390. Execution of notes. Notes for money borrowed in anticipation of receipts from the sale of bonds shall be signed by the governor and countersigned by the lieutenant governor. The governor's signature may be a facsimile signature. (§ 1 ch 42 SLA 1964)

Revisor's note (1971). — In this section "secretary of state" has been changed to "lieutenant governor" in conformity with the 1970 Alaska constitutional amendment (SJR 2) changing the designation of that office.

Article 3. International Airports Revenue Bonds.

Section
410. Bond authorization
420. Construction fund
430. Revenue fund
440. Redemption fund
450. Bond terms
460. Bond resolution
470. Enforcement by holder
480. Amounts required for payments
490. Bond negotiability
500. Airport charges
510. State improvements to airports
520. Refunding
530. Bonds as legal investments
540. Statutory construction
550. Definitions

Editor's note. — Section 2, ch. 149, SLA 1972, provides: "For the purpose of carrying out the provisions of AS 37.15.410 — 37.15.550, there is appropriated from the International Airports Construction Fund the sum of

"(1) $9,225,000, together with the amounts of any grant or other money paid into the fund for the same purpose, for acquisition, construction and equipping of facilities previously funded through revenue bond issues dated June 1, 1968 and June 1, 1969 (authorized by ch. 80, SLA 1968);

"(2) $8,700,000 for the acquisition, construction and equipping of airport facilities as authorized in AS 37.15.510 at Anchorage International Airport (authorized by ch. 173, SLA 1970);

"(3) $2,000,000 for the acquisition, construction and equipping of airport facilities as authorized in AS 37.15.510 at Fairbanks International Airport (authorized by ch. 173, SLA 1970); and

"(4) $11,300,000 for the acquisition, construction and equipping of airport facilities as authorized in AS 37.15.510 at Anchorage and Fairbanks International Airports (authorized by ch. 149, SLA 1972)."

Section 4, ch. 149, SLA 1972, provides: "This Act codifies the 'temporary' law pertaining to the international airport revenue bonds. The repeal of statutes by sec. 3 of this Act does not affect existing bonds or actions that have been taken under the repealed provisions."

Legislative committee report. — For report on ch. 149, SLA 1972 (CSHB 531), see 1972 House Journal, p. 1233.

Sec. 37.15.410. Bond authorization. For the purpose of providing part or all of the money to be used, with or without any grants or other money which may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed $34,825,000 is authorized to acquire, equip, construct and install the additions, improvements, extensions and facilities authorized in § 510 of this chapter. The principal of and interest on these bonds shall be paid out of and secured by the gross revenues derived by the state from the

Chapter 58. Municipal Debt.

Article
1. Revenue Anticipation Notes (§§ 29.58.010—29.58.060)
2. Bond Anticipation Notes (§§ 29.58.070—29.58.140)
3. General Obligation Bonds (§§ 29.58.150—29.58.180)
4. Revenue Bonds (§§ 29.58.200—29.58.220)
5. Refunding Bonds (§§ 29.58.240—29.58.280)
6. Miscellaneous Provisions (§§ 29.58.300—29.58.340)

Article 1. Revenue Anticipation Notes.

Section
10. Borrowing in anticipation of revenue
20. Issuance of notes
30. Limitation on issuance of notes
40. Issuance of notes in anticipation of state, federal grants
50. Priority of repayment
60. Sale of notes

Sec. 29.58.010. Borrowing in anticipation of revenue. A municipality of the state which is authorized to incur indebtedness may borrow money in a fiscal year to meet appropriations for that fiscal year in anticipation of the collection of taxes and estimated revenues for the fiscal year and may issue its revenue anticipation notes as evidence of the borrowing. (§ 2 ch 118 SLA 1972)

Sec. 29.58.020. Issuance of notes. The governing body of a municipality may, by ordinance or resolution, authorize the issuance of revenue anticipation notes and prescribe the form and details of the notes and the manner of their execution. The governing body of the municipality may delegate to its chief fiscal officer the power to issue the notes from time to time under the terms and conditions of the ordinance or resolution which provides for the manner of their sale. Revenue anticipation notes and notes issued to renew notes previously issued mature not later than the end of the fiscal year in which they are issued. (§ 2 ch 118 SLA 1972)

Sec. 29.58.030. Limitation on issuance of notes. The aggregate amount of revenue anticipation notes at any time outstanding may not exceed 50 per cent of the amount of revenues estimated to be collected in the fiscal year in which the notes are issued, less the amount of estimated revenues actually collected in the fiscal year before the issuance of the notes. (§ 2 ch 118 SLA 1972)

Sec. 29.58.040. Issuance of notes in anticipation of state, federal grants. (a) The governing body of a municipality, upon adoption of a long-range capital improvement budget by ordinance or resolution, may by resolution provide for revenue anticipation notes in an amount not to exceed the total amount of any state or federal grants finally committed for these projects. The notes mature no later than the end of the next fiscal year. The notes may be for

single or multiple projects outlined in the adopted capital improvement budget.

(b) If the state or federal grants for capital improvement projects have not been paid to the municipality before maturity of the notes issued in anticipation of the receipt of the revenue, the governing body of the municipality may issue new notes in order to meet payment of the notes then maturing or may renew the outstanding revenue anticipation notes. New notes issued or renewals of outstanding revenue anticipation notes shall mature not later than the end of the next fiscal year. (§ 2 ch 118 SLA 1972)

Sec. 29.58.050. Priority of repayment. The payment of the principal and interest on revenue anticipation notes shall be payable from revenues, and their payment additionally shall be secured by a pledge of the full faith, credit and unlimited taxing power of the municipality issuing them. (§ 2 ch 118 SLA 1972)

Sec. 29.58.060. Sale of notes. The municipality may sell revenue anticipation notes in the manner and at the price it determines, at either public or private sale. (§ 2 ch 118 SLA 1972)

Article 2. Bond Anticipation Notes.

Section		Section	
70.	Bond anticipation borrowing	110.	Security
80.	Issuance of notes	120.	Limitation
90.	Issuance of new notes	130.	Use of proceeds
100.	Repayment of notes	140.	Sale of notes

Sec. 29.58.070. Bond anticipation borrowing. A municipality may borrow money in anticipation of the sale of general obligation and revenue bonds if

(1) the general obligation bonds to be sold have been authorized by the assembly or council and ratified by a majority vote at a regular or special election;

(2) the revenue bonds to be sold have been authorized by ordinance. (§ 2 ch 118 SLA 1972)

Sec. 29.58.080. Issuance of notes. The assembly or council shall issue negotiable or nonnegotiable notes for the amounts borrowed with a maturity date not to exceed one year from the date of issue. All notes and the interest on them are payable at fixed places on or before a fixed time, from the proceeds of the sale of bonds in anticipation of which the original note or notes were issued, unless the bonds have not been sold by the maturity date of the notes. (§ 2 ch 118 SLA 1972)

Sec. 29.58.090. Issuance of new notes. If the sale of the bonds has not occurred before the maturity of the notes issued in anticipation of the sale, the assembly or council shall issue new notes in

order to meet payment of the notes then maturing or shall renew the outstanding bond anticipation notes. New notes issued or renewals of outstanding bond anticipation notes shall bear a maturity date not to exceed one year from the date of issue. Notes, new notes, and renewals of notes shall not be outstanding for a total elapsed time of more than three years. (§ 2 ch 118 SLA 1972)

Sec. 29.58.100. Repayment of notes. Every note is payable from the proceeds of the sale of bonds which the notes anticipated or from the proceeds of the sale of new bond anticipation notes. (§ 2 ch 118 SLA 1972)

Sec. 29.58.110. Security. (a) Notwithstanding any other provisions of this chapter as to payment of notes, notes issued in anticipation of the sale of general obligation bonds and the interest on them are secured by the full faith, credit, taxing power and resources of the municipality. The municipality may levy ad valorem taxes for payment without limitation of rate or amount.

(b) Notes issued in anticipation of the sale of revenue bonds and the interest on them are secured in the same manner as are the revenue bonds in anticipation of which the notes are issued. (§ 2 ch 118 SLA 1972)

Sec. 29.58.120. Limitation. The total amount of notes issued and outstanding shall at no time exceed the total amount of bonds authorized to be issued. (§ 2 ch 118 SLA 1972)

Sec. 29.58.130. Use of proceeds. The proceeds from the sale of notes shall be used only for the purposes for which the proceeds from the sale of bonds may be used or to meet payment of outstanding bond anticipation notes. (§ 2 ch 118 SLA 1972)

Sec. 29.58.140. Sale of notes. Notes issued under this chapter shall be sold by the municipality in the manner and at the price it determines, at either public or private sale, but no note may be sold for less than par and accrued interest. (§ 2 ch 118 SLA 1972)

Article 3. General Obligation Bonds.

Section
150. General obligation bonds
160. Vote and notice of existing indebtedness required
170. Form and terms of sale
180. Payment

Sec. 29.58.150. General obligation bonds. A municipality may acquire, construct, improve and equip capital improvements and issue negotiable or nonnegotiable general obligation bonds for these purposes. (§ 2 ch 118 SLA 1972)

Section supplements Alaska Constitution. — The legislature enacted this section to supplement Alaska Constitution, art. IX, § 9, and did not intend to attempt to substitute a different purpose than that established by "capital improvements" in the constitution. City of Juneau v. Hix-

son, Sup. Ct. Op. No. 93 (File No. 201), 373 P.2d 743 (1962).

"Improvement" in its broad sense means betterment. City of Juneau v. Hixson, Sup. Ct. Op. No. 93 (File No. 201), 373 P.2d 743 (1962).

Off-street parking facilities constitute public improvements or public works and this section is sufficiently broad to cover such facilities. Kissane v. City of Anchorage, 17 Alaska 514, 159 F. Supp. 733 (D. Alas. 1958).

Section assumes city will acquire right of occupancy before building improvement.—This section assumes that a city will acquire the rights of occupancy necessary to construct wharves, as a preliminary to their construction. Berger v. Ohlson, 10 Alaska 84, 120 F.2d 56 (9th Cir. 1941).

It does not authorize building on federal land.—This section would not authorize a city to build and maintain a wharf in a reserve already set apart by the federal government for the use of its railroad. Berger v. Ohlson, 10 Alaska 84, 120 F.2d 56 (9th Cir. 1941).

And improvement built on federal land belongs to the United States.—A city dock built upon land belonging to the United States must in legal contemplation have become a part of it in the absence of special circumstances leading to a contrary conclusion where no specific authority for the erection of the wharf as property of the city of Anchorage can be found. Berger v. Ohlson, 10 Alaska 84, 120 F.2d 56 (9th Cir. 1941).

At best the public of the city of Anchorage had a mere license to use a city dock built and maintained within the Alaska railroad terminal reserve, and the United States had a right to terminate the use of the dock. Berger v. Ohlson, 10 Alaska 84, 120 F.2d 56 (9th Cir. 1941).

Am. Jur. references.—38 Am. Jur., Municipal Corporations, § 559 et seq., 43 Am. Jur., Public Works and Contracts, § 1 et seq.

Sec. 29.58.160. Vote and notice of existing indebtedness required. (a) A municipality may incur general obligation bond debt only after a bond authorization ordinance is approved by a majority of those voting on the question at a regular or special election. Any municipal voter may vote in the bond election, except as otherwise provided by charter or law.

(b) Before a general obligation bond issue election, the assembly or council shall have published a notice of the municipality's total existing bond indebtedness at least once a week for three consecutive weeks. The first notice shall be published at least 20 days before the date of the election. A notice shall include

(1) the current total general obligation bonded indebtedness, including authorized but unsold bonds of the municipality;

(2) the cost of the debt service on the current indebtedness;

(3) the total assessed valuation within the municipality. (§ 2 ch 118 SLA 1972)

Sec. 29.58.170. Form and terms of sale. The assembly or council shall fix the date of the bonds, denominations, maturities, rate of interest, place and manner of payment, redemption terms, registration privileges, manner of execution, and signatures required. If an officer whose signature appears on the bonds or coupons ceases to be an officer before delivery of the bonds, his signature is valid as if he had remained in office until delivery. (§ 2 ch 118 SLA 1972)

Sec. 29.58.180. Payment. (a) The full faith and credit of a municipality are pledged for the payment of principal and interest on general obligation bonds. The municipality may levy ad valorem taxes for payment without limitation of rate or amount.

(b) General obligation bonds issued for acquiring, constructing, improving and equipping a municipally-owned utility or other revenue-generating enterprise may be additionally secured by a pledge of the revenue derived from operation. Bonds so secured are not subject to a debt limitation imposed by a borough or city home rule charter. (§ 2 ch 118 SLA 1972)

Article 4. Revenue bonds.

Section
200. Revenue bonds
205. No election required
210. Forms and terms
220. Payment

Sec. 29.58.200. Revenue bonds. A municipality may acquire, construct, improve and equip capital improvements to be operated upon a revenue-producing basis, and bonds for these purposes are payable solely from unpledged revenue of the public facilities for which the bonds are issued. (§ 2 ch 118 SLA 1972)

Sec. 29.58.205. No election required. No election is required to authorize the issuance and sale of revenue bonds, unless otherwise provided by ordinance. (§ 2 ch 118 SLA 1972)

Sec. 29.58.210. Forms and terms. The assembly or council shall fix the date of the bonds, denominations, maturities, rate of interest, place and manner of payment, redemption terms, registration privileges, manner of execution and signatures required. If an officer whose signature appears on the bonds or coupons ceases to be an officer before delivery of the bonds, his signature is valid as if he had remained in office until delivery. (§ 2 ch 118 SLA 1972)

Sec. 29.58.220. Payment. Bonds issued under §§ 200—220 of this chapter or the proceedings of the assembly or council authorizing their issuance may contain the covenants which the assembly or council considers advisable concerning

(1) the rates or fees to be charged for services rendered by the public facilities, the revenue of which is pledged to the payment of the bonds;

(2) the deposit and use of the revenue of the public facilities;

(3) the issuance of additional bonds payable from revenue of the public facilities;

(4) the rights of the bondholders in case of default in the payment of the principal or interest on the bonds, including the appointment of a receiver to operate the public facilities;

(5) other covenants as the assembly determines. (§ 2 ch 118 SLA 1972)

Article 5. Refunding Bonds.

Section	Section
240. Authorization	270. Payment of refunding bonds
250. Effect of bonds	280. Sale
260. No election required	

Sec. 29.58.240. Authorization. If a municipality has outstanding general obligation or revenue bonds and the assembly or council determines that it would be financially advantageous to refund the bonds, the assembly or council may provide by ordinance for the issuance of general obligation or revenue refunding bonds. (§ 2 ch 118 SLA 1972)

Sec. 29.58.250. Effect of bonds. The refunding bonds may take up and refund all or any part of outstanding bonds at or before their maturity or redemption date. The assembly or council may include various series and issues of bonds in a single issue of refunding bonds. (§ 2 ch 118 SLA 1972)

Sec. 29.58.260. No election required. No election is required to authorize the issuance and sale of refunding bonds. Their issuance may be authorized and all proceedings with reference to them prescribed by ordinance of the assembly or council. However, when it is desirable to use general obligation bonds to refund a revenue bond issue, the governing body shall call an election on the question. (§ 2 ch 118 SLA 1972)

Sec. 29.58.270. Payment of refunding bonds. General obligation refunding bonds are payable according to § 180 of this chapter. Revenue refunding bonds are payable according to § 220 of this chapter. (§ 2 ch 118 SLA 1972)

Sec. 29.58.280. Sale. General obligation or revenue refunding bonds may, in the discretion of the assembly or council, be exchanged at par for the bonds being refunded, or may be sold at public or private sale for an amount not less than par and accrued interest. They may be issued and delivered at any time before the date of maturity or redemption of the refunded bonds. (§ 2 ch 118 SLA 1972)

Article 6. Miscellaneous Provisions.

Section	Section
300. Public sale	320. Redemption before maturity
310. Interest rate	340. Borough indebtedness
315. Bond attorneys, bond and financial consultants	

Sec. 29.58.300. Public sale. The municipality shall sell all bonds at a public or private sale as provided by ordinance. No bonds may be sold at less than par value. (§ 2 ch 118 SLA 1972)

Sec. 29.58.310. Interest rate. No municipal bond or note may bear an interest rate exceeding the contract usury rate of interest provided by law. (§ 2 ch 118 SLA 1972)

Sec. 29.58.315. Bond attorneys, bond and financial consultants. The governing body or its designee of a home rule or general law municipality shall be the sole contracting authority for bond attorneys, bond consultants and financial consultants engaged in long-range financial planning of the municipality which leads to sale of bonds. (§ 2 ch 118 SLA 1972)

Sec. 29.58.320. Redemption before maturity. A bond or note may be made subject to redemption before maturity as stated in the authorization or in the bond or note. (§ 2 ch 118 SLA 1972)

Sec. 29.58.340. Borough indebtedness. (a) Boroughs may incur indebtedness

(1) on an areawide basis for areawide functions; or

(2) on a noncity basis for functions performed in the area outside cities only; or

(3) on a service area basis for functions performed in a service area only.

(b) Payment of debt principal and interest as well as other costs shall be limited to the area incurring the debt under (a) (2) or (a) (3) of this section, except that the full faith and credit of the entire borough may be pledged to guarantee payment of principal and interest.

(c) If the bonded debt to be incurred by a borough is an areawide debt, the vote is areawide; if the full faith and credit of the entire borough is pledged for the payment of the debt of the area outside cities or of a service area, an areawide election is held and the proposition must pass both areawide and in the area which will benefit from the improvement; if the bonded indebtedness to be incurred is limited to areas outside cities only or to service areas, the vote is limited to voters in those areas. (§ 2 ch 118 SLA 1972)

A REVIEW OF DEBT CAPACITY AND DEBT MANAGEMENT FOR THE STATE OF ALASKA

GOVERNMENT
FINANCE
RESEARCH
CENTER

MUNICIPAL FINANCE
OFFICERS ASSOCIATION

A Review of Debt Capacity and Debt Management for the State of Alaska

Report to the
Legislative Budget and Audit Committee,
State of Alaska Legislature

August, 1983

Prepared by
GOVERNMENT FINANCE RESEARCH CENTER
MUNICIPAL FINANCE OFFICERS ASSOCIATION
1750 K Street, NW
Suite 200
Washington, DC 20006

GOVERNMENT
FINANCE
RESEARCH
CENTER

MUNICIPAL FINANCE
OFFICERS ASSOCIATION

August 26, 1983

The Honorable Robert H. Bettisworth
Chairman
Legislative Budget and Audit
Committee
State of Alaska
Capitol Building, Room 508
Pouch V
Juneau, AK 99811

Dear Chairman Bettisworth:

The Government Finance Research Center is pleased to transmit our "Review of Debt Capacity and Debt Management for the State of Alaska" to the Legislative Budget and Audit Committee. The report was written by Wesley C. Hough and Lawrence D. Shubnell, with contributions from Ronald C. Forbes, State University of New York at Albany, and Kenneth J. Kirkland of the National Conference of State Legislatures.

I would also like to acknowledge the guidance and direction of Senator Arliss Sturgulewski, Chair of the Legislative Budget and Audit Committee when this report was commissioned in October, 1982. In addition, the perceptions and comments of those persons interviewed in the course of writing this report, a list of whom appears in the appendix, were extremely helpful.

Finally, we have appreciated the cooperation and assistance provided by Stephen Frank, Staff Assistant, Legislative Budget and Audit Committee.

Sincerely,

John E. Petersen
Director

JEP:jcw

SUITE 650 1750 K STREET N.W. WASHINGTON D.C. 20006 202 466 3144

TABLE OF CONTENTS

Chapter I	Executive Summary	1
Chapter II	Overview of the National Tax-Exempt "Municipal" Bond Market and the Bond Issuance Process	9
	Characteristics of the Marketplace	9
	The Changing Role of Public Borrowing	14
	Emerging Concerns for Traditional Capital Spending and Financing	15
	Changes in the Cost of Borrowing Impacts of the Tax Act of 1982	19
	Credit Concerns	26
	Innovative Bond Financing Alternatives	27
	Creative Financing Innovations	28
	Bond Issuance Process Bond Resolution Specialized Services Marketing of Municipal Bonds Sale to Investors	33
Chapter III	Profile of Outstanding Debt	47
	Overview	47
	Direct Tax-Supported Debt State General Obligation Debt Revenue Debt Dependent upon State Appropriations	62
	Indirect State Debt Moral Obligation Bonds of State Public Corporations Other Obligations of Public Corporations	70
	Municipal Debt	81
	Other Long-Term Obligations	81
	Conclusion	85

Chapter IV Market Performance and Reception of State General Obligation Bonds and the Alaska Housing Finance Corporation 87

Market Performance of GO Bond Issues. 90

Underwriting Spreads. 94

Interest Rates on Alaska State Bonds. 96

Secondary Market Yields 99

Investor Perceptions of State General Obligation Bonds 102

Market Performance of the AHFC. 104

Technical Appendix: A Statistical Analysis of Interest Costs on State General Obligation Bonds 109

Chapter V Analysis of the Market Performance and Management of Local Government Debt. 117

Profile of Local Borrowing 117

Local Government Bond Sales and Market Performance 123

The Market Performance of the Alaska Municipal Bond Bank. 131

Local Debt Management. 133

The Role of the State in Local Government Borrowing. 133
- Alternative Programs for State Involvement
- State Restrictions on Local Debt Issuance
- Direct State Involvement in Local Debt Issuance

Alternatives to the School Construction Assistance Program 139

Chapter VI State Debt Management. 143

Introduction 143

Origins of State Concerns and Actions Regarding Debt Management. 143
- Debt Issuance and Debt Markets
- Principal Concerns
- Debt Ceilings
- Oversight and Controls

Role of the State Bond Committee. 157

The Moral Obligation Pledge 161

Capital Planning and Capital Financing. 165
Pay-As-You-Go vs. Debt Financing
Financial Reporting

Debt Ceilings and Limits 176
Interest Rate Ceilings

True Interest Cost vs. Net Interest Cost:
Alternative Methods to Determine Lowest Bid. 179

Differences Between Competitive and Negotiated
Bond Sales. 182

Selection, Use, and Compensation of Financial
Advisors and Underwriters. 185
The Use of a Financial Advisor
Selection of Financial Advisors
Compensation of Financial Advisors
Compensation and Use of Negotiating Underwriter

Advance Refunding and Defeasance 191

Chapter VII Debt Affordability and Future Debt Capacity. 193

Introduction 193

Revenue-Supported Debt. 195

Measures of General Obligation Debt Capacity 196
Traditional Measures of Debt Capacity
Alaska-Specific Measures of Debt Capacity

Future Debt Capacity 218
Short-Term Guidelines
Long-Term Guidelines

Notes. 218

Appendices

The Basis for Incurring and Repaying Debt at the State
and Local Levels 231

Interviews and Contacts 235

Glossary of Basic Public Finance Terminology 243

LIST OF TABLES

2.1	National Bond Market New Issues of Tax-Exempt Securities 1966-1982	10
2.2	National Bond Market New Long-Term Bond Issues By Type of Security	12
2.3	Tax-Exempt New Issues Classified by Use of Proceeds	16
2.4	State and Local Capital Outlay Financing Percentage Composition of Sources of Funds	18
2.5	Levels and Ratios of Interest Rates: Bond Buyer 20 Bond Index (Tax-Exempt), Moody's All-Industry Corporate Bonds (Taxable) 1978 to 1982/IV	20
2.6	Net Change in Holdings of Tax-Exempt Securities 1965-1982	22
2.7	Intra-Year Yield Volatility on Prime Municipals by Maturity	24
2.8	Yield-Maturity Relationships Prime Municipals and Treasuries 1982	25
2.9	1982 Average Tax-Exempt New Issue Yields and Borrowing Cost General Obligation Bonds	41
3.1	Volume of Alaska Issues as a Percentage of Total Long-Term Tax-Exempt Bond Issues	48
3.2	Volume of New Tax-Exempt Bond Issues -- Alaska, 1970-1982	51
3.3	State of Alaska New Issues of Tax-Exempt Bonds 1970-82	52
3.4	Percentage Composition of New Tax-Exempt Bond Issues by Type of Issue -- State of Alaska 1970-82	55
3.5	State of Alaska Total Public Debt Outstanding	57
3.6	State-Level Debt -- Debt Service Obligations as of FY 1982	58
3.7	Summary of Debt Service Requirements to Maturity as of June 30, 1982	59
3.8	Functional Distribution of State G.O. Debt Issued and Authorized but Unissued Since 1972	63
3.9	State of Alaska -- State General Obligation Bond Issues	67
3.10	State of Alaska -- State General Obligation Bond Sales Since 1973	68
3.11	Alaska Municipal Bond Bank General Obligation Debt Outstanding by Locality	73
3.12	Alaska Municipal Bond Bank Issues 1976-1983	75
3.13	Alaska Housing Finance Corporation Debt Issued by Year -- All Programs 1972-83	77
3.14	Alaska Housing Finance Corporation Amounts Issued and Outstanding by Program	79
3.15	International Airports Revenue Bonds Coverage Ratios 1975-1982	82
3.16	State of Alaska Classification of Outstanding Debt	84
4.1	New Issues of State General Obligation Bonds	91
4.2	Average Number of Bids on New Issues of State General Obligation Bonds	93
4.3	Number of Bids and Issue Size -- National Bond Market -- State GO Bond Issues 1982	95
4.4	Average Underwriting Spreads on New Issues of State General Obligation Bonds 1977-82	97
4.5	Average Maturities on New Issues of State General Obligation Bonds	98

4.6	Comparison of State of Alaska General Obligation Bonds to Other State General Obligation Bonds	100
4.7	Actual and Predicted Net Interest Costs on Alaska State GO Bond Sales	101
4.8	Estimate of Secondary Market Yields on 10-Year Maturities of Selected State GO Bonds -- May 5, 1983	103
4.9	Comparison of Tax-Exempt Alaska Housing Finance Issues to Other States' Housing Issues 1978-1982	105
4.10	Average Underwriting Spreads -- State Housing Finance Agencies 1978-82	107
4.11	Alaska Housing Finance Corporation -- Taxable SAM Bonds Summary of Principal Terms	108
4.12	Summary Statistics for 254 State General Obligation Bonds	110
4.13	Distribution of Bonds by Moody's Rating and Issue Size	112
4.14	Summary of Regression Results for 254 State GO Bonds	113
4.15	Comparison of Predicted Borrowing Costs with Actual Borrowing Costs for State of Alaska Issues	115
5.1	Estimated Alaska Municipal Debt	118
5.2	State of Alaska Local Government Debt	119
5.3	Municipal Debt Ratios	120
5.4	State of Alaska School Debt Outstanding (as of April 1, 1983)	122
5.5	Comparison of State of Alaska and Local Issues General Obligation Bonds	124
5.6	Selected Summary Statistics on Local Government Bond Sales in Alaska	126
5.7	Analysis of Reoffer Yields on Alaska Local Government Bonds	127
5.8	Analysis of Reoffer Yields on Insured Alaska Local Government Bond Issues	129
5.9	Summary Statistics on Selected State Municipal Bond Bank New Issues	130
5.10	Average Gross Underwriting Spreads -- State Bond Bank Issues	132
6.1	Pay-As-You-Go versus Debt Financing	169
6.2	Present Value of Financing Alternatives on a Per Capita Basis	170
7.1	Per Capita Total Outstanding State General Obligation Debt (1974-75 to 1980-81)	198
7.2	Per Capita Total Outstanding State General Obligation and Revenue Bond Debt (1974-75 to 1980-81)	199
7.3	General Obligation and Total State-Level Debt Per Capita 1973-1981	200
7.4	Total Outstanding State General Obligation Debt Per $1,000 of Personal Income (1974-75 to 1980-81)	203
7.5	Total Outstanding State General Obligation and Revenue Bond Debt Per $1,000 of Personal Income (1974-75 to 1980-81)	204
7.6	General Obligation and Total State-Level Debt Per $1,000 of Personal Income 1973-1981	205
7.7	State Debt Medians	207
7.8	Debt Capacity Index -- State General Obligation Debt	209
7.9	Debt Service as Percent of State Expenditures and Revenues	211
7.10	Debt Service Percentage of Total General Funds Appropriations	213
7.11	Debt Service as a Percentage of General Fund Unrestricted Revenues	214

7.12	State of Alaska Issuers -- Rapidity of Principal Repayment --Debt Outstanding as of June 30, 1982	216
7.13	State of Alaska Combined Rapidity of Principal Repayment --Debt Outstanding as of June 30, 1982	217
7.14	Alaska State General Obligation Debt Projected Ratio of Debt Service to General Fund Ratios	219
7.15	Alaska State General Obligation Debt Future Debt Capacity Debt Service at 5 Percent of General Fund Revenues	221
7.16	Alaska State General Obligation Bonds Future Debt Capacity Debt Service at 10 Percent of General Fund Revenues	223
7.17	Calculation of Future Debt Ratios	224

LIST OF EXHIBITS

2.1	Official Notice of Sale	37
2.2	Moody's and Standard and Poor's Bond Rating Classifications	40
2.3	Major Variables Considered in Determining Municipal Bond Ratings by Moody's and/or Standard and Poor's	43
2.4	Credit Ratings of Alaska Issuers	45
2.5	State of Alaska New Bond Issue Notice	46
3.1	Annual State Debt Issuance	49
3.2	Composition of State Debt Outstanding	53
3.3	Total State Debt Outstanding by Issuer	56
3.4	Alaska General Obligation Debt, Amount Issued by Purpose, and Authorized but Unissued Debt	64
3.5	Annual State General Obligation Bond Issuance	66
4.1	Moody's State Credit Ratings	88
4.2	Selected Sample States	89
4.3	Managing Underwriters on State GO Bond Sales	92
5.1	Debt Management Checklist	134
6.1	Selected State Debt Limits	148
6.2	Oversight Committees for State Debt	154
6.3	Present Value of Debt and Tax Financing Alternatives	172
6.4	Present Value of Debt and Tax Financing Alternatives	173
6.5	Debt Ceilings: Pros and Cons	177
6.6	Alternative Methods to Compute Effective Interest Costs	180

CHAPTER I

EXECUTIVE SUMMARY

The changing nature of tax-exempt borrowing, including the shift from traditional tax-supported government bonds to revenue-backed bonds, the rise and volatility in interest rates, the reliance upon individual investors in contrast to institutional lenders, and changes in federal law concerning various aspects of tax-exempt financing, has resulted in states generally being more attentive to debt management and debt policy. This study of State debt management comes at a propitious time. While the past growth of tax-exempt borrowing by issuers bearing the Alaska name has been rapid and sizeable, new programs and proposals before the legislature indicate that the demand for new spending and borrowing is far from sated. At the same time, recent reductions in the market price for petroleum and the unpredictability of its future supply and price raise uncertainties about the level and viability of the principal source of governmental revenues that directly or indirectly supports many of Alaska's borrowing and spending programs.

The interdependence of the Alaskan economy and its oil wealth creates a paradox for assessing the State's debt management and debt capacity. Oil revenues have enabled the State and local governments to borrow at unusually high levels -- in terms of per capita amounts of debt -- and have provided the financial security required by investors in the State's bonds. It is the reliance on these same oil revenues, however, that is the principal weakness of the Alaska credit as a long-term issuer of tax-exempt bonds and that makes assessment of the State's future debt capacity very difficult.

To be effective, debt management must join the capital needs of the State and its constituent governmental units with the ability to achieve bond market access on affordable terms. Market access is a function of debt capacity, debt burden, and perceived ability to pay; it is also conditioned importantly by the overall forces that shape borrowing needs nationally and the willingness of investors to supply funds. The private credit market, where public debts are sold, decides what borrowers will be accommodated and at what cost -- from a fluctuating but always limited pool of lendable funds. While Alaska is concerned first and foremost with the cost and availability of credit for its own needs, Alaska bonds compete with other governmental obligations from all parts of the country. The terms offered Alaska borrowers by the marketplace are strongly influenced by the volume and quality of competing claims from other borrowers. Hence, it is in Alaska's interest to offer a well-structured, high-quality security in order to obtain funds, and to obtain them at acceptable interest rates.

Effective debt management must also provide State and local issuers and the State's debt managers with the flexibility to react quickly and responsibly to changes in the financial markets. That the tax-exempt bond market is highly

sensitive to changes in the federal tax code was obvious in late 1982 as the pendency of the bond registration requirement brought a flood of issues to market. Now, as a result of this legislation, the primary and secondary market acceptance of an issuer's securities will in part depend on a timely, accurate and efficient transfer process (discussed on pages 35-36). Changes in other federal tax provisions can also sharply affect the demand for tax-exempt bonds. Chapter Two includes a survey of the tax acts of 1981 and 1982, and their impacts on the municipal bond market. These changes, like volitility in interest rates, are factors over which the State has little control. However, a responsible and flexible debt management program places the State in the best position to respond effectively to events that may effect the State's borrowing.

State-Level Debt

The evidence presented in this study shows that Alaska debt has grown from 0.7 to 1.8 percent of annual national tax-exempt bond market volume since 1970. The rising market share accorded Alaska bonds has been the result of an increase in the State's annual volume of new debt issues from $134 million to $1.4 billion between 1970 and 1982. Chapter Three documents the increase in borrowing and includes a profile of the major State debt issuers. Of all State-level issuers in Alaska, the Alaska Housing Finance Corporation has issued the largest amount of public debt -- over 62 percent of State-level debt and and over 44 percent of all State-wide debt (including local government obligations) outstanding -- and is the State's most frequent and best-known borrower.

At a time when we have seen the national credit rating agencies downgrade the credit rating of many states, Alaska can be proud of its rating upgrade over the past 10 years from a Baa to an AA credit. Credit analysts and the market itself have recognized the quality of Alaska's bonds as an investment. The evidence shows that Alaska now trades on par with such strong AA credits as Connecticut and Ohio. Chapter Four presents the results of our study of the State's past market experience. The data show that Alaska has consistently experienced lower borrowing costs than other states with similar ratings. Evidence to support this comes from the lower underwriting spreads, larger number of bids, and the lower interest rates on Alaska bonds as compared to those of other states of similar high quality.

State Bond Committee

In spite of the strong past performance of the State's bonds, the mid-1980s is a good time for the State of Alaska to broaden and strengthen the role of the State in debt management and oversight, particularly through the State Bond Committee (see pages 157 to 160). Recent fluctuations in the worldwide price of oil and the decline of Prudhoe Bay oil production within the ten-year range have alerted investors to the "boom and bust" nature of the Alaskan economy. These two events will be important factors behind the ability of the State to issue further debt in the coming years. One major role for a newly

reconstituted State Bond Committee would be oversight of the State's total indebtedness. It is not intended that the State Bond Committee supplant the activities or authority of independent agencies and corporations; however, it is vital that the State annually review and assess its debt position -- including within that review all State-level debt -- relative to the State's debt capacity and priorities for future public investment.

In order to carry out its expanded scope of activity, the State Bond Committee should be restructured. The chairmanship should reside in a senior-level fiscal official -- such as the Commissioner of Revenue or the Director of the Office of Management and Budget -- who is actively involved in the State's debt management. The Commissioner of Commerce and Economic Development is the Committee's present chair. Expanding the membership to include a representative from the governing board of a State corporation, and the Commissioner of Community and Regional Affairs would emphacize the interrelationship of the State, its agencies, and local government in the debt management area. To assist in fulfilling its expanded duties, the Committee should be staffed full-time by a professional in the field of public finance.

The Committee should be given the responsibility to take a global view of the State's debt-related activities in a formal manner, not in the loose, informal way that is presently said to exist. The State may wish to require that each entity of the State which is authorized to issue bonds annually file a debt financing plan with the State Bond Committee. From these plans a master debt issuance schedule may be compiled to inform and assist all debt issuers in the State. The schedule could be updated monthly or on an "as-needed" basis as financing plans change. The State Bond Committee should also annually prepare a comprehensive profile of outstanding debt and monitor its impact on the State's fiscal condition. Special attention in this review should be paid to the level of the State's contingent liabilities, such as moral obligation debt, and changes in the growth and composition of local debt.

It is advised that the State develop written debt management guidelines that include several criteria for evaluating the desired and affordable level of debt issuance in lieu of a legislative ceiling on debt issuance. The State Bond Committee should be responsible for implementing these guidelines by reviewing each State-level bond issue before it is brought to market. The Committee's only power in this regard would be to defer or veto an issuance because the security structure or sources of repayment are inadequate or the issue jepordizes the financing plans or creditworthiness of the State. Likewise, if the State wishes to maintain its present interest rate ceiling on the issuance of bonds, it is preferable to set such a ceiling administratively rather than legislatively.

Debt Capacity and Affordability

The analysis of debt capacity is addressed in Chapter Seven. Comparisons of State debt with that of other states indicates that Alaska is an "outlyer" with extremely high ratios of debt per capita and debt per $1,000 of personal

income. Therefore, it is necessary to look in-depth at the State's revenue sources to assess its capacity for further debt issuance. Determination of the affordable level of general obligation debt essentially depends upon the State's ability and willingness to pay debt service now and in the future on any amounts borrowed. For the immediate future, Alaska's debt capacity will be determined by the amount of general fund revenues that the State wishes to allocate to the payment of debt service and the preservation of the permanent fund. Thus, short-term affordability depends exclusively on the fluctuating level and uncertain future of oil revenues as long as the State's source of funds to repay debt is tied to this single source. In the longer term, when the State's oil wealth has subsided, the ability of Alaska to issue debt will depend upon the stability and breadth of the State's economy. Without its extensive petroleum resource base Alaska will become much more like other states and analysis of its debt capacity will follow the traditional steps outlined in pages 196 to 206.

The methodology for evaluating Alaska's short-term debt affordability is presented on pages 218 to 222. If the State maintains its current ratio of debt service to revenues at the five percent level and continues to issue debt with maturities within the known and predictable range of State revenues, the State's creditworthiness will be preserved. If the State wishes to have debt service comprise a larger share of the State budget (to a maximum of 10 percent), debt capacity would be increased -- although this would force trade-offs against other State spending priorities and possibly result in a decline in the State's AA credit rating. Through 1990, the State's general obligation debt capacity is estimated to range from $252 million to $1.2 billion, depending upon the level of current revenues the State decides to commit to the payment of debt service.

Because of the frequent changes in petroleum prices and their impact on State revenues, the affordability analysis along the lines presented in this report must be continually updated. Revisions should take place at least quarterly when the Department of Revenue releases long-range revenue forecasts and when ever the State issues general obligation debt. Such analysis will provide the State Bond Committee with important information to be used in formulating future debt issuance plans.

Even though the affordability of revenue bonds is principally determined by the adequacy of the revenue stream pledged to repayment of the bonds, along with the market's acceptance of the securtiy structure behind the bonds, revenue bonds indirectly affect the State's debt capacity. To the extent that revenue bonds are supported by a pledge of the State's moral obligation, or their issuance creates an oversupply of bonds bearing the Alaska name in the marketplace, the State's ability and willingness to carry debt will be affected.

Use of Moral Obligation Bonds

We do not see the possibility of entirely eliminating the use of the State's moral obligation pledge in the case of all Alaska financings. Where it is possible to avoid its use, such as in the case of Alaska Housing Finance Corporation

bonds, it should be avoided. The moral obligation pledge should not be treated as a right, available to most State issuers, as it is at present. Rather, it should be considered a privilege, an indication to the bond market that, after close scrutiny, the State believes the project meets public policy objectives and is financially sound. The State Bond Committee should have the responsibility for determining the necessity of the moral obligation to an agency's borrowing program, and its potential impact on the State's creditworthiness.

If moral obligation debt increases at a time when overall State revenues are stable, are growing at a rate less than the growth in contingent liabilities, or are declining, the moral obligation burden may encumber the State's credit capacity. Such an occurance would make general obligation debt more costly and, therefore, less affordable due to weaker credit quality. Hence, the importance for including contingent debt in the State Bond Committee's annual review of the State's outstanding debt.

If it were not for the Permanent Fund, the limited sources of State revenue would cause investors to discount the moral obligation pledge heavily. The mere existance of the Permanent Fund provides comfort to bondholders that the State would be able to meet its moral obligations, if necessary, even though such action is not constitutionally permitted and would require a change in law. Any attempt to erode the principal of the Fund, or to otherwise weaken its position should, therefore, be avoided.

Capital Financing Plan

Demonstrating keen fiscal management and attention to capital financing and debt management is especially important to Alaska because of the uncertainties surrounding State revenues. The State must wisely allocate scarce resources to its developing economy in a manner that balances capital investment with the return on that investment yielding a diverse and broadened economy that will be able to maintain the public infrastructure put in place. Accordingly, the need for a capital financing plan linked to a comprehensive capital improvement plan is evident. (see pages 165 to 174)

The quality of financial reporting is an important element in a capital financing plan and to the complete debt management picture. While Alaska's financial reporting is complete, it does not conform to generally accepted accounting principles (GAAP). States that use an accounting system that conforms to, and is consistent with, GAAP benefit in several ways (see pages 174-175). It is recommended that the State consider converting its annual financial reports to GAAP. Such action will provide the State with vital information on its financial condition, encourage the State to take a global view of outstanding debt, improve financial management, and will be looked upon favorably by investors in the State's bonds.

General Debt Management

Specific debt management practices being used in the State could be improved. The State and its agencies recognize the importance of securing professional advice on debt issuance. However, financial advisors and bond counsel are typically compensated based on a percentage of the amount of bonds sold. Tying the advisor's compensation to the amount of bonds sold or the successful delivery of the bonds builds in an unnecessary risk of conflict of interest. The State should review its method of compensation for financial advisory services and seek arrangements that do not encourage conflicts between the advice and the payment for the advice. In this regard, a flat fee -- such as a base retainer and hourly rates -- is to be preferred over a fee based upon the amount of bonds issued. (see pages 185 to 190).

There is a place for both negotiated and competitive techniques for selling bonds in a debt management and debt marketing strategy. The approach which is judged to provide the greatest market reception and lowest interest cost should be followed. While each bond issue is unique, it appears that some bond issues presently being sold by negotiation by the State, for example, those of the Alaska Housing Finance Corporation, would be candidates for a competitive sale. (see pages 182 to 184).

Neither the State Bonding Act nor the State statutes regarding municipal debt specify the method by which effective interest rate on a competitive bond sale must be determined. However, the State and most municipalities have chosen to use the net interest cost (NIC) method to compare alternative bids at competitive sale. This method may not be in the best interests of the State because the winning bid on a NIC basis does not necessarily result in the lowest true interest cost (TIC) -- a measure of the "true" cost of borrowing money that takes into account the time value of money. We recommend that the State Bond Committee review the current rules that govern the award of the State's competitive general obligation bond issues, and that municipalities be encouraged to do so as well, with a view toward awarding bond issues on the basis of TIC. (see pages 179 to 181).

Local Government Debt

Local governments in Alaska have issued approximately 29 percent of all State-wide debt. The analysis of local government borrowing in Chapter Five indicates that the bonds of Alaska's localities sell at yields significantly above the average for the overall market. Furthermore, the evidence indicates that yields on the North Slope Borough's debt are vastly higher than the average for other Alaska municipalities. The most significant comparison of local and State bond issuance is the markedly higher underwriting cost on local issues. Compared to other states, local governments in the Alaska rely on general obligation bond financing at twice the national rate. Given the high levels of debt that have been issued by the State's localities, the much higher than average interest costs of Alaska's local debt, and the loss to the State of revenues from taxes levied by certain localities to pay the annual debt service on their debt, the State may wish to analyze further local bond market experience and State policies regarding local debt management. The State

should take the lead in implementing programs that encourage the prudent use and guard against the misuse of local debt issuance.

Currently the State is being short-changed by those localities that levy a high amount of taxes on oil production property in order to finance debt service. Because taxes paid to the locality are credited towards State property tax liability, this represents a direct revenue loss to the State. It is, therefore, in the State's interest to address the absolute level of debt issuance by its localities. It is recommended that the State develop a two-tiered ceiling on local debt issuance, based on per capita amounts of debt and a percentage of property value.

Specific State-level programs which can assist local borrowers and improve local debt management are covered in pages 136 to 141. In evaluating alternative State policies, the State must consider both the direct budgetary costs of the programs and the indirect effects on the State's own credit worthiness, and the amount of autonomy the State wishes its localities to enjoy. A resonable compromise between encumbering the State's debt capacity and providing greater financial assistance to local governments would be to expand the role of the Municipal Bond Bank. Our review of the Bank's market performance indicated that, compared with other state bond banks, the Alaska Bond Bank has the potential for saving as many as 50 basis points in borrowing cost by undertaking an active national marketing effort. The State should review the present security structure behind the Bank's bonds with the view toward improving their market reception by taking advantage of the State's high creditworthiness.

The State's present program to subsidize the cost of school construction is an expensive undertaking; however, its cost could be minimized through attention to the cost of the project and to the means of financing during the Department of Education's approval process. Further alternatives include the issuance of State general obligation bonds in lieu of local school construction bonds, and requiring the Municipal Bond Bank to issue all school construction debt.

CHAPTER II

OVERVIEW OF THE NATIONAL TAX-EXEMPT "MUNICIPAL" BOND MARKET AND THE BOND ISSUANCE PROCESS

Characteristics of the Marketplace

Most, but not all, borrowing of bonds by state and local governments is in the form of securities representing written promises to repay a sum of money with interest at a specified future date. Such obligations form one of the most important subsets of the financial markets, that of "tax-exempt" securities, frequently referred to as "munis" or "municipal" bonds. The term municipal is a generic one and applies to issues sold by all forms of state and local government, including agencies, cities, boroughs and special districts.

The distinguishing feature of the municipal security is its tax-exempt status. Interest income earned by investors who purchase these securities is not subject to federal or, frequently, to various state and local income taxes. This tax exemption permits state and local governments to borrow at lower rates of interest, because investors will accept a lower return since none of the interest is lost to the federal income tax levy. These securities have appealed to a special market composed of high tax-bracket individual and institutional investors seeking non-taxable income.

The tax-exempt nature of state and local debt obligations is interpreted by some as a constitutionally guaranteed right, and by others as a federal subsidy to state and local governments. The constitutional argument is based upon the doctrine of the separation of powers and its implication that the sovereignty of state and local units of government requires that they be protected from the federal government's tax power.[1] Regardless of one's view on the legal basis of tax-exemption, it is generally not believed to be an efficient federal subsidy of state and local government borrowing costs. Many studies have shown that the cost to the federal government from lost tax revenues is greater than the benefit received by state and local governments from reduced borrowing costs.[2]

Traditionally, municipal securities are debt obligations having fixed maturities and fixed rates of interest. They may be backed by many different pledges of security which, in this sense of the word, means the nature of the resources that the governments pledge to meet the payments of principal and interest (debt service). Municipal bonds coventionally are divided into two broad categories when classified by type of security: (1) general obligations, secured by the full faith and credit--the taxing power--of a government, and (2) revenue or special-fund obligations, secured by the revenues or receipts of a project or special fund rather then by the full taxing power of a borrower.

TABLE 2.1

NATIONAL BOND MARKET

NEW ISSUES OF TAX-EXEMPT SECURITIES

1966 982

(DOLLAR AMOUNTS IN MILLIONS)

	TOTAL NEW ISSUES		LONG TERM ISSUES		SHORT TERM ISSUES	
	NUMBER	DOLLAR VOLUME	NUMBER	DOLLAR VOLUME	NUMBER	DOLLAR VOLUME
1982	9340	$122,008	6164	$77,295	3236	$44,713
1981	7821	85,156	4734	47,724	3087	37,432
1980	7933	76,087	5589	48,368	2344	27,720
1979	7468	65,050	5391	43,335	2077	21,715
1978	8031	69,574	5695	48,190	2336	21,384
1977	8333	71,457	5358	46,706	2975	24,751
1976	7533	57,321	4920	35,416	2613	21,905
1975	8072	59,632	4689	30,659	3383	28,973
1974	7628	52,626	4214	23,585	3414	29,041
1973	8061	48,488	4655	23,821	3406	24,667
1972	8131	48,914	4814	23,692	3317	25,222
1971	8493	51,210	5143	24,929	3350	26,281
1970	7238	35,963	4335	18,083	2903	17,880
1969	6167	23,485	3824	11,702	2343	11,783
1968	7660	24,979	5487	16,320	2173	8,659
1967	7552	22,430	5417	14,405	2135	8,025
1966	6800	17,333	4964	11,079	1836	6,254

Source: Public Securities Association

Most governmental securities are debentures. That is, they are secured on the general creditworthiness of the borrower's promises rather than on the real or financial assets to which the lender has rights of possession in the case of default. Bondholders cannot be paid off with fire hydrants or classrooms if their governmental debtor defaults. As a result, primary emphasis in municipal credit analysis is placed on the flow of revenues generated through taxation or the operation of a specific public enterprise and the ability of the investor (lender) to get first claim on them.

State and local governmental debt issuers, the uses of bond proceeds, and the controlling legislation under which governments undertake capital projects and sell securities are extremely diverse. One of the outstanding features of the tax-exempt market has been the growth in new financings even under volatile and sometimes hostile market conditions. Table 2.1 points out that in 1982, the total volume of long-term and short-term tax-exempt new issues exceeded $120 billion, a 44 percent increase over 1981. This increase contrasts with the average annual rate of growth in new issues since 1966 which has been 12.9 percent.

Market convention generally distinguishes between short-term tax-exempt securities, which carry a final maturity of 13 months or less, and long-term debt issues with final maturities beyond 13 months. As noted in Table 2.1 the volume of newly issued short-term tax-exempts (often called notes) increased rapidly between 1968 and 1971, from $6.3 billion to $26.3 billion. Since 1971, new note issues have generally increased during periods of high or rapidly rising interest rates and have declined during periods of low or falling interest rates. In 1982, note issues reached an all time high of $44.7 billion, when long-term bond interest rates were at some of the highest levels ever recorded. This is due to the fact that the shorter maturities bring lower interest rates. Therefore, short-term notes are a useful interim financing device to use in anticipation of falling long-term interest rates in the near future.

Long-term issues, referred to as bonds, have recorded an upward trend in dollar volume since 1966. In 1982, 6,104 new bond issues were marketed, raising $77.3 billion in funds. The $77.3 billion in bond sales is more than double the volume just 6 years earlier--in 1976--and more than six times the volume in 1969. The record of the past decade points out that new issues of tax-exempt bonds have doubled approximately every 5 years.

Accompanying the growth in dollar volume has been an increase in the average size of each sale. In 1966, 4,964 separate bond issues were marketed with a total dollar volume of $17.3 billion. In 1982, 6,164 issues were sold, raising $77.3 billion in funds. Thus, the average size of new bond issues increased from $2.2 million in 1966 to $12.5 million in 1982. Even more significant, the number of individual new issues over $25 million in par value has increased from 60 in 1966 to 753 issues in 1982. While these large issues accounted for only 12.3% of the number of new issues in 1982, they accounted for 70% of the total dollar volume of funds raised in the tax-exempt bond market. Short-term note issues have also increased in size. In 1966, the average note issue amounted to $3.4 million; by 1982, the average note sale amounted to $13.8 million.

TABLE 2.2

NATIONAL BOND MARKET

NEW LONG-TERM BOND ISSUES BY

TYPE OF SECURITY

($000')

	ALL	GENERAL OBLIGATION	REVENUE
1966	$11,078,506	$6,802,004	$4,276,502
1967	14,405,352	8,944,606	5,460,746
1968	16,319,507	9,275,329	7,044,178
1969	11,702,028	7,735,674	3,966,354
1970	18,082,509	11,851,771	6,230,738
1971	24,929,063	15,218,492	9,710,571
1972	23,692,402	13,329,018	10,363,384
1973	23,821,477	12,169,799	11,651,678
1974	23,584,809	13,126,341	10,458,468
1975	30,659,442	15,974,335	14,685,087
1976	35,415,683	18,200,098	17,215,585
1977	46,705,886	18,118,339	28,587,547
1978	48,189,731	17,789,591	30,400,140
1979	43,335,851	12,082,583	31,252,268
1980	48,367,802	14,102,312	34,265,490
1981	47,724,616	12,392,648	35,331,968
1982	77,294,539	20,879,301	56,415,238

Another fundamental change in tax-exempt bond issues during the past decade has been in the type of securities sold. Table 2.2 records the trend towards a decline in the relative importance of general obligation or tax-supported bonds issued by a general unit of government. In 1970, general obligation bonds amounted to $12.0 billion and accounted for 66 percent of the dollar volume of all new issues. But since 1970, the proportion of new issues sold as general obligations has fallen markedly, accounting for only 27 percent of dollar volume in 1982.

In contrast to the decline of the tax-supported bond, revenue bonds have grown markedly in both dollar volume and share of the market. In 1970, revenue bonds amounted to $6.2 billion, or 34 percent of the market; by 1982, revenue bonds amounted to $56.4 billion and accounted for 73 percent of all bond sales. A central message emerging from this trend is that the traditional purposes of government borrowing are changing and the traditional general obligation security is being supplanted by new bond types and borrowing devices. In the process, the landscape of the tax-exempt market has and continues to undergo radical change.

The shared characteristic among most revenue-supported issues across the marketplace is that while they are tax-exempt governmental obligations, they are designed to attenuate or completely sever the link between a government's ability to incur debt and its general power to levy taxes to repay such debt. In other words, the debt of the government issuer no longer is to be considered that of a taxpayer, rather, it is considered to be that of the public enterprise or borrowing program on whose behalf the tax-exempt debt is issued.

The rapid waxing of the revenue bond and the relative waning of the general obligation bond are not independent phenomena. They are the results of several forces, including:

1. An expanding definition of what constitutes public purposes to encompass activities and types of projects that were historically financed in the private sector using taxable securities.

2. Bond referenda results showing that although the number of areas where governments may have responsibility has expanded, voters have been increasingly unwilling to approve new bond issues or otherwise directly pledge the public's taxes or credit to new endeavors. The new generation of state and local fiscal constraints reinforces these trends.

3. Various legal barriers at the state and local level, such as debt and tax limits, interest rate ceilings, bond design requirements, and legally allowable purposes for expenditure, which have from time to time and place to place constrained the use of conventional financing techniques and promoted the creation of new, non tax-supported borrowing vehicles.

4. Certain fiscal limitations and uncertainties aside from legal hurdles, which have eroded general tax-supported creditworthiness and fostered the supplanting of its use with alternative borrowings that employ "special" authorities and funds that stand free of (and conserve) the general obligation taxing power of the governmental borrower.

5. A trend toward conducting certain activities in a businesslike (enterprise) manner with greater stability and professionalism than might be possible in the political arena of general government, has led to the establishment of special entities (and debt instruments) detached from general government and its taxing power. This can be particularly important for projects that involve large areas and overlap many units of government, such as regional transit or water and sewer authorities, or for projects where certain activities are placed on a self-supporting basis. In these instances users (rather than the public at large) pay for benefits through user charges and fees, encouraging the use of debt secured on such payments.

6. The realities of competiton among areas and regions for economic development and efforts applied by special interests to provide a conduit into the tax-exempt market, has resulted in permitting private firms and individuals to enjoy the benefits of lower interest costs through the use of tax-exempt industrial development or revenue bonds.

The Changing Role of Public Borrowing

Long-term financing by governments through the bond market is a response to demand for capital needs perceived as necessary by governmental units and their constituents. Capital expenditures and sales of debt reflect the interactions of several fundamental forces. Population growth carries with it the need for additional governmental services of a basic nature: education, public safety, transportation, and general administration. Rising standards of living also tend to raise expectations of the role of government in fulfilling certain social welfare goals such as adequate housing, improved facilities and opportunities for health treatment and higher education, and other amenities such as parks and forest preserves. At some point, older capital facilities become obsolete and worn-out and need to be replaced, so that an ever-increasing public capital base generates a continuing need for replacement capital.

Trends in public capital spending mirror the changing forces at work in the overall economy. In recent years, the traditional link between capital spending on public works by state and local governments and their borrowing has been greatly attenuated. The bricks-and-mortar rationale for public capital investment has given way to new motivations as governments have found their blueprint of activities altered, have found new sources of capital funds, and, especially, have found new missions as suppliers of capital funds to those outside of the public sector.

The above developments are symptomatic rather than explanatory of the rise of the revenue bond as a security form; but they carry the seeds of explanation in that state and local governments, through a combination of political, legal, and technical circumstances, have increasingly found it desirable and necessary to reach beyond their traditional functions and financial arrangements to meet an enlarged version of public purpose. The enlarged scope, which often involves

private sector participants and emulates private sector financing arrangements has been both accommodated and stimulated by access to the tax-exempt market through the use of the revenue bond.

The results of the above forces are reflected in the shifting purposes for which state and local debt is issued. The dollar volume of new bonds issued for the "traditional" purposes of education, highways, and water and sewage facilities has declined from 51 percent of total sales between 1966 and 1970 to between 11 and 12 percent of 1982 sales. New areas for growth have more than taken up any slack in traditional capital demands. Among these new areas, bonds sold to meet social welfare purposes have dominated. Housing, hospital and health facilities, and recreation facilities accounted for over 32 percent of all new issues in 1982, up from 7.2 percent of the 1966-70 market.

Table 2.3 presents the use of bond proceeds for recent years, and shows that other than traditional uses of public credit have increased in volume and proportion compared to general obligation financing. Utility financing has more than doubled in the decade and accounted for over 11 percent of the market in 1982. These utility bond issues are among the most complex and specialized financings ever devised in the tax-exempt market, and include those of the State of Washington Public Power Supply System. Many, for example, involve joint undertakings between one public entity or a collection of municipalities and one or more private firms. Several projects involve the construction of entirely new utility systems, including ancillary capital facilities such as railroad cars and other features of a vertically-integrated system.

Table 2.3 also points out that industrial aid bonds, including pollution control facilities, accounted for more than $7 billion in 1976-79. These issues, which primarily benefit private corporations, accounted for 10 percent of the market in 1982, which is double the 4.9 percent market share recorded in the 1966-70 period.

Many of these new financings were formerly conducted in the taxable market from conventional lending sources; but these trends demonstrate that the concept of a public purpose has been expanded, even to the point that such well-known corporations as the United States Steel and McDonald's Restaurants and such diverse projects as shopping centers, branch banks, and catfish farms, have been included in the tax-exempt market. Indeed, a portion of the funds to finance construction of the TransAlaskan Pipeline's Terminus in Valdez came from such tax-exempt industrial development bonds.

Emerging Concerns for Traditional Capital Spending and Financing

The problems of the unmet capital needs and deteriorating condition of public capital stock have received widespread attention. The causes are complicated, but may be distilled to the following: because of changed political priorities that have put emphasis on current spending, persistent fiscal restraint at all levels of government, and disruptive bond market conditions, states and localities have not been spending enough on the repair and replacement of public facilities. State

Table 2.3

TAX-EXEMPT NEW ISSUES
CLASSIFIED BY USE OF PROCEEDS

Use of Proceeds	1966-1970 Volume	%	1971-1976 Volume	%	1977-1978 Volume	%	1979-1980 Volume	%	1981 Volume	%	1982 Volume	%
EDUCATION												
ELEMTARY & SECONDARY	19,533	21.7	25,799	12.2	6,584	6.9	6,014	6.6	2,178	4.6	2,206	2.9
HIGHER EDUCATION & OTHER	7,066	7.8	12,077	5.7	3,443	3.6	3,718	4.1	2,366	5.0	2,378	3.1
HIGHWAY TRANSPORTATION	10,033	11.1	12,447	5.9	2,896	3.1	2,214	2.4	995	2.1	1,643	2.1
WATER AND SEWER	9,680	10.7	18,057	8.5	6,571	6.9	6,090	6.6	2,852	6.0	5,027	6.5
ELECTRIC, GAS, OTHER UTILITY	3,909	4.3	25,714	12.2	9,695	10.2	9,211	10.0	7,070	14.8	8,873	11.5
HOUSING	1,639	1.8	13,794	6.5	9,391	9.9	27,605	30.1	5,926	12.4	14,344	18.6
HOSPITALS & HEALTH FACILITIES	3,108	3.4	15,038	7.1	8,212	8.7	7,458	8.1	5,375	11.3	9,503	12.3
PARKS, CIVIC CENTERS, ETC.	1,763	2.0	5,372	2.5	2,401	2.5	2,341	2.6	759	1.6	1,187	1.5
PORTS, AIRPORTS, OTHER TRANSPORTATION	6,958	7.7	9,500	4.5	3,532	3.7	2,830	3.1	2,455	5.1	4,596	5.9
INDUSTRIAL AID (including Pollution Control)	4,387	4.9	13,600	6.4	9,036	9.5	7,784	8.5	7,650	16.0	7,750	10.0
REFUNDING, ADVANCE REFUNDING	N/A		N/A		21,234	22.4	3,693	4.0	1,201	2.5	4,255	5.5
MULTIPURPOSE & ALL OTHER	22,037	24.6	60,537	28.6	11,902	12.5	12,745	13.9	8,898	18.6	15,533	20.1
TOTAL	90,113	100	211,395	100	94,896	100	91,703	100	47,725	100.0	77,295	100.0

SOURCE: Data files maintained by the Municipal Finance Study Group, State University of New York at Albany.

Table 2.3

TAX-EXEMPT NEW ISSUES
CLASSIFIED BY USE OF PROCEEDS

Use of Proceeds	1966-1970 Volume	%	1971-1976 Volume	%	1977-1978 Volume	%	1979-1980 Volume	%	1981 Volume	%	1982 Volume	%
EDUCATION												
ELEMTARY & SECONDARY	19,533	21.7	25,799	12.2	6,584	6.9	6,014	6.6	2,178	4.6	2,206	2.9
HIGHER EDUCATION & OTHER	7,066	7.8	12,077	5.7	3,443	3.6	3,718	4.1	2,366	5.0	2,378	3.1
HIGHWAY TRANSPORTATION	10,033	11.1	12,447	5.9	2,896	3.1	2,214	2.4	995	2.1	1,643	2.1
WATER AND SEWER	9,680	10.7	18,057	8.5	6,571	6.9	6,090	6.6	2,852	6.0	5,027	6.5
ELECTRIC, GAS, OTHER UTILITY	3,909	4.3	25,714	12.2	9,695	10.2	9,211	10.0	7,070	14.8	8,873	11.5
HOUSING	1,639	1.8	13,794	6.5	9,391	9.9	27,605	30.1	5,926	12.4	14,344	18.6
HOSPITALS & HEALTH FACILITIES	3,108	3.4	15,038	7.1	8,212	8.7	7,458	8.1	5,375	11.3	9,503	12.3
PARKS, CIVIC CENTERS, ETC.	1,763	2.0	5,372	2.5	2,401	2.5	2,341	2.6	759	1.6	1,187	1.5
PORTS, AIRPORTS, OTHER TRANSPORTATION	6,958	7.7	9,500	4.5	3,532	3.7	2,830	3.1	2,455	5.1	4,596	5.9
INDUSTRIAL AID (including Pollution Control)	4,387	4.9	13,600	6.4	9,036	9.5	7,784	8.5	7,650	16.0	7,750	10.0
REFUNDING, ADVANCE REFUNDING	N/A		N/A		21,234	22.4	3,693	4.0	1,201	2.5	4,255	5.5
MULTIPURPOSE & ALL OTHER	22,037	24.6	60,537	28.6	11,902	12.5	12,745	13.9	8,898	18.6	15,533	20.1
TOTAL	90,113	100	211,395	100	94,896	100	91,703	100	47,725	100.0	77,295	100.0

SOURCE: Data files maintained by the Municipal Finance Study Group, State University of New York at Albany.

and local capital spending, which grew during the decades of the fifties and sixties, declined in real terms throughout the seventies and has been particularly depressed in the early 1980s.

Since 1968, state and local government capital investment in constant 1972 dollars has fallen by one-third, from a high of $35.9 billion to $23.6 billion in 1981. Measured in per capita constant dollars, state and local public works investment declined from $179 per person in 1968 to $103 per person 13 years later. Capital expenditures make up a diminishing share of total outlays of state and local governments: in 1960, state and local governments spent 27.1 percent of their budgets on infrastructure; by 1980, they were spending only 15.4 percent on capital items. Judging by the most recent construction data, state and local spending has sunk even further over the first two years of the 1980s, with spending levels in current-dollar terms running more than 10 percent lower in 1982 than in 1980.

Examining the means of financing of capital facilities provides insights into the current difficulties. The last 20 years have marked a trend away from the use of own-sources by states and localities and, in particular, that of debt financing, and towards greater reliance on the federal government. As budget priorities shifted to meet current service and transfer payment program needs, grants to states and localities for capital purposes—while nominally growing—failed to keep pace with the explosive growth in grants for non-capital purposes. Moreover, capital grants were typically episodic and "single-shot" efforts, providing for initial investments in major new projects and not oriented toward providing a financial or institutional base for the subsequent problems of operating and preserving the capital infrastructure once in place.

Table 2.4 provides a broad perspective on the sources of funds used to finance state and local capital outlays and reflects a general ebbing in the importance of long-term debt and its replacement by federal grants. By the last half of the 1970s, states and localities depended on federal grants to finance an estimated 35 to 40 percent of their capital spending, rendering this component of their spending highly vulnerable to changes in federal grants policy.

The recurring budgetary cutbacks at the federal level are now withdrawing a major source of capital funds. While this process takes time to materialize in terms of reduced aid flows and spending, it seems clear that state and local governments will be increasingly forced to rely more heavily on their own sources of financing. Such a reliance on their own sources boils down to greater use of current revenues or more debt financing. On the current revenues side of the equation, prolonged fiscal pressures have brought on a wave of home-grown tax and expenditure limitations that have tainted and made difficult increasing any resource allocations to government. Moreover, several years of sluggish economic growth further depressed current revenues and rendered them of very limited help in meeting capital needs. In fact, the demands on current budgets to keep governmental operations going in the face of insufficient and erratic revenues have further restricted capital spending by reallocating to current uses funds that otherwise might have gone to capital purposes.

Table 2.4

State and Local Capital Outlay Financing
Percentage Composition of Sources of Funds

	1952-57	1960	1970	1977	1980
Long-Term Debt:	56.0%	37.1%	51.0%	43.3%	37.0%
Federal Aid:	8.5	20.0	22.0	32.1	36.0
Other Sources:	35.5	42.9	27.0	24.6	27.0
TOTAL	100.0	100.0	100.0	100.0	100.0

Sources: 1952-57-Alan Manvel, "State and Local Government Financing of Capital Outlays," in State and Local Public Facility News and Aiming, Joint Economic Committee (December 1966). Data for the subsequent years: George Peterson, "Capital Spending and Capital Obsolescence" in Roy Bahl's The Fiscal Outlook for Cities, Syracuse University Press, 1978, and authors' estimates for 1980.

This leaves the remaining alternative: state and local governments must rely increasingly upon borrowing to finance their capital needs. Unfortunately, many of the same economic circumstances that have led to the deteriorating support for capital spending from federal grants and out of current revenues are reflected in very unstable bond market conditions, making borrowing a volatile and expensive means of raising funds for capital projects. It is the adverse conditions in the financial market--against the background of unmet capital needs, both public and private, and scarce resources on the current accounts—that form the primary basis for the surge of creative and non-traditional activity in the realm of state and local capital finance.

Changes in The Cost Of Borrowing

A combination of cyclical and secular factors have brought rapid and radical changes to the tax-exempt market over the past few years. State and local governments have shared the difficulties of high interest rates and recessionary conditions that now burden all sectors of our economy. But governments have come in for some special problems over the past two years. These difficulties arose in large part from simultaneous changes in the federal tax code, reductions in the federal budget, and the impacts of recession on revenues. To these changes, which reduced investor demand for tax-exempt bonds while making access to that market even more important, must be added the pressures brought by restrictive monetary policy and continuing growth in private-purpose tax-exempt borrowing. The latter occurance has swelled the supply of tax-exempt securities in the midst of weak demand for such securities, particularly in the long maturities and created additional upward pressure on interest rates.

The pressures in the tax-exempt market can probably best be measured by comparing its cost of capital to that in the taxable market. Over the past two years, the value of tax exemption as a means of reducing interest rates has been severely eroded. As a consequence, borrowing costs for state and local governments have risen faster than the general rise in interest rates. As Table 2.5 shows, tax-exempt rates shifted from a historic range of 65 to 70 percent of comparable taxable bond yields up to 80 to 85 percent in the long end of the market in late 1981 and early 1982. (The second half of 1982 brought a substantial decrease in rates but the ratio of comparable taxable to tax-exempt rates remained close to 75 percent).

Changes enacted in the Economic Recovery Tax Act of 1981 (ERTA) contributed to systematically higher interest rates for municipal bonds. Several provisions of ERTA relating to individual taxpayers had adverse consequences for tax-exempt interest rates relative to those on taxable securities. Among these were the following:

- Reduction of personal income tax marginal rates, especially the lowering of the top-bracket rate from 70 percent (on unearned income) to 50 percent for all income. The rate reductions are scheduled to continue at a rate of 10 percent a year, with indexation commencing in 1985. Thus, starting in late 1981, the long-term prospects were for progressively lower income tax rates into the future.

Table 2.5

LEVELS AND RATIOS OF INTEREST RATES:
BOND BUYER 20 BOND INDEX (TAX-EXEMPT),
MOODY'S ALL-INDUSTRY CORPORATE BONDS (TAXABLE)
1978 to 1982/IV

Year/Quarter	Bond Buyer 20 Bond Index (Tax-Exempt)	Moody's All-Industry Corporate Bonds (Taxable)	Ratio Of Tax-Exempt To Taxable (%)
1978 (yr.)	6.07%	9.07%	66.0%
1979 (yr.)	6.53	10.12	64.5
1980/I	8.56	12.80	66.9
1980/II	7.86	12.32	63.8
1980/III	8.79	12.30	71.5
1980/IV	9.61	13.67	70.3
1981/I	9.97	14.09	70.8
1981/II	10.68	14.89	71.7
1981/III	12.03	15.65	76.9
1981/IV[1/]	12.59	15.64	80.5
1982/I	12.96	15.95	81.3
1982/II	12.19	15.55	78.4
1982/III	11.06	15.03	73.6
1982/IV	10.14	13.49	75.2
1983/I	9.41	12.88	73.1

Source: Resources in Review, Government Finance Research Center, Municipal Finance Officers Association.

1/ All-Savers Certificates became available in October, 1981.

- Reduction in the capital gains rate, which dropped from a maximum of 28 percent to 20 percent Over the long haul; this change should accent the attractiveness of holding equities in comparison to fixed-income securities, such as municipal bonds — a particularly important trade-off in the case of wealthy investors.

- Expansion of various competing income-sheltering opportunities in individual retirement savings plans (IRA and Keogh), the partial exemption of interest income, the Utility Dividend Reinvestment Program, and the creation of the All Savers Certificate. The latter wrinkle represented a widely available tax-exempt, short-term instrument that was federally guaranteed.

On the corporate tax side of the ledger, the following provisions in ERTA appeared to have adverse impacts on tax-exempt issuers:

- Rapid expansion under ERTA of leasing tax shelters (the Safe Harbor provisions). This change permitted firms to sell tax benefits to the highest bidder, thus creating billions of dollars of tax-shelter investment opportunities to compete with tax-exempt securities.

- Increase in the Investment Tax Credit (ITC) and Accelerated Cost Recovery Schedules (ACRS). These steps generally enhanced the after tax economic rate of return on private investments, thus lessening the need for tax shelter provided by municipal securities because less income would be subject to taxation. However, these provisions may also help governments that take advantage of public-private joint ventures.

Reducing the need for shelters and expansion of income sheltering opportunities available to individuals and corporations proved to be especially ill-timed for the municipal market. In further reducing investor demand for municipal securities, the 1981 tax laws compounded several longer-term problems caused by generally poor economic conditions--recession and high interest rates--and changing investment objectives. Demand for tax-exempt bonds by the two major institutional investors, namely commercial banks and property and casualty insurance companies, practically evaporated after 1979 due to poor profitability and the availablity of competing tax shelters. Since the early 1970s, commercial banks have been shifting portfolios away from tax-exempt bonds. Through much of the decade this shift was offset as property and casualty insurance companies increased demands and kept the long-term tax-exempt market buoyant. Banks and insurance companies together in the late 1970s acquired 80 to 90 percent of net increases in municipal bonds. However, these institutions have shown only minimal interest in tax-exempt income since 1980 largely because of their reduced profitability from business operations.

The withdrawal of the institutional investors from the tax-exempt market has resulted in a heavy reliance on individual investors to absorb the supply of new tax-exempt securities. As Table 2.6 demonstrates, the percentage of outstanding tax-exempt debt held by individuals and mutual funds shot up in 1981 and 1982. According to flow-of-funds figures for 1982, the household (individual) sector and mutual funds absorbed 96 percent of the new supply of tax-exempt debt last year.

Table 2.6

NET CHANGE IN HOLDINGS

OF TAX-EXEMPT SECURITIES

1965 - 1982

(DOLLAR AMOUNTS IN BILLIONS)

	COMMERCIAL BANKS		HOUSEHOLDS*		PROPERTY-CASUALTY INSURANCE COMPANIES		TOTAL CHANGE IN OUTSTANDING TAX-EXEMPTS
YEAR	($)	% of Total	($)	% of Total	($)	% of Total	($)
1964	3.6	60%	2.6	43%	.4	7%	6.0
1965	5.2	71	1.7	23	.4	5	7.3
1966	2.3	41	3.6	64	1.3	23	5.6
1967	9.1	117	-2.2	-28	1.4	18	7.8
1968	8.6	91	- .5	- 5	.9	9	9.5
1969	.6	6	9.3	94	1.1	11	9.9
1970	10.7	96	- .9	- 8	1.5	13	11.2
1971	12.6	72	.1	1	3.5	20	17.4
1972	7.2	49	2.3	16	4.3	29	14.7
1973	5.7	39	5.3	36	3.6	24	14.7
1974	5.5	33	8.2	50	2.2	13	16.5
1975	1.8	11	6.2	39	2.6	16	16.1
1976	3.0	19	2.5	16	5.4	34	15.7
1977	9.2	42	.1	.5	10.7	49	21.9
1978	9.6	34	4.6	16	13.5	48	28.4
1979	9.5	32	11.2	38	9.9	33	29.8
1980	13.6	38	14.2	40	7.7	21	35.9
1981	5.0	15	23.3	71	4.0	12	32.9
1982	0	0	58.5	96	2.2	4	60.7

* Includes Mutual Funds

Source: Board of Governors of the Federal Reserve System, Flow of Funds, February 1983.

The shifting mix of investors coupled with the rising levels of all capital market borrowing costs has dramatically increased the volatility of the tax-exempt market in particular. Table 2.7 provides a measure of the volatility by tallying the variation between high and low yields on top quality municipal bonds each year since 1968. In 1982, the spread between the high yield in January and low yield in October on 30-year prime grade municipals reached 440 basis points (4.40 percent) exceeding the range in yields on U.S. Treasury securities for the first time.

At the same time, the structure of tax-exempt yields by maturity continued to be upward-sloping, indicating both the high, even prohibitive, cost of long-term financing and the lure of lower cost, but more variable cost, short-term financing. Table 2.8 traces the tax-exempt yield-to-maturity relationship at the high point in yields, in January, and at year-end 1982.

Impacts of the Tax Act of 1982

Starting in late summer of 1982, the bond markets enjoyed a rally as interest rates began to decline under twin influences of an increasingly depressed economy and a relaxation of monetary policy on the part of the Federal Reserve Board. Despite a flood of new issues, the tax-exempt bonds followed the general trend, with especially good recovery in the short-term area. However, the longer term prospects for the market continued to be, at best, complicated. Complicating factors are the implications of once-again altered tax treatments and, the continuing weakness on the part of institutional demand and, hence, continued heavy reliance on the household-oriented "retail" market.

The 1982 Federal Tax Equity and Fiscal Responsibility Act (TEFRA) further changed the status of municipal securities (and that of alternative investments) in a variety of ways. Two of the changes in the tax code most likely will spell higher costs for municipals over the intermediate to longer haul: the partial removal of the deductibility of bank interest costs used to finance tax-exempt securities and the requirement that all municipal bonds issued after July 1, 1983, be in registered form.

The change in the corporate minimum tax provisions which required that interest on indebtedness used to purchase or carry tax-exempt securities be included in calculation of liability for the minimum tax was estimated to increase municipal borrowing rates by as much as 160 basis points (1.60 percent).[3] Before the 1982 law was enacted, commercial banks were able to deduct from operating income interest paid on deposits or other borrowed funds that were applied to the purchase of tax-exempt bonds. The new tax provision is expected to decrease the demand for tax-exempt bonds by commercial banks, leading to increased borrowing costs.

The registered bond requirement changes the form of the municipal bond from a readily negotiable instrument where ownership resides with its bearer, to a registered-form security requiring transfer of ownership to be recorded. This change may increase the costs of borrowing for two major reasons. In the short-term, interest rates on registered securities may be slightly higher than those on traditional bearer bonds before investors become familiar with the new security.

Table 2.7

INTRA-YEAR YIELD
VOLATILITY ON PRIME MUNICIPALS BY MATURITY

	30 YEAR MATURITY			10 YEAR MATURITY			1 YEAR MATURITY		
	HIGH	LOW	RANGE	HIGH	LOW	RANGE	HIGH	LOW	RANGE
1968	4.65	4.10	55	4.20	3.70	50	3.75	2.90	85
1969	6.50	4.90	160	6.05	4.30	175	5.52	3.70	155
1970	6.95	5.25	170	6.20	3.75	245	5.40	2.50	290
1971	6.25	5.15	110	5.10	3.80	130	3.45	2.25	120
1972	5.30	5.00	30	4.40	3.85	55	3.00	2.45	55
1973	5.50	5.00	50	5.05	4.20	85	4.75	3.00	175
1974	6.50	5.20	130	5.90	4.30	160	5.60	3.80	160
1975	7.00	6.30	70	5.75	4.90	85	4.50	3.50	100
1976	6.40	5.50	90	5.25	4.30	95	3.70	2.30	140
1977	5.40	5.15	25	4.50	4.10	40	3.25	2.40	85
1978	6.00	5.30	70	5.25	4.60	65	5.20	3.50	170
1979	7.00	5.75	125	6.10	5.10	100	6.00	4.80	120
1980	10.00	6.75	325	8.50	5.70	280	8.25	4.70	355
1981	12.90	9.25	365	11.50	7.75	375	10.00	6.75	325
AVERAGE			126			138			167
1982	13.00	8.60	440	11.25	7.50	375	8.25	5.25	300
U.S. TREASURIES									
1982	14.47	10.62	385	14.70	10.54	416	15.06	8.87	619
1981	15.08	11.22	386	15.68	11.35	433	17.36	11.98	538
1980	13.12	9.47	365	13.57	9.33	424	16.07	7.46	861
1972	5.93	5.58	35	6.57	5.96	61	5.62	4.20	142

SOURCE: U.S. Department of Commerce, Survey of Current Business, various years.

Table 2.8

YIELD-MATURITY RELATIONSHIPS

PRIME MUNICIPALS AND TREASURIES

1982

	January 1982		December 1982	
Maturity	Prime Municipals	U.S. Treasury	Prime Municipals	U.S. Treasury
6 Months	7.70%	13.70%	4.90%	8.61%
1 Year	8.25	14.40	5.25	8.82
5 Years	9.75	14.37	6.50	10.21
10 Years	11.25	14.56	7.75	10.46
30 Years	13.00	14.21	9.00	10.51

In the long run, the potential for improving the efficiency of the municipal market provided by the registered-form bond may actually increase the attractiveness to investors of these securities and result in lower interest rates. The cost of implementing the registered bond requirement, regardless of which alternatives are selected, will increase the fixed costs of borrowing to some degree. The actual costs of registering municipal bonds will depend upon whether the issuer, a state agency or a private firm provides registrar and transfer agent services.

In several other areas affect by TEFRA -- the changes in the restrictions on the use of industrial revenue and municipal mortgage bonds, the new taxation rules for life insurance companies, curbing of the leasing provisions, and the tightening-up of the use of certain competing tax shelters and their subjugation to a revised minimum income tax (that excludes tax-exempt interest income) — the ultimate impacts constitute a mixed, but most likely negative, picture. Overall, there appears to be little reason to believe that the tax-exempt market's position relative to the other markets has improved or that its more volatile, credit sensitive behavior will be materially altered.

Perhaps one of the more critical developments over the past few years is the extent to which the entire municipal securities market has become ultrasensitive to changes -- real or potential -- in the federal tax code. For example, the pendency of the bond registration requirement and the year-end effective date for the new interset deduction requirements for banks greatly accelerated tax-exempt issues at the end of 1982.

Credit Concerns

No discussion of the municipal bond market and its ability to raise capital for state and local government needs would be complete without a discussion of the credit concerns that continue to pervade the market. The financial condition of the state and local sector has deteriorated over the past few years; and, yet, there remains a huge backlog of unfunded capital spending needs. The national credit rating agencies are aware of the financial problems and have been lowering ratings to reflect the more perilous prospects for governmental issuers. Moody's Investors Service, Inc. reduced the credit ratings of nearly twice as many tax-exempt bond issuers as had their rating raised during the first eight months of 1982. The 384 downgradings during this period were more than four times as many as were reported for all of 1981. The outlook for ratings appears to be no better, and a default or two by a major issuer(s) could intensify a "flight to quality" (purchase of only high-grade municipals) by investors. With the ongoing concerns as to creditworthiness and the reliance on individual investors to purchase municipal bonds, marketing considerations have been instrumental in requiring municipal bond insurance and other forms of guarantees to back up weaker or unusual credits.

These "back-stopping" security features have included letters of credit issued by domestic and foreign banks, insurance companies, and other private firms, and bond insurance policies issued by three private insurance organizations. States have also expressed growing interest in developing state-assisted programs for

improving the terms of borrowing available to their local governments. Various programs of state credit assistance, including state bond banks, full faith and credit state guarantees of local issuers, moral obligation pledges, and state debt subsidy programs have been implemented.

The new forms of financing discussed below and the growing use of credit backstops share a common and fundamental trait with significant policy implications for all participants -- issuers, intermediaries and investors -- in the tax-exempt market. That trait is best summarized as a transfer of risks. Most new financing vehicles such as variable rate securities and insurance-backed bonds have as a unifying feature the shift of interest rate risk or credit risk from investors to issuers. Most state credit assistance programs spread the losses associated with defaults to third parties, including other governmental units. Collectively, transfers of risk have been substantial. It is vital, therefore, to emphasize that the risks have not disappeared — the locus of risk-bearing has shifted. For states especially, this means that even more careful attention must be focused on the monitoring of state and local debt capacity.

Innovative Bond Financing Alternatives

In response to varying market demands and economic factors -- many of which were discussed in Section Two — issuers of municipal debt have become "creative." What is "creative" in capital financing is a highly judgmental consideration. Most of the new techniques have historical antecedents in the taxable capital markets, but typically had not been put to use in financing public capital expenditures. Thus, what is novel can be either the introduction of new loan instruments into the tax-exempt bond market or the creation of some new source of funds that had not previously existed as an alternative to loans in the raising of capital by state and local government.

The definition is a "catch-all," one of exception from standard practices: creative financing techniques are those that differ from the traditional means of raising capital through the sale of standard instruments in the tax-exempt securities market.

Creative financing techniques have dealt with rearranging the borrowing transaction by shifting the risk of interest rate changes and, in some cases, of creditworthiness from the lender to the borrower. In addition, they have increased the types of returns available to the investor beyond simply the receipt of regular tax-exempt interest payments. An important aspect of the latter development has been the design of transactions in which governments are able to transfer certain tax benefits of owernship from themselves to tax-paying entities that can use them for tax-shelter purposes. Correspondingly, another related aspect of creative financing has been to devise ways by which governments themselves can take maximum advantage of financial investment opportunities through the temporary use of borrowed funds as a means of lowering costs. For both private investors and public borrowers, these aspects of creative financing are intimately connected to the peculiarities of the treatment of tax-exempt securities and depreciable assets in the federal tax code.

Innovative and creative financing techniques open up new potential arrangements for raising capital for public borrowers, but may present pitfalls as well. Many of the new devices are creating a backlog of short-term debt that will need refinancing in the near future. The more stockpiling of such debt, the more difficult it will be to refinance as every issuer comes to market at once. Also, creative financing is often associated with off-balance sheet debt. Not only can this impair an unit's fiscal flexibility by tying up monies otherwise available for general purposes, it also makes understanding an unit's financial condition more difficult. Creative financing, if used simply as an expedient, can be a prescription for trouble, especially in times of financial and economic contraction; however, if used wisely, these techniques may save hundreds of thousand dollars in borrowing costs.

Creative Financing Innovations

The high level of long bond rates has spawned a variety of innovative financing vehicles designed to move borrowing costs down the yield curve.

Short-term financing vehicles include tax-exempt commercial paper ("TECP"), Bond Anticipation Notes ("BANS"), secured BANS, direct bank loans and variable rate demand ("VRD") notes. Although these alternatives generally provide lower borrowing costs (presently up to 650 basis points, or 6.5%, lower than long-term bonds), there are important risks to consider, particularly for construction projects. First, the financial markets may "move against" the issuer, and subsequent long-term borrowing costs could ultimately be higher than if long-term financing were selected initially. Secondly, in the case TECP and VRD notes, the lower cost depends on the volatility of investor demand in the short-term market. These risks, as well as those described below, must be carefully weighted by the issuers. The primary short-term alternatives are as follows:

TECP is a very short-term method of financing. The volume of outstanding commercial paper has increased from $300 million only two years ago to over $3 billion at present. It is used for a variety of short-term assets, such as fuel financing or during construction to allow an issuer to select a better market before issuing long-term bonds. Most commercial paper matures between 15 and 45 days because the most favorable rate is obtained by extremely short maturities.

Although the interest rate on commercial paper is low, several additional factors must be added to determine the total cost. First there is the fee for standby letter of credit; second is the fee of 1/8 to 1/4 of 1 percent or more for the dealer-agent who places the commercial paper. In addition there is the procedural cost of rolling over commercial paper notes at each maturity. Given the very short maturities, there can be as many as 20 or 30 closings a year.

At each rollover, the dealer-agent determines the amount of commercial paper to be placed and solicits enough interest among investors to sell all of the commercial paper. Thus, the cost of commercial paper varies with the market. In the event the paper cannot be placed, the issuer must draw upon a letter of credit to refinance the matured notes and the debt converts to a bank loan.

BANS provide a flexible financing instrument, maturing in one to three years and typically payable solely from the proceeds of a long-term bond issue. The interest on BANS, prior to their refunding, may be capitalized from the proceeds of the notes or paid from operating revenues. The principal is payable in one lump sum.

Since repayment of BANS depends on issuing refunding BANS or long-term bonds, regardless of market conditions, this method of financing involves some risk if interest rates are higher or if the structure and terms of the new debt issued to refund the BANS will not be satisfactory. Investors will be concerned with the issuer's market access -- its ability to refinance. To reduce these risks, investors must know if refunding bonds are authorized, if there is an interest rate limitation that could prohibit issuing additional bond tests.

SECURED BANS alleviate some of the market and credit risk associated with unsecured BANS by providing investors an additional level of security. This additional level of security can be in the form of federal grants (in which case the security is a grant anticipation note, or "GAN"), or in the form of a commercial bank letter of credit to guarentee the take-out of the note at maturity. The nature of the security mechanism can vary from assured take-out (as in the case of GANS) to a conditional irrevocable letter of credit to be use only if take-out bonds could not be sold. This in effect shifts liquidity risk to the commercial bank.

For assuming this risk, the bank charges a commitment and/or standby fee. These fees have escalated recently. Today, an annual commitment fee of approximately 1 to 1.5 percent based on the undrawn balance (i.e., the amount of the notes then outstanding) is typical. If the letter of credit is used to repay BANS, the issuer's obligation converts into a direct bank loan. The bank then charges interest on the borrowed amount at a floating rate, usually a fixed percentage of the bank's prime lending rate. These fees also have escalated. Previously, a typical interest rate formula might have been 60-70 percent of the prime rate; recently some banks are charging a rate equal to their prime lending rate for this type of obligation. The bank may also require that a compensating balance be maintained, increasing the effective borrowing cost to the issuer.

Under a DIRECT BANK LOAN, an issuer negotiates a loan at tax-exempt rates, and places the security for the loan directly with a bank or group of banks. The interest typically is computed on a floating or variable rate defined at a percentage of the bank's prime lending rate. The terms range from 60 to 85 percent of prime. The lending bank may or may not require a compensating balance or commitment fee.

It is increasingly difficult to negotiate an interest rate ceiling, unless a statutory rate limit applies under state law. However, during periods in which the formula would result in a rate higher than an agreed upon target ceiling, the additional interest accrues and is recouped by the bank when the rate formula drops below the limit. The additional interest is deferred but not avoided. This type of security is usually applied to weaker credits.

VARIABLE RATE DEMAND NOTES - VRD Notes are in many way similar to TECP in that they are both a variation on secured BANS. VRD Notes usually have a maturity of two or three years. The interest rate on the notes fluctuates weekly with a prescribed municipal bond market index or an alternative index based on a major bank's prime lending rate. The unique feature of a demand note is that the investor can either hold the note to maturity or put (tender) the note to the issuer for redemption at the original par value upon several days notice. Because of the tender provision, the investor regards a demand note as a very short-term investment with immediate liquidity and thus will accept a lower interest rate.

The issuer, on the other hand, must add the cost of the letter of credit and placement fees.

Long-term financing alternatives have proliferated recently in response to market volatility and changing investor needs. These innovative alternatives are designed to enhance security and marketability, provide investors with market price protection, provide for shorter maturities and/or average lives, and in some cases enable renegotiation of interest rate. While each of these new techniques has valid application, they often require the issuer to assume more market risk than with traditional fixed rate, fixed term revenues bond financing. The primary long-term alternatives include:

TENDER OPTION BONDS ("PUT" BONDS) - The Put bond combines some aspects of long-term and short-term financing. These bonds have a stated maturity of 25 to 30 years but give the holder the option to tender (literally "put") bonds back to the issuer for repayment at par at the end of a specified period, usually at least three to five years. Thereafter, the option can be exercised periodically at either one-year or three-year intervals.

Because of the option, a bondholder considers the next available option date the equivalent of a maturity date. Thus purchasers will accept yields as much 250 basis points (2.5 percentage points) lower than for 30-year bonds without the option. After the first option date, the bonds trade or are priced in the secondary market at yields comparable to securities with a final maturity of one year. Accordingly, as long as one-year rates do not exceed the stated coupon rate of bonds, an investor should be inclined to hold the bonds or to trade them in the market at a premium rather than tender them for redemption at par.

From the issuer's perspective, the interest rate savings is attractive because of the wide differential between short-term and long-term rates. However, for a 30-year financing, the savings is assured only for five years. Subsequent savings are promised on the expectation that all or a major portion of the bonds will not be tendered. In exchange for this possible benefit, the issuer assumes the market risk, i.e., that the portion of the bonds tendered may have to be financed at the then-prevailing (and possible higher) market rates.

Although the use of tender option bonds has been widespread, issuers have used this innovation judiciously and have limited the amount of put bonds sold to a minor portion of the total issue, usually between 10 and 25 percent. From the viewpoint of investors and rating agencies, this makes the refinancing risk more manageable.

FLOATING RATE BONDS ("FLOATER") - Floaters do not bear a fixed interest rate; they vary or float with the tides of the marketplace. The floater appeals to the issuer who expect rates to decline in the near future. Conversely, it appeals to the investor who believes that interest rates may rise and is looking for a means of protecting investment principal.

In structuring a floating rate issue, there are several criteria. First, the floating interest rate must be pegged or tied to an accepted market index. Second, the derived or computed market rate usually stated as a fraction or multiple of the market index, should produce a yield or a return to the investor that is at any given time sufficient to compensate for the credit risk associated with the investment. There is the question of whether the investor and issuer can agree on high-low caps, i.e., on maximum and minimum limits on potential future variations in the interest rate.

To illustrate: a floating rate issue may be calculated to equal 95 percent of the 20-year Bond Buyer Index, with high-low limits of 15 percent and 8 percent. For example, the rate would be 95 percent x's 9.00 or 8.55 percent if the BBI was at 9.0%. For an A-rated utility whose 30-year bonds would sell at 10.375 percent, the floater would save more than 1 percent in the current market. If the market declines, the issuer's savings will increase, conversely the floating rate may move to 15 percent and remain there.

The first generation of floating rate bonds was sold with a comparatively narrow spread between maximum and minimum limits. Currently, however, investors demand wider spread, or maximum limitation.

ADJUSTABLE FLOATING RATE BONDS "AFRB's" are a recent innovation which combines the option bond with the floating rate bond. The objective is to provide a means of managing refinancing risk and reducing or eliminating the cost of issuing new debt in the event the market conditions deteriorate. This hybrid functions exactly like the tender option bond. For example, if prior to any option date, the interest rates for short-term bonds are higher than the coupon rate on put bonds, an issuer can anticipate that a sizeable portion of the outstanding put bonds will be tendered. The authorizing bond ordinance provides that, at that time, a repricing committee will propose adjusting the rate on the put bonds to a level deemed sufficient so that the tendered bonds can be remarketed to a new group of investors. The firm underwriting the original issue serves as remarketing agent. The bonds remain outstanding. They are not refinanced although the coupon rate is adjusted to accomodate the change in markets. At the next option date, the issuer can consult again with the repricing committee; if market conditions improve, the committee will recommend a new lower interest rate but not so low that it will result in the bonds being tendered back to the issuer. Thus, the risk of rates going up and coming down again is shared between the issuer and the bondholder.

FLOATING/FIXED RATE BONDS "F/FRB's" are a means of arranging long-term floating rate financing with the option of fixing the rate under more favorable market conditions without incurring the expense of refunding. The F/FRB can be issued for a stated maturity of up to 30-40 years. During the floating rate period (which can be the entire term of the bond issue) the interest

rate floats relative to a predetermined index. The F/FRB during the floating rate period gives the holder a seven-day put and, if the "put" is exercised, the bonds are purchased by drawing on a bank line of credit. The bonds are then either converted into a bank loan or else remarketed on a best efforts basis to other investors.

While F/FRB's transfer the market risk from the investor to the issuer, they do provide tremendous financing flexibility to th issuer.

ZERO COUPON BONDS (Deep Discount) - Zeroes are a unique form of bond in that they pay no current coupon or interest rate. The investor foregoes current income in exchange for appreciation in the value of the bonds at maturity or when the bonds are called. The rate of return realized by an investor can be compared to a savings account in which there are no withdrawals of compounded interest or principal over a long period.

Investors have accepted a lower yield on zeroes, relative to traditional current coupon bonds. There are several theories which attempt to explain this situation but generally it is felt that: the pricing of such bonds has ranged from 20 percent of par value to as low as 3 percent because an investor can purchase a bond with a maturity value of $5,000 for as little as $150, or at a deep discount. This greatly expands the potential market, thus increasing demand for the bonds but is attractive to investors because the reinvestment yield is guaranteed.

Another important factor is that the supply of zero coupon bonds has been quite limited. As the volume increases, most market observers expect that the interest cost benefit will diminish. For issuers, zero coupon bond offerings can be structured so that the reduced capital yield results immediately in lower average annual debt service costs. More sophisticated investors accept the idea that bonds purchased at deep discounts can not be called at par if the issuer chooses to refund the debt.

BONDS WITH WARRANTS ATTACHED ("WARRANTS") - When an issuer uses this financing vehicle, he simultaneously sells a warrant entitling the purchaser of the bond to buy an additional bond bearing the same coupon rate at any given time within a one-year period. If interest rates decline substantially, the investor can exercise this option. If interest rates increase substantially, the privileges of the warrant expire since investors have an opportunity to purchase other bonds at higher rates. Since the warrant gives the option to the investor, the presumption is that the investor will accept a lower yield on the original bond sale.

INCREMENTAL COUPON BONDS ("IC" or STEPPED COUPON BONDS - The IC, stepped or graduated coupon bonds are serial coupon bonds in which all outstanding principal, regardless of maturity, bears the same rate of interest in any one year. As each year passes from the date of issue to final maturity (e.g., from 1983 through 2000), the coupon rate for all the remaining bonds increases gradually. The coupon rate never decreases. For example, a bond issue can be structured so that the interest rate is 8 percent on all bonds the first year, 8.5 percent the second year, 9 percent the following year, and increases thereafter to 20 percent or more on the remaining bonds in the final year of maturity. Since

the interest rate is lower in the early years of the financing, there can be substantial savings on projects for which interest is capitalized during the construction period because the capitalized interest is based on the lowest coupon rate (8 percent in the hypothetical example) instead of the average coupon rate for conventional offerings that would be substantially higher. However, the call premiums are unusually high to offset the investor's loss of coupon income in the early years. This makes it difficult to refund the debt.

The recent popularity of many of these innovations may fade with a return of interest rates to lower levels, but the experience of the past several years has provided ample evidence that financing is a dynamic process. The creative methods of attracting funds have provided market access on reasonable terms under very hostile market conditions for traditional borrowing instruments.

Bond Issuance Process

The bond issuance process should be part of a comprehensive debt management policy that includes an evaluation of capital facility needs, a thorough analysis of financing alternatives, and assessment of the ability and willingness to repay debt issued. Once a government has decided to finance a given capital project through the issuance of tax-exempt bonds, the bond issuance process begins. The issuance process is comprised of four major steps:

- obtaining the bond resolution (which may require voter approval);
- securing specialized services;
- marketing of the bonds; and
- selling the bonds.

Bond Resolution

Among the first steps in issuing municipal bonds is obtaining the proper bond resolution which authorizes state or local officials to proceed with the issuance of debt. For general obligation debt, this frequently requires, as it does in Alaska, voter aproval of a bond referendum. For revenue-supported debt, generally only legislative or another governing board's approval is required.

The bond resolution specifies the purposes for which the bond proceeds are to be used, and it can constitute the appropriation for the projects in the amounts specified or it may leave appropriation to a subsequent action. The content of the bond resolution is important and should provide public finance officials with flexibility in administering the use of bond proceeds.[4] Restrictions in the resolution that require bond proceeds to be segregated in a separate bank account, or that do not allow the temporary investment of proceeds, impede effective investment management and raise borrowing costs.

Specialized Services

Successful bond issues require the involvement of competent professionals in a variety of specializations. It is unusual for any but the largest and most frequent borrowers to have such professionals on their staffs. Rather, legal and marketing

considerations dictate that outside advice and assistance be secured from the following professionals:

Bond Counsel - Bond counsel essentially serves as the legal advisor to the ultimate bond investor although such counsel is retained by the issuer. The use of bond counsel was one of several reforms taken in reaction to widespread defaults in the 1870s and early 1880s on bonds to finance railways when many bonds were discovered to have been illegally issued. As a result, investors required assurances as to the validity of the bonds from the inception to final delivery. Prior to World War I, bond counsel was employed by the purchaser of the bonds. This practice was abandoned when local governments found it advantageous to use the bond counsel's services prior to the issuance of the bonds.

Bond counsel will be required to offer an opinion that the particular bond issues conforms to all pertinent legal requirements. Such requirements may include certification:

- that the issuer is legally consituted and authorized to issue tax-exempt obligations;
- that the bond resolutions is validly authorized;
- that proper issuance procedures were adhered to; and
- that the interest paid on the bonds will be exempt from federal income tax.

In addition, the bond counsel will generally assist in preparation of the official statement, but does not offer an opinion regarding the completeness nor the correctness of information disclosed within the document.

Financial Advisor - The planning and sale of a bond issue may appear on the surface to be a fairly straight-forward and routine undertaking. However the complexity and sophistication of the tax-exempt market, and the severe budgetary impact of current interest rates in the 8 to 12 percent range, place a premium on competent professional assistance in the planning, structuring and marketing of debt issuance. To proceed without the benefit of professional financial assistance may result in unnecessarily high-interest and other costs to the issuer.

The services performed by a financial advisor can vary depending on the issuer's needs. Certain governments may only require assistance in the timing and marketing of the bonds, others may need the full services of structuring the issue and preparing the official statement. A description of the basic services a financial advisor can perform and a discussion of the manner of selection and compensation of those providing financial advice is provided in Chapter Six.

Trustee - The trustee acts as custodian of the bond proceeds and supervises their investment, use for the purposes specified in the bond resolution, and payment of debt service to investors. The trustee may also oversee any debt service reserve funds, construction accounts, and maintenance of certain coverage ratios required in

the bond contract with investors. In the use of revenue bonds, the trustee may also be required to see that the enterprise is operated optimally and that all revenues are administered in accordance with the terms of the bond indenture and official statement.

Paying Agent - This service facilitates transactions with investors, such as the timely payment of interest and redeeming of matured bonds. Normally, the paying agent function is performed by banks located in established financial centers.

Registrar/Transfer Agent - To satisfy the federal requirement that most municipal bonds be issued in registered or book-entry form after June 30, 1983, many issuers may choose to use the services of a professional registrar and transfer agent, rather than develop the necessary expertise in-house. Generally, a transfer agent is responsible for:

- issuing the initial set of registered certificates;
- formulating and maintaining an accurate list of registered owners, and
- making transfers and updating the ownership records

The chief duties of the registrar are to prevent the issuance of more bonds than are authorized, and to verify the cancellation and issuance of certificates by the transfer agent. In most cases, the transfer agent also serves as the registrar, unless these functions are separated for purposes of fiscal control. In addition, the transfer agent may also serve as the issuer's paying agent.

The types of organizations which offer transfer agent services can be divided into two groups: major financial institutions; and local banks and trust companies. The first are located in financial center cities and serve as transfer agents for corporate securities. The second group are local banks and trust companies which serve as paying agents for municipal securities issued in bearer form.

Acceptance of an issuer's registered municipal bonds in the primary and secondary markets is largely dependent on a timely, accurate and efficient transfer process. The liquidity and attractiveness of a particular municipal security are adversely affected by delays in the transfer of ownership and the crediting of interest payments to the correct owners. Poor transfer agent performance will result in the issuer incurring higher borrowing costs the next time it returns to market.

In selecting transfer agents, issuers should consider the following:

- the ability of the transfer agent to meet the market requirement of a 72 hour turnaround on transfers;

- experience of the organization with other issuers
- qualifications of the transfer agent's management;
- adequacy of financial controls and protection against loss;
- the transfer agent's location; and
- the costs of services provision.

Additional factors to consider include the selection of the transfer agent through competitive or negotiated bidding procedures, the use of standard record dates to facilitate interest payments, the length of the service contract and renewal provisions, transfer agent performance measures, and confidentiality of records. In selecting a transfer agent, the issuer should work closely with its financial advisor and underwriter(s).

Depositories. As an alternative to issuing registered certificates in physical form, issuers may wish to consider the various certificate immobilization and pure book-entry programs being offered by the nation's four securities depositories. A depository operates as a not-for-profit clearing agency registered with the Securities and Exchange Commission. It specializes in the immobilization of securities issues and book-entry delivery on behalf of its members (called "participants") who generally are securities brokers-dealers and large financial institutions. The costs of operation are assumed by the members of the depository rather than by the issuers of the bonds. The four securities depositories are independent organizations but are electronically linked to a national depository system.

The chief function of a depository is to reduce its participants' processing costs associated with the transfer and safekeeping of securities. A depository holds large blocks of securities (securities which are owned or safekept and deposited at the depository by its participants) and, upon their instructions, transfers ownership of securities among its participants through bookkeeping entry without having to move or re-register certificates. Except for full book-entry issues, the depository can arrange for delivery of physical certificates to non-participants and to customers of participants who want to keep certificates registered in their own names.

Under a pure book-entry system, the entire issue is held by the depository for members shown on its books. The only bond certificates issued are limited to one or more "jumbo" certificates which are used solely to satisfy legal requirements to provide evidence of ownership of an issue. No certificates are available to investors. The records of ownership are maintained by the depository, and all transfers are made through computer entry, based upon instructions from its participants.

Marketing of Municipal Bonds

Once the above services have been secured, and the specific features of the bond issue determined -- such as maturity structure and type of security (general obligation or revenue bonds) — the bonds are ready for marketing. Bonds may be

OFFICIAL NOTICE OF SALE

$185,000,000

State of Alaska

1982 Bonds, Series B

NOTICE IS HEREBY GIVEN that sealed proposals will be received by the State Bond Committee of the State of Alaska at Chemical Bank, Room 618, South Building, 55 Water Street, New York, New York, on WEDNESDAY,

OCTOBER 20, 1982

at 1:00 p.m., for the purchase of $185,000,000 principal amount of general obligation bonds of the State of Alaska designated "State of Alaska 1982 Bonds, Series B," more particularly described below.

ISSUE: $185,000,000 consisting of 37,000 coupon bonds in the denomination of $5,000, numbered B1 to B37,000 inclusive (or fully registered bonds in the denomination of $5,000 or multiples thereof), all dated November 1, 1982.

MATURITIES: The bonds will mature serially, as set forth in the following schedule:

Maturity Date November 1	Principal Amount	Maturity Date November 1	Principal Amount
1983	$18,500,000	1988	$18,500,000
1984	18,500,000	1989	18,500,000
1985	18,500,000	1990	18,500,000
1986	18,500,000	1991	18,500,000
1987	18,500,000	1992	18,500,000

INTEREST RATE: Maximum not to exceed eleven percent (11%) per annum or that rate or interest which is 110 percent of the rate of the Bond Buyer Index of 20 Municpal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest is payable semiannually on May 1 and November 1 of each year commencing May 1, 1983. Bidders must specify the rate or rates of interest which the bonds hereby offered of sale shall bear. Bidders will be permitted to bid different rates of interest; but (i) the highest rate specified may not exceed the lowest rate by more than two percent (2%) per annum; (ii) each interest rate specified in any bid must be a multiple of one-eighth or one-twentieth of one percent (⅛ or 1/20 of 1%) per annum; (iii) no bond shall bear more than one rate of interest, no interest payments shall be evidenced by more than one coupon and supplemental coupons will not be permitted; (iv) each bond shall bear interest from its date to its stated maturity date at the interest rate specified in the bid; and (v) all bonds maturing at any one time shall bear the same rate of interest. Any premium must be paid in federal funds as part of the purchase price.

PURPOSE: The bonds were authorized to finance various capital improvements for the State of Alaska, including transportation facilities, recreational facilities, fisheries mangement and development facilities, water supply and sewerage systems, flood control facilities and small boat harbors, port facilities, health facilities, educational facilities and correctional and public safety facilities. In elections held on November 7, 1972, November 5, 1975, November 2, 1976, November 7, 1978 and November 4, 1980, the issuance of the bonds for each of said purposes was ratified by a majority of the voters of the State voting on the question.

SECURITY: The bonds are general obligations of the State of Alaska, and full faith, credit and resources of the State are pledged to the payment of the principal of and interest on the bonds.

DATED: September 23, 1982

STATE BOND COMMITTEE OF THE STATE OF ALASKA

By: THOMAS K. WILLIAMS, Commissioner of Revenue, Secretary

sold through either a public, competitive sale or a private, negotiated sale. Most states require state and local general obligation bonds to be sold competitively; however, revenue bonds are often negotiated. In Alaska, state law (AS 37.15.040) requires that only State general obligation bonds be sold competitively, the sale of all types of local debt may be negotiated (see Appendix). In a competitive sale, the bonds are generally sold at auction to the underwriting firm whose bid produces the lowest interest cost to the issuer. The issuer advertises the sale, usually well in advance, and specifies the amount and maturity range of the bonds and other structural features of the issue. A notice of sale inviting competitive bids on the most recent State obligation bond issue is presented in Exhibit 2.1. In a negotiated sale, one or several underwriters are preselected, and the terms of sale (interest rates, maturity structure, and security pledges) are a matter for negotiation.

Over the years, finance professionals on both sides of the transaction have debated the relative merits of competitive versus negotiated sales. Competitive sales generally will result in a lower average interest cost to the issuer. However, under certain market conditions and with certain types of bonds, a negotiated sale may be preferred. The considerations that must be taken into account indeciding between competitive and negotiated sales are discussed in Chapter Six.

Official Statement- The official statement, or prospectus, presents the terms on which the bonds are to be offered and the information necessary to evaluate the investment quality of the bonds. It includes general descriptive information on the bond issue itself, the financial condition of the issuer, and the economic and demographic characteristics of the government. The quality and quantity of information disclosed to investors in the official statement varies widely among issuers. However, it is in the issuers best interest that the official statement be as comprehensive as possible in order to inform investors fully of the nature of the security they are purchasing. Incomplete disclosure is a source of insecurity to investors, who, being risk-adverse, will reward full disclosure and a comprehensive official statement with improved market reception.

Since the principal use of the official statement is as an information (disclosure) document, it should be organized in an order that appeals to the interests of its primary audiences. Underwriters who buy, sell, and market bonds as middlemen are a primary audience. Hence, the first substantive section that should appear is the "Description of the Issue (Bonds)". This will give bond traders a complete run-down of the type of bond being offered, its security structure, and its terms and conditions.

Credit analysts at the national rating services and analysts within the institutional investor firms are also a primary audience. Persons in this field need technical data that is complete and presented in easily understandable format. Their principal interest is in examining where the new debt offering fits into the existing debt structure of the issuer and, the issuer's capacity to manage and repay its debt. Accordingly, a detailed "Debt Summary" should follow the Description of the Issue in order that the issuer's complete debt profile is readily available in a consolidated format. This, then, will be followed by a "Description of the Issuer" and the

"Financial Statements" both of which contain information that, will enable a review of and judgment upon the governmental units debt capacity

Given the importance the official statement plays in providing a debt issue with the broader market reception, its preparation generally involves several parties. The description of the bond issue and other financial information may be provided by the financial advisor or the issuer's finance staff. The economic and demographic information may also come from the financial advisor, or from the planning and economic development staffs of the issuer. The financial statements will be prepared by the issuer's auditor, (regardless of whether the audit is conducted by public agency or a private firm) or the finance department. Finally bond counsel will ensure that the description of the issue, the bond indenture, and other legal matters are handled properly in the official statement.

Credit Rating- Once the official statement for the bond offering has been prepared, the creditworthiness of the bond issue can be rated by potential investors and the national credit rating agencies. In order for financial markets to operate efficiently, investors must have reliable information on the credit quality of the various investment opportunities available. Because of the large number of governmental debt issuers and the variety of security structures behind each debt issuance, the analysis and comparison of credit quality is fairly complex. To assist individual investors and the investment community, several private corporations provide a credit rating service to investors. For a fee, the rating agencies express an opinion as to the credit quality of individual bond issues, or, in the case of general obligation issues, of the borrower itself. The two largest, nationally recognized, firms are Moody's Investors Services, Inc., and Standard & Poor's Corporation. In order for a bond issuance to be sold on a national basis, it is virtually necessary to obtain a rating from at least one of these firms. The cost of the rating must be borne by the borrower.

The rating symbols used by the two agencies to denote relative credit quality are presented in Exhibit 2.2. The most important feature of the credit rating is its impact on interest costs. Although differences in interest costs among the various security grades will fluctuate depending upon market conditions, the very highest grade bonds (Aaa or AAA) often sell at interest rates a full percentage point (100 basis points) or more below those of the lowest investment grade securities (Baa or BBB). Bonds rated lower than Baa are considered predominantly speculative investsments and carry much higher interest rates.

Table 2.9 shows that the average spread between Aaa-and Baa-rated 10-year bonds in 1982 was 102 basis points (1.02 percent). This spread can vary at any given time; in December 1982, the average spread was nearly 200 basis points (2.00 percent). Translated into increased borrowing costs, a Baa-rated 10-year bond issue of $10 million would cost nearly $700,000 more, on average, over its 10-year life than a bond rated Aaa. Table 2.9 provides similar cost comparisons between bonds rated Aa or A and Aaa bonds.

Exhibit 2.2

Moody's and Standard and Poor's Bond Rating Classifications[a]

General Quality Characteristic	Rating Symbol	
	Moody's[b]	Standard and Poor's
Prime Quality	Aaa	AAA
Excellent Quality	Aa	AA
Upper Medium Quality	A, A-1	A
Lower Medium Quality	Baa, Baa-1	BBB
Marginally Speculative Quality	Ba	BB
Very Speculative Quality	B, Caa	B, CCC, CC
Default Quality	Ca, C	C[c], D
Other	Con. (---)[d]	NR[e]

(a) Source: John E. Petersen, The Rating Game, Twentieth Century Fund, 1974, as appearing in State Level Bonding in Wisconsin: Procedures, Policies, and Issues, Legislative Fiscal Bureau, State of Wisconsin, February 1978, p. 13; and State of Oregon's Bonded Debt: A Review of Borrowing Practices for General Obligation and Direct Revenue Bonds, Governor's Bonded Debt Advisory Panel, March 1981, pp. 18-19.

(b) Bonds rated A-1 and Baa-1 by Moody's have stronger investment attributes than bonds rated A and Baa, respectively.

(c) Standard and Poor's uses the "C" rating for income bonds on which no interest is being paid.

(d) The rating "Con. (---)" by Moody's is for bonds whose security depends upon the completion of some act or the fulfillment of some condition. The parenthetical rating [for example, Con. (Aa)] denotes the probable credit rating stature upon completion of the specified conditions.

(e) No rating, either due to lack of request for a rating, lack of enough information to develop a rating, or a policy by Standard and Poor's of not rating a particular type of obligation.

Reproduced from John David Vasche, The Use of Tax-Exempt Bonds in California: Policy Issues and Recommendations, Legislative Analyst, State of California, 1982.

Table 2.9

1982 Average Tax-exempt New Issue Yields
and Borrowing Cost
General Obligation Bonds

Moody's Credit Rating	Average Yield on 10-year Maturity	Interest Cost over 10 years[1]	Difference Between AAA
AAA	9.54	$5,737,037	0
Aa	9.69	5,838,278	$101,241
A	10.01	6,055,322	318,285
Baa	10.56	6,431,723	694,686

[1] $10 million borrowing.

The general guidelines used by the rating agencies in evaluating governmental credit quality are presented in Exhibit 2.3. The factors taken into account by the rating agency analysts include the operations of the issuer; the economy upon which the issuer relies for support of the debt being considered; and the pertinent social and management factors. High in the list of factors considered are trends in population, employment, wealth, and income; the organization and management of the government; and the performance of governmental enterprises in relation to projections previously made. Any other matters likely to influence the ability of the issuer to continue to meet the financial obligations undertaken with respect to the debt being rated are also taken into account to the extent feasible.

While the rating is a simple, easily understood classification of the credit risks of a municipal bond it is the product of the objective and subjective factors discussed above. The credit ratings of Alaska issuers are presented in Exhibit 2.4. The majority of the State's credits fall into the lower end of the range of credit quality. This is largely due to the relatively untested nature of Alaska's credits, the small size of many of the State's local government issuers, and the limited, readily accessible, resource base against which taxes may be levied.

Investor Relations- Aside from a comprehensive official statement and an investment-quality credit rating, the other crucial determinant of bond marketabilty is investor relations. It is important that the issuer be known to the investment community and that its past record of meeting debt service requirements on time is flawless.. The most important players in this regard are the bond underwriters.

Underwriters are the financial "middlemen" who purchase — either by competitive bid or negotiation — the bond issue directly from the governmental entity and resell the individual bonds to the final investors. Underwriters generally are either commercial banks or investment banking firms. Normally, a group of underwriters, from two to twenty (or more), form an underwriting syndicate to purchase the bonds. This technique divides the risk among all participants in the syndicate and generally enables larger amounts of capital to be raised. Underwriters are compensated by the underwriting spread, which is the difference between the price they pay a government for an entire bond issue and the total price at which they are able to resell the individual bonds to investors. The components of the underwriters spread are described in Chapter Six.

One method used to attract investors is for the underwriters to advertise the availability of a government's bonds in the financial press. An example of such an advertisement is presented in Exhibit 2.5, wherein the coupon interest rates and reoffering yield (price to investors for that particular interest rate) of each maturity on a recent state bond issue are listed. Bonds are generally sold in increments of $5,000, with a "coupon" attached for each date (generally twice annually) that interest on the bonds is payable to bondholders. The coupon specifies the interest rate and dollar amount of interest payable for that installment. For example, each of the 20 coupons on a $5,000 1992 Alaska 1982 Series B bond would carry an interest rate of 4 percent and entitle the bond holder to a semi-annual payment of $200 (see Exhibit 2.5). Now that all municipal bonds must be issued in registered form, "coupons" will no longer be attached to bonds since the owner will be recorded with the issuer's transfer/registrar or agent. Interest payments will be made directly to the owner of record without the need for the investor to submit interest coupons for payment.

Exhibit 2.3

Major Variables Considered in Determining Municipal Bond Ratings by Moody's and/or Standard and Poor's

A. Debt Analysis
- Nature of security pledged for a bond issue
- Debt burden--the amount of debt relative to income and resources
- Overlapping debt
- Debt structure, including plans for debt retirement
- Debt history
- Capital improvement programs
- Debt limitations and unused margins

B. Financial Analysis
- Pension fund requirements
- Use of short-term debt
- Assessed value of property (primarily for local entities)
- Tax rates
- Tax structure--balance among types of taxes
- Mandated expenditures
- Debt service as percent of total expenditures
- Taxes collected as a percent of revenues
- Balance between revenue trends and expenditure trends
- Budget growth relative to trends in population and the tax base

C. Governmental Analysis (administrative factors)
- Potential and/or pending litigation
- Form of government
- Degree of professionalism
- Intergovernmental factors, including shared responsibilities
- Availability of documents necessary to evaluate fiscal conditions
- Constitutional limitations on tax rates, tax bases, etc.

D. Economic Analysis
- Growth trends in income
- Geographic and locational advantages
- Size and land-use characteristics
- Population size, composition, and shifts over time
- Family, household, and per capita income
- Age and composition of the housing stock
- Value of owner-occupied housing
- New construction values
- Employment mix between industries
- Relationship of community to its S.M.S.A. (for local entities only)
- Type of transportation facilities
- Industrial shifts
- Forecasts of future economic performance
- Labor force growth and unemployment
- Leading employers
- Leading taxpayers
- Mix of building activity
- Retail sales activity
- Bank deposits

Sources: Moody's Investors Service, Inc., Pitfalls in Issuing Municipal Bonds, 1977, pp. 14-19; Standard and Poor's Corporation, Municipal and International Bond Ratings: An Overview, pp. 12-15.

Reproduced from John David Vasche, The Use of Tax-Exempt Bonds in California: Policy Issues and Recommendations, Legislative Analyst, State of California, 1982.

The price which the investor has to pay the underwriting syndicate for a particular bond is determined by the figure in the reoffering yield column, in the case of the 1992 4 percent bond, 8.20 percent. Bonds in the 1992 maturity were priced so that the return to investors was higher than the 8 percent coupon on the bonds. This is achieved through selling the bonds at a price less than the $5,000 face (or par) value which will be payable at maturity. In this case the price would be approximately $4,933 for a $5,000 par value bond. The value of the $67 "discount" from par plus the 20 semi-annual payments of $200 over the bond's 10-year life equal an effective annual yield to the investors of 8.20 percent.

Bonds in the 1992 maturity were priced so that the return to investors was higher than 8 percent coupon on the bonds. This is achieved through selling the bonds at a price less than the $5,000 face (or par) value which will be payable at maturity. In this case the price would be approximately $4,933 for $5,000 par value bond. The value of the $67 "discount" from par plus the 20 semi-annual payments of $200 over the bond's 10-year life equal an effective annual yield to the investors of 8.20 percent.

Sale to Investors

The final step in the bond issuance process is the purchase of an entity's securities by investors. Bonds may be purchased as new issues directly from the underwriter, or on the secondary municipal bond market from other investors. There are three major groups of investors in tax-exempt securities. They are:

- Individuals or "Households",
- Commercial Banks, and
- Fire and Casualty Insurance Companies.

Together, these three classes of investors held over 90 percent of the outstanding state and local debt in 1981. The relative importance of individuals, banks, or insurance companies to the municipal bond market fluctuates with changes in the economy and other financial markets. At the end of December, 1981, state and local debt was held by the following sectors:

Sector	Billions held	Percent of total
Commercial Banks	$155.1	42.9%
Household	96.8	26.8
Fire and Casualty Insurance Co.	83.0	23.0
Other Investors	26.4	7.3
TOTAL	$361.3	100.0%

Exhibit 2.4

Credit Ratings of Alaska Issuers

Issuer	Moody's Rating	S&P's Rating
State General Obligation	Aa	AA-
International Airports Revenue Bonds	A	A
AHFC-Home Improvement Loans	A	A-
Home Mortgage Revenue	Aa	AA-
Housing Mortgage Revenue	Aa	AA
Insured Mortgage Program	A	A
Veterans Housing	Aa	AA
AIDA	A	A-
Municipal Bond Bank	A	A
ASHA	A	A
University of Alaska	Baal	NR
Medical Facilities Authority	Baal	BBB-
Anchorage	A1	A
Fairbanks	A	BBB+
Fairbanks North Star Borough	A	A
Greater Anchorage Area Borough	A1	A
Sitka City and Borough	Baal	NR
Homer	Baa	NR
Juneau City and Borough	Baal	NR
Kenai Peninsula Borough	A	A
Ketchikan	Baal	BBB
Ketchikan Gateway Borough	Baal	BBB
Kodiak	Baa	NR
Kodiak Island Borough	Baal	BBB
Matanuska-Susitna Borough	A	BBB+
North Slope Borough	A	BBB+
Petersburg	Baal	NR
Valdez	A	A

Exhibit 2.5

NEW ISSUE

$185,000,000

State of Alaska

1982 Bonds, Series B

Principal and semi-annual interest (May 1 and November 1) payable in Seattle, Washington and New York, New York.
Coupon Bonds of $5,000 denominations, fully registrable.

Interest exempt, in the opinion of counsel, from all present Federal Income Taxes

---

These Bonds, to be dated November 1, 1982, will constitute, in the opinion of counsel, valid general obligations of the State of Alaska, for the payment of which the full faith and credit of the State are pledged.

Amount	Due Nov. 1	Rate	Yield
$18,500,000	1983	8¾%	5.50%*
18,500,000	1984	8¾	6.00
18,500,000	1985	8.20	6.50

Amount	Due Nov. 1	Rate	Price
$18,500,000	1986	6.75%	100%
18,500,000	1987	7	100*
18,500,000	1988	7.30	100
18,500,000	1989	7.60	100

(Accrued interest to be added)

Amount	Due Nov. 1	Rate	Price or Yield
$18,500,000	1990	7.90%	100%*
18,500,000	1991	8	8.10*
18,500,000	1992	8	8.20*

* *This maturity is not available from the account. Bonds of this maturity may or may not be available from account members or others at the indicated yield or price.*

These Bonds are offered subject to prior sale, change in price, when, as and if issued and received by us and subject to approval of legality by Messrs. Wohlforth & Flint of Anchorage, Alaska and Messrs. Preston, Thorgrimson, Ellis & Holman of Seattle, Washington. The above Bonds are offered in any State in which this announcement is made in which the undersigned are authorized to do so under the laws of such State.

Morgan Guaranty Trust Company of New York

Salomon Brothers Inc

Bankers Trust Company

Merrill Lynch White Weld Capital Markets Group
Merrill Lynch, Pierce, Fenner & Smith Incorporated

Bank of America NT & SA

Bank of Boston
The First National Bank of Boston

Bear, Stearns & Co.

Lazard Frères & Co.

North Carolina National Bank

Langdon P. Cook & Co.
Incorporated

J. J. Lowrey & Co.

E. A. Moos & Co.
Incorporated

Stone & Youngberg

October 22, 1982

CHAPTER III

PROFILE OF OUTSTANDING ALASKAN DEBT[1]

Overview

With its first bond issue occuring in 1958, the State of Alaska is a relative newcomer to the national tax-exempt bond market. Its recent appearence is primarily the result of two factors: 1) the relatively recent incorporation of Alaska as a state; and 2) the increase in State resources available to repay debt. Although territories of the United States are able to issue tax-exempt bonds if given specific authorization by the U.S. Congress, debt issuance is facilitated if the entity is a state of the Union. As a territory, however, Alaska was able to issue $2.9 million of bonds to finance construction at the University of Alaska. These bonds constituted the entire debt of the Territory when Alaska became a state, and are now general obligations of the State, payable out of general revenues.

The dramatic increase in State revenues following completion of the Trans-Alaska Pipeline in 1975 has fueled development in the State, generating revenue to the State Treasury that can support the State's own issuance of debt. In addition, growth of the Alaskan economy has created demand for State industrial and housing loan programs and has provided the revenue streams which can be pledged to repayment of debt obligations. Expansion of the economy also creates demand for municipal services, and municipal-type State services in unincorporated areas of the State. Such demands have fueled the increase in State and local government debt to finance roads, schools, water and sewer systems, and public utilities.

Since becoming a state in 1959, Alaska has been a steady issuer of debt, either in the form of direct general obligations of the State (tax-supported), obligations of State public corporations (revenue-supported), or its municipalities (both tax and revenue supported). Table 3.1 compares the volume of new debt issues from Alaska to national market volume over the 1970-82 period. Setting aside the unusually heavy volume of "pipeline" bonds in 1977 (which is discussed below), the data indicate that the volume of new Alaska bonds has been growing in relation to the national market. In 1970, new Alaska issues accounted for 0.7 percent of national volume; by 1982, Alaska's market share had more than doubled, to 1.8 percent of aggregate new issue volume.

The dramatic increase in borrowing, both in absolute amount and relative volume, provokes the need for an assessment of who the issuers are, the types of debt being issued, and its market acceptance. While Alaska's borrowing commands far less market share than many other states -- New York State issues, for example, accounted for more than 10 percent of national market volume over the last decade -- its rate of growth has been noted.

Before turning to the individual issuers of public debt in Alaska, it is useful to trace the general trend in volume of new tax-exempt bond issues sold

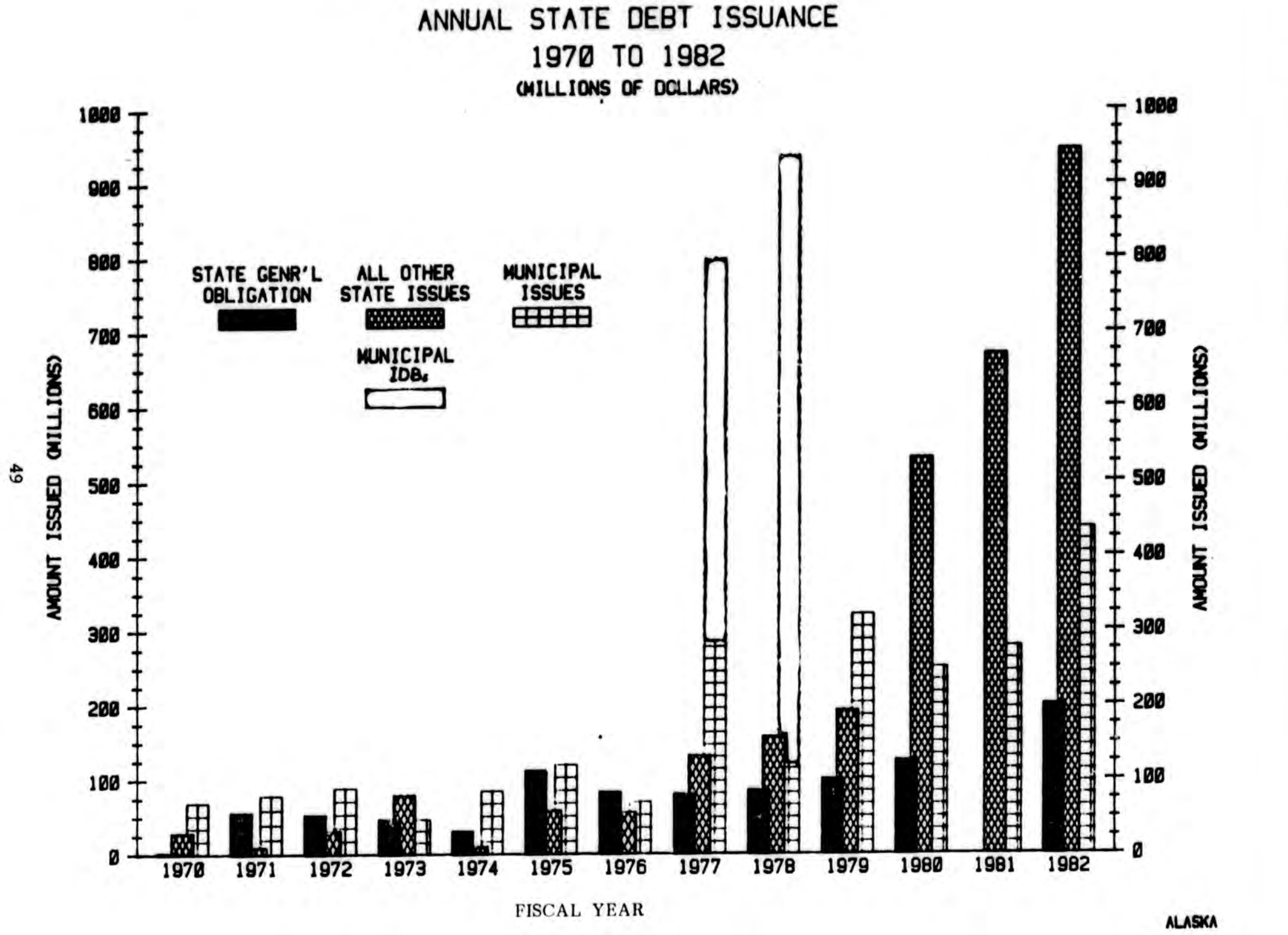
Table 3.1

Volume Of Alaska Issues As A Percent Of Total

Long-Term Tax-Exempt Bond Issues

Year	Alaska Issues ($ million)	Total Volume ($ billion)	Alaska as a Percent of Total
1970	$134.3	$18.1	.7%
1971	135.5	24.9	.5
1972	150.3	23.7	.6
1973	222.0	23.8	1.0
1974	161.4	23.6	.7
1975	279.9	30.7	.9
1976	284.9	35.4	.9
1977	1659.6	46.7	3.6
1978	552.2	48.2	1.2
1979	591.1	43.3	1.4
1980	809.7	48.3	1.7
1981	501.8	47.7	1.0
1982	1397.5	78.3	1.8

Source: Public Securities Association


ANNUAL STATE DEBT ISSUANCE
1970 TO 1982
(MILLIONS OF DOLLARS)
STATE GENR'L OBLIGATION
ALL OTHER STATE ISSUES
MUNICIPAL ISSUES
MUNICIPAL IDBs
AMOUNT ISSUED (MILLIONS)
1000
900
800
700
600
500
400
300
200
100
0
1970
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
FISCAL YEAR
ALASKA

by governmental units in the State over the 1970-82 period. Table 3.2 documents the steadily rising volume of new borrowings. Bonds sold by all governmental units or agencies in 1982 amounted to nearly $1.4 billion, or more than ten times the volume of new issues in 1970 of $134 million.

Exhibit 3.1 disaggregates total issuance over the 1970-82 period by class of issuer. The three classes of debt issuers being the State itself (general obligation), its agencies and public corporations (other State issuers), and municipalities. It is obvious that the year 1977 marked a dramatic increase in the amounts of debt issued from Alaska. In this year the municipality of Valdez issued tax-exempt industrial revenue bonds to finance the construction of port facilities in conjunction with the Trans Alaskan Pipeline. These bonds were issued on behalf of the oil companies involved, are payable and guaranteed solely by these companies, and are not direct obligations of the municipality. Therefore, this type of debt is generally not considered as municipal debt, but rather as corporate debt. The magnitude of these debt issues, however, introduced the "Alaska name" to investors in tax-exempt securities and marked a turning point in the State's access to the national bond market.

Although unique for size and purpose, the so-called "pipeline bonds" are characteristic of other trends in borrowing practices — namely the growing use of revenue bonds. As noted in Table 3.2, the volume of revenue bond financing in Alaska has exceeded the volume of tax-supported issues in 5 of the last 6 years (1982 being the exception). From 1978 through 1982, the average annual volume of revenue bonds, $402 million, accounted for 52 percent of total Alaska debt sales, while tax-supported volume amounted, on average, to $368 million or 48 percent of annual average sales. By contrast, over the 1970-74 period, tax-supported general obligation bonds of the State and its municipalities accounted for 64 percent of total Alaska debt volume.

Exhibit 3.1 and Tables 3.3 and 3.4 trace other related developments in the changing character of new debt issues from Alaska. The dollar volume of State general obligation debt has increased substantially from an average annual volume of $64 million in the 1970-76 period to $123 million in the 1977-82 period as indicated in Table 3.3. As a proportion of total Alaska new borrowings, however, State general obligation debt has declined from 32 percent of aggregate Statewide volume over 1970-76 to 12 percent over the last six years as indicated in Table 3.4.

The tremendous increase in State agency borrowing since 1977 has dwarfted the State's general obligation borrowing and that of its municipalities. Annual State issuance other than general obligation debt has risen from approximately $130 million in fiscal year 1977 to over $900 million in 1982. The vast majority of agency borrowing is revenue-supported, contributing to the trend towards increased reliance on revenue bonds indicated in Table 3.2. Over the 1978-82 period, aggregate State agency issues amounted to $1.7 billion and 44 percent of new issues. By contrast, over the entire 1970-77 period, State agency borrowings amounted to only $409 million and accounted for only 13.5 percent of total borrowings.

Table 3.2

Volume of New Tax-Exempt Bond Issues

Alaska, 1970 - 1982

(dollar amounts in millions)

Year	Total New Issues Number	Total New Issues Amount	General Obligations Amount	General Obligations Percent of Total	Revenue Bonds Amount	Revenue Bonds Percent of Total
1970	24	$134.3	$ 88.1	66%	$ 46.2	34%
1971	24	135.5	107.5	79	28.0	21
1972	23	150.3	104.9	70	45.3	30
1973	28	222.0	130.5	59	91.5	41
1974	20	161.4	79.5	49	81.9	51
1975	32	279.9	182.7	65	97.2	35
1976	24	284.9	170.9	60	114.0	40
1977	25	1659.6	155.4	9	1504.2	91
1978	27	552.2	264.3	48	287.9	52
1979	19	591.1	198.8	34	392.3	66
1980	11	809.7	340.8	42	468.9	58
1981	16	501.8	150.6	30	351.2	70
1982	42	1397.5	885.9	63	511.6	37

Source: Public Securities Association

Table 3.3

STATE OF ALASKA

NEW ISSUES OF TAX-EXEMPT BONDS

1970-82

(dollar amounts in millions)

Year	State GO		State Financial Intermediaries								Other State Agencies		Local GO		Local Revenue		Total	
			AHFC/ASHA		AIDA		Bond Bank		Medical Care									
	#	$	#	$	#	$	#	$	#	$	#	$	#	$	#	$	#	$
1970	3	35.7	1	29.1	--	---	--	---	--	---	--	---	14	52.4	6	17.1	24	134.3
1971	2	45.1	1	3.8	--	---	--	---	--	---	--	---	15	62.4	6	24.2	24	135.5
1972	2	53.4	3	32.3	--	---	--	---	--	---	--	---	15	51.5	3	13.0	23	150.3
1973	3	78.0	5	70.1	--	---	--	---	--	---	3	31.1	13	52.5	7	21.4	28	222.0
1974	1	30.0	1	11.4	--	---	--	---	--	---	--	---	12	49.5	6	70.5	20	161.4
1975	3	125.2	5	57.0	--	---	--	---	--	---	3	17.1	17	57.5	4	23.1	32	279.9
1976	2	80.0	2	45.0	--	---	3	10.8	--	---	--	---	11	80.1	6	69.0	24	284.9
1977	2	80.6	3	123.0	--	---	3	9.3	--	---	--	---	3	66.1	14	1381.2	25	1659.6
1978	2	85.0	3	146.2	--	---	4	12.7	--	---	1	5.6	8	166.6	9	136.1	27	552.2
1979	1	60.0	3	204.4	1	7.5	3	12.3	1	12.0	--	---	4	130.3	6	164.6	19	591.1
1980	1	125.0	2	460.0	--	---	2	26.3	--	---	--	---	5	189.9	1	8.5	11	809.7
1981	--	---	2	200.0	6	114.5	1	2.1	--	---	--	---	3	148.5	4	36.7	16	501.8
1982	2	385.0	3	195.6	10	55.0	3	30.8	--	---	2	165.0	13	474.5	8	91.6	42	1397.5

Source: Public Securities Association

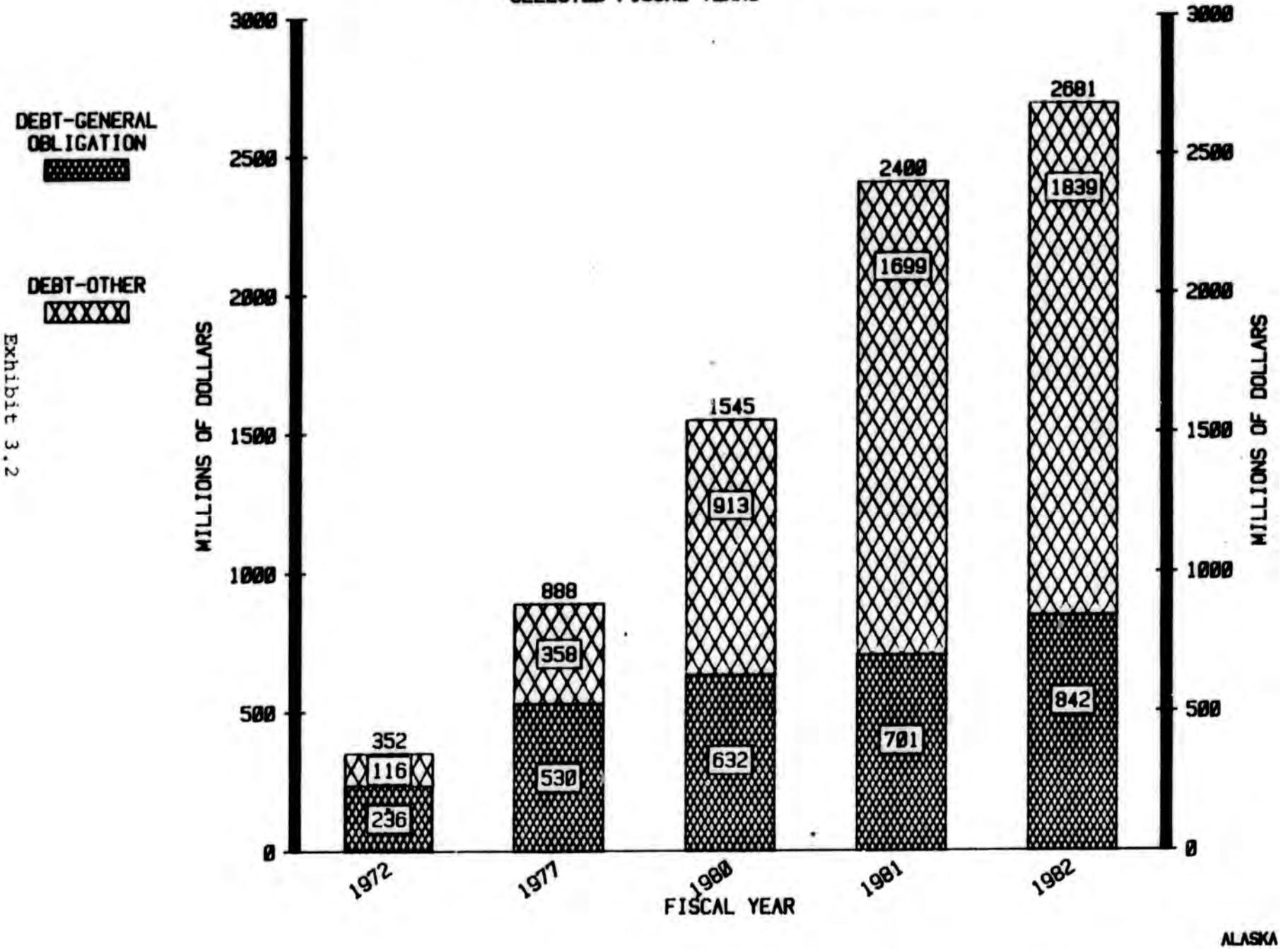

COMPOSITION OF STATE DEBT OUTSTANDING
SELECTED FISCAL YEARS
DEBT-GENERAL OBLIGATION
DEBT-OTHER
MILLIONS OF DOLLARS
3000
2500
2000
1500
1000
500
0
352
116
236
888
358
530
1545
913
632
2400
1699
701
2681
1839
842
1972
1977
1980
1981
1982
FISCAL YEAR
ALASKA

Exhibit 3.2

Exhibit 3.2 demonstrates the changing composition of outstanding Alaskan debt over the period encompased by fiscal years 1972 and 1982. Over this time period, State general obligation debt fell from 67% of all debt outstanding in the State in 1972 to 31% in 1982. The increase in non-general obligation debt of the State's public corporations was led by the Alaskan Housing Finance Corporation (AHFC) which has become the largest supplier of mortgage funds and the heaviest issuer of debt in the State. AHFC alone accounted for 31.2 percent of all Alaska "paper" to enter the bond market in the past five years. As indicated in Table 3.4, however, the market share of AHFC dropped substantially between 1981 and 1982. The drop to 14 percent of all Statewide issues from 40 percent in the prior year occurred simultaneously with the onset of major new borrowing programs of the Alaska Power Authority and the Alaska Industrial Development Authority.

Exhibit 3.3 and Table 3.5 present the composition of outstanding State-level debt by individual issuer as of April 1, 1983. Of the approximately $4 billion in State level debt outstanding, AHFC comprises nearly 61% ($2.4 billion), State general obligation debt 26% ($1 billion), and other issuers 13%.

When bonds are issued, the issuer commits itself to the payment of interest on the money borrowed from bondholders in addition to the repayment of principal. At the end of fiscal year 1982, the amount of interest payable over the term of all outstanding State-level debt ammounted to $4.1 billion, 117% of the principal amount outstanding. Table 3.6 presents the amount of principal outstanding and interest due over the term of the outstanding principal on each State-level issuers' bonds at the end of fiscal year 1982. A more detailed breakdown of these amounts is provided in the debt service schedules of each State-level issuer in Table 3.7.

The remainder of this section briefly describes each of the public issuers of debt within the State, the purposes for which they issue bonds, and the historical trend of debt issuance. In so doing, it provides a current profile of long-term debt in Alaska. Because of their sizeable share of the public debt market, the State's corporations and agencies will be the primary focus of the profile. At present there are eight State agencies or corporations that have at one time received legislative authorization to issue bonds. These are:

Alaska Housing Finance Corporation (AHFC)
Alaska Industrial Development Authority (AIDA)
Alaska State Housing Authority (ASHA)
Alaska Power Authority (APA)
Alaska Municipal Bond Bank
University of Alaska
Alaska Medical Facilities Authority
Alaska State Development Corporation

For the purpose of profiling debt issuance in Alaska, debt in the State is categorized in the following manner:

Table 3.4

PERCENTAGE COMPOSITION OF
NEW TAX-EXEMPT BOND ISSUES
BY TYPE OF ISSUE

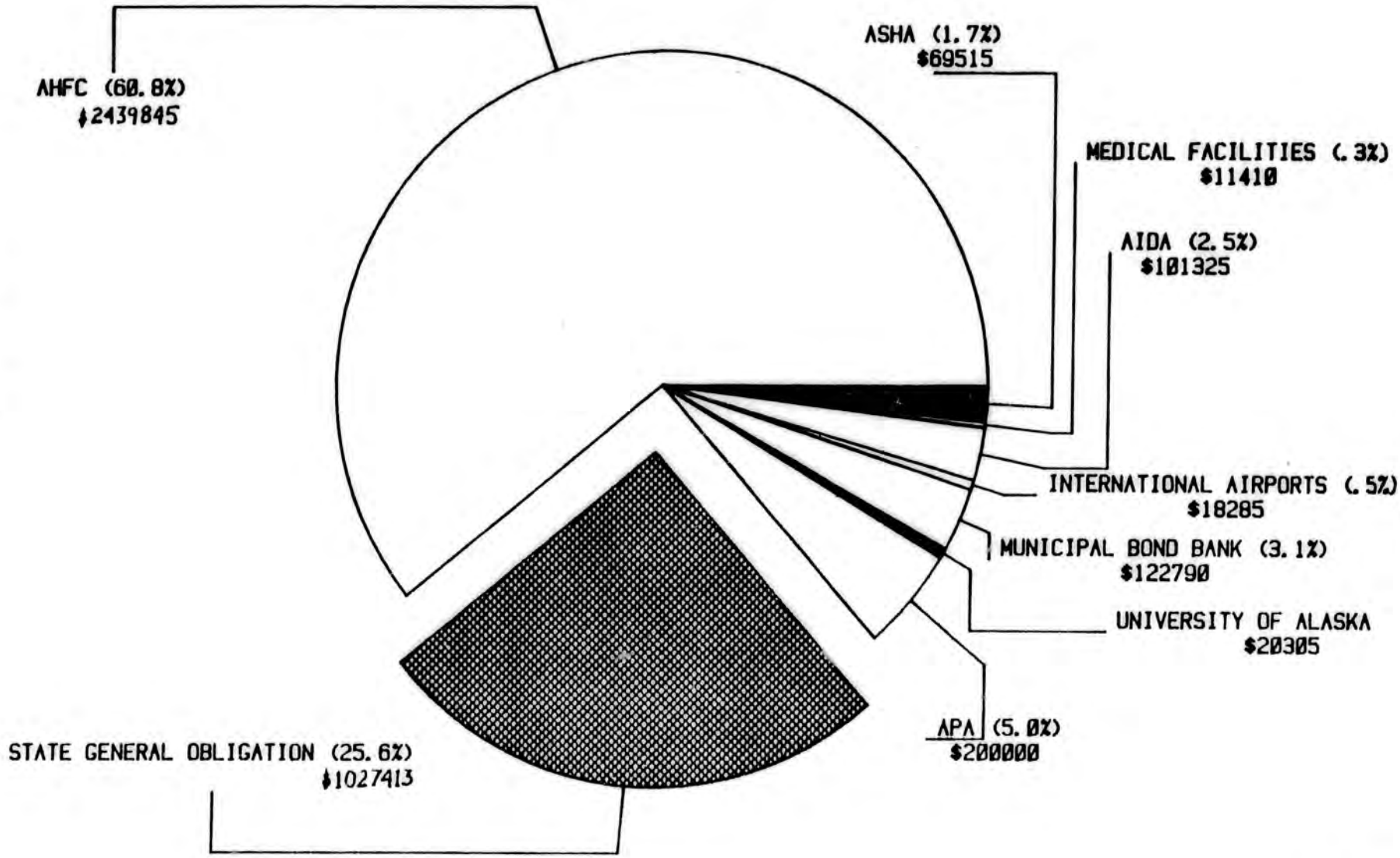
STATE OF ALASKA
1970-82

Year	State GO	Alaska Housing Finance	Other State Agencies	Municipal Bond Bank	Local GO	Local Revenue
1970	27%	--	22%	--	39%	13%
1971	33%	--	3%	--	46%	18%
1972	36%	9%	13%	--	34%	9%
1973	35%	18%	14%	--	24%	10%
1974	19%	--	7%	--	31%	44%
1975	45%	20%	6%	--	21%	8%
1976	28%	16%	--	4%	28%	24%
1977	5%	7%	--	1%	4%	83%
1978	15%	26%	1%	2%	30%	25%
1979	10%	35%	3%	2%	22%	28%
1980	15%	57%	--	3%	23%	1%
1981	--	40%	23%	4%	30%	7%
1982	28%	14%	16%	2%	33%	7%

Source: Public Securities Association

TOTAL STATE DEBT OUTSTANDING BY ISSUER

(DOLLARS IN 000'S AS OF APRIL 1, 1983)



ALASKA

Exhibit 3.3

Table 3.5

State of Alaska
Total Public Debt Outstanding
(000s)

Issuer	Amount Outstanding as of 6/30/82	Amount Issued 6/30/82 to 6/1/83	Total[1] Outstanding	Percent of State-Level Debt	Percent of State-Wide Debt
STATE LEVEL					
State General Obligation	$ 842,413	$185,000	$1,027,413	24.8%	17.7%
Alaska Housing Finance Corp.	2,004,845	560,000	2,564,845	62.0	44.2
Alaska Power Authority	200,000	-0-	200,000	4.8	3.5
Municipal Bond Bank	94,805	26,985	122,790	3.1	2.1
Alaska Industrial Development Auth.	77,875	23,450	101,325	2.5	1.7
Alaska State Housing Agency	67,125	2,390	69,515	1.7	1.2
University of Alaska	20,305	-0-	20,305	0.5	0.5
International Airports	18,285	-0-	18,285	0.4	0.4
Medical Facilities	11,410	-0-	11,410	0.2	0.2
State Development Corporation	50	-0-	50	0.0	0.0
TOTAL STATE LEVEL OUTSTANDING			$4,135,938	100.0%	
LOCAL LEVEL					
Municipal G.O.	$1,316,300	N/A	$1,316,300		22.7%
Municipal Revenue	347,536[2]	N/A	347,536		5.8
TOTAL LOCAL LEVEL OUTSTANDING			$1,663,836		
TOTAL STATE-WIDE OUTSTANDING			$5,799,774		100.0%

1/ This column does not account for debt retired between 6/30/82 and 4/1/83.
2/ FY 1981 Figure from Moody's Investors Service.

Table 3.6

State-Level Debt
Debt Service Obligations
as of FY 1982

	Principal	Interest	Total
State General Obligation	$1,027,413	$408,301	$1,435,714
University of Alaska	20,304	13,122	33,427
ASHA	67,125	21,930	89,055
International Airport Authority	18,285	10,486	28,771
Municipal Bond Bank	95,805	92,296	188,101
APA	200,000	45,200	245,200
AIDA	77,875	139,398	217,273
Medical Facilities Authority	11,410	10,790	22,200
State Development Corp.	50	1	51
AHFC	2,004,845	3,373,706	5,378,551
	$3,523,112	$4,115,230	$7,640,342

Table 3.7

SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY
AS OF JUNE 30, 1982 (000's)

Fiscal Year	State G.O. Bonds (1)			University of Alaska			State Housing Agency			Municipal Bond Bank			Housing Finance Corp.		
	P	I	Total	P	I	Total	P	I	Total	P	I	Total	P	I	Total
1983	81230	62394	143624	1114	1192	2306	6140	3774	9914	2910	8812	11722	17573	231674	249247
1984	100175	63240	163415	875	1133	2008	6545	3370	9915	3380	8678	12058	33462	231060	264522
1985	100060	56149	156209	920	1078	1998	6970	2953	9923	3665	8329	11994	42775	227023	269798
1986	101465	49120	150585	736	1020	1756	7415	2494	9909	4015	7946	11961	47419	221954	269373
1987	100580	42230	142810	771	1038	1809	4335	2142	6477	4375	7554	11929	51027	216245	267272
1988	100885	35449	136334	812	929	1741	4575	1891	6466	4595	7130	11725	54142	209937	264079
1989	95927	28548	124475	873	880	1753	4850	1623	6473	5110	6667	11777	58392	203182	261574
1990	87760	22063	109823	919	827	1746	5150	1337	6487	6625	6150	12775	63979	195772	259751
1991	69699	15870	85569	969	771	1740	5450	1032	6482	8145	5532	13677	69375	187599	256974
1992	48349	10523	58872	1020	711	1731	5785	713	6498	9510	4809	14319	301582	172045	473627
1993	43563	7397	50960	1086	647	1733	5460	400	5860	6495	3973	10468	58161	133256	191417
1994	20598	5220	25818	947	586	1533	2975	166	3141	4680	3457	8137	61860	126054	187914
1995	19096	3988	23084	1022	527	1549	1475	35	1510	4710	3067	7777	65746	118301	184047
1996	18610	2864	21474	1068	463	1531				5535	2655	8190	69563	110039	179602
1997	14865	1800	16665	1139	396	1535				4400	2213	6613	73432	101277	174709
1998	13380	1008	14388	1205	323	1528				3325	1829	5154	71743	92168	163911
1999	8640	369	9009	1281	246	1527				3770	1476	5246	76731	83250	159981
2000	2531	69	2600	1353	163	1516				4200	1054	5254	68343	73714	142057
2001				889	75	964				3845	639	4484	66180	65816	131996
2002				400	42	442				2515	326	2841	54015	59294	113309
2003				266	29	295							52835	54753	107588
2004				215	19	234							54270	50285	104555
2005				120	12	132							55840	45619	101459
2006				120	9	129							59210	40784	99994
2007				125	5	130							66880	35634	102514
2008				60	1	61							64965	29846	94811
2009													75465	24139	99604
2010													64380	17326	81706
2011													63900	11017	74917
2012													41600	4643	46243
2013															
TOTAL	1027413	408301	1435714	20305	13122	33427	67125	21930	89055	95805	92296	188101	2004845	3373706	5378551

(1) Includes November 1982 bond sale

Table 3.7 (Continued)

Fiscal Year	Alaska Power Authority			Alaska Industrial Auth.			Medical Facilities Auth.			State Development Corp.			International Airport Aut		
	P	I	Total	P	I	Total	P	I	Total	P	I	Total	P	I	Total
1983		16000	16000	3310	9300	12610	325	956	1281	50	1	51	795	1149	1944
1984	35000	16000	51000	3305	9036	12341	350	928	1278				845	1101	1946
1985	165000	13200	181000	2955	8719	11674	375	897	1272				895	1049	1944
1986				2750	8427	11177	405	864	1269				945	995	1940
1987				2550	8148	10698	435	829	1264				1005	940	1945
1988				2240	7885	10125	465	792	1257				1065	882	1947
1989				2185	7648	9833	500	752	1252				1140	820	1960
1990				2265	7413	9678	535	711	1246				1210	744	1954
1991				2555	6796	9351	575	667	1242				1275	666	1941
1992				2515	7153	9668	615	620	1235				1340	583	1923
1993				2375	6854	9229	660	569	1229				1410	496	1906
1994				2590	6534	9124	705	514	1219				1485	404	1889
1995				2820	6235	9055	760	456	1216				1560	306	1866
1996				3180	5905	9085	815	394	1209				1640	204	1844
1997				3145	5138	8283	875	325	1200				800	97	897
1998				2705	4736	7441	935	252	1187				875	50	925
1999				3040	4393	7433	1005	174	1179						
2000				3410	4011	7421	1075	90	1165						
2001				3890	3581	7471									
2002				3875	3090	6965									
2003				3270	2598	5868									
2004				3600	2182	5782									
2005				4105	1725	5830									
2006				4620	1204	5824									
2007				4065	612	4677									
2008				555	75	630									
2009															
2010															
2011															
2012															
2013															
TOTAL	200000	45200	248000	77875	139398	217273	11410	10790	22200	50	1	50	18285	10486	28771

3.7 (Continued)

ALASKA STATE LEVEL DEBT OUTSTANDING
(as of Fiscal Year 1982)

Fiscal Year	Direct Tax-Supported Debt(1)			Indirect State Debt (2)			Total State Indebtedness		
	P	I	Total	P	I	Total	P	I	Total
1983	88484	67360	155844	24963	267891	292854	113447	335251	448698
1984	107595	67743	175338	76342	266803	343145	183937	334546	518483
1985	107950	60180	168130	215665	259217	474882	323615	319397	643012
1986	109616	52634	162250	55534	240186	295720	165150	292820	457970
1987	105686	45410	151096	59392	233716	293108	165078	279126	444204
1988	106272	38269	144541	62507	226626	289133	168779	264895	433674
1989	101650	31051	132701	67327	219069	286396	168977	250120	419097
1990	93829	24227	118056	74614	210790	285404	168443	235017	403460
1991	76118	17673	93791	81925	201260	283185	158043	218933	376976
1992	55154	11947	67101	315562	185210	500772	370716	197157	567873
1993	50109	8444	58553	69101	145148	214249	119210	153592	272802
1994	24520	5972	30492	71320	136963	208283	95840	142935	238775
1995	21593	4550	26143	75596	128365	203961	97189	132915	230104
1996	19678	3327	23005	80733	119197	199930	100411	122524	222935
1997	16004	2196	18200	82652	109050	191702	98656	111246	209902
1998	14585	1331	15916	79583	99035	178618	94168	100366	194534
1999	9921	615	10536	84546	89293	173839	94467	89908	184375
2000	3884	232	4116	77028	78869	155897	80912	79101	160013
2001	889	75	964	73915	70036	143951	74804	70111	144915
2002	400	42	442	60405	62710	123115	60805	62752	123557
2003	266	29	295	56105	57351	113456	56371	57380	113751
2004	215	19	234	57870	52467	110337	58085	52486	110571
2005	120	12	132	59945	47344	107289	60065	47356	107421
2006	120	9	129	63830	41988	105818	63950	41997	105947
2007	125	5	130	70945	36246	107191	71070	36251	107321
2008	60	1	61	65520	29921	95441	65580	29922	95502
2009	0	0	0	75465	24139	99604	75465	24139	99604
2010	0	0	0	64380	17326	81706	64380	17326	81706
2011	0	0	0	63900	11017	74917	63900	11017	74917
2012	0	0	0	41600	4643	46243	41600	4643	46243
TOTAL	1114843	443353	1558196	2408270	3671876	6080146	3523113	4115229	7638342

Notes: (1) Includes State General Obligation Debt, University of Alaska Revenue Bonds, Alaska State Housing Authority Lease Revenue Bonds.
(2) Includes all other State Level Debt.

I. Direct Tax-Supported Debt
   A. State General Obligation Bonds
   B. Revenue Debt Dependent on State Appropriations (ASHA/University debt)

II. Indirect Debt
   A. General Obligation Vetrans Housing
   B. Moral Obligation Bonds of State public corporations (AIDA, APA, Bond Bank, certain AHFC bonds)
   C. Other obligations of public corporations (Airport Revenue Bonds)

III. Municipal Debt

IV. Other Long-Term Obligations
   A. Public Pension Liabilities
   B. Local School Construction Expenditures

Direct Tax-Supported Debt

Tax-supported debt is debt that is supported by the State's general fund. It includes only that debt which is payable from State appropriations, and not debt for which a specific revenue stream that is independent of the State budget has been pledged (such as the State's International Airport Bonds). This is also the aggregate outstanding debt amount used by Moodys Investor's Service, a major credit rating institution, in evaluating and comparing the State's debt posture with respect to other States and in assigning a credit rating to the State's own obligations. Tax-supported debt includes State General Obligation debt, lease-revenue debt of the Alaska State Housing Authority, and University of Alaska debt.

State General Obligation Debt

General obligation (G.O.) bonds are backed by the full faith and credit and general taxing authority of the State of Alaska. Bonds which carry Alaska's G.O. pledge represent the State's most direct form of indebtedness. If future State revenues are ever insufficient to make the required interest payments to bondholders or repay principal, the State is legally required by its contract with bondholders to raise taxes in order to meet these obligations.

G.O. debt is issued to provide funds for a variety of State activities. Among these are the construction of State marine and surface highway systems, water supply and sewerage systems, educational facilities, airports, and other public buildings. Table 3.8 and Exhibit 3.4 provide a breakdown of the amounts of State G.O. debt issued since 1972 by the purposes for which it was issued. In addition, the purposes for which future debt may be issued, within the remaining voter-authorized amount of $81.5 million, are presented.

Table 3.8

Functional Distribution of State G.O. Debt Issued and Authorized but Unissued
Since 1972

($ in thousands)

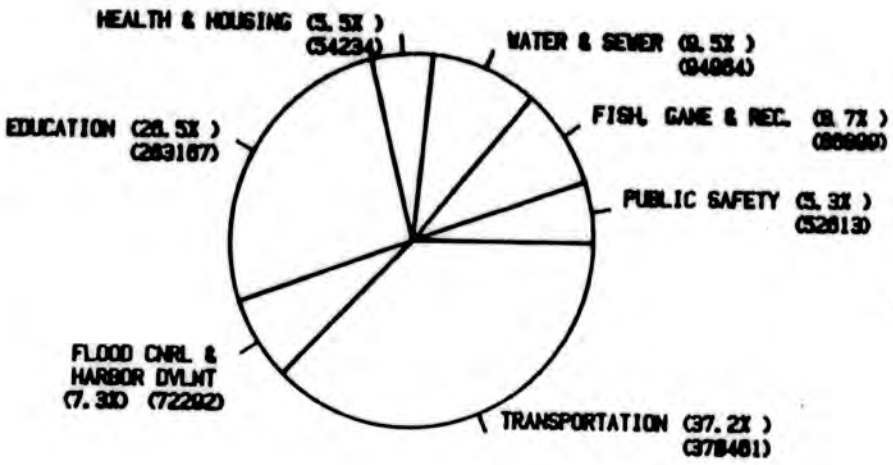
Function	Amount Issued	Amount Authorized but Unissued
Transportation		
Airport	$ 40,366	$ 900
Highways and Ferries	330,095	16,008
Flood Control and Harbor Development	72,292	3,498
Education	263,167	15,190
Health and Housing	54,234	181
Water and Sewer	94,964	29,676
Fish, Game and Recreation	86,899	0
Public Safety (Fire and Corrections)	52,613	16,041
TOTAL	$994,630	$81,494

Source: State Annual Financial Report, 1982, and November 1982 Offering Statement prepared in conjunction with sale of State general obligation bonds.

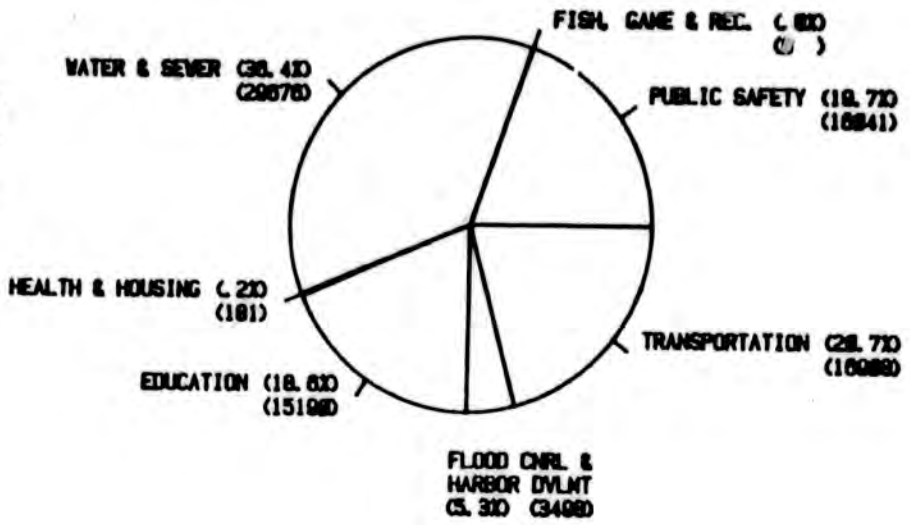
ALASKA GENERAL OBLIGATION DEBT SINCE 1972

(THOUSANDS OF DOLLARS)

AMOUNT ISSUED BY PURPOSE



AUTHORIZED BUT UNISSUED DEBT



G.O. bonds are issued under provisions of the Alaska Constitution that require advance approval of the State electorate. In addition, the authorization of the State legislature and approval of the State Bond Committee are required. The legal provisions concerning State G.O. bonds are primarily contained in Article IX, Section 8 of the Alaska Constitution and the State Bonding Act in Chapter 37, Section 15 of the Alaska Statutes.

The State has gone to the bond market 37 times since statehood, to raise over $1 billion in general obligation debt. In addition, the State assumed as general obligation bonds of the State the outstanding debt of the Territory of Alaska. In 1959 the Territorial debt amounted to $2,932,000. In contrast, as of December 1982, the State had $1,027,413,000 in G.O. debt outstanding. Table 3.9 provides details of each of the State's past bond issues and the amounts outstanding at the end of fiscal year 1982. A graphic presentation of State debt issuance is provided in Exhibit 3.5. The amount of State general obligation debt issuance dramatically increased after 1974 when the prospects of large increases in State revenues became more certain with the completion of the Trans Alaskan Pipeline. Indeed, over 75% of State general obligation debt issuance occured since 1975.

The debt service schedule presented in Table 3.7 gives the future payments of principal and interest that will be required to repay the $1 billion in general obligation debt presently outstanding. Debt service requirements begin to drop rapidly after 1990. This is the result of a conscious effort of the State and its financial advisors to shorten the maturities of State debt to conform with projected oil revenues generated from the Prudhoe Bay field. Table 3.10 shows that the average life of State bond issues has dropped since 1975 from 12.5 years to 5 years on the State's most recent G.O. bond issue.

Table 3.10 also shows that the interest cost per dollar borrowed on State general obligation debt has fallen sharply over the past 10 years. The interest cost on State bond issues is determined by several factors, the major factor being the general level of interest rates in the economy. However, the credit rating assigned to an issuer and investor perception of creditworthiness are also considerable factors. Table 3.10 indicates that the decrease in borrowing costs since 1973 generally corresponds to improvement in the State's credit rating from Baa 1/A in 1973 to Aa/AA- at present. A significant factor behind the improved credit rating is the tailoring of new debt issuance to the expected life of Prudhoe Bay and the State's oil-based revenues. In addition, average interest rates on a bond issue generally are lower the shorter the average maturity.

Revenue Debt Dependent on State Appropriations

The majority of State revenue-supported bonds is secured primarily by the revenues generated by the project for which the bonds are issued (e.g., Alaska Industrial Development bonds). In most instances they are not general obligations of the State and bondholders have no legal recourse to State tax revenues (the exception is the AHFC veterans housing mortgage revenue bonds, described below). However, certain revenue-supported debt is considered to be

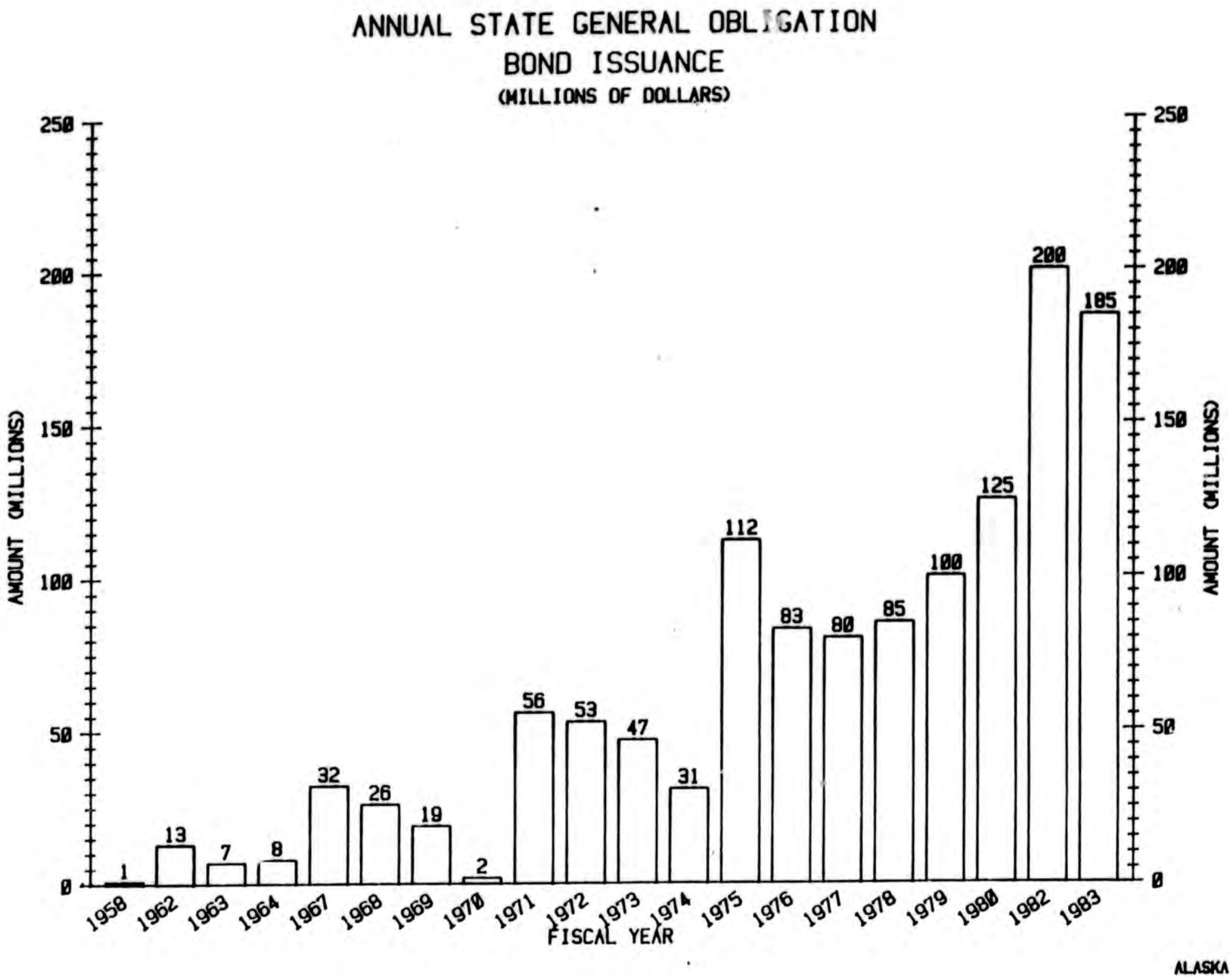

ANNUAL STATE GENERAL OBLIGATION
BOND ISSUANCE
(MILLIONS OF DOLLARS)
AMOUNT (MILLIONS)
250
200
150
100
50
0
1
13
7
8
32
26
19
2
56
53
47
31
112
83
80
85
100
125
200
185
1958
1962
1963
1964
1967
1968
1969
1970
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980
1982
1983
FISCAL YEAR
ALASKA

Exhibit 3.5

Table 3.9
State of Alaska
State General Obligation Bond Issues

DATE	PURPOSE	AMOUNT	PRINCIPAL OUTSTANDING AS OF 6/30/82	ANIC[1]	
June 1, 1958[2]	University of Alaska	$ 1,290,000	$ 365,000	2.97%	
July 1, 1961	Transportation	12,500,000	6,750,000	3.56	
April 1, 1963	University of Alaska	2,650,000	205,000	3.33	
April 1, 1963	Education	2,700,000	205,000	3.33	
April 1, 1963	Airport	1,550,000	105,000	3.33	
Jan. 1, 1964	Various	7,865,000	1,110,000	3.56	
Oct. 1, 1966	Various	12,485,000	7,757,000	3.75	*coupon
Oct. 1, 1966	Various	2,600,000	1,156,000	3.75	*coupon
May 1, 1967	Various	16,500,000	9,945,000	4.50	
Sept. 1, 1967	Transportation	10,500,000	9,000,000	4.90	
April 1, 1968	Various	15,500,000	6,300,000	5.18	
Oct. 1, 1968	Various	10,500,000	4,850,000	5.24	
May 1, 1969	Transportation	8,500,000	4,050,000	5.73	
Oct. 1, 1969	University	2,030,000	1,440,000	3.0	*coupon
Sept. 1,1970	Various	11,325,000	4,025,000	5.87	
Feb. 1, 1971	Various	21,325,000	11,285,000	5.07	
June 1, 1971	Various	18,880,000	15,120,000	6.03	
June 1, 1971	University	3,750,000	3,025,000	6.04	
June 1, 1971	University	1,200,000	900,000	6.00	
Feb. 1, 1972	Various	23,445,000	16,800,000	5.23	
May 1, 1972	Various	30,000,000	20,900,000	5.15	
Jan. 1, 1973	Transportation	20,000,000	16,000,000	5.12	
June 1, 1973	Various	27,000,000	19,600,000	5.10	
Aug. 1, 1973	Various	31,000,000	27,500,000	5.80	
Sept. 1, 1974	Various	30,000,000	34,800,000	6.85	
Feb. 1, 1975	Various	40,000,000	38,500,000	5.98	
May 1, 1975	Various	42,000,000	34,400,000	6.52	
Oct. 1, 1975	Various	42,915,000	38,500,000	6.85	
March 1, 1976	Various	40,000,000	27,500,000	5.86	
July 1, 1976	Various	40,000,000	27,500,000	5.80	
Feb. 1, 1977	Various	40,000,000	30,000,000	5.08	
Oct. 1, 1977	Various	40,000,000	28,000,000	4.50	
April 1, 1978	Various	45,000,000	30,000,000	4.86	
Jan. 1, 1979	Various	40,000,000	28,000,000	5.52	
May 1, 1979	Various	60,000,000	48,000,000	5.59	
July 1, 1980	Various	125,000,000	100,000,000	5.76	
April 1, 1982	Various	200,000,000	200,000,000	9.98	
Nov. 1, 1982	Various	185,000,000	185,000,000	7.72	
		$1,265,310,000	$1,027,413,000		

Source: Department of Administration, Bonded Debt and Debt Service, Fiscal Year ended June 10, 1982, plus November 1982 offering.

1/ ANIC=Average Net Interest Cost
2/ State Assumed obligation of Territory.

Table 3.10

State of Alaska
State General Obligation Bond Sales
Since 1973

Date of Bonds	Amount of Issue (Millions)	Maturities	Average Life in Years	Effective Interest Rate	Salomon Brothers Monthly Average[1]	Ratings (at the time of issuance) Moody's/S&P
Jan. 13, 1973	$ 20.0	1976-1998	15.3	5.12%	5.10%	Baa1/A
Jan. 13, 1973	27.0	1976-1998	14.8	5.10	5.20	Baa1/A
Aug. 1, 1973	31.0	1977-1998	16.7	5.80	5.65	Baa1/A
Sept. 1, 1974	30.0	1978-1998	15.6	6.85	6.40	A1/A
Feb. 1, 1975	40.3	1978-1998	14.6	5.98	6.10	A1/A+
May 1, 1975	42.0	1979-1999	15.1	6.52	6.40	A1/A+
Oct. 1, 1975	42.9	1978-1997	12.5	6.85	6.00	A1/A+
Mar. 1, 1976	40.0	1978-1993	9.5	5.86	5.30	A1/A+
Jul. 1, 1976	40.0	1978-1993	9.5	5.80	5.15	A1/A+
Feb. 1, 1977	40.0	1979-1988	9.5	5.08	4.50	A1/A+
Oct. 1, 1977	40.0	1979-1988	7.0	4.50	4.45	A1/A+
Apr. 1, 1978	45.0	1980-1988	7.0	4.86	4.85	A1/A+
Jan. 1, 1979	40.0	1979-1989	5.5	5.52	5.50	A1/A+
May 1, 1979	60.0	1979-1989	5.5	5.59	5.30	A1/A+
Jul. 1, 1980	125.0	1981-1990	5.5	5.76	5.50	Aa/AA-
Apr. 1, 1982	200.0	1983-1992	5.0	9.98	10.25	Aa/AA-

SOURCE: John Nuveen & Co., Alaska: A New Look, 1981; and Department of Administration, Bonded Debt and Debt Service, fiscal year 1982.

---

1 Salomon Brothers Monthly Average is for "Good Grade" bonds of similar average maturity.

tax-supported debt when the project's revenue stream is dependent upon State appropriations. This occurs with two non-State debt issuers in Alaska; the University of Alaska and the lease-revenue bonds of the Alaska State Housing Authority. The issuance of revenue bonds does not require voter approval; however, both houses of the legislature determine the annual bonding authorization for each issuer through the budget approval process.

The tax-supported revenue bond borrowing programs are described below.

University of Alaska Revenue Bonds - In addition to issuing general obligation bonds to finance university-related projects, the State issues revenue bonds for specific university purposes that can be secured by project revenues. The facilities which have been financed using revenue bonds include the Anchorage student center, the Anchorage campus utility system, and university dormatories. The student center, utility system, and campus housing bonds, are all secured by student fees and user charges. The University of Alaska Heating Corporation bonds are secured by lease payments made by the university from general fund appropriations.

Following is the amount of debt outstanding (as of June 30, 1982) on university projects financed using revenue bonds:

Anchorage Energy Utility System	$665,000
Anchorage Campus Student Center	4,680,000
University of Alaska Heating Corp.	6,950,000
Fairbanks Campus Housing	8,010,000
TOTAL	$20,305,000

These bonds are not general obligations of the State; however, because the debt may be payable from State appropriations to the University for general operating purposes, the bonds are considered to be direct, tax-supported, obligations of the State.

Moody's Investors Service has assigned a credit rating of Baal to the university revenue bonds. This rating is lower than the State's due to the lower security of student fees and the tentative and discretionary nature of State appropriations that are pledged to retire the debt.

Alaska State Housing Authority - The Alaska State Housing Authority (ASHA) is a public corporation of the State authorized to:

- construct, operate, and manage low income housing projects;
- finance rental housing projects;
- engage in urban renewal programs; and
- construct and acquire public buildings for lease to the State.

Most of the debt that has been issued by ASHA to date has been for the latter purpose. These bonds are refered to as lease-revenue bonds because they

are secured by long-term leases with the State for the public buildings. All structures leased to the State are operated and maintained by the State. The bonds are not general obligations of the State; however, the State makes annual lease payments to ASHA which are of an amount sufficient to cover the necessary debt service. Therefore, the lease-revenue bonds are considered to be direct, tax-supported, obligations of the State.

In spite of the security of the State's lease payments behind ASHA lease-revenue bonds, the bonds are rated A by Moodys Investor's Service, a full notch below the State's AA credit rating. This is because the State's (appropriation) pledge to make lease payments is not as strong as its general obligation (full faith and credit) pledge. The State's leases with ASHA are subject to the legislature annually appropriating the lease payments. If the legislature should fail to do so, ASHA would have difficulty making the required debt service payments.

ASHA is starting to become active in the Section 8 housing program and to act as a financing source for local housing authorities. To date, the only bond issue for this purpose occured in August 1982 in the amount of $2.39 million. This debt is not considered to be a direct obligation of the State because the revenue pledged to retire the bonds does not rely on State appropriations. As of December 31, 1982, ASHA had the following debt outstanding:

State Lease-Revenue Bonds	$67,125,000
Low-Income Housing Bonds	2,390,000
Total	$69,515,000

Indirect State Debt

AHFC Veterans Housing (General Obligation) Bonds - In the 1982 general election, voters approved an ammendment to Article IX, Section 8 of the Alaska Constitution that permits the State to guarantee unconditionally as a general obligation of the State the payment of principal and interest on certain revenue bonds issued by the AHFC for the purpose of purchasing mortgages made for residences of qualifying veterans. The ammendment provided that the maximum amount of State G.O. bonds that may be issued for this purpose is $400 million.

These bonds are known to investors as "doublebarrelled" because there are two distinct forms of security behind the bonds. Their first lein is on the revenue stream generated by the mortgages made from bond sale proceeds. Additional security to bondholders is provided by the general obligation pledge of the State to make the required debt service payments in the event that revenues are insufficient. These are the only AHFC bonds (and the only State revenue bonds) which carry the State's direct G.O. pledge. The constitutional ammendement permitting AHFC to issue such debt was necessary in order for the AHFC to continue issuing tax-exempt mortgage revenue bonds. The U.S. Mortgage Subsidy Bond Tax Act passed by Congress in 1980 restricted the ability of states or public corporations to sell tax-exempt housing bonds above specified ceilings unless they were also general obligations of the issuing state.

As a consequence of the 1980 legislation, the AHFC had been raising capital by issuing the more expensive taxable bonds because the Alaska Constitution prohibited the issuance of State G.O. bonds for other than State capital improvements.

It is important to note that the State's general obligation pledge was not needed in order to make the bonds attractive to investors, or to improve their security structure. The "double-barrell" bonds are being issued solely to circumvent the federal restrictions on the issuance of tax-exempt mortgage revenue bonds mentioned above. In recognition of the independent creditworthiness of the Vetrans bonds, the bonds are rated higher than the State itself. Whereas the State's rating on its general obligation bonds is Aa/AA-, the AHFC veteran's housing bonds are rated Aa/AA. Although the difference between a Standard & Poor's rating of AA and AA- is a fine distinction, it is a sign that the veterans bonds are not being rated on the strength of the State's general obligation pledge, but on their own merit.

Because of the strong support behind the bonds, independent of the State's general obligation pledge, this debt is not considered to be direct tax-supported debt as is other general obligation debt. However, if problems in the administration of the vetrans program were to arise, the bonds would be treated as general obligation debt. These bonds are still indirect obligations of the State, just as are AHFC moral obligation-backed bonds. Since the November 1982 election which authorized their issuance, there have been two issues of AHFC State Guaranteed Bonds, totaling $175 million. Because the bonds are general obligations of the State, their issuance must be approved by the State Bond Committee.

Moral Obligation Bonds of State Public Corporations

Moral obligation (M.O.) bonds, as issued by Alaska's public corporations, are secured primarily by revenues generated by the purpose for which the bonds are issued and are not direct tax-supported obligations of the State. Neither State tax revenues nor State appropriations are pledged to retire the revenue bonds. However, such debt is an indirect, contingent obligation of the State because in the event that revenues of the corporation which issues the debt are insufficient to meet debt service commitments, the State has a "moral obligation" to appropriate the required funds.

The State has declared its moral obligation backing of State corporate debt in the original enabling legislation of the public entity. For example, the State's M.O. pledge behind bonds issued by the Alaska Industrial Development Authority reads as follows: (Alaska Statutes Sec. 44.88.105)

> (d) The chairman of the authority shall annually, no later than January 2, certify in writing to the governor and the legislature the amount, if any, required to restore a capital reserve fund to the capital reserve fund requirement. The legislature may appropriate to the authority the amount

certified by the chairman of the authority. ...Nothing in this section creates a debt or liability of the state.

The capital reserve fund mentioned in the statute is generally equal in size to the minimum amount of debt service required in any year. It is common for issuers of revenue bonds to include a capital reserve or debt service reserve fund in the structure of the bond offering for it lends additional security to the bondholders and helps ensure the highest possible credit rating for the bonds. Alaska's moral obligation provision means that if the debt service reserve fund should fall below its required level, the State legislature may, but is not legally required to, appropriate the funds sufficient to restore the captial reserve fund to its required level. The most likely reason that such a reserve fund would fall short of the required level is if agency revenues were insufficient to meet a given debt service payment and the reserve fund had to be used to make the payment.

Similar clauses were included in the enabling legislation of each of the other State corporations. Consequently, the State's M.O. stands behind the debt issued by the Alaska Municipal Bond Bank, the Alaska Power Authority, the Alaska Medical Facility Authority, and certain bonds issued by the Alaska Housing Finance Corporation.

Alaska Municipal Bond Bank - The Alaska Municipal Bond Bank is a public corporation administratively located within the Department of Revenue but with a separate and independent legal existance. It was established in 1975 in order to loan funds for capital construction to cities and boroughs in the State. The Bank raises the money it loans to the municipalities through the issuance of tax-exempt bonds. The Municipal Bond Bank bonds are general obligations of the Bank alone, and are not obligations of the State of Alaska. The State has pledged its moral obligation to the maintenance of the debt service reserve fund, however.

The Bank loans funds to local governmental units through the purchase of general obligation and revenue bonds of the localities. Instead of directly selling a bond issue in the national bond market, a city may sell its bonds to the Municipal Bond Bank. The Bank collects several such bond issues and consolidates them into a single bond issue which it sells on the national market. The interest rate bid on the Bank's bonds becomes the rate the localities must pay to the bank. The Bank is, therefore, a middleman -- facilitating the debt issuance of smaller units of government.

The advantages to Alaska's localtities are several. First, interest rates tend to be more competitive (i.e., lower) because of the additional security local bonds enjoy through the structure of the Bond Bank. Also, by pooling the bond issuances of localities the Bank's bond issue is larger than the individual offerings would be and the lower administrative costs can be shared by the localities which comprise the Bank's issue. The Bank's bonds are rated A by Moodys Investors Service. This is a higher rating than many of Alaska's smaller, lesser known, municipalities could acheive on their own. Purchasers of the

Table 3.11

Alaska Municipal Bond Bank
General Obligation Debt Outstanding by Locality

Governmental Unit	Moody's Credit Rating	Obligation to the Bank As of 4/1/83	Percent of Total
City and Borough of Juneau	Baa1	$40,625,000	37.6%
Matanuska-Susitna Borough	A	22,025,000	20.4
Kodiak Island Borough	Baa1	11,810,000	10.9
City and Borough of Sitka	NR	8,920,000	8.3
City of Ketchikan	Baa1	4,870,000	4.5
Bristol Bay Borough	NR	3,785,000	3.5
City of Unalaska	NR	3,060,000	2.8
City of Homer	Baa	2,190,000	2.0
City of Soldotna	NR	2,115,000	1.9
City of Palmer	NR	1,835,000	1.7
City of Fairbanks	A	1,610,000	1.5
City of Kodiak	Baa	1,425,000	1.3
City of Wrangell	NR	1,405,000	1.3
City of Seward	NR	990,000	0.9
City of Bethel	NR	625,000	0.6
City of Kenai	NR	390,000	0.4
City of Nome	NR	165,000	0.2
TOTAL		$107,845,000	100.0%

SOURCE: Alaska Municipal Bond Bank, Official Statement, March, 1983.

Bank's bonds have additional security that would not be available from purchasing, for example, the City of Ketchikan's bonds directly (the City of Ketchikan is rated Baa). The increase in bond rating translates into lower interest costs. Finally, the Bond Bank, carrying the Alaska State name, is better known than many of Alaska's smaller units of government. This enhances the marketability of the bonds to investors in the "lower 48".

A listing of the debt outstanding to the Bond Bank by each municipality that has issued bonds through the Bank is provided in Table 3.11. With the exception of MatanuskaSusitna Borough and the City of Fairbanks, the municipalities that have used the Bank are rated Baal or lower (or are unrated). The A rating of the Bank's bonds, therefore, has resulted in significant savings in interest costs especially to these communities.

The security behind the bonds issued by the bank, which is multi-layered, is as follows:

1. First, the pledge and assignment of the individual general obligation municipal bonds which the Bond Bank's bond proceeds will be used to purchase.

2. Second, a debt service reserve fund must be maintained at a level equal to 15% of the principal amount of the Bank's bonds outstanding. The reserve account is funded through two sources. State appropriations to the Bank make up 10% of the principal amount. The remaining 5% is borrowed along with each bond issuance.

3. Third, the Bank has a first claim on State aid payments to localities (including school aid payments, the local share of various taxes collected by the State, and State aid to local governments) if the local government defaults on its obligation.

4. Finally, the State has pledged its moral obligation to maintain the debt service reserve fund at its proper level.

Upon creation of the Bond Bank by the State in 1975, it was authorized to have a maximum of $150 million in debt outstanding. The State appropriated to the Bank an amount equal to 10% of the maximum authorization ($15 million) partially to fund the debt service reserve account. As of the Bank's most recent issuance (March 1983) $ 123,540,000 in general obligation bonds had been issued. In addition to general obligation bonds, the Bank has issued a limited amount of revenue-supported debt and federally guaranteed bonds under the Costal Energy Improvement Program (CEIP). Out of a total amount of $160,097,300 issued since 1976, the following debt remains outstanding:

Table 3.12

Alaska Municipal Bond Bank Issues
1976 - 1983

GENERAL OBLIGATION BONDS Date	Purchased From	Amount Issued By Bank[1]	Amount Outstanding as of 4/1/83	Interest Range
June 1976	Kodiak, Seward	$3,150,000	2,720,000	N/A
Sept. 1976	Mat-Su	7,245,000	6,345,000	6-8%
Sept. 1976	Homer	430,000	220,000	5-8%
Feb. 1977	Nome, Soldotna	680,000	365,000	4.85-7%
May 1977	Ketchikan, Juneau	4,920,000	4,205,000	5.2-6.5%
Nov. 1977	Bethel	795,000	625,000	5-8%
July 1978	Ketchikan	5,515,000	4,815,000	5.5-7.5%
Oct. 1978	Sitka	3,520,000	3,130,000	5.5-7.5%
Oct. 1978	Juneau	2,100,000	2,100,000	5.5-7.5%
Jan. 1979	Wrangell	1,575,000	1,480,000	5.9-7.5%
May 1979	Fairbanks, Soldotna, Mat-Su	5,335,000	4,925,000	6-8%
Oct. 1979	Palmer, Sitka	3,150,000	2,630,000	6.2-8%
April 1980[2]	Bristol Bay, Sitka	10,080,000	9,565,000	9.95-11%
Aug. 1980	Kodiak, Homer, Kenai, Unalaska, Fairbanks	16,170,000	15,800,000	7.3-9%
Oct. 1981	Juneau	2,100,000	1,960,000	12-13%
Feb. 1982	Juneau	10,815,000	10,230,000	11.25-14%
Feb. 1982	Mat-Su	15,615,000	15,410,000	13-16%
March 1982	Homer	420,000	400,000	11.5-12%
April 1983	Juneau	24,795,000	24,795,000	8.5-10.75%
April 1983	Unalaska	2,190,000	2,190,000	8-10%
TOTAL G.O.		$123,540,000	$113,680,000	
REVENUE BONDS				
July 1980	Ketchikan Airport	$ 410,000	$ 410,000	6.2-8.5%
April 1982	Fairbanks Utility	4,440,000	4,440,000	10.25-11.4%
TOTAL REVENUE		$ 4,850,000	$4,850,000	
Coastal Energy Improvement Program Bonds[3]		$31,707,300	$31,467,300	
TOTAL BOND BANK		$160,097,300	$149,997,300	

SOURCE: Alaska Municipal Bond Bank, Official Statement, March, 1983.

1/ Amount issued by the Bank is approximately equal to the amount of bonds purchased by the Bank plus 5 percent for the debt service reserve fund contribution.
2/ Bonds issued under 1980 Resolution.
3/ Federally guaranteed.

Total Municipal Bond Bank Bonds Outstanding

General Obligation Bonds	$113,680,000
Revenue-Supported Bonds	4,850,000
CEIP Bonds	31,467,300
TOTAL	$149,997,300

An itemization of these amounts is provided in Table 3.12. Of the $149.9 million currently outstanding, only the general obligation and revenue bonds are indirect obligations of the State, carrying its moral obligation. The CEIP bonds are securred by the federal government and do not have a claim on the the reserve fund established for the general obligation bond series. At the end of fiscal year 1983 the Bond Bank had exhausted all but $2,700 of its original authorization of $150 million. During the 1983 legislative session, however, the State Legislature appropriated an additional $20 million to the Bond Bank, increasing its borrowing capacity by $200 million.

Alaska Medical Facility Authority - The Alaska Medical Facility Authority is a public authority administratively located in the Department of Revenue with a separate and independent legal existence. The Authority was created by the legislature in 1978 to finance construction and improvements to medical facilities in the State. As of April 1983, the Authority had sold one bond bond issue in October 1979, of $12 million to finance improvements to a Fairbanks hospital. The bonds, rated Baa1 are securred by hospital lease payments and are not a direct obligation of the State; however, the State has pledged its moral obligation to the maintenance of the debt service reserve fund. The outstanding debt of the Authority at the end of fiscal year 1982 was $11,410,000.

Alaska Housing Finance Corporation - The Alaska Housing Finance Corporation (AHFC) is a public corporation administratively located within the Department of Revenue but has a separate and independent legal existance. AHFC was chartered in 1971 to provide financing for low- and moderate-income housing and housing located in remote, underdeveloped, or blighted areas of the State. Since 1980, when the AHFC's powers were expanded by removing mortagagor income restrictions, the Corporation has emerged as the largest supplier of mortgage funds in the State, in addition to being the largest issuer of debt (taxable and tax-exempt). Table 3.13 indicates the amounts of AHFC borrowing since 1972, and that 76 percent of this borrowing has occurred since 1980.

The bonds issued by the AHFC are securred by the mortgages purchased with bond proceeds, including federal and private mortgage insurance, state appropriations, a reserve fund, and in certain instances, the State's moral obligation pledge. In addition, the AHFC has issued certain veterans housing bonds which carry the full faith and credit pledge of the State (discussed above).

Table 3.13

Alaska Housing Finance Corporation
Debt Issued by Year
All Programs 1972-1983
(000s)

1972	$ 13,500
1973	49,000
1975	52,000
1976	45,000
1977	123,000
1978	146,225
1979	170,600
1980	503,800
1981	650,000
1982	652,000
1983 (to 5/30/83)	175,000
Total	$2,580,125

Source: Alaska Housing Finance Corporation, Selected Corporation and Program Information, December 1982, revised with 1983 data.

The AHFC operates many other loan programs aside from the State guaranteed Veterans Housing bonds. The amounts issued under each program and the amounts outstanding are presented in Table 3.14. The largest program is the Insured Mortgage Program which issued approximately $984 million from 1975 to 1980. Borrowing was curtailed in 1980 due to federal restrictions on tax-exempt housing mortgage revenue bond issuance. The bonds are securred by the mortgages and a 10% capital reserve fund which the State has pledged its moral obligation to replenish if mortgage income is insufficient to meet debt service. Approximately $953 million is presently outstanding.

The second largest program is the State Assisted Mortgage Program, with $875 million issued and currently outstanding. Bonds issued under this program are taxable, because of federal restrictions enacted in 1980 on the use and amount of state tax-exempt housing bonds that may be issued. This program is not subject to the State's moral obligation. The only other program carrying the State's moral obligation is the one issue of $15 million home improvement loan bonds.

As Table 3.14 indicates, AHFC has $2.4 billion in taxable and tax-exempt debt outstanding. Of this amount, slightly less than $970 million (38 percent) is backed by the State's moral obligation. The moral obligation bonds, plus the State fully guaranteed bonds issued to date of $175 million, are included as indirect debt of the State. Indirect AHFC debt therefore amounts to $1.14 billion or 45 percent of total AHFC debt outstanding as indicated below.

AHFC Debt Outstanding

State Back-Up	Amount (millions)	Percent
General Obligation	$ 175.00	7
Moral Obligation	967.60	38
No Liability	1,390.90	55
TOTAL	$2,533.50	100

Alaska Industrial Development Authority - The Alaska Industrial Development Authority (AIDA) is a public corporation administratively located in the Department of Commerce and Economic Development but with a separate and independent legal existence. AIDA was created in 1980 as the successor to the Alaska State Development Authority. AIDA promotes economic development within the State by providing lowinterest loans to industrial and commercial projects. None of the tax-exempt bonds issued to finance the loan programs are direct obligations of the State; however, the State's moral obligation stands behind the debt service reserve fund which securs certain bonds issued by AIDA.

AIDA has three major loan programs. The Economic Development "Umbrella" Bond Program issues tax-exempt industrial development bonds to finance projects of $1 million or less. Because of their small size, the projects financed under this program are grouped together when AIDA issues bonds, hence the title "umbrella". AIDA does not directly loan bond proceeds. Proceeds of the Authority's bond sales are used to purchase eligible loans from financial

Table 3.14

Alaska Housing Finance Corporation

Amounts Issued and Outstanding by Program
(ooos)

	Program Rating	Amount Issued	Amount Outstanding as of 5/30/83
Housing Mortgage Program Bonds	Aa/AA	$ 109,500	$ 96,245
Insured Mortgage Program Bonds*	A	983,625	952,625
Home Mortgage Bonds	Aa/AA-	385,000	385,000
State Assisted Mortgage Bonds**	Aa/AA	875,000	875,000
Second Mortgage Bonds	AA	27,000	27,000
Home Improvement Loan Bonds*	A/A-	15,000	15,000
Insured Rural Mortgage Bonds	NR	10,000	10,000
State Guaranteed Bonds***	Aa/AA	175,000	175,000
		$2,580,125	$2,533,615

Source: Alaska Housing Finance Corporation, Selected Corporation and Program Information, December 1982.

* Backed by State Moral Obligation
** Taxable Bonds
*** Backed by State General Obligation

institutions in the State. Security for AIDA's bonds comes from the financed projects, a capital reserve fund established by the State for the Authority, and the full faith and credit of the Authority. This program's debt is considered to be an indirect obligation of the State.

The second program, the Consolidated "Umbrella" Bond Program, is similar to the Economic Development "Umbrella" Bond program except the projects financed are of amounts larger than $1 million. The bonds are secured by the Authority's general obligation and the moral obligation of the State. As of December 1982, $101,325,000 of umbrella bonds from both the economic development and consolodated loan programs were outstanding.

The following amounts of umbrella bonds have been issued:

1981	$17,640,000
1982	60,480,000
1983	23,205,000

In its third and largest loan program, the Revenue Bond Program, AIDA acts as a conduit in the sale and issuance of certain industrial development bonds on behalf of private borrowers who secure the bonds entirely. AIDA does not participate financially in the projects nor is the Authority's full faith and credit pledged as security for the bonds. Bonds issued under this program are not considered to be obligations of the Authority or the State. Furthermore, the State's M.O. does not stand behind bonds issued through the revenue bond program. At the end of December 1982, $310,690,185 was outstanding under this program.

Alaska Power Authority - The Alaska Power Authority (APA) is a public corporation of the State situated for administrative purposes in the the Department of Commerce and Economic Development but with separate and independent legal existence. The APA was created to finance, construct, and operate power production and transmission facilities. The Authority is subject to the Executive Budget Act (Alaska Statutes 37.07) and must receive legislative authorization for the financing of any project which involves the appropriation of state funds or that exceeds 1.5 million megawatts of installed electrical generating capacity.

To date, the APA has issued only short-term bond anticipation notes with maturities of three years or less. Presently, $200 million is outstanding with the first maturity of $35 million in May 1984. Of the remaining shortterm notes, $50 million matures in October 1984 and $115 million in May 1985. The notes are rated MIG-1 by Standard & Poor's. MIG-1 is the rating assigned to the highest quality borrower enjoying strong credit protection with adequate cash flows for servicing the debt. The APA short-term notes are so-rated because of a letter of credit backing from various AAA-rated banking institutions. For an annual fee, certain banks will provide issuers with a letter of credit that acts as an external credit support, much like municipal bond insurance. Because the short-term notes are "variablerate" notes -- meaning the interest rate paid to

noteholders is not fixed but changes monthly according to a predetermined index -- a letter of credit was necessary in order to market the bonds. This is true of virtually all variable or floating rate notes.

Other Obligations of Public Corporations

International Airport Revenue Bonds - These bonds have been issued to finance improvements to the State's two international airports and are secured by a first lien on gross revenues derived from airport operations; however, they are also "special" obligations of the State. If airport revenues were ever insufficient to meet debt service requirements, it is likely that the State would be called upon to make up the difference.

The bonds are issued by the State Bond Committee with the approval of the Commissioner of Transportation and Public Facilities. The Commissioner is required by each bond resolution to fix and collect fees, charges and rentals for the use of facilities of the International Airports sufficient each year to provide net revenues at least equal to 130 percent of debt service requirements during that year. Table 3.15 indicates that over that past seven fiscal years, net revenues have far exceeded the amount required to pay debt service.

The State is authorized by statute (A.S. 37.15.410) to issue a maximum of $43.325 million in international airport revenue bonds. Of this amount, $34.825 million (80 percent) had been issued as of April 30, 1983. The February 1975 issue (the most recent) was defeased (retired early) in July of 1975 because the bond proceeds were no longer required upon cancellation of the Anchorage Terminal Expansion Project. Therefore, these bonds are no longer considered to be outstanding. The net amount of International airports revenue bonds outstanding as of June 30, 1982 was $18,285,000.

Municipal Debt

In addition to Municipal Bond Bank debt issuance on behalf of Alaskan municipalities, local governments in the State issue debt independently in the tax-exempt bond market. At the end of fiscal year 1982, approximately $1.3 billion in general obligation debt and $347.4 million revenuesupported debt was outstanding at the local government level. The debt of Alaska's localities, therefore, comprises approximately 43 percent of the total amount of public debt outstanding in the State. The debt position of local governments in the State is described at length in Section Five of this Report.

Other Long-Term Obligations

Public Pension System Liabilities - The State administers two major retirement systems: the Public Employees Retirement System (for State employees and employees of political subdivisions who elect elect to join the system), and the Teachers Retirement System (for teachers and school

Table 3.15

International Airports Revenue Bonds
Coverage Ratios
1975 - 1982

Fiscal Year	Net Revenues (millions)	Debt Service (millions)	Coverage of Net Revenues Over Debt Service[1/]
1975	$ 5.6	$ 2.1	266%
1976	5.6	1.9	294
1977	7.4	1.9	389
1978	10.0	1.9	526
1979	12.6	1.9	663
1980	13.6	1.9	775
1981	15.9	1.9	836
1982	14.6	1.9	768

SOURCE: Department of Administration, Bonded Debt and Debt Service, Fiscal Years ended 1982.

1/ required coverage 130%.

administrators). The difference between the present value of accrued benefits for employees who are covered by the pension system and the value of the particular pension system's assets is the amount of the State's unfunded liability. The unfunded pension liability is not generally treated by the rating agencies or investors as "debt" unless it is judged to constitute a significant burden on the State; however, it is an long-term obligation of the State.

Acording to William M. Mercer, Inc., the unfunded current liability for each of the State's public pension systems at the end of fiscal year 1982 was as follows:

Public Employees Retirement System
(dollars in millions)

Present Value of Accrued Benefits	$775,115
Value of Assets	613,653
Unfunded Liability for Accrued Benefits	161,462
Unfunded Liability as Percent of Benefits	20.8%

Teachers Retirement System

Present Value of Accrued Benefits	$587,016
Value of Assets	451,650
Unfunded Liability for Accrued Benefits	135,366
Unfunded Liability as Percent of Benefits	23.1%

Both of these systems are considered to be "fully funded" since the ratio of assets to accrued benefits, (i.e., the unfunded pension liabilities) is 77 to 80 percent for both of the retirement systems. Unfunded pension liabilities are generally not considered to be a contingent liability until this ratio drops below 60 percent. The State's pension liability, therefore, does not need to be included in calculation of the indirect debt of the State.

Local School Construction Debt - A portion of the State's education assistance program to independent school districts consists of the partial reimbursement for cash expenditures on school construction and debt service on bonds issued to finance school construction. As described in Section Five, approximately $641 million in school construction debt was outstanding at the local level at the end of fiscal year 1982. The State's legal commitment to repay this debt is restricted to the annual appropriation allocated to this purpose by the legislature; however, because the bonds were issued with the expectation of some level of State assistance, a de facto moral obligation to provide assistance with debt service on school construction debt exists at the State level.

Table 3.16

State of Alaska Classification of Outstanding Debt
(amounts in millions)

	Amount Outstanding June 30, 1982	Amount Retired	Amount Issued	Amount Outstanding May 30, 1983	Percent of State-Level Debt
Direct Debt					
General Obligation Debt	$842.2	$81.2	$185.0	$946.2	23.5%
Alaska State Housing Auth.					
Lease-Revenue Bonds	67.1	3.7	-0-	63.4	1.6
University of Alaska	20.3	1.1	-0-	19.2	0.5
NET TAX-SUPPORTED DEBT	$929.8	$86.0	$185.0	$1,028.8	25.6%
Indirect Debt (moral obligation)					
Alaska Housing Finance Corp.					
State Guaranteed Veterans Housing	-0-	-0-	$175.0	$175.0	4.3%
Insured Mortgage Bonds	$963.3	$ 10.6	-0-	952.7	23.6
Home Improvement Loan Bonds	15.0	-0-	-0-	15.0	0.4
Alaska Industrial Devel. Authority	77.9	3.3	23.4	98.0	2.4
Alaska Power Authority	200.0	-0-	-0-	200.0	5.0
Alaska Municipal Bond Bank	95.8	2.9	27.0	119.9	3.0
Alaska State Devel. Corporation	11.4	0.3	-0-	11.1	0.3
Low Income Housing Bonds	-0-	-0-	2.4	2.4	0.0
Indirect Debt (special obligation)					
International Airport Authority	18.3	0.8	-0-	17.5	0.5%
TOTAL INDIRECT DEBT	$1,381.8	$ 17.9	$227.8	$1,591.6	39.5%
TOTAL DIRECT AND INDIRECT STATE DEBT	$2,311.6	$103.9	$412.8	$2,620.4	65.1%
Other State-Level Debt					
Alaska Housing Finance Corp.					
State Assisted Mortgage Bonds	$675.0	-0-	$200.0	$875.0	21.7%
Housing Mortgage Program Bonds	96.2	$ 2.2	-0-	94.0	2.3
Home Mortgage Bonds	200.0	-0-	185.0	385.0	9.6
Second Mortgage Bonds	27.0	-0-	-0-	27.0	0.6
Fairbanks Residential Mortgage	28.3	-0-	-0-	28.3	0.7
TOTAL OTHER STATE-LEVEL DEBT	$1,026.5	$ 2.2	$385.0	$1,409.3	34.9%
TOTAL STATE-LEVEL DEBT	$3,338.1	$106.1	$797.8	$4,029.7	100.0%

Conclusion

From a territory that had slightly less than $3 million in debt outstanding when it received statehood to today, with nearly $6 billion outstanding from a variety of public issuers, long-term debt has played an important role in Alaska's development. The borrowing programs profiled above have served the public by financing service provision, education, housing and industrial development. However, because of the large amounts of debt that have been issued from within the State, the interrelationship of the different types of debt, issuers, and the State is an important concept that must be incorporated into State's financial managerment.

Classification of outstanding State-level debt using the criteria presented in this section will improve the ability of State officials to manage outstanding debt and plan future debt issuance. Table 3.16 presents such a classification of Alaska's debt position as it nears the end of fiscal year 1983. The two most important points that this exercise illuminates are: 1) general obligation debt is not the only State-level debt supported by tax revenues; and 2) indirect (moral and special obligation) State debt comprises a significant share of total State-level debt. According to Table 3.16, over 65 percent ($2.6 billion) of State-level debt is either direct tax-supported or indirect moral or special obligation debt while only 23 percent ($946 million) is general obligation debt. Therefore, the use of general obligation debt as the sole measure of State indebtedness understates Alaska's contingent debt position.

It is recommended that the State Bond Committee make use of the concepts of direct tax-supported debt and indirect moral and special olbigation debt when assessing the State's curreint debt position. Such a categorization is more accurate for analytical purposes and more proper for improving debt management than G.O. debt alone. The information from this exercise should also be included in the State's official statements for future debt offerings presented in a format similar to Table 3.16.

CHAPTER IV

MARKET PERFORMANCE AND RECEPTION OF STATE GENERAL OBLIGATION BONDS AND THE ALASKA HOUSING FINANCE CORPORATION

Investors in tax-exempts continually segment the myriad of different issues and issuers into classes of approximately similar standing. Distinctions between general obligation and revenue bonds serve as one example. Institutional investors often refine the market segments to separate housing revenue bonds from public power bonds and many institutions will have portfolio-balancing policies or rules to enforce the perceived benefits from portfolio diversification, on both a type-of-bond and geographic basis. Another method of categorization is the credit quality of an issuer. Exhibit 4.1 lists state credits by their June 1982 Moody's rating. One important and well-defined market segment is the high-grade state general obligation (GO) credit, which can be broadly-defined to include triple-A (Aaa) and well-regarded double-A (Aa) rated states. Alaska, with its June 1980 upgrading by Moody's Investors Service, can now be regarded as a member of this peer group. For comparative purposes the subsequent analysis will compare Alaska State GO market performance with four defined segments of the high-grade state market:

- States that have consistently maintained a Moody's Aaa rating over the 1978-82 period;
- States that have consistently maintained a Moody's Aa rating;
- States that have been downgraded to Aa over the period; and
- States that have been upgraded to Aa or Aa1 over the 1978-82 period.

The states comprising each group are listed in Exhibit 4.2.

Table 4.1 compares the volume of Alaska GO State new issues with these sample groups. New Alaska debt issuance has risen consistently over the 1977-82 period, except in the difficult period of high interest rates, (calendar year 1981), when Alaska issued no bonds. During the 1977-82 period, State debt commanded a four-fold increase in its market share amoung all high-grade states. In 1977, Alaska's $80 million in new financings accounted for only 2.1% of the $3.7 billion in Aaa or Aa-rated state new issues; by 1982, Alaska's $385 million accounted for 8.2% of this market segment.

Exhibit 4.1

Moody's State Credit Ratings
(as of June 1982)

Aaa	Aa	A
Georgia	Alabama	Massachusetts[2]
Illinois	Alaska	Michigan
Maryland	California	New York
Missouri	Connecticut	Pennsylvania
New Jersey	Deleware	Washington
North Carolina	Florida	West Virginia[2]
Oklahoma	Hawaii	
South Carolina	Kentucky	
Tennessee	Louisiana	
Texas	Maine[1]	
Utah	Minnesota	
Virginia	Mississippi	
	Montana[1]	
	Nevada	
	New Mexico[1]	
	Ohio	
	Oregon	
	Rhode Island	
	Vermont	
	Wisconsin	

[1] Rated Aa1
[2] Rated A1

Exhibit 4.2

Selected Sample States

States Consistently Maintaining Aaa Ratings	States Consistently Maintaining Aa Ratings
Georgia	Alabama
Illinois	Connecticut
Maryland	Florida
Missouri	Idaho
New Jersey	Kentucky
North Carolina	Louisiana
Oklahoma	Mississippi
South Carolina	Nevada
Tennessee	Ohio
Texas	Rhode Island
Utah	Vermont
Virginia	

States Downgraded to Aa Ratings	States Upgraded to Aa Ratings
California	Delaware
Minnesota	Maine (to Aa1)
Wisconsin	Montana (to Aa1)
	New Mexico (to Aa1)

Two other points are worth noting from the data in Table 4.1. The volume of new debt commitments from states that were rated Aaa at the outset of this period but subsequently downgraded to Aa (California, Wisconsin and Minnesota) stands out as one example. For these states, average new issue volume per state was more than twice the average for states that maintained a triple-A rating over the period, and this markedly higher volume (especially in the 1977-80 period) serves as one precursor of the negative rating change.

By marked contrast, states that were upgraded over this same period (including Alaska, until the large increase in 1982) stand out for the very modest volume of new obligations. Average borrowings from these states were only 20-30 percent of the new commitments issued by other Aa-rated states.

The lessons embodied in these data are clear: regardless of the level of other resources that are important in determining debt capacity, the pace at which new claims on State resources are added through the debt issuance process can have a measurable impact on perceived credit quality.

Market Performance of GO Bond Issues

One measure of market demand for Alaska GO debt is the number of competitive bids received from underwriters — investment bankers and commercial banks. Underwriters serve as important intermediaries in governmental finance, purchasing bond issues from borrowers and then distributing bonds to investors. Underwriters bear risks in this distribution effort because the purchase price to the issuer is fixed at the time of sale but investor demands may change during the distribution period. In a manner similar to other goods and services, the stronger the demand for the product (e.g. the bond issue), the less uncertainty faced by underwriters and the greater the number of potential underwriters. Exhibit 4.3 lists the managing underwriters for recent State bond sales and highlights the broad appeal of Alaska bonds to underwriters. This data also suggests indirectly that Alaska debt must be designed to appeal to the national market: the absence of underwriters domiciled in Alaska attests to a relatively weak "domestic" market.

Table 4.2 presents statistics on the average number of bids received on selected Stat GO bonds. Of particular interest, Alaska bonds have received fewer bids since 1980 than in prior years, even though the upgrading of Alaska debt in 1980 could be expected to broaden the appeal of State bonds to investors.

Two factors have contributed to the decline in bid activity. First, as reference to the other state statistics points out, there has been a general trend towards fewer bids since 1980. Exhibit 4.3 points up a corollary — namely, that the number of firms combining to form a syndicate has been increasing. These events — fewer bids and larger syndicates — are responses dictated by the risks of underwriting in markets with high and volatile interest rates.

Table 4.1

New Issues of State General Obligation Bonds

(dollar volume in millions)

	1977	1978	1979	1980	1981	1982
Alaska	$80.6	$85.0	$60.0	$125.0	--	$385.0
States Consistently Rated Triple A:						
Total	1688.9	964.8	485.8	1091.6	1361.8	2162.5
Average	105.7	137.8	81.0	136.5	194.5	216.3
States Downgraded To Double A:						
Total	872.0	980.7	856.6	715.0	363.0	705.0
Average	290.7	490.4	285.5	238.3	121.0	235.0
States Upgraded To Double A:						
Total	112.4	86.9	5.0	125.0	36.6	106.2
Average	37.4	21.7	5.0	31.3	36.6	53.1
States Consistently Rated Double A:						
Total	1056.8	853.5	758.0	824.7	333.8	1358.1
Average	105.7	121.9	108.3	103.1	55.6	169.8
Alaska as Percent of:						
All Aa, Aaa States	2.1%	2.9%	2.8%	4.3%	--	8.2%
All Aa States	3.8	4.2	3.6	7.0	--	15.1
All Consistent Aa States	7.6	9.9	7.9	15.2	--	28.3

Exhibit 4.3

Managing Underwriters On State Of Alaska

GO Bond Sales

March 1978

Northern Trust Company (ILL)
First Boston Corporation (NY)
Seattle First National Bank (WASH)
Harris Trust (ILL)
European American Bank (NY)
Foster & Marshall (WASH)

April 1979

Merrill Lynch (NY)
Continental Illinois Bank (ILL)
Harris Trust Bank (ILL)
Lehman Brothers (NY)
First Boston Corp (NY)
Bankers Trust Co., (NY)
Bank of America (CAL)

March 1982

Bankers Trust (NY)
Chemical Bank (NY)
Bank of America (CAL)
Kidder Peabody (NY)
Dean Witter (NY)
Morgan Guarany (NY)
Blyth Eastman (NY)
Shearson American Express (NY)
Weiden (NY)
Prudential-Bache (NY)
Goldman Sachs (NY)
Bear Stearns (NY)
Lehman Brothers (NY)
L.F. Rothschild (NY)
Salomon Brothers (NY)
Donaldson Lufkin Jenrette (NY)
Lazard Freres (NY)
Drexel Burnham (NY)

December 1978

Bank of America (CAL)
Continental Illinois Bank (ILL)
Bache (NY)
Goldman Sachs (NY)
Bear Stearns (NY)
Bankers Trust Co. (NY)
Chemical Bank (NY)
Lehman Brothers (NY)

June 1980

Morgan Guaranty Trust (NY)
Blythe Eastman Paine Webber (NY)
Salomon Brothers (NY)
Stephens, Inc. (NY)

October 1982

Morgan Guaranty (NY)
Bankers Trust (NY)
Bank of America (CAL)
Bear Stearns (NY)
Salomon Brothers (NY)
Merrill Lynch (NY)
First National Bank
of Boston (MASS)
Lazard Freres (NY)

Table 4.2

Average Number Of Bids On

New Issues Of State General Obligation Bonds

	Average Number of Bids					
	1977	1978	1979	1980	1981	1982
Alaska	4.0	4.5	6.0	3.0	--	2.0
States Consistently Rated Aa	5.4	5.9	5.1	4.8	4.1	5.3
States Upgraded To Aa	11.5	8.5	14.0	10.2	6.0	5.3
States Downgraded To Aa	3.0	3.0	3.3	3.0	3.3	3.1
States Consistently Rated Aaa	4.8	4.2	4.4	3.7	3.7	3.5

A second factor at work is the vastly increased size of new Alaska debt issues. Larger issues add to the distribution risks faced by underwriters and the typical response is, again, the formation of fewer but larger bidding syndicates. A parallel observation supporting this is the consistently lower number of bids received on the large volume of issues from states subsequently downgraded to double-A.

Table 4.3 provides a direct measure of the relationship between issue size and number of bids received for all state GO bonds issued in 1982. Bond issues less than $20 million received, on average, 8.7 bids, while issues between $50 and $100 million received 3.5 bids and bonds of $100 million or more received only 2.8 bids on average.

These comparisons suggest that Alaska's recent increases in bond issue size have been unfortunately timed to place underwriters with the "double jeopardy" of marketing significantly larger issues in an increasingly hostile and volatile market.

Underwriting Spreads

Underwriters specialize in bearing the risks of distributing securities at fixed prices and they are compensated for these risk-bearing services through the gross underwriting spread. The underwriting spread is the difference between the price paid to the issuer for the bonds and the prices at which they are reoffered (and hopefully sold) to investors. The amount of the spread is determined partially by the anticipated degree of effort required to sell the bonds. Generally the more difficult it is to sell or issue, the spread will be higher. Table 4.4 provides statistics on these underwriting spreads for sample state GO bonds since 1977.

These data indicate that the costs of underwriting Alaska GO bonds have risen dramatically since 1977, from $6.71 per $1000 par value in 1977 to $10.30 per $1000 par value in 1982. The rising costs of underwriting are not unique to Alaska. Table 4.4 points out that the costs of underwriting other state bonds has risen as well. States maintaining Aa-ratings over the period have witnessed underwriting spread increases from $8.32 per $1000 in 1977 to $12.73 per $1000 in 1982, a 53 percent increase. Again, the rising risks of entering the volatile credit markets of the past three years account for the increased returns demanded by underwriters for bearing these risks.

Of particular importance, however, is the noticeably lower cost of underwriting for Alaska bonds relative to other states that maintained double-A bond ratings over this period. In 1980, the difference amounted to $5.79 per $1000 par value. As an indication of the magnitude of this lower underwriting spread, this savings translates into $723,750 in lower underwriting charges on the $125 million in Alaska bonds issued in 1980. In 1982, the lower spread of $2.43 per $1000 translates into savings of $935,000 on the $385 million in new Alaska bonds.

Table 4.3

Number of Bids and Issue Size
National Bond Market
State GO Bond Issues

1982

Number Of Bids	Issue Size ($ millions)			
	Less Than $20	$20-49	$50-99	$100 And Over
1			1	
2			1	10
3		2	3	6
4		3	3	5
5	1	1	3	
6	1			
7	2			
8	3			
9				
10				
11	1			
12	3			
Total Number Of Issues	11	6	11	21
Average Number Of Bids Per Issue	8.7	3.8	3.5	2.8

Table 4.5 points to the principal factor explaining the significantly lower underwriting spreads on Alaska GO bonds. Alaska has consistently issued new debt with relatively short average maturities. In 1982, for example, the average maturity on Alaska bonds was 5.5 years, compared with 8.7 years for states recently upgraded and with more than 11 years for all sample states.

The shorter average maturity reduces interest costs at the time of sale since the tax-exempt yield curve is upward sloping. Interest rates for bonds maturing in, say, 3 years are less than rates for bonds maturing in 10 years. Short maturities also translate into reduced underwriting risks as well. Price changes, which affect underwriter revenues, are less on short-dated securities and demand by banks is concentrated among securities with 10 years or less to maturity.

Interest Rates on Alaska State Bonds

Comparing interest rates on new bond issues is difficult because each new issue differs in several important ways. Most bond issues are sold as serial bonds, with varying amounts of principal maturing each year over the life of the issue. And, as just noted, Alaska bond issues carry significantly shorter maturities than most other comparable state bonds. Moreover, borrowing costs on any given maturity on any given bond issue can be closely associated with the then current market conditions.

Most generally, three broad and interrelated determinants combine to explain the interest rate on a specific bond issue:

1. Issuer characteristics: Credit quality and the risk of default; name recognition, and

2. Issue characteristics: the issue's average maturity, its size, its type, and the method of sale; and

3. Market characteristics: the overall level and trend of interest rates and aggregate investor demand for tax-exempt securities.

Therefore, evaluating the relative market performance of Alaska State GO debt requires a careful matching of these characteristics with other comparable bond issues.

As a first stage of comparison, Table 4.6 compares interest rates on Alaska bonds with other double-A rated state bonds sold within two weeks of the Alaska sale. The combined requirements of double-A rating and an approximately coincident sale date permit comparisons with 5 of the 6 Alaska bond sales since 1978. Based on the net interest cost (NIC)[1] of the entire bond issue, Alaska has consistently carried lower borrowing costs than other comparable states, but these differences are based largely on the far shorter average maturities on Alaska bonds.

Table 4.4

Average Underwriting Spreads On New Issues of State General Obligation Bonds 1977 - 82

	1977	1978	1979	1980	1981	1982
Average Underwriting Spread:						
Alaska	$6.71	$7.71	N.A.	$8.00	--	$10.30
Consistently Rated Aa States	8.32	7.53	7.60	13.79	16.42	12.73
Upgraded States	6.93	5.48	5.45	10.31	14.38	N.A.
Downgraded States	6.63	7.02	7.29	12.90	12.28	10.88
Aaa Rated States	6.92	6.84	6.53	11.09	13.27	8.88
Difference in Spreads Alaska vs:						
Consistently Rated Aa States	-$1.61	$.18	--	-$5.79	--	-$2.43
Upgraded States	-.22	2.23	--	-2.31	--	--
Downgraded States	+.08	.69	--	-4.90	--	-.58
Aaa Rated States	-.21	.87	--	-3.09	--	1.42

Table 4.5

Average Maturities on New Issues

Of State General Obligation Bonds

	Average Maturity (years)					
	1977	1978	1979	1980	1981	1982
Alaska	8.0	5.5	6.0	6.0	--	5.5
States Consistently Rated Aa	14.6	12.1	14.4	12.2	12.3	11.2
States Upgraded To Aa	5.0	7.5	4.0	10.2	9.3	8.7
States Downgraded To Aa	12.9	11.8	12.0	12.9	10.4	11.6
States Consistently Rated Aaa	11.9	11.9	12.4	12.9	11.2	11.1

More revealing is the comparison of reoffering yields to investors on selected bond maturities. These reoffering yields are measures of the returns required by investors to purchase specific bonds, therefore this measure avoids the problems associated with different average bond issue maturities and comparisons using NIC.

Table 4.6 points out that prior to the June 1980 upgrading of Alaska's bond rating, Alaska GO bonds carried yields above states with double-A bond ratings. Although the June 1980 issue carried an Aa rating, yields on Alaska debt remained well above yields on Louisiana State bonds.

By October 1982, however, new Alaska issues were carrying demonstrably lower yields than comparable maturities on California and Connecticut bond issues. Although these data are somewhat sparse, the matched comparisons suggest that the marketplace, in consent with the opinion of Moody's analysts, has upgraded the performance of Alaska GO debt in the past 5 years. The technical appendix to this section reports the results of a statistical analysis that has been developed as an alternative approach to the evaluation of relative state bond interest costs. This procedure — multiple regression analysis — permits valid comparisons of relative costs on bonds sold with differing characteristics over distinct time periods. This statistical analysis has been applied to a sample of 254 state bonds to develop predictive measures of interest cost on Alaska bonds. By comparing the actual NIC on Alaska bonds with the predicted costs, this analysis can provide a measure of relative market standing.

The results, summarized in Table 4.7, suggest that the NIC on Alaska debt is lower than would be predicted for the average double-A rated state bond sold over this period. The statistical approach indicates that since June 1980, Alaska bond issues have carried NICs that are on average, 51 basis points lower than would be predicted. Prior to 1980, this difference averaged only 20.5 basis points. Expressed in different terms, the 51 basis points in lower NIC translates into $14.3 million in interest savings over the approximate 5 1/2 year average life of the $510 million in new Alaska bonds issued since 1980.

Secondary Market Yields

The prior analysis of relative borrowing costs has focused on new issue interest rates. Borrowing costs at the time of sale are generally of most concern to governments since these rates directly affect future budgets. But, investors have a broader perspective and they are continually revising their portfolio holdings through transactions in the secondary market. Underwriters, broker/dealers and investors follow closely the relationships among securities in daily secondary market trading to detect important clues to supply and demand conditions for individual securities as well as broad market trends. These constantly shifting secondary market yield relationships often provide early indicators of market sentiment prior to the offering of a new bond issue.

Table 4.6

Comparison Of State Of Alaska General Obligation Bonds

To Other State General Obligation Bonds

Date Of Issue	Issuer	Issue Size ($millions)	Average Maturity (years)	NIC	5-Year Reoffer Yield	10-Year Reoffer Yield	Difference in Yields Alaska-Other States (basis points) 5-Year	10-Year
3-28-78	Alaska	45.0	6	4.866%	4.50%	5.00%	--	--
3-21-78	Alabama	15.0	10	4.784%	4.25%	4.60%	+25	+40
3-28-78	Florida	18.3	20	5.400%	4.40%	4.80%	+10	+20
12-12-78	Alaska	40.0	5	5.525%	5.35%	5.50%	--	--
12-14-78	Rhode Island	21.3	8	5.717%	5.30%	5.40%	+5	+10
6-24-80	Alaska	125.0	6	5.767%	5.35%	6.00%	--	--
6-10-80	Louisiana	154.5	13	6.375%	5.10%	5.60%	+25	+40
6-10-80	Hawaii	75.0	12	6.594%	5.40%	6.10%	-5	-10
3-10-82	Alaska	200.0	5	9.985%	9.50%	NA	--	--
3-9-82	California	140.0	8	10.309%	9.25%	10.25%	+25	--
3-3-82	Maine	19.4	8	10.275%	9.20%	10.25%	+30	--
10-20-82	Alaska	185.0	6	7.728%	7.00%	8.20%	--	--
10-26-82	California	180.0	9	8.778%	7.30%	8.60%	-30	-40
10-5-82	Connecticut	100.0	11	9.165%	7.75%	8.80%	-75	-60

Table 4.7

Actual and Predicted

Net Interest Costs On

Alaska State GO Bond Sales

Sale Date	Actual NIC	Predicted NIC	Difference (in basis points)
2-17-76	5.867%	6.292%	-42.5
6-29-76	5.804	6.241	-43.7
9-27-77	4.510	4.944	-43.4
3-28-78	4.866	5.002	-13.6
12-12-78	5.525	5.420	10.5
4-10-79	5.592	5.493	9.9
6-24-80	5.767	6.347	-58.0
3-10-82	9.985	10.621	-63.6
10-20-82	7.728	8.042	-31.4

Note : See technical appendix to this section for an explanation of the technique used to predict NIC.

To provide a secondary market perspective on Alaska State debt, selected national traders were polled on May 5, 1983 to get the secondary market yields on a 10-year bond for selected states. The results of this poll are tabulated in Table 4.8.

These data show a fairly narrow band of yield differentials ranging from 7.60% on 10-year maturities for Maine and Minnesota bonds to 7.90% on 10-year Nevada bonds. Alaska falls exactly midway in this range with an estimated yield of 7.75 percent. These comparisons suggest that, at present, Alaska has a well-defined status as a high-grade state credit, solidly entrenched among the broad range of states carrying similar bond ratings.

Investor Perceptions of State General Obligation Bonds

Interest rates and underwriting spreads established in the marketplace represent an amalgam of the investment choices of many different individuals and institutions. The market reception and performance of Alaska's bonds can, therefore, be viewed as a summary expression of investor perceptions of the relative value of the State's creditworthiness. As part of this study, further and more detailed expressions of investor sentiment were elicited from key participants in the municipal bond market.

As its market performance indicates, Alaska is viewed by most investors as a high-grade AA credit. However, many investors expressed concerns over the future security of state revenues that some believe are too dependent on oil and, therefore, overly exposed to fluctuations in world oil prices. Indeed, one professional market observer quipped, "Alaska is a giant industrial development bond, tied to the fortunes of the oil companies". This sentiment is mirrored in the credit analyses of Alaska general obligation debt by two major participants in the municipal bond market excerpted below:

Continental Illinois National Bank:

> Alaska currently enjoys a very strong financial position and has an impressive natural resource base; however, its economy depends heavily upon oil and gas production and defense expenditures. In addition, Alaska's debt load is high, and income growth in the State has slowed considerably. Alaska ranks near the bottom of "Aa" rated states.

E.F. Hutton:

> The mineral-rich State of Alaska may have to adjust to the current period of softening oil prices, during which its revenue stream may grown more slowly than has been the case during recent years. Although the balance of the Permanent Fund may approach $4 billion by the end of fiscal year 1982, the uses of the Fund are restricted by State legislation. We are maintaining our Mid-A rating, but revising the trend from improving to stable in view of the reduced surplus margins in the general fund.

Table 4.8

Estimate of Secondary Market Yields On 10-Year Maturities

Of Selected State GO Bonds

May 5, 1983

State	Yield
Maine	7.60%
Minnesota	7.60
California	7.70
Connecticut	7.70
Florida	7.70
Louisiana	7.70
Ohio	7.70
Alaska	7.75
Alabama	7.75
Mississippi	7.75
New Mexico	7.75
Wisconsin	7.75
Hawaii	7.80
Vermont	7.80
Nevada	7.90

Alaska is seen by some market participants and credit analysts as a classic "boom or bust" economy. Such beliefs did not prevent them from purchasing Alaska bonds at the height of its "boom" in the late 1970s, but the sensitivity of Alaska to a "bust" as demonstrated by the effects of 1982-83 oil price revisions on Alaska revenues is likely to make these investors more cautious in the future. Such concerns will increase investor scrutiny of the State's oil revenue projections and the demands for those revenues in addition to paying debt service. In line with the "boom and bust" attitude, one investor put forth that Alaska may have certain appeal to the speculative investor, and could capitalize on that appeal by selling "equity shares" in the State with both an "up and a downside" potential rather than fixed-income bonds.

The mention of the State's Permanent Fund in the E.F. Hutton credit report deserves comment. The Alaska Permanent Fund was established by a constitutional amendment effective February 21, 1977. The amendment stated that contributions to the fund must consist of at least 25 percent of mineral lease rentals, royalties, royalty sale proceeds, Federal mineral revenue sharing payments, and bonuses received by the State. Enacted legislation (Ch. 18 SLA 1980) has modified this contribution rate to the Permanent Fund from 25 percent to 50 percent on new discoveries.

Because of its massive size, The Permanent Fund is viewed by certain investors as a potential source of repayment for Alaska debt, regardless of the fact that it is constitutionally unavailable for that purpose. The Permanent Fund has other indirect benefits on credit perceptions; establishment of the permanent fund is recognized as a sign of prudent financial management, which is looked upon favorably by investors. This contrasts with the abolishment of the State's individual income tax in 1980 that is considered by some to be a sign of fiscal irresponsibility. Alaska particularly must go out of its way to demonstrate competent responsible fiscal management because of its uniqueness. Such actions as following through on its appropriation commitment to the Permanent Fund and conservatively controlling legislation which erodes the principal or redirects the earnings of the Permanent Fund are necessary to reassure investors that the State is acting responsibly.

Market Performance Of The AHFC

The significance of the borrowing programs of the Alaska Housing Finance Corporation (AHFC) has been discussed in Section Four. AHFC tax-exempt bond sales have accounted for more than 30 percent of all Alaska debt issues since 1978 and constitute more than 60 percent of all state-level debt currently outstanding. In addition, many bonds are backed by the state's credit indirectly through the pledge of the State's moral obligation.

Table 4.9

Comparison of Tax-Exempt Alaska Housing Finance Issues

To Other States' Housing Issues

1978 - 1982

Date Of Issue	Issuer	Issue Size ($million)	NIC	Spread	RY10	RY15	Difference In Yields RY10	Difference In Yields RY15
2-21-78	Alaska Housing Finance Corp	$47.225	6.365%	$18.50	5.40%	5.75%	--	--
2-9-78	New Jersey Mortgage Finance	11.105	5.446	18.00	5.00	5.50	+40	+25
6-29-78	Alaska Housing Finance Corp	55.000	7.465	25.00	6.30	6.80	--	--
6-27-78	California Housing Finance	50.000	6.519	NA	5.90	6.35	+40	+45
6-29-78	New Mexico Mortgage Finance	61.200	NA	NA	6.15	6.55	+15	+25
7-9-78	Colorado Housing Finance	90.000	7.000	18.98	6.20	6.70	+10	+10
11-21-78	Alaska Housing Finance Corp	44.000	7.062	19.00	6.10	6.50	--	--
11-10-78	Massachusetts Housing Finance	53.125	7.384	23.81	6.20	6.70	-10	-20
11-30-78	Rhode Island Mortgage Finance	61.610	7.400	18.80	6.30	6.75	-20	-25
2-23-79	Alaska Housing Finance Corp	60.000	7.247	18.71	6.25	6.70	--	--
2-23-79	Michigan State Housing Develop	41.000	7.321	NA	6.25	6.65	0	+5
2-21-79	Delaware State Housing Auth.	23.795	6.990	NA	6.20	6.50	+5	+20
6-18-79	Alaska Housing Finance Corp	$105.000	7.080%	$18.50	6.10%	6.60%	--	--
6-18-79	New Mexico Mortgage Finance	175.000	6.900	NA	6.10	6.60	0	0
6-29-79	Wisconsin Housing Finance	20.120	6.322	NA	6.00	6.40	+10	+20
12-18-79	Alaska Housing Finance	39.400	8.748	24.10	7.60	8.20	--	--
12-19-79	Michigan State Housing Devel.	50.000	8.050	16.00	7.50	8.20	+10	0
12-20-79	New Hampshire Housing Fin	15.885	8.470	21.94	7.15	7.90	+45	+30
6-30-80	Alaska Housing Finance Corp	230.000	9.248	24.64	7.50	8.40	--	--
7-10-80	Pennsylvania Housing Finance	51.600	9.256	21.55	7.25	8.30	+25	+10
11-14-80	Alaska Housing Finance Corp	230.000	11.070	25.38	9.50	10.50	--	--
10-24-80	Texas Housing Agency	150.000	9.950	22.91	8.00	9.25	+150	+125
11-11-81	Alaska Housing Finance Corp	100.000	12.500	22.52	11.75	NA	--	--
11-6-81	Hawaii Housing Authority	20.000	12.810	27.56	11.75	NA	0	--
11-16-81	Michigan State Housing Dev.	40.000	13.030	26.65	11.80	12.75	-5	--
11-12-81	North Carolina Housing Fin.	30.000	12.802	19.50	10.75	NA	+100	--
11-19-81	Connecticut Housing Finance	200.000	12.890	20.57	11.75	NA	0	--
11-18-81	Minnesota Housing Finance	52.625	12.755	24.95	12.00	NA	-25	--
12-17-81	Alaska Housing Finance Corp	$100.000	11.540%	$21.74	NA	13.375%	--	--
12-4-81	Virginia Housing Devel Auth	100.000	13.280	23.31	12.00	NA	--	--
12-18-81	Alabama Housing Finance	100.000	13.471	25.00	12.50	NA	--	--
12-18-81	Louisiana Housing Finance	150.000	11.810	24.80	12.00	13.00	--	+37.5
3-4-82	Alaska Housing Finance Corp	15.000	13.420	28.26	NA	NA	--	--
3-3-82	Minnesota Housing Finance	40.920	13.560	25.00	12.25	NA	--	--
3-5-82	West Virginia Housing Devel	25.000	13.222	27.00	13.00	NA	--	--
9-9-82	Alaska Housing Finance Corp	85.000	10.950	22.25	10.75	NA	--	--
9-1-82	Massachusetts Housing Fin.	17.364	11.724	26.54	10.25	NA	+50	--
9-1-82	Pennsylvania Housing Fin.	28.730	10.972	23.03	10.50	NA	+25	--
9-10-82	Connecticut Housing Finance	150.000	11.061	19.25	10.20	NA	+55	--
9-10-82	California Housing Finance	75.090	NA	20.61	10.00	NA	+75	--
11-24-82	Alaska Housing Finance Corp	93.24	NA	23.21	9.75	NA	--	--
11-12-82	Alabama Housing Finance	100.000	10.170	25.77	9.25	NA	+50	--
11-30-82	Connecticut Housing Finance	50.000	9.735	13.50	9.00	10.20	+75	--
11-24-82	Minnesota Housing Finance	45.000	10.850	25.00	9.60	NA	+15	--

This section provides a brief review of the market performance of AHFC bond issues at the time of sale. Following the approach utilized in analyzing State GO bond sales, the analysis is based on matched comparisons of AHFC bond terms with bonds of comparably rated state housing agencies sold during a similar period. Table 4.9 presents the results of this analysis for those issues of AHFC for which comparisons were possible.

Housing bond issues are structured with long average maturities designed to match expected repayments of mortgage principal. The comparisons of reoffer yields, therefore, focus on 10-year and 15-year maturities. The comparisons on 10-and 15-year maturities indicate that, on average, AHFC bonds have carried yields that are 28.3 and 21.8 basis points higher than other state HFA bonds sold under approximately similar conditions.

AHFC bonds are sold through negotiation as are most mortgage revenue bonds. Table 4.10 summarizes yearly average underwriting spreads for the AHFC issues and other state housing agency issues included in Table 4.9. Based on these comparisons, average costs of underwriting appear to have been higher on AHFC issues in all years but 1981 with an apparent widening of this gap in 1982.

As noted in Section Four, AHFC issues taxable bonds in addition to the tax-exempt issues discussed above. The taxable bond market is different from the municipal market because competition comes not from other governmental borrowers, but, primarily from private corporations. Similarly, the investors and therefore the underwriting process for taxable bonds is different from that of municipals. Table 4.11 presents details on $775 million of the $875 million in taxable bonds issued since 1980. The Table does not compare AHFC taxable bonds with other taxable bonds; rather, it compares past AHFC taxable issues with U.S. Treasury Bonds sold during the same week with similar maturities.

Since 1981, the spread has narrowed dramatically from over 300 basis points (3 percent) to 87 basis points (0.87 percent) in 1983. Treasury bonds represent the benchmark security against which all taxable yields are measured because they are the most secure form of fixed-income investment. The narrowing of the difference between AHFC and Treasury yields indicates broad market acceptance and greater investor familiarity with the AHFC name.

Most all of the taxable and tax-exempt AHFC bond issues have been sold through a negotiated sale process of the type described in Section Six. The exception are the 1983 issues of State Guaranteed Veterans Housing Bonds which must be sold at a competitive sale because the State requirements that general obligaion bonds be sold competitively. Taxable AHFC issues must be sold in a negotiated sale because of market norms; however, future tax-exempt AHFC issues may profit from a competitive sale if the trend towards improved market acceptance of Taxable AHFC bonds holds true for its tax-exempt offerings.

Table 4.1C

Average Underwriting Spreads

State Housing Finance Agencies

1978-82

	1978	1979	1980	1981	1982
Alaska Housing Finance Agency	$20.83	$20.44	$25.01	$22.13	$24.57
Other State Housing Agencies	19.89	18.97	22.23	24.04	21.24
Difference: Alaska Less Other SHAs	$.94	$1.47	$2.78	-$1.91	$3.33

Table 4.11

ALASKA HOUSING FINANCE CORPORATION

Taxable SAM Bonds (1)
Summary of Principal Terms

Issue	Offering Date	Ratings S&P/Moody's/Fitch	Principal Amount	Maturity	Dollar Price	Coupon	Yield	Spread (2)	Benchmark Treasury
Series B	9/30/81	AA/N.R./N.R.	$ 75,000,000	12/1/91	98.393	17.500	17.850	203.0	14 7/8s due '91 (15.82%)
Series C	9/30/81	AA/N.R./N.R.	$ 75,000,000	12/1/01	98.703	18.500	18.750	316.0	13 3/8s due '81 (15.59%)
Series D	10/27/81	AA/N.R./AA	$ 90,000,000	12/1/91	98.815	17.750	18.000	243.0	14 7/8s due '91 (15.547%)
Series E	10/27/81	AA/N.R./AA	$ 60,000,000	12/1/01	97.000	18.375	18.950	245.0	15 3/4s due '01 (15.504%)
Series F	5/26/82	AA/N.R./AA	$225,000,000	6/1/92	99.250	15.250	15.400	179.0	13 3/4s due '92 (13.61%)
Series G	8/3/82	AA/Aa/AA	$100,000,000	6/1/92	99.250	15.000	15.162	169.6	13 3/4s due '92 (13.466%)
Series H	11/17/82	AA/Aa/AA	$ 50,000,000	12/1/92	98.400	11.750	12.030	147.8	10 1/2s due '92 (10.55%)
Series I	1/19/83	AA/Aa/AA	$ 50,000,000	6/1/93	99.750	11.500	11.536	113.6	10 1/2s due '92 (10.412%)
Series J	3/9/83	AA/Aa/N.R.	$ 50,000,000	6/1/93	100.000	11.375	11.375	87.3	10 7/8s due '93 (10.502%)

(1) Does not include $27,000,000 Private Placement.
(2) Difference between coupon and treasury bonds.
Source : Salomon Brothers

Technical Appendix
A Statistical Analysis of Interest Costs On State General Obligation Bonds

The purpose of this study is to determine how investors perceive State of Alaska issues relative to other states' general obligation bonds. The method of analysis is to first determine what factors are significant in explaining the variations in Net Interest Costs (NICs) for a sample of 254 state general obligation bonds sold between 1970 and 1982. These estimates will be obtained by using the statistical technique of ordinary least squares regression. The estimates of how each factor affects NIC will then be used to predict the interest costs on State of Alaska general obligation bonds. If investors perceive State of Alaska issues as comparable to other states' issues, then the actual and predicted interest costs will be the same. On the other hand, if investors consider State of Alaska issues to be more desirable, then the actual NICs will be less than the predicted NICs.

The sample of bonds used to estimate the influence of the explanatory variable on NIC consists of 254 general obligation bonds sold by states other than Alaska between 1970 and 1982. The sample is restricted to those issues having an average maturity of 10 years or less; this selection criterion was used because of the relatively short average maturity of State of Alaska issues.

Table 4.12 presents summary statistics for the sample. Borrowing costs, as measured by NIC, range from 2.979% to 11.794% and averaged 5.894%. The mean average maturity was 8.2 years with a range from 2 to 10 years. The average issue size was $50.018 million with a range from $370,000 to $450 million. Over 80% of the bonds were rated Aaa or Aa and virtually all were sold by competitive bid.

The distribution of bonds by Moody's rating and issue size is presented in Table 4.13. There appears to be some relationship between size and rating. Over one-half of the issues above $50 million were rated Aaa while only 7 percent of the issues under $10 million were rated Aaa.

The following explanatory variables have been included in the regression equation:

1. Issue Size ($ thousands) in logarithm. Size is specified in logarithmic form to reflect the diminishing impact that increases in size have on NIC.

2. Average Maturity (years).

3. Negotiated Dummy Variable (equal to 1 if the issue was sold through negotiation). This variable measures the difference in NIC, if any, due to method of sale. The variable coefficient reflects the differences in NIC on negotiated issues relative to competitive issues.

4. Bond Buyer Index of 11 bonds. This index is a measure of average 20-year reoffer yields for the week of each issue. The index variable is designed to control for the effects of variations over time in the overall levels of interest rates.

5. Moody's Bond Rating in Dummy Variable Form:
   Aa = 1 is the issue is rated Aa, 0 otherwise;
   A-1 = 1 is the issue is rated A-1, 0 otherwise;
   A = 1 if the issue is rated A, 0 otherwise.

Table 4.12

Summary Statistics For 254 State General Obligation Bonds

	Mean	Minimum	Maximum	Standard Deviation
Net Interest Cost (%)	5.894	2.979	11.794	1.937
Average Maturity (years)	8.193	2.000	10.000	2.201
Size ($ millions)	50.018	0.370	450.000	50.015
Negotiated	0.1%			
Competitive	99.9%			
Moody's Rating (%)				
Aaa	39.4%			
Aa	45.7%			
A-1	7.9%			
A	7.0%			

These variables are specified to capture the effects of differences in Moody's ratings on NIC. Moody's ratings are used as surrogate measures of credit risk. The omitted class is bonds rated Aaa. Therefore, the coefficients on these variables represent the average differences in borrowing costs for bonds of a given rating relative to Aaa rated bonds.

The regression results are presented in Table 4.14. The explanatory variable coefficients have the expected sign and most are statistically different from zero. A t-value greater than two indicates that a coefficient is statistically significant at the 5% level. The regression equation explains approximately 95% of the inter-issue variation in NIC.

The coefficients indicate that extending the maturity of issues by 1 year increases borrowing costs by 11.3 basis points. The rating variable coefficients reflect the difference in NIC between Aaa rated bonds and the indicated rating. For the sample of state GO bonds, Aa rated bonds had NICs that were 32.1 basis points higher, on average, than Aaa rated bonds. The differential was 70.7 basis points and 114.6 basis points for A-1 and A rated bonds, respectively.

The Bond Buyer Index coefficient indicates that for a 100 basis point increase in the index, NIC increases, on average, 85.5 basis points. The issue size variable coefficient indicates that larger issues have higher borrowing costs, but the effect on NIC diminishes as issue size is increased. For instance, increasing size from $5 to $10 million increases NIC by 4.8 basis points, while the impact on NIC is only 0.4 basis points for an increase from $95 to $100 million. The method of sale variable coefficient was not statistically significant.

These estimates of the influence each factor has on NIC can be used to predict the borrowing cost on State of Alaska issues. This calculation is illustrated below for the State GO issue sold February 17, 1976:

Variable	Coefficient	Issue Feature	Product
Average Maturity	0.1128	10	1.1280
Issue Size	0.0695	10.597*	.7365
Aa	0.3208	0	0
A-1	0.7066	1	.7066
A	1.1459	0	0
Bond Buyer 11	0.8552	6.43	5.4989
Negotiated	-0.1161	0	0
Constant Term	-1.7778	1	-1.7778
		Predicted NIC	6.2922

* Natural logarithm of $40,000 is 10.597

Table 4.15 shows predicted NIC values for all State of Alaska general obligation issues that were rated A-1 or better and had an average maturity of 10 years or less. Exhibit 4 also shows the actual NIC for each issue and the difference between the actual and predicted NIC; this difference is referred to as the residual.

A positive residual indicates that the actual borrowing cost paid by the State of Alaska was greater than comparable issues sold by other states. A negative residual indicates that the State of Alaska paid less than comparable issues. The data in Table 4.15 indicate that

Table 4.13

Distribution of Bonds by Moody's Rating and Issue Size

Issue Size ($ million)	Aaa	Aa	A-1	A	Total
2.5 or less	2	15	3	1	21
2.5 - 5.0	1	12	5	2	20
5.0 - 10.0	4	14	1	2	21
10.0 - 25.0	9	30	0	4	43
25.0 - 50.0	25	18	6	2	51
50.0 - 100.0	43	19	2	6	70
More than 100.0	16	8	3	1	28
TOTAL	100	116	20	18	254

Table 4.14

Summary of Regression Results

for 254 State GO Bonds

NIC Dependent Variable

Explanatory Variable	Regression Coefficient	t-value
Average Maturity	0.1128	7.62
Issue Size (ln)	0.0695	2.63
Moody's Rating		
Aa	0.3208	4.72
A-1	0.7066	6.15
A	1.1459	9.62
Bond Buyer 11 Index	0.8552	60.57
Negotiated	-0.1161	0.25
Constant Term	-1.7778	
$\bar{R}^2$	.945	
SEE	.455	

Alaska has consistently experienced lower borrowing costs than other states with the same rating. Between 1976 and 1979, when State of Alaska general obligation bonds were rated A-1, the average interest cost advantage averaged 20 basis points and exceeded 40 basis points on several occasions.

The borrowing cost advantage enjoyed by the State of Alaska increased somewhat after 1980 when the State's GO bonds were upgraded to Aa by Moodys. After controlling the effects of issue size, average maturity, method of sale, and the general level of interest rates, the State of Alaska paid average interest costs that were 31 to 646 basis points lower than the costs on other Aa rated state GOs.

In summary, the results of the regression analysis indicate that investors perceive State of Alaska issues more favorably than general obligation bonds sold by other states. This result holds even after differences in issue and issuer characteristics and market conditions are held constant.

Table 4.15

Comparison of Predicted Borrowing Costs with Actual Borrowing Costs for State of Alaska Issues

Date of Sale	Actual NIC	Predicted NIC	Residuals
2-17-76	5.867	6.292	-.425
6-29-76	5.804	6.241	-.437
9-27-77	4.510	4.944	-.434
3-28-78	4.866	5.002	-.136
12-12-78	5.525	5.420	.105
4-10-79	5.592	5.493	.099
6-24-80	5.767	6.347	-.580
3-10-82	9.985	10.621	-.636
10-20-82	7.728.	8.042	-.314

CHAPTER V

ANALYSIS OF THE MARKET PERFORMANCE AND MANAGEMENT OF LOCAL GOVERNMENT DEBT

Profile of Local Borrowing

Local governmental units in Alaska have been active issuers of debt. Alaskan localities had approximately $1.3 billion in general obligation debt outstanding at the end of June 1982, for a Statewide average of $4,648 per capita. This level contrasts with the State's own general obligation indebtedness at the end of fiscal year 1982 of $842 million. In addition to general obligation debt that is supported by local taxes, cities and boroughs also issue debt that is supported by the revenues generated by the project financed through the issuance of debt. At the end of June 1981 (the latest fiscal year for which data are available), approximately $347.4 million in revenue bonds was outstanding (see Table 5.1). The general obligation and revenue bonds of local governments comprise approximately 43 percent of the total amount of public debt outstanding in the State.

Revenue-supported debt is not appropriate to finance all local governmental capital investment. The construction of schools, roads, and most public buildings generally must be financed through general obligation bonds if debt is raised to finance these capital improvements. Water and sewer systems, waste treatment facilities, municipal utilities and other services for which a user charge can be levied may be financed through the use of revenue bonds. If operation of the project is expected to generate sufficient revenues to provide adequate "coverage" of debt service (excess of net revenues over debt service usually by 1.25 times), revenue bonds are a possibility for the financing instrument.

Revenue bonds account for approximately 25 percent of all local debt outstanding in Alaska, compared with the national average of 54 percent. This comparison indicates that Alaska's muninicipalities rely on general obligation borrowing at twice the national rate. This is to be expected because of the lack of a concentration of population and resources and the resulting greater efficiency of taxation as a revenue source. The amounts of general obligation and reveue-supported debt outstanding in each city and borough in the State are presented in Table 5.2. The majority of communities that have issued debt have a mix of revenue and general obligation bonds outstanding. The most notable exceptions are the North Slope Borough, Kenai Peninsula Borough, and Matanuska-Susitna Borough, none of which have revenue bonds outstanding. Not suprisingly, these three communities also have ratios of general obligation debt to assessed property value among the highest in the State (see Table 5.3). Table 5.3 also presents the debt per capita ratios for local governments in the State, and the national medians as computed by Moody's Investors Service. Because of the relatively sparce population in the State, these ratios are above the national median in the majority of Alaskan localities.

Table 5.1

Estimated Alaska Municipal Debt

(Millions)

Fiscal Year	Amount of Revenue and G.O. Debt Issued	Amount Outstanding G.O.	Amount Outstanding Rev.	Revenue Debt Outstanding as % of Total
1971	78.7	$230.9	$ 56.3	19.6%
1972	88.9	279.2	81.0	22.5
1973	46.8	319.9	70.3	18.0
1974	85.3	345.1	77.6	16.4
1975	120.2	415.8	94.8	18.6
1976	70.1	452.5	99.4	18.0
1977	220.8	514.1	215.7	29.6
1978	178.2	449.5	277.7	38.2
1979	320.9	731.6	286.3	28.1
1980	250.0	809.4	316.0	28.1
1981	277.7	1,030.2	347.4	25.2
1982	515.0	1,316.2	N/A	N/A

Source: U.S. Department of Commerce, Bureau of the Census, Governmental Finances, various years, and Moody's Investors Service, Inc. Municipal Bond Record, 1983.

Table 5.2
State of Alaska
Local Government Debt

City/Borough	General Obligation Debt Outstanding 7-1-82[1]	Revenue-Supported Debt Outstanding[2] 12-31-81	Moody's Rating[3]
North Slope	$587,400,000	-0-	A
Anchorage	261,010,000	$236,660,000	A1/Baa
Kenai Peninsula	98,999,603	-0-	A
Valdez	84,460,000	9,200,000	A
Fairbanks North Star	83,158,350	35,000,000	A/Aa
Matanuska-Susitna	65,218,090	-0-	A
Juneau	27,904,000	146,000	Baa1
Kodiak Island	20,042,372	-0-	Baa1
Sitka	17,486,200	5,168,000	Baa1
Ketchikan Gateway	14,495,000	-0-	Baa1
Fairbanks	11,915,000	36,400,000	A
Ketchikan City	8,110,000	12,567,000	Baa1/Baa
Bristol Bay	3,895,000	-0-	NR
Kenai	3,695,000	280,000	NR
Palmer City	3,629,401	-0-	NR
Unalaska	3,500,000	456,000	NR
Kodiak City	3,250,000	4,295,000	Baa
Petersburg	2,995,000	2,526,000	Baa1
Homer City	2,877,000	1,096,000	Baa
Nenana	2,725,000	-0-	NR
Wrangell	2,578,000	612,000	NR
Skagway	1,826,325	-0-	NR
Cordova	1,673,200	1,611,000	NR
Haines	923,310	-0-	NR
Haines City	805,000	-0-	NR
Bethel	585,000	-0-	NR
Nome	507,872	960,000	NR
Seldovia	430,000	55,000	NR
Dillingham	73,000	231,000	NR
Craig	37,498	93,000	NR
Totals	$1,316,294,221	$347,356,000	

NOTES: 1. From Department of Community and Regional Affairs, Alaska Taxable 1982.

2. From Moody's Investors Service, Moody's Municipal and Government Manual 1983, and Department of Community and Regional Affairs.

3. When two ratings are given, the first applies to general obligation debt, and the second to the majority of revenue bonds.

NR = Not Rated.

Table 5.3

Municipal Debt Ratios

City/Borough(population)	G.O. Debt Per Capita	Debt as % of Assessed Value
North Slope *	$77,781	7.10%
Anchorage *****	1,278	2.46
Kenai Peninsula ***	3,064	4.45
Valdez *	22,864	4.97
Fairbanks North Star ****	1,146	2.78
Matanuska-Susitna ***	2,508	5.42
Juneau **	1,267	2.69
Kodiak Island **	1,576	4.58
Sitka *	2,127	4.15
Ketchikan Gateway **	1,166	2.17
Fairbanks ***	463	1.12
Ketchikan City *	1,043	2.58
Bristol Bay *	3,064	4.45
Kenai *	706	1.80
Palmer City	1,438	3.93
Unalaska *	1,821	4.76
Kodiak City *	553	1.00
Petersburg *	985	2.32
Homer City *	993	1.85
Nenana *	5,046	30.39
Wrangell *	1,085	2.94
Skagway *	2,312	3.21
Cordova *	747	1.44
Haines *	499	1.30
Haines City *	746	0.23
Bethel *	159	0.41
Nome *	148	0.32
Seldovia *	590	2.26
Dillingham *	40	0.11
Craig *	62	0.17
Statewide Average	$ 4,648	3.75%

Moody's Local Debt Medians

	Population		
*****	200-300,000	361	2.1%
****	50-100,000	391	1.8
***	25-50,000	289	1.9
**	10-25,000	422	2.7
*	Under 10,000	600	3.2

Source: Department of Community and Regional Affairs, Alaska Taxable, Fiscal year 1982.

A major use for local general obligation debt has been to finance school construction. As of April 1, 1983, school districts in the State had approximately $644 million in school construction debt outstanding (see Table 5.4). Under existing programs this debt will be retired, in part, through State aid. Thus, school construction debt comprises approximately 49 percent of all local general obligation debt. Because there are no State restrictions on how school debt must be issued, localities may issue bonds on their own or may make use of the Municipal Bond Bank. Table 5.4 indicates that approximately $76 million or 12 percent of outstanding school debt has been issued through the Bond Bank.

The State of Alaska's education assistance program to local governments, in part, reimburses boroughs and cities for cash expenditures on school construction and debt service on bonds issued to finance school construction. Under a program created by the State legislature in 1970, and contained in provisions of Alaska Statutues 43.18.100, the State allocates the following amounts to municipalities which are also school districts, subject to annual appropriation by the legislature:

> 100 percent of payments made in the fiscal year two years prior for debt service on bonds issued prior to July 1, 1977 for school construction;
>
> 90 percent of payments made in the fiscal year two years prior for debt service on bonds issued after June 30, 1977 and cash payments for school construction; and
>
> 90 percent of payments made in the current fiscal year for debt service on bonds issued after December 31, 1981.

Legislation enacted in 1982 (HB279) raised the State share of construction expenditures from its earlier level of 80 percent to the 90 percent figure. This legislation also eliminated the two-year lag between local payment of school construction costs and receipt of State aid on bonds issued after December 31, 1981.

To qualify for State reimbursement of debt service expenditures, school construction projects must be approved by the State's Department of Education prior to construction. The local school district must submit the school design, schematics, and contract documents for approval. Approval is given once the two parties agree on design, school enrollment, and distribution of space in the school to various required uses. Neither the cost of the project, nor the intended means of financing, are significant factors considered during the approval process.

Once approval is received, the locality may begin construction; using any mix of current revenues or borrowed funds to finance the project. There are no State restrictions on the sources of financing, in spite of the fact that nearly

Table 5.4
State of Alaska
School Debt Outstanding
(as of April 1, 1983)

School District	Amount	Moody's Rating
A) Public Offerings[1]		
North Slope Borough	$197,235,000	A
Greater Anchorage Area Borough	138,665,000	A1
Fairbanks North Star Borough	101,475,000	A
Kenai Peninsula Borough	56,938,000	A
Matanuska-Susitna Borough	37,995,000	A
Valdez	27,685,000	A
City and Borough of Juneau	3,325,000	Baa1
Petersburg	2,995,000	Baa1
Greater Sitka Borough	1,560,000	Baa1
Kodiak Island Borough	375,000	Baa1
Ketchikan Gateway Borough	345,000	Baa1
	$568,593,000	
B) School Bonds Issued Through Bond Bank[2]		
City and Borough of Juneau	$ 35,205,000	Baa1
Matanuska-Susitna Borough	22,610,000	A
Kodiak Island Borough	11,810,000	Baa1
Bristol Bay Borough	3,785,000	Unrated
City of Wrangell	1,405,000	Unrated
City of Unalaska	975,000	Unrated
	$ 75,790,000	
Total School Debt Outstanding	$644,383,000	

NOTES: 1) Data through fiscal year 1981 from Moody's Municipal and Government Manual 1983, Moody's Investors Service. Fiscal Year 1981 to date from Public Securities Association data base.

2) Data from Mary J. Hughes, Foster & Marshall/American Express, Inc., Seattle, WA.

90 percent of the cost will be borne by the State. To be reimbursed for debt service and current construction expenditures, the school district must file an annual report with the State Commissioner of Education, certifying the amounts which are eligible for reimbursement in the current year.

Although the statute provides that the State will reimburse school districts for 90 to 100 percent of construction costs, the actual funding for the program is dependent on annual legislative appropriations to the school construction account. Historically, appropriations have not been sufficient to fund the level of payments authorized by statute fully. When amounts in the account are insufficient, the available funds are allocated pro rata among the eligible school districts. Over the fiscal years 1981 to 1984 the program has been or will be funded at the following percent of entitlement due:

Fiscal Year	Amount of Payments	Percent of Entitlement
1981	$38,380,174	100%
1982	38,262,156	100
1983	36,203,300	79
1984	85,373,459	63

The declining percentage of entitlement paid to school districts since 1982 indicates that the legislature is unwilling to appropriate full funding to this program. Unwillingness to fund this program at statutorily authorized levels could cause concern amoung investors and credit analysts over the State's willingness to fund other indirect or moral obligations. Eventually this might lead to an erosion of State and local credit quality.

Other concerns that have been raised over the reimbursement program were addressed by emergency regulations promulgated by the State board of Education early in 1983. As a result of the Board's actions, localities must issue debt with a maximum maturity not less than 10 years, cannot refinance othstanding debt if the necessary annual debt service on the refinancing bonds would be greater than on existing bonds, and cannot incur school debt through locans from the general fund. These regulations were necessary to prevent school districts from shortening the maturities on their debt, thereby freeing up local debt capacity, but increasing the burden for State reimbursement.

Local Government Bond Sales and Market Performance

Alaska's local government bond issues are viewed by market participants as attracting an investor of different characteristics from those investing in the State's general obligation bonds. For the most part, interviews with bond analysts have suggested that the market outlet for Alaska's local government debt is the retail market, comprised largely of mutual funds, unit investment trusts, and individual investors. Investors in the State's obligations, on the other hand, include primarily institutional investors such as commercial banks, insurance companies, and other corporations. In part, this market segmentation

Table 5.5

Comparison of State of Alaska and Local Issues General Obligation Bonds

Issuer	Date Of Sale	Bids	Size (000)	NIC	Spread	Average Maturity	RY 5	RY 10	Moody's Rating
State of Alaska	3-4-70	7	$11,501	5.490%	$ 9.90	6	5.10	5.50	Baa-1
Greater Anchorage Borough	3-16-70	3	7,000	6.965	19.00	18	5.60	6.10	Baa
State of Alaska	6-9-71	5	23,830	6.036	13.46	18	4.40	5.25	Baa-1
Greater Anchorage Borough	6-21-71	2	2,550	5.986	16.20	6	5.25	6.20	Baa
State of Alaska	2-8-72	5	23,445	5.239	9.00	15	3.75	4.60	Baa-1
Anchorage	2-22-72	6	4,870	5.460	14.38	10	4.00	5.10	Baa
State of Alaska	-17-72	6	30,000	5.155	10.41	15	4.00	4.60	Baa-1
Juneau	5-23-72	5	2,500	5.915	15.71	13	4.70	5.40	Baa
State of Alaska	5-15-73	6	27,000	5.106	8.00	15	—	4.60	Baa-1
Mantanuska Borough	5-23-73	8	1,500	5.142	11.24	7	4.75	5.10	Baa
State of Alaska	8-14-73	6	31,000	5.805	16.00	17	5.25	5.40	Baa-1
Juneau	8-14-73	5	2,780	6.218	17.00	13	5.70	5.80	Baa
State of Alaska	1-28-75	4	40,300	5.989	12.75	15	4.55	5.20	A-1
Anchorage	1-28-75	7	5,570	6.127	22.50	11	4.95	5.60	A
State of Alaska	2-17-76	4	40,000	5.867	8.32	10	4.80	5.70	A-1
North Slope Borough	2-10-76	2	8,000	6.916	23.25	7	5.75	6.75	A
State of Alaska	12-12-78	5	40,000	5.525	6.75	5	5.35	5.50	A-1
Anchorage	12-12-78	5	17,625	6.316	15.00	12	5.50	5.75	A
State of Alaska	3-10-82	2	200,000	9.985	10.00	6	9.50	—	AA
Anchorage	3-2-82	4	8,500	12.428	22.00	11	10.00	11.50	A

is based on structural differences between local bonds and the State's obligations; local bonds are issued in lesser amounts, longer in average maturity, and lower in credit rating. These differences, and the attendent market distinctions, are captured in Table 5.5, which presents paired comparisons of State and local issues sold at approximately similar dates since 1970.

Table 5.6 presents summary statistics on the methods of sale, the average number of bids received on competitive issues, and the average underwriting spreads on local issues. By comparison with Table 5.5, and the statistics in Section Four on State general obligation issues, these data indicate that local bonds which are sold competitively attract more bids on average than State issues. This is to be expected since the local issues are smaller in size. In addition, many local issues are sold through negotiation, making the competitive issues more attractive and aggressively sought. The most significant comparison of local and State bond issuance, however, is the markedly higher underwriting cost on local issues. In 1982, the average gross underwriting spread on all local bonds was in excess of $21 per $1,000 par value, more than double the underwriting spread on State general obligation issues.

Table 5.7 presents a detailed market analysis of reoffering yields on selected local government bonds sold since 1978. As described in Section Four, reoffering yield is a measure of the return that investors require in order to purchase the bonds. While the reoffering yields are not the coupon interest rate on the bonds, high reoffering yields generally mean that the interest paid by the issuer (coupon rate) on the bonds are also high. Therefore, comparisons of reoffering yields give a resonable indication of interest cost and market reception of a government's bonds.

Comparing local government issues with issues from other states is impractical and subject to more than the usual ambiguities mentioned in Section Four. The vast number of local issues from other states, and the vastly different local market conditions hinder the selection of matched pairs. As an alternative, the analysis in Table 5.7 compares reoffering yields on Alaska local issues with the monthly average reoffering yield of all bonds with similar ratings and security features. (e.g., general obligation bonds are not matched with revenue bonds).

The results of these comparisons indicate that local government bonds from Alaska carry yields at all maturities significantly above the average for the overall market. On 5-year maturities, the average yield differential is 39 basis points; 35 basis points on 10-year maturities; and 34 basis points on 15-year maturities. These higher interest rates translate to an additional cost to Alaskan municipalities of approximately $135,000 over the life of a 15-year, $5 million bond, than would be paid by the average similarly rated locality in the "lower 48".

Perhaps in recognition of the relatively poor market reception accorded local bond issues, a growing number of issuers and their underwriters have opted to purchase municipal bond insurance from private bond insurers. To qualify for insurance, an issuer must be investment-grade rated, apart from credit

Table 5.6

Selected Summary Statistics On

Local Government Bond Sales In Alaska

	1982	1981	1980	1979	1978
Local Government General Obligation Bonds:					
Number of Issues:					
Negotiated	3	3	3	1	--
Competitive	10	0	2	3	7
Average Number of Bids (Competitive)	3.6	--	4.5	4.6	4.3
Average Underwriter Spread:					
Negotiated	$23.35	$26.64	$14.50	$16.00	--
Competitive	$22.11	--	NA	$15.50	$11.83
Local Government Revenue Bonds:					
Number:					
Negotiated Issues	3	1	1	3	1
Competitive Issues	3	3	--	2	3
Average Number OF Bids (Competitive)	3.0	3.6	--	4.5	2.7
Average Underwriter Spread:					
Negotiated	$24.27	$14.83	$15.00	$14.18	$14.90
Competitive	$16.00	$19.53	--	$22.88	$11.52

Table 5.7

Analysis of Reoffer Yields on Alaska Local Government Issues 1978 - 1982

Date of Issue	Issuer	Rating	Type of Issue	RT5/Average*	Difference	RT10/Average*	Difference	RT15/Average*	Difference
1-17-78	Kenai Peninsula Borough	A/A	GO	4.80/4.48	+.32	5.30/4.95	+.35	5.70/5.34	+.36
1-24-78	Anchorage	NR/BBB	Revenue	5.20/4.68	+.52	5.65/5.27	+.38	5.90/5.72	+.18
4-4-78	Matanuska-Susitna	A/NR	GO	4.85/4.58	+.27	5.35/4.99	+.36	5.75/5.33	+.42
4-18-78	Anchorage	Baa-1/BBB+	Revenue	5.00/5.13	-.13	5.50/5.70	-.20	5.90/6.01	-.11
6-5-78	Fairbanks	A/BBB+	Revenue	5.50/5.26	+.24	6.00/5.82	+.18	6.40/6.17	+.23
8-1-78	Anchorage	A/A	GO	5.30/5.05	+.25	5.60/5.33	+.27	6.10/5.69	+.41
9-19-78	Anchorage	Baa-1/BBB+	Revenue	5.30/5.40	-.10	5.75/5.91	-.16	6.10/6.35	-.25
12-12-78	Anchorage	A/A	GO	5.50/5.49	-.01	5.75/5.70	+.05	6.20/6.06	+.14
1-9-79	Matanuska-Susitna	A/BBB+	GO	5.85/5.49	+.36	6.10/5.65	+.45	6.45/5.93	+.52
4-20-79	North Slope Borough	A/A	GO	6.25/5.38	+.87	7.20/5.58	+1.62	----	---
5-16-79	Valdez	A/A	GO	5.75/5.39	+.36	6.00/5.55	+.45	6.40/5.69	+.71
5-8-79	Anchorage	A/A	GO	5.50/5.39	+.11	5.90/5.55	+.35	6.25/5.69	+.56
6-14-79	Sitka	Baa/BBB	Revenue	6.20/5.51	+.69	6.50/5.75	+.75	7.00/6.02	+.98
7-31-79	Anchorage	Baa-1/A	Revenue	5.70/5.43	+.27	6.00/5.63	+.37	6.25/5.94	+.31
4-9-80	North Slope Borough	A-1/A	GO	10.00/7.45	+2.55	10.20/7.78	+2.42	----	---
5-13-80	Anchorage	Baa-1/A	Revenue	6.80/7.31	+1.49	7.25/8.04	-.79	7.70/8.20	-.50
6-26-80	Anchorage	A-1/A	GO	5.80/5.65	+.15	6.55/6.29	+.26	7.40/7.02	+.38
9-19-80	North Slope Borough	A/A	GO	7.70/6.81	+.89	8.90/7.01	+1.89	----	---
6-2-81	Anchorage	A-1/A	GO	8.80/8.73	+.07	8.80/9.55	-.75	9.60/10.15	-.55
11-17-81	Anchorage	Baa-1/A	Revenue	10.00/10.21	-.21	11.25/11.56	-.29	----	---
1-26-82	Fairbanks	A/A+	GO	11.00/10.11	+.89	----	---	----	---
2-2-82	North Slope Borough	A/A	GO	11.25/10.00	+1.25	13.00/11.17	+1.83	13.75/12.86	+.89
4-6-82	Anchorage	A-1/A	GO	10.25/9.81	+.44	11.80/11.10	+.70	13.00/12.02	+.98
4-30-82	Fairbanks	Aa/AA	Revenue	9.75/9.59	+.16	11.50/11.28	+.22	----	---
6-1-82	North Slope Borough	A/A	GO	10.75/9.99	+.76	12.00/11.24	+.76	----	---
10-12-82	Anchorage	Baa-1/A	Revenue	7.75/8.32	-.57	8.70/9.72	-1.02	----	---
10-15-82	Ketchikan	Baa/BBB+	Revenue	9.25/8.32	+.93	10.20/9.72	+.48	10.90/10.18	+.72
11-16-82	Anchorage	A/A	Revenue	8.50/8.25	+.25	9.70/9.50	+.20	----	---
12-2-82	Anchorage	A-1/A	GO	8.00/7.72	+.28	9.25/9.00	+.25	----	---
12-14-82	North Slope Borough	A/A	GO	8.00/7.72	+.28	9.25/9.00	+.25	----	---
Average Yield Differential				0.39%		0.35%		0.34%	

* The Average Reoffer Yields are the average reoffer yields on all like-rated GO or revenue bonds sold during the month of the Alaska issue as reported by the Public Securities Association.

enhancements or external supports (such as a bank letter of credit). Prior to marketing the bonds, an issuer secures an insurance policy commitment from either the American Municipal Bond Assurance Corporation (AMBAC) or Municipal Bond Insurance Association (MBIA), the two leading municipal bond insurers. Bond insurance guarantees investors timely payment of principal and interest on the bonds, and results in a AAA rating on the bonds by Standard & Poor's Corporation. Moody's Investors Service does not recognize the insurance feature in its rating. The issuer pays a one-time premium for the insurance policy, based upon the apraised credit risk and the aggregate liability for principal and interest that is covered by the policy. As a rule of thumb, an issuer can expect to pay between 0.5 and 1.5 percent of aggregate principal and interest due on the bonds for insurance. In return, of course, it is hoped that interest savings on the higher rated bonds will be greater than the insurance premium.

Table 5.8 presents an analysis of reoffering yields on insured local bonds since 1978, comparing these yields with monthly average yields on AAA rated bonds and on bonds with ratings similar to the issuer's uninsured rating. The data in Table 5.8 raise important questions concerning the practice of purchasing bond insurance by Alaska's localities. Yields on Alaska insured bonds generally are much higher than yields on other AAA rated bonds. For 5-year maturities, Alaska insured bonds carried yields that were 85.6 basis points higher on average than AAA rated bonds; for 10-year maturities, Alaska bond yields were 86.9 basis points higher.

Compared with unsured bonds with similar ratings, Alaska insured bonds carried measurably higher yields. On 5-year maturities, Alaska bond yields were 25.9 basis points higher; on 10-year bonds, the differential was 5.6 basis points higher on average. This indicates that even with bond insurance, yields on Alaska's insured bonds were higher than the average yield for similarly rated bonds without insurance.

Combined with the comparisons derived in Table 5.7, the value of bond insurance appears to be approximately 13.1 basis points on 5-year maturities and 29.4 basis points on 10-year maturities. Although these estimates of yield savings from bond insurance are only approximate, they do suggest that the price Alaska's municipalities are paying for bond insurance may not be worth the slight savings in interest cost they are receiving. These preliminary findings suggest the need for a more thorough analysis that is beyond the scope of this study. Such an analysis should compare the present value of the annual savings in interest cost on insured bonds with the cost of the insurance premium.

A further observation based on Tables 5.6 and 5.7 is that while reoffering yields on the debt of Alaska's localities are higher, on average, than the national average, yields on the North Slope Borough's debt are vastly higher. Until February 1982, the 10-year reoffering yields on North Slope Borough debt were consistently at least 100 basis points (one percent) higher than the monthly average on similarly rated municipal bonds. On an April 1980 bond sale this difference rose to nearly 250 basis points (2.5 percent). Such a large discrepency in reoffering yields indicates that investors required a higher than

Table 5.8
Analysis of Reoffer Yields on Insured
Alaska Local Government Bond Issues

Date	Issuer	Ratings (1)	Method Of Sale (2)	Type Issue (3)	5-Year Reoffer Yield/Average (4)	Basis Points Difference	10-Year Reoffer Yield/Average (4)	Basis Points Difference
2-16-82	Valdez	Aaa**/A	C	GO	10.50/9.20	+120	12.00/10.50	+150
					10.50/10.00	+50	12.00/11.17	+83
3-2-82	Anchorage	Aaa*/A	C	R	10.00/9.57	+43	11.50/11.28	+22
					10.00/10.08	-8	11.50/11.84	-34
4-6-82	Anchorage	Aaa**/A	C	R	10.40/8.87	+153	11.40/9.87	+153
					10.40/10.06	+34	11.40/11.54	-6
4-26-82	Kenai Peninsula	Aaa*/A	N	GO	11.00/9.18	+182	----	---
					11.00/9.81	+119	----	---
6-15-82	Anchorage	Aaa**/A	C	GO	10.50/9.50	+100	12.25/10.73	+152
					10.50/9.99	+51	12.25/11.24	+101
6-1-82	Kenai Peninsula	Aaa**/A	N	R	10.20/9.67	+53	----	---
					10.20/10.08	+12	----	---
6-29-82	Anchorage	Aaa**/Baa	C	R	11.00/9.67	+133	12.15/10.88	+127
					11.00/10.74	+26	12.15/12.25	-10
7-22-82	Fairbanks-North Star	Aaa**/A	C	GO	9.75/9.26	+48	11.00/10.30	+130
					9.75/9.82	-7	11.00/11.01	-1
9-29-82	Anchorage	Aaa**/A-1	N	GO	8.40/7.76	+64	9.60/8.95	+65
					8.40/8.31	+9	9.60/9.48	+12
1-27-82	Anchorage	Aaa*/A	C	R	8.20/7.25	+95	9.00/8.12	+88
					8.20/8.09	+11	9.00/9.56	-56
2-25-81	North Slope Borough	Aaa**/A	N	GO	9.10/7.66	+144	9.70/8.12	+158
					9.10/8.42	+68	9.70/9.41	+29
6-3-81	North Slope Borough	Aaa*/A	N	GO	9.60/8.35	+125	10.10/9.15	+95
					9.60/8.98	+62	10.10/10.01	+9
10-20-81	Anchorage	Aaa**/A	C	R	10.50/10.62	-12	11.75/11.70	+5
					10.50/10.65	-15	11.75/11.95	-20
2-4-80	Valdez	Aaa**/A	C	GO	6.65/6.70	-5	6.90/6.96	-6
					6.65/6.96	-31	6.90/7.26	-36
9-11-79	Anchorage	Aaa**/A	C	R	5.80/5.40	+40	6.00/5.46	+54
					5.80/5.72	+8	6.00/5.92	+8
3-14-78	Anchorage	Aaa**/A	C	GO	----	--	4.85/4.61	+24
					----	--	4.85/4.85	0

NOTES: (1) The first rating is the insured rating by Standard & Poor's Corporation
**indicates MBIA insurance
*indicates AMBAC insurance
The second rating is the Moody's rating on the bond issue

(2) C = competitive bid
N = negotiated

(3) GO = general obligation
R = revenue bond

(4) The first yield is the yield on the Alaska bond; the second yield is the monthly average yield on like-rated bonds. The upper pair uses monthly average Aaa-rated yields. The lower pair uses the monthly average yield on uninsured bonds with the same rating as the Moody's rating on insured Alaska bonds.

Table 5.9

Summary Statistics on Selected State Municipal Bond Bank New Issues, 1978-82

Date	Issuer	Size (Millions)	Average Maturity (Years)	Method of Sale(1)	Rating(2)	Number of Bids	5-Year Reoffer Yield/Average(3)	Difference in Basis Points	10-Year Reoffer Yield/Average(3)	Difference in Basis Points
2-3-82	Alaska	10.8	7	C	A/A	3	11.25/10.00	+125	13.00/11.17	+183
2-3-82	Alaska	15.6	14	C	A/A	3	12.00/10.00	+200	13.20/11.17	+203
3-10-82	New Hampshire	9.7	7	C	Aa/Aa	2	9.75/9.35	+40	10.70/10.69	+1
3-10-82	New Hampshire	10.4	7	C	A/A	2	10.00/9.83	+17	11.40/11.21	+19
4-28-82	Maine	2.1	5	C	Aa/Aa	5	9.50/9.65	-15	10.60/10.98	-38
4-27-82	Alaska	4.4	—	N	NR/Aaa*	-	10.25/9.81	+44	11.20/11.10	+10
7-9-82	Vermont	9.6	—	N	A/A	-	10.50/9.82	+68	12.50/11.01	+149
9-29-82	Maine	8.4	12	C	Aa/Aa	5	8.25/7.95	+30	9.30/9.08	+22
10-13-82	New Hampshire	6.5	8	C	A/A	3	7.25/7.60	-35	8.40/8.75	-35
6-3-81	Maine	13.6	12	C	Aa/Aa	4	8.50/8.55	-5	9.50/9.35	+15
10-7-81	Maine	13.8	11	C	Aa/Aa	5	10.70/9.84	+86	11.75/11.06	+69
5-28-80	Maine	10.1	11	C	Aa/Aa	4	5.70/5.66	+6	6.20/6.08	+12
7-22-80	Alaska	16.2	14	N	A/A	-	6.20/5.86	+34	7.25/6.62	+63
7-18-80	New Hampshire	7.6	—	N	A-1/A+	-	6.00/5.86	+14	7.00/6.62	+38
10-22-80	Maine	8.1	10	C	Aa/Aa	3	7.25/6.65	+60	8.25/7.33	+92
5-1-79	Alaska	5.3	12	C	A/A	7	5.75/5.39	+36	6.00/5.55	+45
7-19-79	New Hampshire	3.6	—	N	A-1/Aa	-	5.40/5.13	+27	5.75/5.30	+45
9-19-79	Alaska	3.2	13	C	A/A	3*	5.95/5.64	+31	6.20/5.79	+41
9/26/79	Maine	19.9	11	C	Aa/Aa	4	5.70/5.55	+25	5.85/5.66	+19
6-1-78	Maine	3.9	13	C	Aa/Aa	7	4.90/4.82	+8	5.40/5.16	+24
6-7-78	Alaska	5.5	12	C	A/A	4	—	—	5.60/5.39	+21
11-30-78	Maine	9.9	12	C	Aa/Aa	6	5.30/5.12	+18	5.50/5.24	+26
12-11-78	Alaska	1.6	14	C	A/A	3	5.70/5.49	+21	6.00/5.70	+30
12-4-78	New Hampshire	9.0	—	N	A-1/Aa	-	5.40/5.10	+10	5.55/5.48	+7

* Means an insured bond.

Notes: (1) C= Competitive
N= Negotiated

(2) The first rating is the Moody's Rating; the second rating is the Standard & Poor's Rating.

(3) The first yield is the reoffer yield on the bond bank issue; the second yield is the monthly average yield on general obligation bonds with similar Moody's ratings.

average return on their investment in order to lend to the North Slope Borough. This observation is preliminary; an analysis of the market performance of any single locality is beyond the scope of this report. However, given the high levels of debt that have been issued from this and other localities, the much higher than average interest costs of Alaska's local debt, and the loss of State revenues from taxes levied by this Borough and others to pay the annual debt service on their debt, the State may wish to analyze further local market experience and State policies regarding local debt management.

The Market Performance of the Alaska Municipal Bond Bank

The State has established the Alaska Municipal Bond bank for the express purpose of assisting local communities in the financing of capital improvement projects. The Bank issues its securities and relends the proceeds to participating municipalities. As discussed in Section Three, Bond Bank bonds are secured by several tiers of protection, including pledges of the securities of participating municipalities, a State "pay-over" provision, a reserve fund, and the State's moral obligation to replenish the reserve fund. The "pay-over" provision requires the State to pay to the Bond Bank all State aid funds owed a municipality in the event of a municipal default on its Bond Bank debt obligations. As a result of these layers of security, the Bank's general resolution general obligation bonds carry an A rating.

Table 5.9 reviews selected information on recent Alaska Bond Bank sales and compares the results with bond bank issues form other states. In each case, 5-year and 10-year reoffering yields are compared with the monthly market average yield for general obligation bonds with similar ratings. Alaska Bond Bank issues carried yields that were, on average, 70 basis points (0.70 percent) higher for 5-year bonds and 74.5 basis points (0.745 percent) higher for 10-year bonds than the monthly market yields for like-rated bonds. By contrast, New Hampshire Bond Bank issues carried yields that exceeded the avearges by 12.2 and 12.5 basis points respectively; for Maine, these differences were 26.6 and 26.7 basis points.

The discrepency between the market reception of other state bond banks and that of Alaska's is most likely the result of investor unfamiliarity with the Alaska Bank. This comparison indicates that the Alaska Bank has the potential for saving as many as 50 basis points by undertaking an active national marketing effort. The relatively poor reception given the Bank's bonds also indicates that investors are probably not buying these bonds on the basis of the State's moral obligation pledge. If the bonds were purchased solely on the merits of the State's moral obligation, they would be expected to trade closer to the national average for A-rated bonds.

Table 5.10 summarizes gross underwriting spreads on state bond bank issues. While these data indicate that spreads on Alaska Bond Bank issues are alternately above and below other bond bank issues, most of these differences may be due simply to market timing. Since bond banks are not frequent issuers,

Table 5.10

Average Gross Underwriting Spreads*
State Bond Bank Issues

State	1978	1979	1980	1981	1982
Alaska	$11.50	$20.00	$12.27	$15.00	$19.75
Maine	14.70	11.50	17.17	15.21	15.00
New Hampshire	15.90	15.46	17.83	—	16.00
Vermont	14.40	—	—	—	—
Average-All Local Issues in Alaska	NA	$16.85	$16.75	$19.60	$20.47

* Expressed in dollars per $1,000 par value of bonds issued.

these comparisons do not appear to be particularly important. It is important, however, to note that one purpose of the Bank -- acheiving economies in marketing costs -- has been partially accomplished. The average underwriting spread on Alaska Bond Bank issues in the past three years has consistently been less than the average spread for the State's local bonds sold directly in the market. Underwriting spreads continue to remain well above the costs of State general obligation issues, however, as summarized in Table 4.3.

Local Debt Management

Effective management of long-term debt by local governments is important to the localities and the State in order to preserve the overall long-term fiscal health of each. Abuses of the power to borrow funds reflects poorly on the locality and can have costly repurcussions on the State. For example, improper debt management could cause credit ratings to worsen, forcing higher interest rates. In extreme cases, the local unit may be barred from access to the national credit markets altogether. The taxpayers of the municipality, and the entire State, are the ultimate losers when and if Alaska's local governments abuse their borrowing authority.

There are specific guidelines and practices that local governments can follow to assess their debt management procedures. Many of the conditions that signal potential debt-related problems are listed in Exhibit 5.1. Local government finance officers and financial officials should continually assess their debt position and debt management practices using such a checklist. The Department of Community and Regional Affairs currently receives the annual budgets and financial reports of the State's local governments. These reports are the primary sources of data on local fiscal management. Information contained in these reports could easily be compiled into a computer program that would monitor financial condition along the guidelines presented below. A positive response to any one item may be cause for concern and appropriate measures should be taken first to identify and then to rectify the problem.

In order to evaluate the debt management of individual localities, assessment of the debt position of each Alaskan municipality along the lines suggested by the checklist is necessary. This analysis would highlight those localities which have a problem with their debt management practices. Such an evaluation should be performed by both State officials and by the localities themselves.

The Role of the State in Local Government Borrowing

Analysis of the market experience of Alaska's local governments indicated that these units are paying a premium over similarly rated municipalities to borrow in the national market. In an attempt to lower the cost of borrowing, many localities in the State have taken out municipal bond insurance as was

Exhibit 5.1

Debt Management Checklist

____ an increasing amount of bonded debt per capita.

____ the percentage increase in debt per capita exceeding the percentage increase in taxable wealth per capita.

____ an increasing percentage of annual expenditures for debt service.

____ an increasing ratio of debt to assessed value.

____ current year operating deficit.

____ two consecutive years of operating fund deficit.

____ current general fund deficit (two or more years in last five).

____ short-term debt (other than bond anticipation notes) at end of year greater than 5 percent of main operating fund revenues.

____ short-term interest and current year debt service greater than 20 percent of total revenues.

____ total property tax collections less than 92 percent of total levy.

____ declining market valuations - two consecutive years on a three year trend.

____ overall net debt ratio 50 percent higher than four years ago.

____ current year operating deficit larger than previous year's deficit.

____ two-year trend of increasing short-term debt outstanding at end of fiscal year.

____ property taxes greater than 90 percent of tax limit.

____ a trend of decreasing tax collections.

____ overall net debt ratio 20 percent greater than previous year.

indicated in Table 5.8. However, the savings achieved by Alaskan municipalities apprear to be slight, especially given the high initial premium required to insure bonds.

In addition to paying higher than average interest rates, the State's localities have debt ratios far higher than the national medians for similarly sized local governments. Most localities are unable to tap the vast oil-based revenue sources available to the State. Therefore, the high debt ratios which for the State's own debt do not cause immediate concern, are not as acceptable at the local level. The high levels of local debt, and its relatively high expense, are in themselves reasons for the State to re-assess its current role in local debt management.

Local borrowing costs and debt management practices should be of particular concern to the State for three major reasons. First, is the desire for its localities to be fiscally responsible and able to borrow on as near an equal footing with communities in the "lower 48" as possible. Second, is the State program to reimburse localities for a portion of the annual debt service on school construction bonds. High general obligation borrowing costs on local debt are passed on to the State directly through this program. Third, is the current interelationship between the State and local property taxes as described in the Appendix to this report on the legal framework for debt issuance in Alaska. Because local governments are able to levy unlimited property taxes for the payment of debt service, and property taxes paid on oil production and transportion facilities to local governments are credited towards the State property tax liability, the State looses revenue to those three jurisdictions (Fairbanks North Star Borough, North Slope Borough, and Valdez) that have high tax rates in order to support high levels of debt issuance.

A high cost of borrowing, however, is not the only reason that the State should be concerned about local debt issuance. Another concern of the State should be the question of what would happen if a municipality were unable to repay its debt obligations. Although the State is not legally obligated to provide relief to localities in default, were this to occur there would likely be pressure on the State to arrange for some sort of "workout". For the above financial reasons, and to promote sound financial management practices at the local level, the State may wish to take the lead in implementing programs that encourage the prudent use, and guard against the misuse of local debt issuance.

The State has demonstrated its concerns over local borrowing costs by creating and administering the Municipal Bond Bank. The Bank helps smaller lesser known municipalities borrow at lower interest rates and issuance costs than they could acheive on their own through pooling the smaller local issues into one, relatively large, bond issue. The security behind the Bank's bonds is greater than that of the individual local governments because of the reserve fund requirements and the State's moral obligation pledge. Although the market performance of the Bond Bank has not been up to that of other state bond banks, it is still better, on balance, than that of separate local units. Our review of the Bond Bank's performance, however, indicated that only $108 million of the $1.3 billion in local general obligation debt outstanding, or 8

percent, has been issued through the Bond Bank. Therefore, a State policy to encourage wider use of the Bond Bank by local governmental units should result in lower aggregate borrowing costs.

There are several steps the State could take to improve the market performance of the Bond Bank. Our analysis concluded that, on average, the Alaska Bond Bank is paying a higher cost of borrowing both in terms of interest cost and underwriting spread than are other state bond banks. Although the Alaska Bond Bank is rated one notch below the Maine and New Hampshire bond Banks, the composition of its municipal borrowers is relatively the same as in the other states. According to Table 3.11, 78 percent of the Bond Bank's outstanding general obligation debt is payable from communities rated Baa or below. The similar percentage for the Maine bond bank is 72 percent.[1] The relatively weak market performance of the Bond Bank would be improved if the State undertook an active promotional effort aimed at potential investors. Futhermore, the State could restructure the security behind the Bond Bank, to include a stronger moral obligation pledge or a pledge of the State's full faith and credit. The strengthening of security could be selective, applying only to bonds issued for certain purposes, or valid for all Bank Bonds. The State of New Hampshire Bond Bank issues two types of bonds; one backed by the State's general obligation and the other backed by a moral obligation pledge of the State.

Alternative Programs for Further State Involvement

There are several programs in use in other states which provide a model for Alaska to consider in determining the appropriate level of State involvement in local debt managment. These state oversight and assistance activities range from state guarantees and approval of local debt issuance, through statutory limits on the amount of debt that may be issued, to the provision of technical assistance to localities in the debt issuance process. The decision as to the correct role for the State in local debt management is a complicated one, and involves a myriad of factors including the system of intergovernmental fiscal policy, the desired degree of local government autonomy, and cost to the State. In evaluating Alaska's role, the State should keep in mind the following factors:

- the cost of alternative programs to the State both in terms of direct budgetary impact and indirect effects on the State's own borrowing costs.

- the degree of assistance must be balanced against the amount of autonomy the State wishes its localities to enjoy. It is generally in the State's interest to place some constraints and conditions on recipients of its aid.

- while the State may wish to improve local financial managment practices, it must be careful that over depen-

dence on the State does not result from its assistance.

State Restrictions on Local Debt Issuance

The State of Alaska places few constraints on the issuance of debt by its local units of government. Except for the voter approval requirement for general obligation bonds, there are few limits on local borrowing. This is in contrast to most states where a limit is placed on the amount of debt that may be issued (generally expressed as a fixed percentage of the assessed value of property). Such debt limits typically apply to general obligation debt only, and it is debatable whether such limits are actually effective in limiting the total amount of debt issued. In those states with the most restrictive limits on local debt issuance, localities have typically issued larger than average amounts of revenue-supported debt in place of tax-supported debt.[2]

Limits on local governmental debt issuance may improve the market reception of their debt, because investors place a value on scarcity and certainty. Debt limits ensure investors that localities will not issue bonds in amounts considered by the state to be excessive. The imposition of a local debt limit would also give the State more control over the revenue loss from localities that have oil production or transportation property within their boundries, such as the North Slope Borough. Currently the State is being short-changed by those localities that levy a high amount of taxes on oil production property in order to finance debt service. Because taxes paid to the locality are credited towards State property tax liability, this represents a direct revenue loss to the State. Therefore, the State needs to address the absolute level of debt issuance by its localities.

The most common form of state limitation on the level of local debt issuance is a maximum ratio of outstanding debt to the assessed (or true) value of property. Because property taxes generally comprise the largest share of local government revenues, this form of limit ties the amount of debt issuance to the resources available to repay the debt. In states with large disparities in assessed value among jurisdictions, such as Alaska, a debt ceiling defined solely by property values may not be appropriate. An alternative would be to limit the ratio of outstanding debt per capita; however, the resident population of Alaska's jurisdictions and its distribution may not directly correspond to the need for public capital investment. Therefore, it is recommended that the State develope a two-tiered ceiling on local debt issuance that will meet the combined objectives of 1) treating all localities fairly, 2) providing the State with a degree of control over local debt issuance, and 3) encouraging prodent debt management by localities.

Direct State Involvement in Local Debt Issuance

A more effective alternative to debt restrictions is to become directly involved in the debt issuance process of local governments. It must be

recognized, however, that such involvement infringes upon local autonomy. Through the Alaska Municipal Bond Bank, the State has been active in this area for those municipalities that use the Bank. Other forms of direct State involvement could include the approval of local debt issuance, expanding the role of the Bond Bank to assist in the marketing of all local debt, the supervision of local debt management and financial planning, subsidizing local debt service costs, and State guarantee of local debt.

Of greatest assistance, in terms of savings in interest and issuance costs, would be the State guarantee of local debt. Such a program could involve the issuance of State general obligation bonds in lieu of Bond Bank bonds and loaning the proceeds to local governments for approved projects. According to the results of the market analysis of the State's general obligation debt in Table 4.6, the State trades at interest rates slightly better than the average AA issuer. Comparison of the market experience of Alaska's localities provided in Table 5.7 and the AA yields a State guarantee would be likely to bring, indicates that such a program could save localities as much as 100 basis points (one percent) in interest costs. This translates into a total savings of approximately $395,000 on a 15-year, $5 million borrowing. However, a State guarantee would encumber State debt issuance capacity for other purposes.

Active participation in debt issuance can include advisory review by the State of the legal provisions of local debt issuance and the fiscal soundness of the borrowing; providing detailed technical assistance in the structuring of the bond issue and in preparing the necessary documents for debt issuance as a surrogate financial advisor; or assisting in the marketing process itself by coordinating bond issues within the State or actually selling the local bonds.

State programs that provide varying degrees of technical assistance to local borrowers are in place in California, Oregon, Florida, New Jersey, Michigan, and Virginia.[3] In Alaska, the scope of the Municipal Bond Bank could be expanded to assist all localities regardless of whether the Bond Bank's debt-raising services were used. Another State office which could provide financial management services is the Department of Community and Regional Affairs which already collects the annual budgets and financial reports of local governments.

The State could require that all local debt be approved before sale. Such approval could be based solely on legal and technical grounds, or on a review of the fiscal capability of the government to undertake the project given its existing levels of debt, the revenues generated by the project, if any, and the general financial condition of the borrower. The North Carolina Local Government Commission in the Department of the State Treasurer must approve all local debt issues. In addition, the Commission provides localities with technical assistance and actually markets the bonds; performing such functions as preparation of the official statement, presentations before bond rating agencies, evaluating bids and delivery of the bonds to underwriters.

Financial assistance to support local debt service costs would be similar to the program currently in use for school construction debt. The major problem

with this program, as indicated earlier, is the extra cost borne by the State because debt service on bonds issued directly by localities is higher than debt service on the State's own general obligation bonds would be. Alaskan localities have lower credit ratings and, therefore, higher borrowing costs than the State's own general obligation debt.

It is beyond the scope of this report to address the proper relationship between the State and its local governments. However, a more active State role in local financial management would enhance the creditworthiness of Alaskan localities and result in lower borrowing costs. According to a recent credit analysis of local borrowers in the State of New Jersey, "due to the close scrutiny of budgetary operations and debt management by the State, New Jersey tax-exempt local bond issues enjoy a high degree of market appeal for underwriters and investors."[4]

A resonable compromise between encumbering the State's debt capacity and providing greater financial assistance to local governments would be to expand the role of the Municipal Bond Bank. Such expansion could entail 1) Strengthening the security structure of the Bond Bank's bonds to take better advantage of the State's high creditworthiness, 2) action to increase the Bank's use by localities, and 3) the provision of financial management assistance to all localities.

Alternatives to the School Construction Assistance Program

Subsidation of school construction is an expensive undertaking; however, its cost could be minimized through attention to the cost of the project and to the means of financing during the approval process. Alternatives to the present programs which the State may wish to consider are given at the end of this Section. Education differs from other locally provided services because it is basically a state responsibility that is provided at the local level. Alaska's program to subsidize school construction evolves form this responsibility. However, because education is a state-level responsibility, the state subsidy should be as equitable and efficient as possible. An equitable subsidy would treat all localities alike in providing school construction assistance; an efficient subsidy would give the State control over its cost.

The present program is not equitable because each locality raises construction funds on its own; the ultimate cost of borrowed money depends upon the locality's credit rating (or the Bond Bank's), and the timing of the bond issuance. Therefore, Community X may spend several hundred thousand dollars more in debt service to build a $10 million school than Community Y just because it entered the bond market later, or has a lower credit rating than that of Community Y.

From the standpoint of an efficient subsidy, none of the local governments in the State has a credit rating equal to or higher than the AA rating of the State. As a result, the State is paying a penalty on debt service reimbursements

through the construction aid program to local school districts. The additional interest costs over what the State would have to pay if it issued its own general obligation bonds increase as the gap between the credit quality of the locality and the State widens. Table 5.4 indicated that of the 13 school districts that have issued school construction bonds, six are A-rated, five are rated Baa1 and two are unrated. Juneau, Kodiak, Wrangell and Unalaska (all rated Baa1 or lower) have lessened the impact of their poorer credit quality by issuing school construction bonds through the Bond Bank. The issuance of school construction bonds, independent of the Bond Bank, by Petersburg, Sitka, Kodiak, Ketchikan, and Juneau (with one exception) occured before the Bank was established in 1976. Since that time, all school debt from Baa1 or lower rated communities has been issued through the Bond Bank.

If the State were to issue general obligation bonds to lower its cost of financing school construction, the bonds would encumber the debt capacity of the State for other public purposes. The $641 million of local school construction bonds currently outstanding represents 63 percent of the $1.03 billion in State general obligation debt outstanding. Had the State issued 63 percent more debt over the past 10 years than it actually has, it is doubtful whether its credit rating would have improved from Baa to AA.

The additional cost the State is currently incurring may be worth the price if 1) it permits the State itself to borrow at a lower cost, 2) it enables the State to maintain its strong credit rating, and 3) it doesn't encumber capacity to pay debt service for other public purposes. Therefore, State issuance of its own general obligation bonds in lieu of local school bonds or other alternatives to the present system must be assessed against the chances that State borrowing costs would rise and the reduced availability of debt capacity for other State needs.

From a debt management standpoint, the choices available to the State are several:

1) The State could begin issuance of school construction bonds for independent school districts, realizing that this may limit its future bonding capacity and raise future State borrowing costs; however, the cost of the State subsidy would be lower than it is at present;

2) The State could require that the Municipal Bond Bank issue all school debt on behalf of the school district and that the Department of Education work with the Bank to establish guidelines for the debt structure and financing plan of each project. Such guidelines could establish maturity structure, issuance provisions, and maximum amount of debt issuance;

3) The State could establish an independent school building authority that would raise funds for school construction through the issuance of its own bonds. These bonds could be securred by local lease payments on the schools and a pledge of State education aid. A program such as this is an alternative to use of the Bond Bank and must be evaluated against the costs/benefits of using the Bank alone; or

4) The State could continue to reimburse localities for a portion of their debt service costs on school construction bonds. However, the Department of Education should have approval authority of school debt issuance based upon some State and local affordability criteria.

CHAPTER VI

STATE DEBT MANAGEMENT

Introduction

Conservative management of Alaska's outstanding debt and future debt issuance will ensure adequate debt capacity and retention of the State's strong creditworthiness. Our review of the State's debt management practices showed that while past practices have not been imprudent, there are areas where changes are recommended. Generally, we have found that: the scope of the State Bond Committee should be expanded to include oversight of all State-level debt issuance; the State should incorporate a capital financing plan into its budget process; and several debt issuance procedures such as the calculation of interest cost on competitively awarded bond issues and compensation of financial advisors should be reviewed.

These issues and others are addressed in the following chapter which surveys different aspects of State debt management. The specific subjects and the order in which they are covered are:

1. Origins of State Concerns and Actions Regarding Debt Management (pages 143-156)
2. Role of the Alaska State Bond Committee (157-160)
3. Alaska's Use of the Moral Obligation Pledge (161-164)
4. Capital Planning and Capital Financing (165-175)
5. Debt Ceilings and Limits (176-178)
6. Alternative Methods to Determine Lowest Bid: True Interest Cost vs. Net Interest Cost (179-181)
7. Differences Between Competitive and Negotiated Bond Sales (182-184)
8. Selection, Use, and Compensation of Financial Advisors and Underwriters (185-190)
9. Advance Refunding and Debt Defeasance (191-192)

Origins of State Concerns and Actions Regarding Debt Management

Historically, debt management has not been an area of primary concern to state elected officials such as legislators and governors. With the enactment of tight controls over the issuance of general obligation debt -- a product of the excesses of the nineteenth century and of the problems of the depression era -- state elected leaders tended to leave the actual management and issuance of debt to the treasurer, assuming that their function had been fulfilled with the designation of the project and size of the issue, as well as the authorization of the bond or the submission of it to the electorate. Because prior to 1970, most bonds issued were general obligation bonds which required legislative authorization and/or voter approval, there seemed to be plenty of checks to prevent unwise issues, and numerous opportunities for oversight.

In recent years, however, changes in both attitudes of elected officials and the bond market itself have led to a heightened awareness of the need for improved oversight of debt issuance, and the establishment of a variety of state activities to oversee debt issuance. This section provides background to these changes, examines selected state responses to their perceived problems, and discusses some of the strengths and weaknesses of these approaches.

Debt Issuance and Debt Markets

As discussed in Chapter Two, one of the most significant changes in the last decade or so has been the pattern of state debt issuance. While in the late 1960's and early 1970's general obligation debt issuance outpaced revenue and moral obligation debt by a nearly three to one margin, in recent years the pattern has been completely reversed, to where general obligation state debt makes up only about a third of all state debt, and general obligation debt represents only about thirty percent of all tax-exempt debt available in the market place.[1]

Revenue debt is generally less subject to oversight and approval than general obligation debt; indeed, one reason for its growth has been a desire to find a way around constraints on general obligation debt, such as constitutional limits or requirements for voter approval. The use of revenue debt, then, represents an increasing transformation of debt from just a financing technique into an instrument of fiscal policy.

Long-term general obligation debt has historically been used to finance traditional capital outlays for states, such as roads or schools. As a rule of thumb, about half of all capital outlays were paid for with debt, and the balance financed on a pay-as-you-go basis. The choice was dictated by current interest costs, the number of projects to be financed in any one year, expected useful life of the facility to be financed, and the availability of general revenues of the government.

Departure from this tradition came with the creation of special purpose authorities given the power to issue debt payable out of fees imposed for services. These authorities were able to build bridges, ports, airports, tollroads, and other forms of infrastructure and generally avoid constitutional debt limitations or restrictions. By design, the authorities were frequently far removed from the purview of elected officials. Still other authorities were set up as building corporations, who issued debt to construct state offices and other facilities and repaid the debt from leases to the states. They function exactly as private landlords, but -- because of their access to tax-exempt borrowing and their freedom from property and income tax -- are able to provide much cheaper rentals to the state. Building authorities also offered states a way around debt limitations and increased the distance between elected officials and debt issuers.[2] While the creation of special authorities for capital construction meant a decrease in the frequency and quality of state oversight, the purposes of borrowing remained the same as general obligation debt -- that of matching

long-lived facilities with long-term financing, so that no one budget year was unfairly burdened with payment for a structure whose useful life lasted decades.

A second form of borrowing -- special purpose authorities whose goal was to channel tax-exempt financing to private users -- also changed borrowing into an element of fiscal policy. Beginning in the New Deal and proliferating up to the present, a new group of authorities was created to provide an interest subsidy to private borrowers whose activity was defined as being in the public interest. The recipients of these subsidies included homeowners and renters (through Housing Finance Agencies), hospitals, nursing homes, students (through loan authorities and dormitory construction -- at both private and public universities), utilities, private corporations (industrial development and pollution control bonds), professional sports teams, and a myriad of similar groups.

Like special tax treatment for certain groups, these borrowings were meant as a form of fiscal policy, another tool beyond direct appropriation to subsidize a politically worthy activity. And -- also like tax preferences -- they received far less scrutiny than would a direct expenditure of the same amount of money. The increasing recognition of the changed character of authorities was one important factor in a changed perception of them on the part of state officials. Since they were no longer financial technicians, but rather more like operating agencies of a state program, legislators in some states came to feel that they deserved the same scrutiny as any other operating program.

This changed perception was accentuated by the growth in revenue debt detailed in Chapter Two. Not only were the non-traditional borrowers changing the nature of borrowing, but the sheer size of their borrowing was making the change more obvious. Total new issues increased from $7.1 billion in 1960 to $76.0 billion in 1980, a more than ten-fold increase in two decades. Revenue-supported debt rose from 36 percent of outstanding tax-exempt debt in 1960 to over 50 percent in 1980.

A third factor which entered into the change was the long-term rise in interest rates, coupled with the volatility of the market. Since the end of World War II, tax-exempt interest rates have been about 30 percent lower than taxable ones. When interest rates were low, this difference amounted to only one and a fraction percentage points, but the difference became more striking in the eighties. As corporate rates ran up into double digits, the difference between taxable and tax-exempt rates amounted to as much as four or five percentage points. This differential made tax-exempt borrowing obviously more attractive; coming at a time of fiscal austerity in the state and local government sector, the opportunity to provide a subsidy at relatively little cost was very appealing to state policy makers.

All of these factors -- the changing nature of borrowing, the growth of revenue debt, and the rise in interest rates with a concomitant growth in debt service costs -- made states more attentive to debt policy and management. The major catalyst to action, however, was the temporary default of the Urban Development Corporation (UDC), a moral obligation authority of New York State, in 1975. With over $2 billion in authorized bonding levels, UDC was one

of the largest authorities in the country. When it was unable to pay some short-term notes coming due, the State stepped in and created a new agency to loan money to UDC, as well as to purchase UDC-owned mortgages in order to provide extra cash. The State also appropriated funds directly to UDC to bring the debt service reserve fund up to required levels. As the first major "near-default" by a public authority in modern times, the plight of the UDC dramatically demonstrated both the commitment of "moral obligation" bonds, and the degree to which the State was inextricably intertwined with the actions taken by an ostensibly autonomous authority. "Even if the State is not obligated to underwrite every authority's specific bonds, the refusal of the State to support poor investment decisions by any independent authority would have a negative impact upon the entire public credit structure," said the Chairman of New York's Assembly Ways and Means Committee.[3]

When the UDC default was followed by fiscal crisis in New York City and Yonkers, public attention was drawn to the need for more effective oversight of local bond issuance -- an issue which was dramatically heightened by subsequent fiscal crises in Cleveland and Detroit. While there was a flurry of interest in state oversight of local debt practices, oversight of state debt became an increasingly recurrent issue. In recent years, New York, California, Oregon, Vermont, Maryland, New Hampshire, Michigan, Kentucky, Illinois, and Wisconsin have all undertaken significant reviews and reforms of their debt issuance practices. Such interest can be expected to continue. Public awareness of the deteriorating capital infrastructure has meant that states are paying increasing attention to the problems of capital planning and budgeting; debt policy review is a natural concomitant to the review of capital outlay procedures. Just as states became more interested in overall policy review, rather than reviewing individual projects or bond authorizations, they have also shown increasing interest in reviewing debt policy as a whole rather than considering each bond authorization without reference to the others.

Principal Concerns

We reviewed recent state actions in debt management and debt policy to discover what problem areas states were addressing, what their specific concerns were, what approaches they were adopting or considering to deal with these concerns. While selective, this review provides a representative sample of state activities from across the country; in addition, we use examples from other states as necessary to illustrate programs undertaken.

Generally, states have undertaken reviews of debt management and implemented new practices because of concerns over the size of debt and debt service commitments, and the quality of state credit ratings. States have also shown a growing interest in oversight of authorities and coordination of issues among various agencies. Nationally, state debt has risen dramatically in the last decade, but it has not risen faster than state spending; and although high, it has not grown as fast as either local debt or federal debt.

Those states that undertake analysis of their debt have generally concentrated on three distinct, but interrelated, areas. First, they have analyzed overall debt levels and debt service requirements. Such analysis generally focuses upon general obligation debt, and has been less concerned with revenue and authority debt. For example, the Maryland Debt Affordability Committee makes annual recommendations on general obligation debt authorization levels with the aim of adjusting debt authorizations so as to reduce steadily outstanding debt to 3.2 percent of Maryland personal income, and debt service to 8 percent of general fund and state property tax revenues. While no one guideline can serve each state, it is useful for a state to develop such guidelines to measure the need for debt. Unlike budgets, which must be weighed against available revenues, debt issuances frequently lack an explicit yardstick against which they must be measured; consequently, there is little incentive for competing projects to be measured against each other or to establish a debt authorization ceiling. Such a ceiling, however, is useful as an analytical tool where general obligation bonds are concerned.

Legislators and other state officials generally -- and rightfully -- separate out those projects which have a defined revenue stream to liquidate their obligations, and have been concerned not so much with total size of revenue-supported obligations as they have with process reforms, which give them some assurance that revenue bonds will not be issued unwisely. Therefore, the second area of emphasis has been the creation of oversight bodies for the issuers, which monitor issues to ensure that each one is prudent, and the creation of standard formats for issuance, bidding, measurement of interest costs, and other concerns. Finally, and perhaps less common, are the creation of bodies to recommend total debt authorizations, such as the Maryland Committee, and the creation of standing legislative committees or subcommittees to provide a single reference point in the legislature for all debt related legislation and oversight.

All of these policies can serve a state well; while no one state has enacted all of them, their record suggests that any state looking to reform its procedures and policies could usefully benefit from an analysis of other state actions.

Debt Ceilings

While revenue bonds have certain built-in ceilings, constrained by the amount of revenue available to liquidate their obligations, there is no such obvious measure for general obligation bonds. Some states have chosen (or have had thrust upon them) limits to the amount of general obligation debt outstanding, the amount that can be issued in any one year, or the amount of debt service. A summary of selected state debt limits and their calculation is provided in Exhibit 6.1. A debt limitations which is tied to an economic indicator, rather than a flat amount, makes intuitive sense. Like a spending limitation, it provides a baseline for evaluating whether debt is too large for a state to handle. The choice of a debt limitation need not be arbitrary, but there is no magic formula which a state must adopt either. In Vermont, for example, the Governor argued that the State should set as its goal that certain standard

Exhibit 6.1

Selected State Debt Limits

1) Aggregate Debt Levels

Wisconsin. The lesser of a) 3/4 of 1% of the aggregate value of all taxable property or b) 5% of the aggregate value of all taxable property less net indebtedness as of January 1.

Vermont. New debt issuance cannot exceed 90% of amount retired during previous year (statutory); maintain debt as a percentage of personal income to average for AAA states (governor's proposal).

Maryland. Maintain general obligation debt at 3.2% of state personal income.

2) Debt Service Levels

Maryland	8% of general fund and state property tax revenues
South Carolina	7% of general fund revenues
Tennessee	15% of general fund receipts
Connecticut	4.5% of previous year's tax receipts

ratios used by Moody's and Standard & Poors -- debt service as a percentage of general fund and highway revenues, debt as a percentage of state personal income, and debt as a percentage of assessed property valuation -- be held to the average for all other states enjoying AAA credit ratings. In other words, Vermont's "debt limit" would be to ensure that debt burden did not make Vermont stand out from other AAA rated states.

Similarly, as noted above, the Maryland Debt Affordability Committee adopted as its goal that general obligation debt be no more than 3.2 percent of State personal income, and that debt service be no more than 8 percent of State general fund and property tax revenues. In this case, the goals were to be met by gradually decreasing new authorizations until debt was lowered to the target levels. Wisconsin uses a different approach, which limits annual debt authorizations to the lesser of (1) 3/4 of 1 percent of the aggregate value of all taxable property in the State, or (2) 5 percent of the aggregate value of all taxable property in the State less the State's net indebtedness as of January 1 of the current year. The Wisconsin limit was modeled on local government limits, where aggregate taxable property is an excellent measure of potential tax capacity of a jurisdiction; however, at the state level, where less than 2 percent of all tax revenues are from property taxes, its usefulness as a proxy for state capacity to pay is limited. South Carolina law limits debt service payments to 7 percent of its general fund revenues. Debt service in Tennessee may not exceed 15 percent of its general fund receipts. Connecticut limits debt service to 4.5 percent of the previous year's State tax receipts. Like Maryland, these three states tie their debt limitation to some measure of state income.

In reviewing indebtedness for their states, both the California Legislative Analyst and the Committee on Program Review and Investigation in Kentucky recommended that debt limitations, if adopted, should be tied to some flexible measure of either state revenues or the state economy.[4] By holding debt to a percentage of state personal income, or debt service (for non-self-liquidating bonds) to a certain percentage of general fund revenues or expenditures, it is possible to manage debt and still retain flexibility. Such a limit may be adopted as a statute or as a written managerial policy, in order to provide the opportunity for later adjustment should there be a significant change in the mix of state revenues. For example, growth in dedicated revenues at the expense of general funds, or state assumption or shedding of significant service responsibilities could make the limit too generous or too constraining. It is important to note that a debt service limitation is only a management tool; the wide variety in such limits suggests that states have designed them to be rough measures of affordability, even when there was no present danger of being overbonded. The California report states: "There is always the possibility that excessive bonding might become a problem at some point in the future in which case a debt limit of some sort could provide a means for detecting problems at an early state. Even if debt limits are revised over time, their very presence increases the ability of the Legislature to oversee borrowing activities and consider the trade-offs between differing bond-supported activities."[5]

Oversight and Controls

If there is no magic formula for deciding how much general obligation debt a state can afford, the optimum amount of revenue bonding is even more elusive to determine. Bonds which are financed out of user fees are, in a sense, self-determining. Toll roads, airports, sewerage plants, water supply systems, and the like have detailed feasibility plans accompanying them, and -- assuming there is no gross miscalculation in the amount of future revenues available for debt service -- the size of the issue and its composition are relatively straightforward. In the case of "on behalf of" financing -- such as mortgage loans, health facilities loans, pollution control and industrial development financing, and the like -- evaluation is usually on a caseby-case basis. The state's interest is not primarily in the size of the issue, since that is determined by demand, nor in its legal permissibility, since that is effectively determined by Congress and the Internal Revenue Service. Instead, a state must be concerned with the local social or economic usefulness of the financing and that its own credit and debt service costs will not be adversely affected by the quality and quantity of bond issues outstanding. It must also be concerned that financings are prudently planned and executed, and that the state is not left "holding the bag" on a contingent financing. Even where there is no legal or moral obligation for the debt of a particular authority or public corporation, nor any investment of state funds (since the interest subsidy provided is from the federal treasury rather than the state), the failure or threat of failure to make timely payment on debt is a default, and any default can create a political obligation for a state. The current controversy over the repayment of bonds for the Washington Public Power Supply System is testimony to that fact.

Because of the potential liabilities created by their actions, states seem generally to be concerned about the activity of public authorities and corporations. Yet, because of the specialized nature of their work, and because of the difficulty in ascertaining what an appropriate level of bonding should be, some states have concentrated on reviewing the process of bond issuance, rather than its size or fiscal impact. Few states have been as harsh in their judgment as Oregon, where the review panel stated:

> ...general agreement that the industrial development revenue bond program in Oregon, as it is presently constituted, is an ineffective public policy instrument. The state legislature should develop a clear statement of program goals and objectives against which public benefit can be evaluated...If the state legislature is unable to develop...(such) guidelines...the Panel would support discontinuation of such financings in Oregon.[6]

Most states, accepting the legitimacy of revenue bond programs, have been more concerned with the quality of their administration. This creates a dilemma, since the purpose of creating an independent authority is to distance it from the political process. Moreover, it is neither practical nor appropriate for a legislature or governor to involve themselves too directly in the day-to-day administration of an agency. At the same time, states have expressed concern at the thought of agencies proceeding to unchecked issuance of debt and unsupervised distribution of proceeds.

The result has been a series of controls established to ensure that the process runs smoothly. For example, a number of states have established interest rate ceilings, hoping thereby to avoid the sale of bonds at excessive costs. The ceilings were originally set at fixed levels, but the rapid run-up in interest rates and the volatility of interest rate levels made such ceilings obsolete. Florida responded by creating a floating interest rate ceiling, which is set monthly at 150 basis points (1.5 percent) over the most recent Bond Buyer 20-Bond Index level. Florida also exempted bonds having the three highest credit ratings from the ceiling. The goal was to set up a screening mechanism: bonds that were highly rated, or issued at market rates, were allowed to go through without review. Bonds which could not meet this test (both State and local) were required to appeal to the State Board of Administration (composed of the Governor, Treasurer, and Comptroller). This Board is empowered to allow exceptions provided that the issuer can demonstrate that similarly situated projects pay similar rates, and that the project is financially feasible. "The State's principal objective has been to restrict the issuance of exceptionally risky debt."[7] Minnesota has adopted a similar floating ceiling for interest rates.

This kind of ceiling can serve as an early warning system; unusually expensive issues will be called to the attention of whatever oversight body has authority to set ceilings, and bonds which are reviewed and found acceptable may move ahead. The use of such a ceiling is an example of the need to balance debt issuance accountability against the impetus to finance high cost or marginal projects.

State interest in several other areas of the issuance process is noteworthy. States have often imposed requirements for competitive sale of bonds, specified the form in which bids can be made, and proscribed discounts. The California Legislative Analyst's study looked at these issues in more depth than any other state review, and its conclusions are worth reviewing.

The California study suggested that bonds should be allowed to sell at a reasonable discount, roughly equivalent to the normal underwriting spread; that technical constraints (such as maximum interest rates, discounts and maturities, as well as restrictions on refunding and bond anticipation notes) be made uniform for all bonds; that negotiated sales be allowed as well as competitive bidding; and that bids be evaluated by the True Interest Cost (TIC) method.

There has been considerable technical and analytical discussion about discounting over the years. The general consensus seems to be that investors prefer to buy bonds at par value. Since underwriters cannot afford to buy bonds at par and reoffer them at the same price, an allowance for a discount of 1 1/2 to 2 percent of the issue value would seem to allow for underwriters to be more competitive on interest rates. Such bidding makes it easier to evaluate both competitive and negotiated bids, since the underwriters' profit is more clearly expressed rather than hidden in a complex interest rate structure.

A number of states have moved to the use of True Interest Cost (TIC) rather than Net Interest Cost (NIC) to measure the interest rate on bonds. The differences between the two methods of computing effective interest costs are discussed later in this chapter (page 179). TIC is more complex to calculate, but it is probably a superior method of measuring both competitive and negotiated offerings. Its complexities are no obstacle to a computerized world, and discounting to present value is an appropriate method of measuring the long-term cost of money.

There has been extensive discussion over the years as to the comparative costs of competitive versus negotiated bidding, and the major points of this argument are covered later in this chapter (page 179). Advocates of competitive bidding insist that it is the only way to force competition among underwriters; negotiated bidding supporters point to the fact that increasing complexity of issues requires that they be custom tailored, and that such tailoring saves money in the long run. Whatever merits may be, there is no doubt that negotiated sales are becoming increasingly more common. The continuing growth in negotiated sales, combined with the popularity of creative finance instruments, which almost always require a negotiated sale, suggest that states will do well to allow issuers a choice, rather than requiring only competitive sales. The key to improved debt policy seems to be flexibility, rather than an a priori assumption that competitive or negotiated sales are superior to the opposite approach.

Two related concerns which emerged in most state reviews were the overall level of debt which a state and its authorities had outstanding, and the maintenance or improvement of a state credit rating. Many states seemed to feel that even though individual issues were prudent, a total level of debt which was excessive by some measure could lead to a decline in the credit rating, and thus an increase in interest costs. In addition, there was some concern that overall debt levels might push interest cost up even where credit ratings were steady because of an oversupply of that state's debt in the market. Such an oversupply could lead to an interest penalty for both the state and its local governments.

The Oregon Bonded Debt Advisory Panel, for example, expressed concern that the frequency and size of borrowings under its Veterans Farm and Home Loan program had created an oversupply of Oregon debt in the market. They found that there was an interest penalty of 25 to 75 basis points on every issue for both State and local bonds. The penalty results from investor preferences for geographic diversity in their portfolios, with no one state being overrepresented. This is particularly a problem in recent years with a major shift to individuals as the primary purchasers of bonds, most of whom buy through mutual funds. These funds are managed with an eye toward geographic diversity, and a state which has what these managers perceive as an excess of bonds on the market will find that yields will have to increase to compensate for that perceived excess.[8] Both the Maryland and Wisconsin Reviews noted the same concern for their states.

Oregon and Maryland both recommended the creation of a group to determine an overall state debt level, and suggest what new issues should be allowed. In Maryland's case, this group is the Capital Debt Affordability Committee, composed of the Treasurer, State Comptroller, and Secretaries of the State Planning and Budget and Fiscal Planning Departments and an appointee of the Governor. (See Exhibit 5.2) Aside from setting targets for general obligation debt (as discussed above), the committee recommended the creation of controls over the timing and amount of special authority debt, in order to avoid an oversupply of Maryland debt on the market, although this is not yet implemented. The Committee also recommended a cancellation of authorized but unissued debt, in order to reassure potential investors that their purchase of Maryland debt would not be diluted by large issuances of new debt. Oregon also recommended the creation of an authoritative planning committee chaired by the Treasurer to develop long-term capital outlay plans, recommend overall debt limitations, and assist in the coordination of sales. Oregon also urged the cancellation of outstanding unissued debt authorizations.

In California, a slightly different approach has been taken. While there has been no attempt to create a central oversight mechanism, the Treasurer has that authority de facto through his membership on, and chairmanship of, virtually every State agency or authority which issues debt in the State. While some observers think this is testimony more to the personal ascendancy of Jesse Unruh, the former Speaker of the Assembly who is the current Treasurer, it serves the same function as the Debt Affordability Committee in Maryland. Indeed, through the Creation of the California Municipal Debt Advisory Commission, which has review (although no veto) over virtually every local bond issuance in the State, the Treasurer's purview touches all State and local debt policy.[9]

These actions reflect not only a state-level concern over potential investor reactions, but an active attempt to communicate more effectively with rating agencies, underwriters, and investors. The importance of effective communication was highlighted by the public finance director for Kidder, Peabody and Company when he identified improved and regularized communications between issuers and investment bankers as a key to a continued healthy market for state debt; he argues that a regular program of meetings and information can improve both working relationships and investor perceptions.[10] The Oregon review explicitly argued for a program of improved investor relations.

There is some empirical evidence to suggest that the total amount of debt outstanding can contribute to the cost of debt issuance. Aside from the Oregon evidence -- which looks primarily at the value of Oregon bonds on the secondary market — one study has suggested that for many states, the market for local debt is primarily state-wide and regional, rather than national. As a consequence, the conclusion is therefore that an appropriate state role is to monitor credit markets and local debt issuance in order to be aware of such problems and to ensure an orderly market for tax-exempt debt of all types.[11]

Exhibit 6.2

Oversight Committees for State Debt

State	Title	Composition
Maryland	Capitol Debt Affordability Committee	Treasurer, Controller Planning Director, Budget Director
New York	Public Authorities Control Board	Budget Director, Senate Finance Chair Assembly Ways and Means Chairman
California	No formal mechanism, but treasurer chairs oversight bodies for all debt issues.	
Louisiana	State Bond Commission	Treasurer (chairman), Governor, Lieutenant Governor, Commissioner of Administration Secretary of State Attorney General, Senate Finance Committee Chairman, Senate Revenue and Fiscal Affairs Chairman, Speaker of the House, House Ways and Means Chairman, House Appropriations Chairman.

Several states have moved in this area, with the most famous effort being the North Carolina Local Government Commission. This group actually markets the bonds on behalf of the local governments. No other state has such sweeping powers of control, although the Louisiana Bond Commission holds veto power over all local and State bond issues. In Michigan, the Municipal Finance Commission reviews all local debt issues before they go to market, as does the California Municipal Debt Advisory Commission. Numerous other states have informational systems, review processes, or assistance programs. These range the gamut from merely collecting information to actively assisting local governments with access to the market.[12]

If a state is going to develop a comprehensive debt policy, then there must be some mechanisms for overseeing the implementation of that policy. Two approaches have been developed so far that show promise; one is to ensure that both governors and legislatures have a body to articulate and monitor ongoing debt policy. This is the function which groups like the Capital Debt Affordability Committee play in Maryland, or the State Treasurer in California. Virtually every state which has reviewed their policy has suggested that there be a legislative body with specific authority for debt policy as well. In New York, this is exercised by the Assembly Ways and Means Committee and the Senate Finance Committee, who already have jurisdiction over all bills with fiscal impact, whether they deal with taxes or spending. Oregon suggested a subcommittee of Ways and Means be created; in California, the Analyst argued for a joint subcommittee of the fiscal committees (Oregon's Ways and Means Committee is already joint). In Wisconsin, the Joint Finance Committee has jurisdiction; in Michigan, it is the Joint Subcommittee on Capital Outlay. Illinois uses a slightly different approach; here the legislature has a joint Economic and Fiscal Commission, which has responsiblity for preparing revenue estimates and fiscal notes on tax bills. This commission also has a permanent charge to study the long-term debt position of the State, prepare debt impact notes on bills, assess capital plans and the State's ability to market bonds, and make special studies. Almost unique among the states, it even publishes a quarterly journal, The Illinois Bond Watcher. The intent is to ensure that there is informed observation of the debt issuance process.

New York State has two innovations which deserve further discussion: the Public Authorities Control Board (PACB) and the Securities Coordinating Committee (SCC). The PACB consists of three members, appointed by the Governor, the Senate Majority Leader, and the Speaker of the Assembly. Since its creation in 1976, it has consisted of the State Budget Director, the Chairman of the Senate Finance Committee, and the Chairman of the Assembly Ways and Means Committee. All major State authorities must have prior PACB approval before entering into any agreement or incurring any indebtedness for the purposes of acquiring, constructing, or financing any project. The PACB reviews all projects for feasibility, affordability, and coordination with the State's capital program as defined under New York's "Accounting, Financial Reporting, and Budget Accountability Act of 1981". Only the Louisiana Bond Commission, among state agencies, matches the PACB in its power to review and coordinate authority financing.

The SCC adds to the PACB review a scheduling mechanism for debt. The SCC is chaired by the State Comptroller, and includes the State Budget Director and the chairmen or chief operating officers of the ten largest authorities. It produces a quarterly schedule of proposed borrowings which ensures that the State and its authorities do not jostle each other in the market, and that the approach to the market is orderly.

Although these approaches provide New York with controls that only Louisiana and California -- to some extent -- can match, there are further reforms to be made. Both the Assembly Speaker and the Ways and Means chairman have suggested merging the PACB and SCC to broaden their coverage to all authorities, including interstate ones, and to include local borrowings in the scheduling process in order to coordinate better the marketing of New York securities.

These bodies provide a useful approach for other states to consider as well. As one observer of the markets has noted, all control mechanisms rest on trust; if elected officials trust authority boards and staff, no further oversight is needed. But even with oversight, trust must repose somewhere: with the Treasurer, the Governor, a legislative body, or some group. If it is true that debt issuance is an instrument of public policy and not just the technical translation of public fiscal decisions -- as this chapter has earlier argued -- it follows that trust should be reposed in those same elected officials whose function it is to make public policy decisions. Trust may be one part of the issue, but so is accountability; debt policy, like tax policy and spending decisions, is ultimately the responsiblity of legislatures and governors, and their constituents as well as the marketplace will hold them accountable for the results of that policy. The preceeding overview of state activities suggests that states have begun to recognize and act upon that responsibility.

Role of the State Bond Committee

The Alaska State Bond Committee was established by the State Bonding Act (AS 37.15.110). The statute requires that the Committee be composed of three members, as follows:

Commissioner of Commerce and Economic Development
(as permanent Chairman),

Commissioner of Revenue,
(as Secretary), and the

Commissioner of Administration

The principal role for the Committee is to authorize the sale of Alaska's general obligation bonds. The Committee also approves the allocation of funding to capital projects, authorizes the prefinancing of projects to be bonded (i.e., the use of general fund loans in anticipation of bond sale receipts), and is responsible for International Airport Revenue Bond sales. In the past, the Governor has supplemented the membership of the State Bond Committee with ex officio members. During Governor Hammond's administration the ex officio members were the Commissioner of Transportation and Public Facilities and the Director of the Office of Management and Budget.

Based largely upon interviews with individuals who have been members of the Committee over the past ten years, there appears to be a concensus that the Committee's present role is limited and that it is not substantively active in the State's debt management. We believe this to be the result of several factors, chiefly: 1) legislative design of a routine, perfunctory board rather than an active management- and oversight-oriented board, and 2) lack of staff to the Committee.

Each corporate-type entity of the State that is authorized to issue debt has virtual autonomous power of self-governance over its debt issuance and debt management. The autonomy enjoyed by these issuers is, however, subject to review and oversight by the Legislature through its approval of upset or maximum debt authorization levels. In addition, through appointment privileges, the Governor of the State has effective control over the governing boards of most State government corporations and authorities. Yet, each of these levels of legislative and executive oversight is subject to the dynamics of the political process, and, as a practical matter, the Executive Board positions are frequently more ceremonial than substantive. This is due to the inherent remoteness of Board members from day-to-day involvement in the State corporations and the practical limitations on the commitment of time to a wide array of corporate-type activities.

It is important that some body at the State level take responsibility for monitoring, analyzing, and reporting on the total amount of debt outstanding in the State and State debt management practices. As pointed out elsewhere in this report, the size and scope of State debt in Alaska is significant, and on a

per capita basis greater than anywhere else in the United States. The rate of growth in overall public debt is among the highest in the nation, due principally to the debt issued under the auspices of the State through its public authorities and corporations. Unlike the State's full faith and credit bonds, this debt does not require approval by vote of the people at public referendum. In addition, nearly 40 percent of the State's revenue-supported debt is backed by a pledge of the State's moral obligation and, therefore, represents a contingent liability of the State (see Table 3.16).

The experience of New York State with its Urban Development Corporation is the most graphic example of the consequence of inadequate control of public authority debt issuance. In fact, New York only regained financial credibility after what had been very limited control over the borrowings of its vast and diverse public corporations was tightened through several oversight mechanisms. Of course, Alaska is not in a comparable position, nor is the State threatened in any similar way to the fiscal crisis of New York State and City in the early to mid-1970's. Yet, it is the uncontrolled growth of enormous amounts of debt that brought New York State to the brink of bankruptcy. A revamping of the role and responsibility of the State Bond Committee in Alaska, at this time, would be a positive sign to the financial markets that the State is sensitive to its fiscal posture and in control of its financial destiny.

Considering the role and impact of both direct (tax-supported) and indirect (contingent or moral obligation) debt upon the State's fiscal condition and economic well-being, and considering recent developments in oil prices that alerted the rest of the nation to the volatility of the State's basic revenue source, we believe that the mid-1980's is a good time for the State to broaden and strengthen the role of the State Bond Committee. Revising both the membership and its scope of responsibility would be a timely signal to the investment, underwriting, and credit analyst communities that the State is on top of its overall debt management program and that the State's debt issuance is being controlled so as to prevent getting in "over-its-head". A departure from business-as-usual is appropriate at this time as a sign of fiscal responsibility, especially regarding debt management.

In order to carry out its expanded scope of activity, the Committee should be reconstituted. The chairmanship should reside in a senior-level fiscal official, such as the Commissioner of Revenue or the Director of the Office of Management and Budget who is close to and familiar with the State's debt management practices. Voting membership should also include the Commissioners of Commerce and Economic Development, Administration, Transportation and Public Facilities, and Community and Regional Affairs, and a representative from the governing board of a State corporation who does not hold any other official State position. In addition, a State legislator, such as the Chair of the Legislative Budget and Audit Committee or the Senate Finance Committee, could be informally added to the committee in an ex-officio capacity. This would constitute a seven member voting board. To assist in fullfilling its expanded duties, the State Bond Committee should be staffed by a professional in the field of public finance who, as Executive Secretary to the Committee, sits ex-officio on the Committee itself as a member.

One major role for the newly reconstituted State Bond Committee would be continual oversight of the State's total indebtedness -- including all State-level debt -- as a final check on debt issues before going to market. The impact of the magnitude of both direct and indirect debt upon the State's creditworthiness is a matter of balanced fiscal judgment. Neither Standard & Poor's nor Moody's, the two predominant national credit rating agencies, has a quantifiable parameter for signaling dangerously high contingent liability levels (due to large amounts of moral obligation debt, for example). The amount of State guaranteed debt will effect the credit rating of all guaranteed debt, and, depending upon the degree of the guaranteed bonds' self-sufficiency, the amount and type of moral obligation bonds may affect the credit rating and market access of State debt of any description, including general obligation bonds.

The Committee should be required to take a global view of debt-related activities in a formal way, not in the loose, informal manner that presently exists. Determining the level where aggregate indebtedness adversely affects credit quality and market access is a matter of judgment. Those closest to the scene are in the best position to make such judgment. An active and involved State Bond Committee, with the advice and counsel of bond market experts, would be in a position to oversee all State debt activities and serve as an effective mechanism to promote fiscal management and avert fiscal misfortune. Several persons who are close to the Bond Committee noted that the overlapping membership of Bond Commmittee appointees as appointees to the governing boards of other State level issuers, such as AIDA, AHFC, and the Bond Bank, provided for an informal linkage of information among and between most all State debt issuers. Such high-level officials, however, do not have the time to follow and analyze the trends in State-level debt issuance necessary to make informed decisions about financing methods and the structuring and timing of bond issues. Hence, it is important that the responsibility for overseeing coordinative, and analyzing state debt issuance be given to one central body.

We believe that the oversight exercised by the State Bond Committee should be passive in nature. The State Bond Committee should not supplant the activities or authority of independent agencies and corporations. The Committee should serve both as an information center and as a final check-off point for debt issues. In order to carry out this role, the Committee should receive annually a financing plan from each entity of the State authorized to issue bonds. The plan would identify the amounts to be borrowed, the approximate time of bond sale, describe the projects or programs to be financed, explain the basic security structure supporting the proposed debt, and otherwise provide an explanation of the purpose of the financing along with the key features to the extent then known. The Committee should annually compile a master debt issuance schedule from the individual financing plans and inform all State and local local issuers of announced plans in order to facilitate coordination of bond issue timing.

The overview of proposed bond sales could become the basis for analyzing the aggregate impact of debt issues upon the financial condition of the State. In this connection, as described in the chapter on debt affordability, the

Committee should annually prepare a comprehensive profile of outstanding debt and monitor its impact on the State's fiscal condition. Analysis and categorization of outstanding debt in a manner similar to that presented in Table 3.16 should be an element of this comprehensive profile. The inclusion of such a report in the State's official statement would improve its disclosure and usefulness to investors.

Closely related to this activity would be responsibility on behalf of the Committee to review each financing before it is brought to market. When bond or note issues are formulated and near completion, approximately thirty days in advance of the scheduled sale date, the Bond Committee would receive all pertinent project documents for review. The Committee's only power would be to defer or veto the issue because, in the judgment of the Committee, the security structure or sources of repayment are inadequate or the issue jeopardizes the credit of the State. The committee would not be responsible for approving all State-level debt issuance.

It should be noted that the Municipal Bond Bank should be included within the scope of authority of the State Bond Committee. Likewise, any local unit of government expecting to sell instruments of indebtedness outside the State Bond Bank would be expected to file with the Committee its annual financing plan, but the Committee would have no responsibility other than including such local government issues in the master debt issuance schedule as an information item. The primarly purpose of the master debt issuance schedule is to alert all issuers of bonds and notes as to the timing of what are potentially competing issues in the marketplace. This allows for coordination of bond issue timing among and between the issuers themselves, facilitates market access, may tend to increase the number of bids when issues are sold competitively, and may allow for rearranging the size (amount) and frequency of certain issues in order to more effectively attract buyers. All of the Committee's procedures and policies should be implemented by rule and regulation, and failure to comply should subject the negligent agency or local unit to loss of, or withholding of, State financial assistance.

The Moral Obligation Pledge

The State itself does not issue moral obligation bonds. Such bonds are issued by public authorities and corporations under statutory authorization that provides for the creation out of funds raised by the bonds, or otherwise, of a reserve fund equal to the maximum annual debt service on the bonds. Typically, the moral obligation language states that if an issuer (public authority or corporation), because it does not have sufficient revenues, is obliged to draw on its reserve fund to meet debt service payments, the governor must be notified and shall inform the legislature of the deficiency in the debt service reserve fund. The legislature must then consider whether it will or will not appropriate the amount needed to make up the deficiency in the reserve fund. An example of the State's moral obligation is given on page 71.

Customarily and traditionally, public corporations and authorities issue revenue bonds which are backed-up by revenues generated by the projects financed by the bonds. The projects are considered self-liquidating, and the public authority is thus considered self-supporting. The moral obligation pledge is a useful and sometimes necessary supplement to the guaranteed pledge of revenues when the issuing corporation or authority is a relatively new enterprise; when there is an insufficient track record of repayment capacity for the type of projects being financed; or when there are other unusual elements of risk involved for the investors. Unusual elements of risk in the State of Alaska might, for example, be considered to be reliance on a single industry (oil production) for a substantial portion of statewide economic productivity, the State's geographic isolation, climate, and susceptibility to natural disaster or acts of terrorism against the pipeline. Hence, we do not see the possibility of entirely eliminating the use of the moral obligation bond in the case of all Alaska financings.

The term "moral obligation" is a phrase which takes on different meanings depending upon the perspective of the interpreter. The language surrounding moral obligation bonds may mislead those not trained in public finance words-of-art. To bond counsel, and others experienced in structuring programs of public indebtedness, the moral obligation pledge means that if the primary source of revenues guaranteed to repay a particular debt is insufficient, the legislative intent is to examine the situation and determine if supplemental revenues will be made available to meet debt repayment requirements. The moral obligation pledge is a contingent liability -- a potential call -- upon State resources. It is not a legal liability. It does not, as a matter of law, mandate that the legislature or the governor provide any funds to repay bonded indebtedness.

To legislators and many public officials, the moral obligation pledge is removed from any linkage to direct fiscal responsibility because the projects and programs to which the moral obligation pledge has been given are understood to be self-supporting. Public officials view the moral obligation as merely a device which helps to sell revenue bonds at a lower interest rate, and at no cost to the State. They generally assume that those persons responsible

for the financing have thoroughly analyzed and approved two financial assumptions supporting the debt issue.

To investors, the moral obligation is viewed just one step below the credit quality of the State's general obligation pledge. Although investors know that the moral obligation is not a legal obligation, they nonetheless tend to treat it close to the equivalent of a guarantee by the state. The popular perception is that Alaska, or any other state, will never let its moral obligation bonds go into default. The practical reality is that if a state moral obligation bond were to enter default the fiscal credibility of the state would be impaired, and the state would be at least temporarily barred from access to the bond market. Perhaps even more troublesome is the fact that the value of the moral obligation as a financing security device would be eroded which would make certain future revenue financings more costly and more difficult.

Although most legislators approve moral obligation debt issuance on the premise that the projects or programs being financed are self-sufficient, the perception on the part of investors and the investment banking community is quite different. We discovered through interviews with members of the banking and underwriting communities that the moral obligation of the State and the concomitant strength of State revenues was the basis for securing a letter of credit which backs-ups the Alaska Power Authority's bond anticipation notes, and not the fiscal merits of the projects being financed. This interpretation of the moral obligation is widely held among bond market participants. Many investors and underwriters look through the projects being financed to the moral obligation backing. If a moral obligation pledge is present, they may not be concerned with the financial feasibility of the project, rather, they will assume that State officials have thoroughly assessed the project before granting the moral obligation.

A careful look at the procedure for implementing a call upon the moral obligation pledge reveals that the legislature must appropriate monies from available revenues. In light of the structuree of the State revenue system, the value of Alaska's moral obligation pledge has several limitations. The limited sources of State revenue, and the unstable nature of oil prices may make it difficult for the State to allocate substantial amounts to meet moral obligation debt service requirements, especially in the face of other budgetary commitments and obligations. This fact has not gone unnoticed among bankers and underwriters of State moral obligation bonds. For this reason, the existence of the Permanent Fund provides comfort to bond holders. In spite of the State's current financial stability, investors believe that the State would be able to meet its moral obligations, if necessary, through the assets of the Permanent Fund. This is true even though such action could not be taken automatically nor without a change in law.

The State's moral obligation pledge has facilitated the borrowing activities of APA, AIDA, AHFC, and the Municipal Bond Bank. When these public corporations were in their infancy, it is unlikely that they would have been able to borrow form the national credit markets without the State's moral obligation backing due to the absence of a mature, diversified and stable State economy.

For certain programs, such as the APA and the Municipal Bond Bank, the presence of the moral obligation may be necessary for continued borrowing at reasonable interest rates. Other issuers, such as the AHFC, may have established themselves among investors through frequent and sizeable borrowings to the point where the moral obligation is no longer necessary as a marketing tool, nor to obtain lower interest rates. Where it is possible to borrow funds without use of the State's moral obigation pledge, its use should be avoided. When it is necessary to enhance the credit quality of a revenue bond with the moral obligation, it should be applied with discretion and sensitivity to the fact that it will encumber, albeit to an indeterminate degree, the State's overall creditworthiness and may in the future be a burden on the Permanent Fund or other State revenues.

It should be the responsibility of the State Bond Committee to determine the importance of the State's moral obligation to the success of the agency's (or public corporation) borrowing program and its potential impact on the State's creditworthiness. Based upon this analysis, the Committee should recommend whether or not the State should grant its moral obligation. The moral obligation pledge should not be treated as a right, available to most State debt issuers, as it is at present. Rather, it should be an indication to the bond market that, after close scrutiny, the State believes the project meets State objectives and is financially sound.

Moody's Investor Service does not consider the presence of a moral obligation pledge in the assignment of credit ratings to revenue bonds because they believe that the moral obligation itself is fraught with many risks and considerable speculation. Standard & Poor's acknowledges the moral obligation as a component of the security behind a revenue bond, but also acknowledges that it is impossible to determine at what point and under what set of political and economic circumstances meeting the State's moral commitments would be too large a burden to bear. These factors considered, it is evident that the strength or utility of the moral obligation commitment varies in inverse proportion to the frequency or amount of its use. The more heavily it is used, the more diluted it becomes.

Some may suggest that because the moral obligation is interpreted by many investors as tantamount to the State's general obligation pledge, the State should abandon the use of the moral obligation and substitute its full faith and credit pledge. The supposed objective would be the lowest possible borrowing costs which the general obligation pledge would bring. Such a policy change would not be in the best interests of the State. This is due to the fact that the State has specifically identifiable revenues and budgetary allocations which support its general obligation bonds, and the repayment of these bonds has a reasonable sense of predictability since the debt retirement schedule is tailored to the flow of receipts from known oil resources. Burdening the general obligation pledge with what would otherwise have been moral obligation commitments would quickly erode the State's credit rating and drive the cost of borrowing for general public purposes upward. This would occur without a concommitant decrease in the cost of borrowing for the revenue-type bonds because of the imbalance that this type of borrowing would place on the

creditworthiness of the State as a result of adding a large direct obligation to a limited source of revenue.

Capital Planning and Capital Financing

The effectiveness of the State's capital planning process will have very important implications for its future financial condition, since adequate physical facilities and public infrastructure have a major impact on the State's future tax base and its economic development, and, as well, important implications for its credit rating.

For many years, tax-exempt credit analysts have emphasized the significant relationship between a government's financing plan and the creditworthiness of the government's bonds. The importance of this relationship has been reflected in credit ratings assigned to the debt obligations, and in the reception afforded the bonds in the markets. It is especially informative to review comments offered by Moody's Investors Service, Inc., the national credit rating agency, on this subject:

> Most governments, however, have recurring needs for (capital) improvements, and consequently must plan for those needs. Even having no plan is, in a sense, planning -- to a municipal bond analyst, it is a plan to meet the problem hit or miss, instead of systematically. The annual preparation of such programs, comprising appropriations for the next year and estimates or projections for the five years following, has been standard practice for well-run (local) governments for nearly a generation now...It (capital improvement program) should be comprehensive in scope of projects covered and should show not only the amount to be spent but also the source of funds -- how much from current budget contributions (taxes, etc.), how much from Federal and State grants, how much from Capital Fund balances carried forward, how much from the sale of new bonds.[13]

Many other credit market analysts have also stressed that careful capital planning and orderly debt execution are essential for meeting the physical needs of a government. The development of a coordinated approach toward the capital budget and debt management programs can improve the credit posture and marketability of debt obligations for issuers of tax-exempt securities. Indeed, a comprehensive capital improvement program and an associated financing plan are important priority-setting devices which indicate to the investment community an astute sense of managerial awareness. Demonstrating keen managerial attention to capital financing is important in Alaska's case because of the developing nature of its economy and the need to allocate scarce resources to projects producing the greatest return on investment. It is important that the State promote capital projects that will encourage the development of a diverse economy that will be able to support the investment in public infrastructure. A comprehensive capital investment program and financing plan will help the State achieve these goals. In formulating such a plan one key element will be the decision to use current revenues, as opposed to bonded indebtedness, to pay for capital investments.

Pay-as-You-Go Vs. Debt Financing

Capital financing decisions typically involve a trade-off between paying for the project through otherwise available current revenues or through the issuance of bonds. Many factors influence this decision, including other demands for current revenues, the type of project to be financed, and the financial costs of either approach. When revenues are tight, there often is little choice between bonding and paying from current revenues: capital projects must be bond-financed unless the government chooses to raise taxes.

If the capital project is expected to generate revenues sufficient to service bonds, it may be fiscally responsible to finance construction through project revenue bonds even if current general revenues are available to cover project costs. Revenue-supported debt does not increase the direct (general obligation) debt burden of a government, and may encourage sound financial management of the particular public enterprise.

One of the final decision-making criteria in the choice between long-term debt and current revenue financing is the anticipated costs of either financing alternative. Other important criteria include the affordability of future debt, as discussed in Chapter Seven. The ultimate financing decision must be based upon a careful assessment of all financial and economic costs. Certain economic conditions tend to favor the use of one or the other technique. Below, we develop a framework for choosing between bond and current revenue financing from an economic and financial perspective. At one extreme will be the "pay-as-you-go" approach, wherein all capital investments are paid for out of current revenues. At the other extreme is the debt financing approach where all long-term investment is financed over a long time period through the issuance of debt. Realistically, most capital improvement budgets will be financed using a combination of the two financing strategies. However, in order to appreciate the trade-offs involved in both approaches, it is useful to look at them as two distinct alternatives.

Arguments for and against "pay-as-you-go" versus borrowing are not based solely on the external economic climate. Other reasons why one or the other method may be preferred are to promote intergeneratonal equity, i.e., to share the financing burden among current and future taxpayers, or to smooth out the peak cash needs of major capital outlays. The approach taken in this section is to apply a valuation of the savings or costs to individual taxpayers of using either current revenues or borrowing under varying assumptions regarding the probable future course of prices and interest rates versus their current levels.

In periods of prosperity when prices are rising, current-dollar costs are growing, and real demands for investment seem endless, the propensity has been to use the debt market. As the economy slows down, however, and inflation abates, there tends to be a greater reliance on financing fewer projects and doing so through current revenues or taxation. "Taxation" will refer to the "pay-as-you-go" school of thought -- financing investment throught current

revenues raised from a government's own sources. It will use the economic and financial consequences to individual taxpayers of the two alternatives as the basis for deciding between the two. Likewise, "debt" will refer to the issuance of a long-term security on which the local government is obligated to make annual debt service payments. The general arguments for each approach will first be presented, followed by a model illustrating the net cost of either approach.

The fundamental characteristic of taxation is the compulsory reduction in income (or wealth) imposed on the individual in order that the government may finance some service or capital investment which, in turn, will yield in the future some addition to real income. Residents of a particular community have little choice (aside from moving) but to pay their annually assessed taxes. In order to finance a capital improvement plan solely through current revenues a government must choose between:

1. undertaking fewer capital projects than if debt were issued because the current budget does not have a sufficient amount of "excess" funds to finance the needed amount of investment; or

2. raising taxes in each year of the construction period by an amount that will cover construction cost.

It is likely that, given a slate of necessary capital investments, deciding to use pay-as-you-go financing from current revenues rather than debt issuance will most frequently entail taking the second alternative of raising taxes.

Borrowing, on the other hand, enables governments to finance public investments without much reduction in the purchasing power of private taxpayers during the period in which the funds are required. Debt service is paid over a period of years, and the effect on the annual budget is minimized in any given period. Thus, current taxes have to be raised only slightly to support higher levels of debt service resulting from a given capital project. But, because of interest payments, a much larger total amount is paid out overall.

From an individual taxpayer's standpoint, the difference between the two alternatives is important. Paying the increased tax to finance the construction forces individuals to forgo using relatively large amounts of their income for alternative purposes for the years that the tax is levied. For states which tax mineral resources rather than incomes, the opportunity cost of not using current revenues for other purposes is borne by its citizens, and also can be viewed as a reduction in real income. The "cost" of this forced reduction in income, what may be viewed as an individual's "time value of money", is short-term interest rates. This assumes that the alternative use for the income paid out in taxes is investment in short-term, highly-liquid, non-risk securities. This is essentially the current-period cost of the use of money devoid of any credit or liquidity risk. For lower-income individuals with no excess income to invest, the time value of money may be higher. Conversely, for individuals who keep their excess income in non-interest-bearing checking accounts, the time-value of money may be lower.

The total cost to the government of the two financing alternatives also varies considerably. This is especially true in times of high tax-exempt interest rates when the sum of required annual debt service payments over the life of an issue may exceed the actual proceeds of an issue by as much as two and one-half times. However, when inflation is expected to be at high levels or productivity is growing, the future dollars paying the debt service will be worth less (or easier to come by) than the dollars when they were borrowed. High growth, therefore, may largely offset the effect of high interest rates by lowering the true cost of borrowing. This ability to repay in cheaper dollars is a major supporting argument for borrowing to finance long-term capital investment. But when inflation or growth are slowing, perhaps to a level half that of the cost of borrowing, the financial arguments for borrowing will require reconsideration.

In order to illustrate a comparison of the two alternatives, a hypothetical project and two financing schemes are presented in Table One. The project under consideration is estimated to cost $30 million and take three years to complete. The two financing options available are:

-- Taxation -- The government raises taxes on a per-capita basis for each of the three years in the construction period. The model assumes that taxes are levied to cover one-third of the total project cost each year. It is further assumed that there are one million residents for whom taxes will be raised. This alternative results in a per capita burden of $10 for each of three years.

-- Borrowing -- The government issues 20-year bonds with equal annual debt service payments. The costs of this alternative are presented at interest rates of 8, 9, 10, 11, and 12 percent. To comport with reality, it is also assumed that during the three-year construction period, unused proceeds from the bond sale are invested in securities paying the same rate as on the long-term borrowing. Such investment earnings are used to reduce the debt service payments.

Table 6.1 presents the annual costs of the taxation alternative and the five borrowing alternatives. The annual figures are on a per capita basis. In order to compare the total costs of either alternative, it is necessary to look at the discounted or present value of the annual pay-as-you-go tax payment and annual debt service under the five borrowing assumptions. These present value figures are presented in Table 6.2.

It should be noted that the per capita figures assume a constant population base of one million persons throughout the 20 years of the example. If population over this time period grows or, indeed, shrinks, the per capita figures would also decline or grow.

For evaluation purposes, the rate at which the two streams of payments are discounted will not necessarily be the same. In the taxation case, the

Table 6.1

Pay As You Go versus Debt Financing

Assumptions:

Cost of Capital Improvements:	30000000
Length of Project:	3
Population:	1000000
Term of Bond:	20
Annual Tax Increase per capita:	10

Interest Rate:		8.00	9.00	10.00	11.00	12.00
Annual Debt Service:	3055566	3286394	3523789	3767269	4016363	(2)
Per Cap.		3.06	3.29	3.52	3.77	4.02

YEAR	TAX	DEBT	DEBT	DEBT	DEBT	DEBT
1	10	1.06	1.04	1.02	1.02	1.02
2	10	1.86	1.94	2.02	2.12	2.22
3	10	2.66	2.84	3.02	3.22	3.42
4		3.06	3.29	3.52	3.77	4.02
5		3.06	3.29	3.52	3.77	4.02
6		3.06	3.29	3.52	3.77	4.02
7		3.06	3.29	3.52	3.77	4.02
8		3.06	3.29	3.52	3.77	4.02
9		3.06	3.29	3.52	3.77	4.02
10		3.06	3.29	3.52	3.77	4.02
11		3.06	3.29	3.52	3.77	4.02
12		3.06	3.29	3.52	3.77	4.02
13		3.06	3.29	3.52	3.77	4.02
14		3.06	3.29	3.52	3.77	4.02
15		3.06	3.29	3.52	3.77	4.02
16		3.06	3.29	3.52	3.77	4.02
17		3.06	3.29	3.52	3.77	4.02
18		3.06	3.29	3.52	3.77	4.02
19		3.06	3.29	3.52	3.77	4.02
20		3.06	3.29	3.52	3.77	4.02
TOTAL COST:	30.00	57.51	61.68	65.98	70.40	74.93
Cost without Arbitrage Earnings:		61.11	65.73	70.48	75.35	80.33

Debt service calculation for years 1,2,3 assumes arbitrage earnings at a rate equal to the bond interest rate. Drawdown of the construction fund takesplace at a rate of 33.3%, 33.3% & 33.3% of the total bond issue.

Government Finance Research Center

TABLE 6.2: Present Value of Financing Alternatives on a Per Capita Basis

		LONG-TERM FINANCING ALTERNATIVE				
	3-YEAR TAX	8 % Coupon	9 % Coupon	10 % Coupon	11 % Coupon	12 % Coupon
Dollar Cost:	30	58	62	66	70	75
Discount Rate:						
2	29	46	50	53	57	60
4	28	38	41	44	47	50
6	27	32	34	36	39	41
8	26	27	29	31	33	35
10	25	23	24	26	28	30
12	24	20	21	23	24	25

timeframe is much shorter (3 years) than in the borrowing alternative (20 years), and it is assumed that income or short-term savings will actually be reduced in order to pay the tax. As was discussed above, the proxy for the near-term time value of money in this case is risk-free short-term interest rates.

For long-term debt, however, there is little annual reduction in income, and it occurs over a long period of time. A more appropriate discount rate would appear to be the expected average rate of nominal growth in the economy over the 20 years. For example, 3 percent growth in GNP coupled with a 9 percent of inflation yields a nominal growth rate of slightly over 12 percent. Looking at the discounted or present values (P.V.) in Table 6.2 for the five long-term financing alternatives, it is clear that as the nominal growth rate (in the column headed "Discount Rate") rises from zero (total dollar cost) to 12 percent, the P.V. cost of borrowing drops dramatically. Under the 12 percent coupon-rate hypothesis, the P.V. cost drops from $75 (at a zero discount) to $25 (at a 12 percent discount) on a per capita basis.

Assuming a short-term time value of money equal to 8 percent (close to current levels of low-risk money market interest rates), the P.V. cost per capita of raising taxes over three years for the project is $26 (see Table 6.2). The long-term borrowing alternatives that result in a lower P.V. cost than $26 can be depicted using the graph shown in Exhibit 6.3. Each line of the graph shows the present value of various short- and long-term financing alternatives under varying discount rate assumptions.

The graph facilitates comparison of the total P.V. cost of the financing alternatives. For example, at an 8 percent short-term discount rate, the combinations of long-term discount rates and coupon rates that yield a lower P.V. fall in the shaded area shown in Exhibit 6.4. Generally, the long-term discount rate must exceed the borrowing coupon rate to produce a lower P.V. For example, if the long-term discount rate is 12 percent and the coupon rate is 11 percent, the P.V. per capita is $24 -- it is cheaper to borrow than it is to use pay-as-you-go financing.

Using the discounted values as a guide, it can be seen that long-term borrowing is a more competitive alternative to current taxation when expected inflation and/or real growth in the economy are relatively high. Borrowing is, however, always relatively more attractive at lower interest rates, whatever the expected rate of growth in the economy. However, the figures show that changing assumptions on the nominal growth rate has a greater impact on the P.V. cost of borrowing than does the coupon interest rate on the bonds. As the level of future expected inflation plus growth in GNP falls toward 5 percent, the borrowing alternative becomes much more expensive in present value terms, whatever the level of short-term discount rates.

It might be noted that if the project were to be paid for in one year (rather than over three), the short-term P.V. line in Exhibit 6.4 would shift to become horizontal at $30 per capita. At this point borrowing becomes more attractive at higher coupon rates and lower discount rates than before. If, however, one attempts to extend the pay-as-you-go payment period beyond a

Exhibit 6.3

PRESENT VALUE OF DEBT AND TAX FINANCING ALTERNATIVES

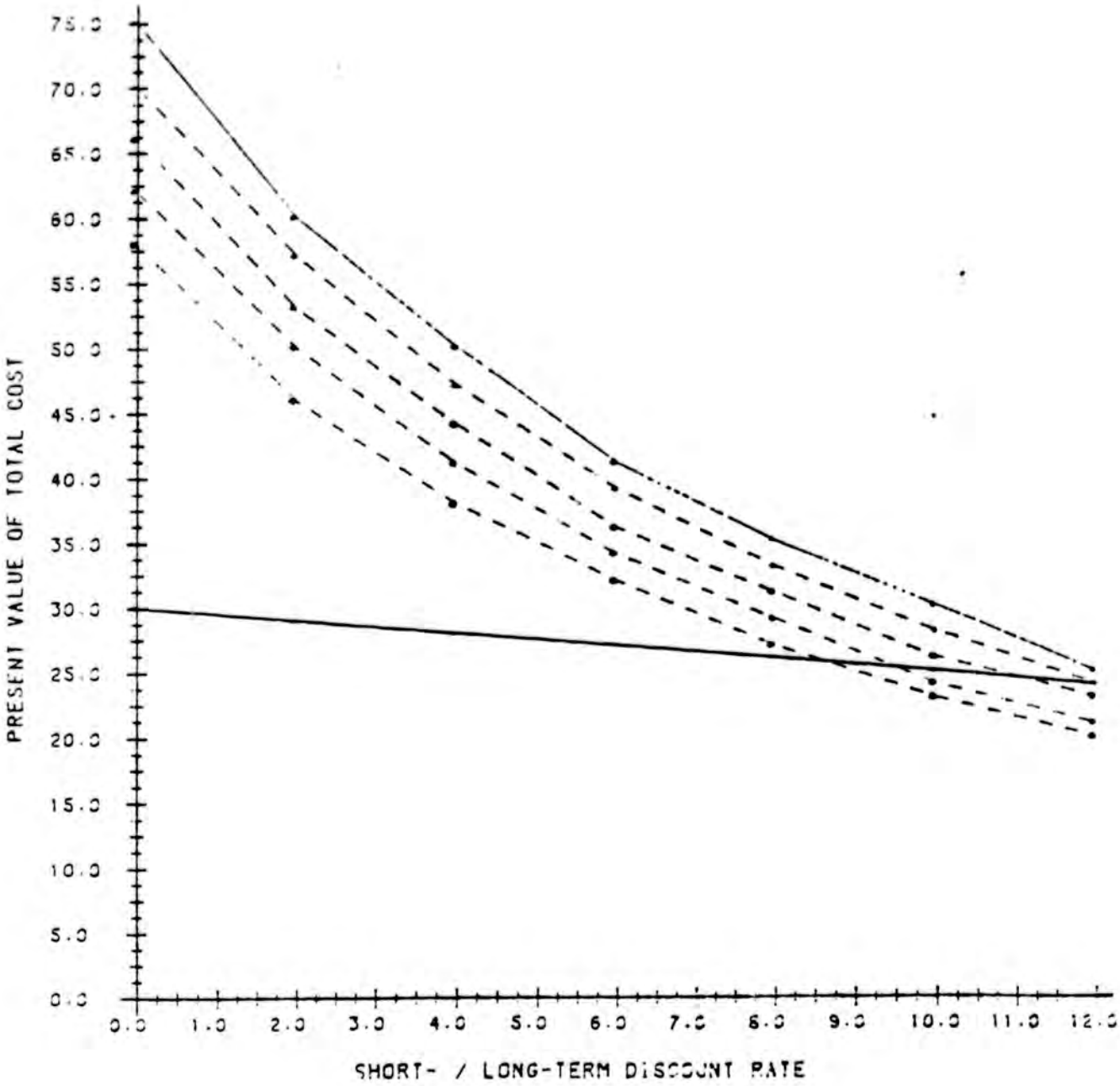
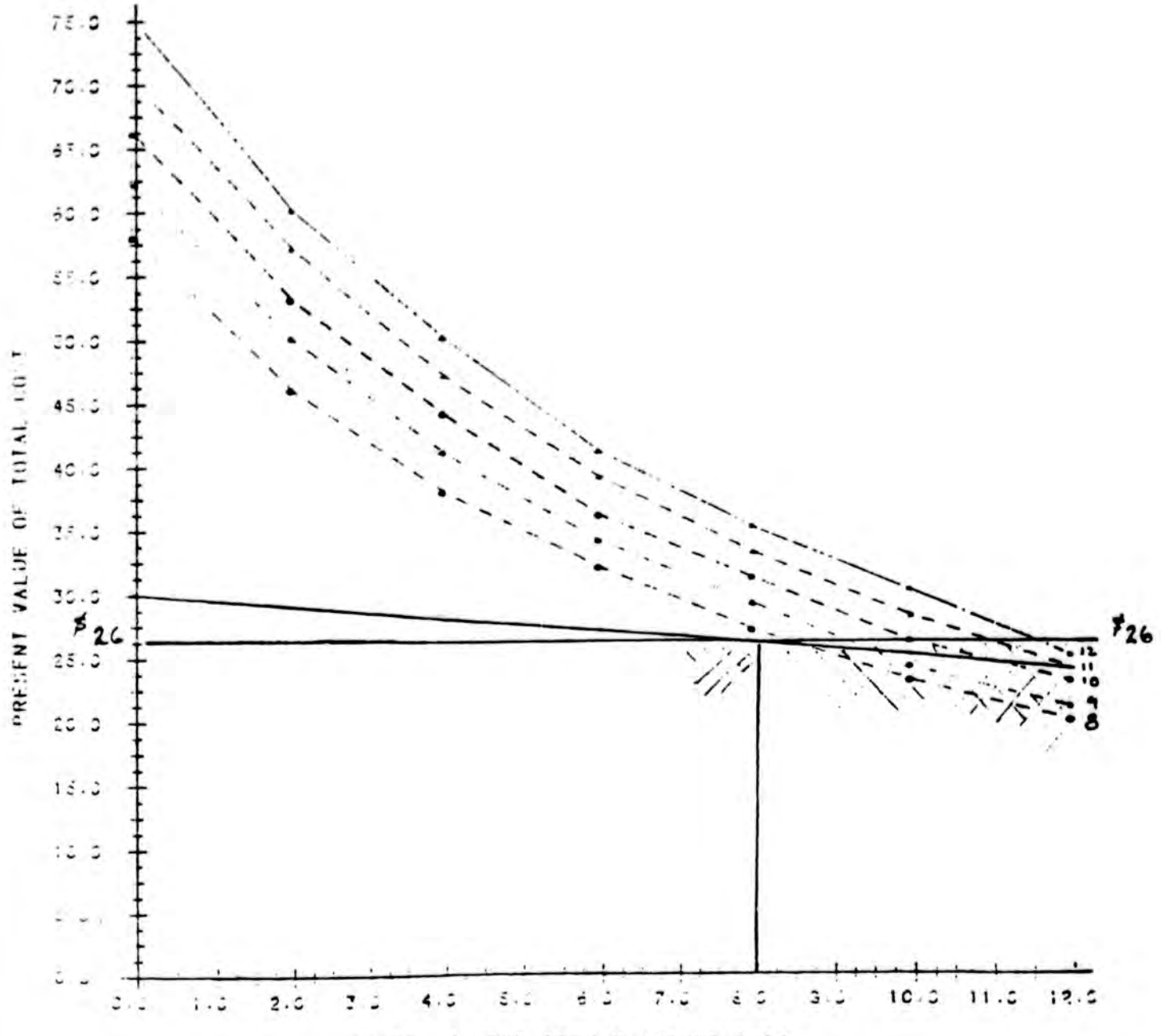


Exhibit 6.4

PRESENT VALUE OF DEBT AND TAX FINANCING ALTERNATIVES



relatively short period (for example, to five years), the above cost differentials become much less significant. This is because the community would delay having the use of the facility (which it is assumed to enjoy within 3 years in the above exercise and such things as prices and interest rate risks transform the short-term "consumption" choice into a long-term "investment" phenomenon. It would no longer be valid to differentiate between long- and short-term discount rates.

It is important to note that the examples given are dependent on the particular assumptions regarding project build-out, structure of principal repayments, growth in population, and so forth, and the trade-offs depicted will be somewhat altered under differing assumptions.

In summary, the lower the interest coupon on long-term bonds in relation to the expected rate of long-term nominal growth in the economy, the more desirable it is to borrow.

The lower the interest coupon on long-term bonds in relation to short-term discount rates used for the taxation alternative, the more desirable it is to borrow.

The higher the long-term discount rate in relation to the short-term discount rate, the more desirable it is to borrow for any given coupon rate.

Generally, the use of long-term borrowing will be more desirable if the long-term coupon rate is equal to or less than the short-term rate and/or less than the long-term expected nominal growth rate.

Financial Reporting

In addition to capital planning and capital financing, financial reporting is an important element in the total debt managment picture. States that use an accounting system that conforms to, and is consistent with, generally accepted accounting principles (GAAP) benefit in several ways. Because GAAP financial reports require that the accounts and the annual reports reflect the unified accounting entity — which in Alaska's case would be likely to include all of its public corporate borrowers -- in addition to the State itself, preparation of GAAP would force the State to take the global view that is necessary to manage debt and the State's entire finances effectively. The footnotes to a GAAP-based financial report regarding governmental debt would alone result in a much more comprehensive picture of the State's indebtedness than is currently provided in the State's Annual Financial Report or the other fine publications of the Departments of Administration and Revenue.

Investors and the credit rating agencies also prefer to see GAAP financial statements when assessing credit quality. Standard & Poor's requests that financial statements submitted for review conform to GAAP, and they estimate that governmental borrowers who do not conform to GAAP pay a penalty of between 0.125 and 0.25 percentage points in ultimate interest rates[14].

According to the Maryland State Comptroller, the conversion to GAAP by the State in 1975 has been a contributing factor to the State's ability to maintain a very strong AAA credit rating[15]. The States of New York, Deleware, Iowa, and Tennessee are among those using or in the stages of conversion into GAAP accounting.

Last year, Standard & Poor's placed the State of Florida's general obligation bonds on CreditWatch -- an early warning system alerting investors to changes in credit quality -- because of several factors including a decline in financial position and weak accounting practices. Because the State's records were not kept on a GAAP basis, there was no way, without a site visit, for Standard & Poor's to ascertain the State's true financial position. Florida, whose debt has been removed from CreditWatch, is now working toward a GAAP-based financial report for Statewide financial operations.[16]

It is recommended that the State consider converting its annual financial reports to generally accepted accounting principles. Such action will provide the State with vital information on its financial condition, improve financial management, and will be looked upon favorably by investors in the State's bonds.

Debt Ceilings and Limits

A legislatively mandated limit on state debt issuance is often suggested as the simple solution to over-indebtedness. The most convincing argument for a debt ceiling is that it would serve as a device which forces public policy makers to assess the level of outstanding debt on a regular basis in a formalized manner. In the absence of this type of limitation, some fear, bonded debt will grow at uncontrolled paces. This certainly is something to be fearful of since it implies unlimited spending for capital projects with little serious evaluation of need or the necessity for deciding priorities among alternative projects.
In order for debt ceilings to be affective in controling debt issuance they must be linked in some manner to resources and ability to pay. Obviously, both resources and ability to pay are constantly changing and, accordingly, any debt ceiling must be flexible. One need only observe the apparent ineffectiveness of the federal debt limit to grasp the futility of using an absolute debt ceiling to control the amount of debt. At the federal level, it has become necessary for the Congress to change the ceiling at frequent intervals in order to provide funds for financing of the huge budgetary deficit. This inherent contradiction, raising a debt ceiling to finance going further into debt, suggests that an absolute ceiling on debt issuance is of little usefulness.

This is not to say that debt limits or ceilings are always inappropriate. They are most appropriate for smaller units of government that have relatively simple revenue and expenditure structures. At the state level of government, where the revenue structure is usually more complex and the expenditure pattern is quite diversified, the application of a single debt ceiling would be futile. When one considers the scope of Alaska's State government, including its general budgetary operations, local assistance programs, and the various independent agencies and corporations, it becomes impractical to establish a debt limit that will have widespread applicability.

The standards and ceiling-setting methodology that would applt to general obligation debt are unrelated to the criteria that would be appropriate in setting a debt limit for AHFC mortgage revenue bonds, or the borrowings of AIDA, APA, the Bond Bank and others. Thus, if ceilings were to be used it would be necessary to establish a discrete limit for each category of debt. Even if this could be accomplished, and such an exercise would entail considerable technical analyses and require complex fiscal judgments, the ceiling, in order to be on any value, would have to be reexamined periodically and changed as appropriate to reflect the changing character of resources and ability to pay.

Furthermore, a debt limit or ceiling is a second-best alternative to control the impact of debt on governmental budgets. Bonded indebtedness works its way into the State's fiscal structure not as an aggregate sum but rather through semi-annual payments of debt service. Hence, the length of the term of the debt, the timing of the maturity of principal, and the annual interest rate all combine to reflect the true "debt burden". An absolute ceiling on outstanding debt does not reflect the terms of the bonds outstanding, the principal retirement schedule, or the interest rate. Debt ceilings are, therefore, only approximations of debt burden.

Exhibit 6.5
Debt Ceilings

Pro	Con
-- Fiscally conservative: puts constraints on changing political environment.	-- Ceiling standards are set in today's economy whereas future economy will be source of repayment.
-- Brings debt management closer to the legislators lators because laws must be changed to change ceiling.	-- Encourages debt manipulation to get around ceiling.
-- Sets a measurable standard so that debt managers know where they stand in relation to debt issues.	-- State debt ceilings do not reflect margins for overlapping debt or "participation" debt.
-- Apparent political accountability and fiscal responsibility: visible affordability limit.	-- Ceilings are usually arbitrary; i.e., the standard of measurement is difficult to define (income, assessable base, percent of revenue, per capita, etc.) and determine.
-- Device to force policy makers to come to grips with priority setting for projects to be debt financed.	-- Ceiling is an "illusion" because it only reflects principal portion of debt and the interest impact may vary from 25% to 150% of the debt itself.
-- Ceilings force elected officials to a day of reckoning with the amount of total debt on a periodic basis.	-- Ceilings usually inflexible and difficult to change when circumstances vary.
	-- Ceilings for one debt category are usually different from those for another (general obligation vs. revenue bonds).
	-- Ceilings usually bear no relationship to capital requirements; ceiling may cause legitimate needs for capital facilities to go unmet because peak has been reached.

In discussion with officials from the credit rating agencies concerning the imposition of debt limits for states, it was determined that they believe debt limits may have a more negative than positive effect on debt management and should be avoided or be of such a flexible nature that they are virtually meaningless. This interpretation is due to the nature of debt limits; they are usually set at some arbitrary level, based on easily measurable criteria, and do not reflect the actual capital "needs" of the state. Too much emphasis, therefore, may be placed on the size of the debt, which is only one of the criteria for a favorable debt posture, and too little emphasis may be placed on the reasons for debt -- the actual capital needs of the state as perceived by the executive and legislative bodies. It is for this reason -- important capital needs may be postponed indefinitely -- that the credit rating agencies believe limitations on the absolute level of state debt issuance should be avoided. The amount of State debt issuance should not be determined artificially or based solely upon the desire for favorable interest rates or high credit ratings. Rather, debt issuance should be based on a thorough assessment of capital needs and the ability to pay for them.

A summary of the positive and negative attributes of debt ceilings discussed above is presented in Exhibit 6.5. While we do not believe that Alaska should institute a ceiling on the amount of State debt issuance, it is essential that the State exercise some degree of oversight and control of debt issuance by the State and its public corporations. The responsibility for oversight should be given to the State Bond Committee, and be part of its effort to follow and analyze the impact of debt issuance on the State. The State Bond Committee should develop guidelines for assessing debt capacity and affordability of general obligation debt and for contingent liabilities such as moral obligation debt. Using fiscal standards and criteria as outlined in the chapter on affordability, and as refined over time, the Committee should evaluate each debt issuance proposal in light of current trends and circumstances and determine the impact of each debt financing upon the State's ability to repay, its ability to meet contingent liabilities in the future, and the effect on the overall financial condition of the State and its agencies and corporations. These guidelines will serve the purposes of a legislatively mandated limit on debt issuance.

Interest Rate Ceilings

Although not directly related to a ceiling on debt issuance, a ceiling on the interest rate that State obligations may carry can also impair a debt management program. The State's current interest rate ceiling is a floating rate equal to the higher of 110 percent of the Bond Buyer 20-bond index for the week preceeding the bond sale or 11 percent. While this type of ceiling allows for greater flexability that the fixed-rate of 10 percent that it replaced, the State may wish to consider removal of the legislative interest rate ceiling altogether. To improve the flexibility of the the State's debt managment, an administratively established ceiling -- determined by the State Bond Committee -- is preferred to the more rigid, legislatively established ceiling.

True Interest Cost vs. Net Interest Cost: Alternative Methods to Determine Lowest Bid

In both negotiated and competitive bond sales, accurate determination of the cost of borrowing is essential. In a negotiated sale this is important as the basis for an informed decision and for debt management purposes. In a competitive sale the determination of interest costs on competing bids is crutial because the bid producing the lowest interest cost -- as defined in the notice of sale -- will be selected. Although this important task appears on the surface to be relatively straightforward, in practice it is one are of debt management in which significant and costly errors are often made.

The two methods currently in use to determine the lowest bid on a competitive municipal bond sale and the total interest cost of a negotiated bond sale are Net Interest Cost (NIC) and True Interest Cost (TIC). NIC is the traditional way of computing the average interest cost of an enture issue, largely due to the simplicity of its calculation; NIC can be calculated by hand without the assistance of a computer. The computation of TIC is more difficult, requiring the use of a sophisticated computer program. However, the two methods do not produce identical results. The limitations of the NIC method have caused some states and municipalities to use TIC to award a bond sale instead of NIC.

The two methods differ in the way the coupon interest payments on a serial bond are valued. The NIC calculation gives equal weight to each interest payment regardless of the time period in which it is paid. One dollar paid in year one is valued the same as one dollar paid in the twentieth year. In contrast, TIC takes account of the time value of money by treating interest payments in present value terms. Because a dollar paid out in five years is worth more than a dollar paid out in fifteen years. TIC gives greater weight to earlier payments than to later payments of equal dollar magnitude.

The formula for computing NIC is as follows:

$$\text{NIC} = \frac{\text{Total interest payments + discount (or - premium)}}{\text{Bond year dollars (amount of bonds X years they are outstanding)}}$$

It is obvious that total interest payments are lumped together with no attention to the time period in which they are paid. TIC, on the other hand, is found by computing the interest rate that will discount all future debt service payments by the issuer (principal and interest) to a present value equal to the bond proceeds received by the issuer. TIC is analogous to the internal rate of return calculation used in private-sector financial decisions to analyze the effective cost or benefit from a certain investment.

Besides being a more accurate indicator of the true costs of a bond issue, awarding bids on a TIC-basis has other advantages. Investors generally prefer to receive a dollar interest payment sooner rather than later and are willing to pay more for the higher early coupon payment. Underwriters have an incentive, therefore, to place high coupons at the front (in the early maturities) of an issue in order to improve their spread and the marketability of the bonds. This

Exhibit 6.6

Alternative Methods to Compute Effective Interest Costs
Net Interest Cost vs. True Interest Cost

		BID A		BID B	
Years to Maturity	Par Value	Coupon Rate	Annual Debt Service	Coupon Rate	Annual Debt Service
1	1,000	12.0%	1,190	2.0%	1,130
2	1,000	3.0%	1,070	5.0%	1,110
3	1,000	4.0%	1,040	6.0%	1,060
TOTAL	3,000		3,300		3,300
		NIC (Bid A): 5.00%		NIC (Bid B): 5.00%	
		TIC (Bid A): 5.04%		TIC (Bid B): 4.98%	

practice is known as "frontloading". At the same time, governments prefer to pay debt service later rather than sooner and would favor the largest coupon rates on later maturities. TIC helps the government issuer because under TIC computation there is no incentive to front-load interest coupons as TIC would be higher than NIC.

The following example illustrates the difference between TIC and NIC computation of two hypothetical bids on a three-year serial issue of $3,000. As can be seen in Figure 6.6, both Bid A and Bid B resulted in identical NIC to the issuer. If bids were awarded on a NIC basis, it would be impossible to choose between the two. This is because the calculation of NIC tool into consideration only the aggregate amount of debt service which is the same under both bids ($3,000). Upon closer examination it can be seen that Bid A is front-loaded for it contains an interest coupon of 12 percent in year one. While this may help the underwriter, it forces the government to make unnecessarily high debt service payments in the first year. This bid compensates for the high initial coupon by placing unusually low coupons on bonds maturing in years two and three. This brings NIC down to a competitive level (5 percent in this case), however, the true cost of payments in the later years is less than in year one.

If TIC were used as the basis for awarding the bids, the time value of the respective payments would be recognized and the high coupon of Bid A would result in a TIC higher than NIC. Similarly, the more "efficient" Bid B, with a gradual increase in coupon rates, would result in a TIC lower than NIC. Using TIC as the criterion, the winning bid would be Bid B resulting in lower tru interest cost to the government over the life of the issue.

Neither the Alaska State Bonding Act (AS 37.15) nor the State statutes regarding municipal debt (AS 29.58) specify the method by which the effective interest rate must be calculated. However, the State, and most municipalities, have shosen to use the NIC method to compare alternative bids at competitive sale. This method may not be in the best interests of the State because, as shown above, the winning bid on a NIC basis does not necessarily produce the lowest TIC. For this reason, we recommend that the State Bond Committee review the current procedures for awarding the State's general obligation bond issues, and that municipalities be encouraged to do so as well, with a view toward awarding future bond sales on a TIC basis.

The only true constraint which the State places on bidding is that the spread between the highest and lowest interest coupon not exceed two percentage points. This does not prevent the front-loading of interest coupons as is evident from the winning bid presented in Exhibit 2.5 (page 46). Here, the winning bid was front-loaded because the highest coupon rates, 8 3/4 percent, were placed on bonds maturing in the earliest years, with descending coupon rates towards the later years where the time value of money is lower. This can be prevented by the use of a non-descending order constraint on underwriter bidding which requires the submission of bids that increase with maturity. A non-descending order constraint used in conjuction with the TIC method of computing the lowest cost bid assures that coupons will not be front-loaded, and that the winning bid truely results in the lowest cost to the State.

Differences Between Competitive and Negotiated Bond Sales

Alaska's State Bonding Act requires that the State sell its general obligation debt in a competitive manner (see Appendix). As described in Chapter Two, the sale of bonds at competitive bid means that the bond sale is completely structured as to its terms and conditions by the time the notice of sale inviting prospective purchasers to come forward and submit a bid to buy the bonds is published. The award of purchase is made to that underwriting firm, or syndicate of firms, offering the lowest interest cost. Because the winning underwriter is not known until the bids are opened, there is no opportunity for the underwriter to "pre-sell" the bond issue. All sales activity and structuring of the reoffering yields occurs after the sale is awarded.

State-level revenue bond issuers, and Alaska's localities are able to choose between the competitive and the negotiated sale approach in determining the proper method of sale. The sale of bonds through negotiation means that the bond sale itself, the terms, conditions, and interest rate is negotiated by the issuer of the bonds and an underwriting firm, or syndicate of firms, that is preselected to buy the bonds. A competitive procedure involving a formal request for proposals is often used in the selection of the negotiating underwriter as described later in this chapter (page 188). The underwriter or syndicate is generally chosen based upon prior experience in selling the particular entity's bonds and the ability to reach the broadest base of investors. Before the final terms of the sale are decided, the negotiating underwriter will test the market by soliciting investor interest during pre-sale trading. This procedure is described on page 190. Once the final interest rates are determined, the last element of the negotiation process is the gross underwriting spread. The spread represents the underwriter's compensation. Its composition is described on page 190.

Customarily, about 80 percent of the volume of general obligation bonds is sold using competitive bidding, and 70 percent of the volume of revenue bonds is sold using negotiated sales. The reason for this relationship between type of bond and method of sale is that general obligation bonds are usually issued by a general purpose governmental entity for a traditional public purpose, which is a relatively straightforward means of raising money. It is important to the firm or syndicate winning a competitive bid to have an easily understood product that can be quickly and readily reoffered to the ultimate investor.

On the other hand, revenue bonds are usually characterized by a repayment pledge consisting of a complex revenue stream formula, they frequently cary a unique set of terms and conditions as to their maturity and security structure, and they are usually issued by a special entity of a government for an often novel purpose. Due to their complexity they are not easily understood, nor are they easily marketed without their special-story being pre-sold through the firm negotiating to buy the bonds.

Accordingly, there is a place for both techniques of selling bonds in a prudent debt management strategy. Indeed, there may exist special conditions which would necessitate or justify even the sale of general obligation bonds

through a negotiated sale, although there are thirty-seven states, including Alaska, that require the sale of state general obligation bonds at competitive bid. For example, if the credit quality of a general obligation issuer is severely impaired, such as in the case of New York, Detroit, Cleveland, or Camden, then the negotiated sale of full faith and credit bonds would be appropriate in order to assure that the purchase can be executed successfully, that the "special-story" is properly told, and that the money is raised.

As a general rule, the costs of borrowing (underwriting spread and the interest cost) are less when the competitive approach is used for general obligation bond sales. Various studies have determined that savings in the range of 10 to 25 basis points (.10 to .25 percent) are achieved, overall, and on balance, when general obligation bonds are sold competitively.[17] It must be kept in mind, however, that some bonds are not possible to offer for sale competitively because their uniqueness preempts easy market access. The interest rates obtained from a competitive sale could be less favorable than those from a negotiated sale.

There are several general principles that can be looked to in determining whether a particular bond sale might best be sold by either competitive bid or negotiation. These guidelines are discussed below:

1. Condition of the market -- in a strong market where interest rates are stable and there is substantial investor demand for tax-exempt bonds, the tendency should be toward competitive sales. A weak market where interest rates are fluctuating daily and/or investor interest is unknown may result in the most effective sale through negotiation. If market conditions are erratic and the timing ; if market conditions are reasonably stable and the fluctuation in interest rates is expected to be within an acceptable ban between the announcement and the sale, then competitive bidding is appropriate.

2. Novelty of the financing approach -- if the issuer is an established "name" in the marketplace, then a competitive sale is possible; if the issuer is an infrequent name in the market, or has not previously sold debt at all, then a negotiated sale is appropriate. Generally, if there are precedents for the financing approach, use competitive; if not, use negotiated.

3. Transaction characteristics -- if the structure of the terms and conditions and the security backing up the bonds is reasonably straightforward, the bonds can be sold competitively; if the bond characteristics are complex, then a negotiated sale is proper. If the type or purpose of the bond is not especially unique, then it can be sold competitively; if substantial market or investor education is necessary, then a negotiated sale would be best.

4. Perceived creditworthiness -- if either the issue or the issuer offers a widely understood credit structure, there are no problems with the credit quality, and the disclosures are routine, then the bond can be sold competitively; if investor concerns must be dealt with or if the credit quality is subject to considerable economic uncertainty, then it is preferable to negotiate the sale.

5. Depth of technical participation -- if a large amount of pre-sale documentation is necessary, such as complex covenants or financial analyses, and outside expertise is necessary, then a negotiated sale is appropriate. Likewise if internal staff capacity is lacking, a negotiated sale may be preferable since pre-sale particulars would be handled by the firm selected to carry out the negotiation. On the other hand, if pre-sale activity is routine, or if staff capacity is available and experienced, a competitive sale may be entirely feasible. A negotiated sale is most likely in cases where there is direct participation by the ultimate investor, such as in the case of a private placement of the bond.

6. Cost effectiveness -- the sensitivity of the bond to interest rates may necessitate a negotiated sale because the timing of bringing the bond to market can be controlled, and this minimizes the risk of random entry which is characteristic of a competitive sale. A competitive sale, on the other hand, usually results in a lower spread or fee which is paid to the firm buying and marketing the bonds.

The decision between the use of competitive or negotiated sales is one of the most important in debt management; however, there are no right answers. The final decision on bringing a bond sale to market by competitive bid or through negotiation must take into account the general principles described above. Each sale warrants an independent decision based upon the characteristics of the bond sale. In instances where a negotiated sale is used, the assistance of a financial advisor is important to represent the issuer during the negotiation process.

It appears that the tax-exempt bonds of the AHFC issued for its well-established programs during periods of favorable market conditions are likely candidates for sale by competitive bid. This observation is based upon the demonstrable market access the AHFC has acheived, its well-known, important role as the dominant mortgage lender in the State, the strength of its security structure and credit rating, and its frequent, sizeable borrowings. Only the most recent sales of State guaranteed veterans housing bonds have been sold competitively, due to the competitive sale requirement on State general obligation bonds.

Selection, Use, and Compensation of Financial Advisors and Underwriters

When bonded indebtedness is sold, a fixed-cost contract is established that will be valid for many future years. It is important, therefore, that the interest rate payable on the bonds and any bond covenants result in the lowest possible cost to the issuer. Because of the dynamics and volitility of interest rates, the shifting objectives of bond buyers, and the variety of funding sources and methods that are available it is essential that issuers obtain the most current expert advice when structuring and marketing a bond sale. A financial advisor is a specialist who is able to assist issuers with knowledge of current trends and market conditions, and the bond issuance process in general. An underwriter is a representative of an investment or commercial banking firm that acts as the intermediary between the issuer and the ultimate purchaser of the bonds.

The Use of a Financial Advisor

The services of a financial advisor will vary, depending upon such factors as the nature and size of the bond issuer, the frequency with which bonds are issued, and the competence level of the government's own staff in the debt field. Services commonly provided may include: developing a financial plan, assisting in securing voter approval, designing the features of the bond issue, and assisting in marketing the bonds. Other areas in which a financial advisor can be of assistance are:

- o choosing the type of security to pledge and the credit market position to be accorded the debt;
- o presentation to the rating agencies;
- o deciding upon the timing of the sale;
- o preparing the official statement;
- o selecting and evaluating bond counsel services;
- o assessing the probable range of interest costs for alternative means of financing;
- o analysing pay-as-you-go vs. bond financing;
- o commenting on the reasonableness of fees for other specialized services;
- o assessing the suitability of fees for the underwriters;
- o designing call provisions appropriate for the issue;
- o assuring conformance to bidding requirements and other terms of sale are met;
- o conducting negotiated sales;
- o evaluating bids on a competitive sale; and
- o evaluating the performance of members of the syndicate in negotiated financings.

Professional assistance in each of these phases can improve an issuer's chances of securing a favorable credit rating and obtaining lower interest costs.

State governments, which frequently issue debt, can do most of the preparation for the sale of general obligation bonds with their own in-house staff. Thus, Alaska may use the financial advisor only in technical areas, such as timing the issuance of the bonds, constructing the maturity schedule, and presenting the State's credit to the rating agencies. Other governments benefit most from the services of a financial advisor if they are infrequent users of debt or if a limited liability or revenue bond is being issued. A limited liability or revenue bond is more complex than a general obligation issue and, as such, requires special assistance. Financial advisors are also important in a negotiated sale to represent the issuer in the transaction.

There are three types of firms which provide financial advisory services:

1. investment banking firms;

2. commercial banking firms; and

3. independent consultants who do not trade in municipal bonds.

The first two sources, investment banking firms and the municipal departments of commercial banks trading in bonds, may provide financial advice for a fee or, as is often the case, they will not directly charge for services in exchange for the exclusive right to purchase the bonds without competitive bidding through a negotiated sale. These advisor's services are often paid for out of its profit (a component of the underwriting spread, described below) made in reselling the bonds. Alternatively, the public finance department of one of these firms may be hired to provide financial advice independent of underwriting the bonds. The State of Alaska currently follows this approach because its financial advisor is also an investment banking firm and is not paid from the underwriter's spread. In the later case, compensation should be based upon the services provided.

The third source of assistance is the independent consultant who does not trade in municipal bonds but, for a fee, agrees to help plan, design, and market the issue. The issue can be sold at a public sale to the lowest bidder, to a third party in a privately negotiated sale, or through a negotiated underwriting with investment bankers. Independent advisors typically provide technical assistance only; they do not buy, sell, or trade tax-exempt securities nor do their fees derive from such activity. Since a conflict of interest may arise when the same firm provides advice on the structuring of tax-exempt bond issue, on the one hand, and then markets the same bond issue, some governments as a matter of policy elect to separate the advisory function from the underwriting function. This can be accomplished either by contractually prohibiting the advisor from an active role or participation in the buying or trading of the government's securities in the primary market during such period as the firm acts as advisor, or by utilizing the services of an independent financial advisor. The Alaska State Bond Act (AS 37.15) prohibits firms which provide financial advice under contract to the State from bidding on or otherwise participating in an underwriting syndicate which purchases the bonds. Furthermore, AHFC and the Municipal Bond Bank preclude their advisors, because they currently are

investment banking firms, from an underwriting role on bond issues for which the firms serve as advisor. These are responsible practices and should be continued.

Selection of Financial Advisors

The generally preferred method of selecting firms to provide financial advice is to solicit proposals from as diverse a body of potential firms as possible. A Request for Proposals (RFP) should be written and sent to those advisors who have the general qualifications to do the work. Several sources of assistance are available in identifying financial advisors to whom the RFP can be sent are:

1. state and national associations of governmental units or public officials;

2. governments in the region which have had extensive experience with fiscal advisors; and

3. Directory of Municipal Bond Dealers of the U.S., which lists both dealers and municipal finance consultants. This is prepared annually by the Bond Buyer. Note that this directory does not include all financial advisors and should only be used as a supplement to firms otherwise identified. Advisors are listed by state locations, but generally serve a national clientele.

The RFP for consulting services should cover all the particular job requirements. On the basis of the proposals received, the state government can then decide on the most qualified fiscal advisor and write a contract for the work. Alaska has generally used the RFP approach in selecting advisors and appears to evaluate responses and make contract awards in a manner that is consistent with sound business practices.[18]

Compensation of Financial Advisors

The fee paid an independent advisor can be structured as fixed, hourly compensation, a minimum guarantee (or retainer) plus an hourly amount, or a flat fee based upon an estimate of necessary services. The compensation for financial advice should be based upon the services provided, regardless of whether an underwriting firm or an independent firm is providing these services, and not upon the size of the bond sale (amount of issue) or the successful delivery of the bonds. Tying the advisor's compensation to the amount of bonds sold or to the successful delivery of the bonds builds in an unnecessary risk of conflict of interest. Obviously, the quality, motivation, and impartiality of advice might be questioned if the advisor's compensation is directly related to either the amount of bonds or to the completion of the sale. For example, it may not be in the issuer's best interests to finance a certain project through the sale of bonds, or to enter the market at a period of high interest rates; however, a financial advisor whose compensation depends upon the successful

completion of bond sales may not recommend alternative financing techniques, such as using current revenues, or postponement of the bond sale.

The industry standard, however, has been to calculate compensation as a certain percentage of the amount of bonds sold (for example, $1 per $1,000 of bonds sold or .1 percent). This standard is due to the preponderance of commercial and investment banking firms that also act as financial advisors. These firms are accustomed to payment through the underwriting spread and the charge per bond for financial advice is similar to this method. However, independent financial advisory firms, and certain investment banks, often charge hourly rates, just as do many bond counsels and other professionals, regardless of the amount of bonds sold. Although the work required to advise on a $100 million bond sale is generally greater than on a $10 million sale, the level of effort required can be estimated in advance, making it unnecessary to compensate advisors on a percentage basis.

In our review of selected financial advisory (and bond counsel) contracts, we noted that compensation of advisors to the State and its agencies has historically been tied to a rate per bond or a fixed percentage of the principal amount sold. Such a method of compensating those providing financial and other advice may not be in the State's best interest. The State should review its existing financial advisory contracts to determine the method of compensation used and seek to provide for compensation arrangements that do not encourage situations where conflicts may arise between advisory services and the payment thereof. Flat fee on hourly compensation is most appropriate for professional and impartial financial advice.

Compensation and Use of Negotiating Underwriter

In a competitive bond sale the underwriting firm which purchases the issuer's bonds is the firm whose bid results in the lowest overall borrowing cost to the State. If for whatever reason (as discussed above) the sale is to be negotiated, the underwriting firms or syndicate of firms must be selected in advance of the sale by criteria different from a competitive sale. One method of selection is to solicit proposals from underwriting firms detailing their expertise in selling and structuring the type of bonds to be sold. Factors to consider when evaluating negotiating underwriters are described above on page xxx.

Underwriters are compensated by the "spread" between what they pay the issuing government for its bonds and the price at which they are able to re-sell the bonds to investors. This is true of both competitive and negotiated underwritings. However, in a negotiated sale, the spread is negotiated along with the terms of sale (maturity structure, coupon rates). In a competitive sale, the spread is included in the price and interest rates bid for the bonds.

The syndicate divides the spread among four purposes. First, a provision will be made for expenses which are incurred by the syndicate in the form of

bills from other parties. Second, the managing underwriters will receive a management fee for putting the bond issue together and bringing it to market. These two components compensate the underwriter for any financial advice provided in conjunction with the issue; however, if a firm independent from the transaction provides this advice, its fee will not be isncluded in the spread. Third, a selling concession (often called a "take-down allowance") will be paid to syndicate members in proportion to the amount of bonds sold by each. The selling concession is the source of funds from which the individual salesmen are compensated for their efforts. Fourth, the underwriting profit will be divided among members of the syndicate in proportion to the underwriting participation taken by each firm at the time of the purchase of the bonds.

The expenses customarily incurred by the underwriting syndicate, which will be passed on to the issuer in the spread are:

- Legal fees of underwriter's counsel;
- Certain printing costs for syndicate documents such as the agreement among underwriters, bond purchase agreement, institutional lists, blue sky survey, and legal investment memorandum, letter of instructions, etc.;
- Expenses of advertising for the bond issue, both presale ads and the final "tombstone" ad;
- Costs of securing a day loan and/or Federal funds to pay for the bonds at the closing;
- Reasonable computer costs for computation of debt service schedules, performing cash flow analysis, and calculating net interest cost for the bond issue;
- Out-of-pocket expenses for travel, lodging and meals incurred by the managing underwriters;
- Communications expenses such as telegraphic notice to syndicate members of pricing information; and
- Certain other minor expenses relating to the marketing and delivery of the bonds.

Normally, neither the syndicate nor the managing underwriters undertake to pay the following expenses. These costs must generally be covered by the issuer.

- Fees of bond counsel;

- o Costs of printing of the bond resolution, final official statements, and other legal documentation for the transaction;
- o Fees of auditors of the issuer; or
- o Fees of independent financial advisors.

The procedure in a negotiated bond sale normally follows along the following lines. When the bond issue is ready for sale, the underwriter will present a preliminary bond purchase proposal to the issuer. The proposal will be made after careful assessment of the acceptability of the bonds through "pre-marketing" feedback from prospective purchasers. The proposal will state the interest rate or rates to be borne by the bonds, the re-offering prices, the purchase price, and the spread. It will also state the division of the spread among the four purposes. Detailed information about interest rates and spreads on other comparable bond issues sold under similar bond market conditions should be made available.

The issuer will then consider the preliminary proposal, ask questions and respond with approval, comments, or suggested changes. Negotiations on the preliminary terms of the bond issue ensue until the underwriting syndicate is comfortable that the bonds can be successfully marketed, and the issuer is convinced that it is receiving an equitable and competitive pricing.

After the preliminary terms have been negotiated, the underwriter will release the terms to all members of the underwriting syndicate. After a day or two of promoting the sale, the managing underwriters will review the investors' reactions. This "test marketing" will be discussed with the issuer, and adjustments to the bond issue's terms which fit actual market conditions will be negotiated. For example, if the entire issue is "oversubscribed" (i.e., pre-sale orders exceed the amount of bonds to be sold), then the underwriting profit should be reduced to reflect the syndicate's low risk of being left with unsold bonds.

Since bond market conditions change rapidly, the spread necessary to place a bond issue is not finally determined until the pricing is complete. Depending upon the size of the issue and prevailing market conditions, a representative revenue bond spread (or "underwriters' discount") and its components are as follows:

Item	Per $1,000
Expenses	$ 2.50
Management Fee	4.50
Selling Concession or Takedown	12.50
Underwriting Profit or Risk Factor	1.50
TOTAL	$21.00

Advance Refunding and Defeasance

If interest rates continue to decline from their historic high levels of 1980-81, it is likely that the State, its public corporations, and localities may find it financially advantageous to "advance refund" debt issued at high rates of interest. Refunding is a financing device intended to reduce annual debt service payments and lower the effective cost of borrowing. The technique involves the issuance of new debt to replace outstanding bonds in advance of the bonds' maturity. The issuance of refunding bonds by the State and its localities is permitted under AS 37.15.210 and AS 29.58.240 respectively. The bonds do not require the approval of voters.

Advance refunding can be a financially attractive arrangement for several reasons:

- it can reduce interest costs if market interest rates have fallen significantly (by approximately 300 basis points or 3 percent) or if the issuer's credit standing has improved;

- it can reduce future annual debt service costs by restructuring or "stretching out" outstanding debt; or

- it can remove restrictive bond convenants under which the earlier bonds may have been issued.

In a "direct refunding", the refunding bonds are issued concurrent with the call date on the bonds to be refunded. The proceeds of the refunding bonds are used to retire or call the older debt. The debt generated through the refunding issue replaces the previously outstanding debt so that the net effect on the total amount of outstanding debt on the books of the issuer or in circulation is minimal.

In contrast, "advance refunding" requires the sale of the refunding bonds before the first call or maturity date of the original obligation. The proceeds of the refunding issue are deposited in escrow and invested until the old obligation can be retired. The escrow securities are special U.S. Treasury obligations with maturities designed to provide the cash flow necessary to pay the debt service and eventually retire the old issue. The refunding bonds defease the previously outstanding bonds. Therefore, under advance refunding there are two bond issues outstanding concurrently, sometimes for a long period of time.

An advance refunding will generate net savings if the present value of the stream of payments for debt service on the refunding bonds is less than the present value of the debt service on the refunded bonds, including the expense of issuing the refunding bonds and the payment of the call premium on the refunded bond, if any. The direct expenses of a refunding are the same as with other bond issues (legal, financial, and administrative expenses) as well as any call premium on the refunded bonds. However, there are certain unquantifiable costs and benefits from advance refunding that policy makers must consider before undertaking a financing of this type.

For example, by refunding a bond issue prior to the first call date, advance refunding provides governments with greater flexibility with respect to the timing of the refunding process. The risk of future interest rate fluctuations can be reduced by locking in a known interest rate prior to the call date. This benefit, albeit unquantifiable, may enhance financial planning and improve management of outstanding debt.

A negative attribute of advance refunding is that the refunding bonds cause an increase in the overall supply of outstanding municipal debt because there are two outstanding bond issues concurrently; one is comprised of the original bonds, issued for a specific capital project and the second is the "financing bonds" which are not related to a particular project, but are issued eventually to replace the original bonds. This doubling -- or in some cases tripling -- of debt outstanding may result in higher borrowing costs for all issuers of tax-exempt bonds if the market becomes saturated with debt.

Empirical studies have shown that advance refunding bond issues increase municipal bond interest rates because of the additional supply generated by their issuance[19]. The increase in borrowing costs to all issuers in the State is not easy to isolate or identify, but, as a mater of policy, must be considered against the savings that accrue to the individual unit which issues the refunding bonds. Because the potential volume of refunding bonds is large, and could raise the borrowing costs of all issuers in the State if the market became saturated with bonds from Alaska, we believe that the State should establish criteria for judging when the issuance of refunding bonds by the State and local governments is appropriate. In addition the State Bond Committee should be required to review and approve all proposed refunding issues. This action would give the State control over the volume of refunding debt bearing the Alaska name, aid in the coordination and timing of refunding issues, and would force issuers to analyze thoroughly the financial feasibility of the refunding. Criteria to determine financial feasibility should include a minimum net present value savings in debt service payments of 10 to 15 percent, including issuance costs. Below this level of savings, it is questionable whether the dollars saved by the individual issuing jurisdiction are worth the uncertain affect the increased volume of tax-exempt debt has on the general level of interest rates for all borrowers.

Cash defeasance is similar to advance refunding because it involves paying off outstanding debt. However, instead of issuing bonds, a cash appropriation is made in an amount equal to what the advance refunding bond proceeds would be. Defeasance may be a more attractive option than refunding because it does not increase the amount of Statewide debt outstanding, which is the major disadvantage of refunding bonds. If the State wishes to pay off a portion of its outstanding debt, the choice between the use of cash or bond proceeds should follow, in part, the guidelines outlined on pages xxx to xxx on pay-as-you-go versus debt financing.

CHAPTER VII
DEBT AFFORDABILITY AND FUTURE DEBT CAPACITY

Introduction

One of the most important concerns to the State of Alaska in the area of debt management is the question of how much debt the State can afford to issue today and repay in the future. Although the State's taxable-base is substantial relative to the amounts of debt it presently has outstanding, the national bond market and investors are likely to become more cautious with respect to Alaska securities in the future. Recent fluctuations in the price of oil and the decline in the Prudhoe Bay curve within the 10-year range have alerted investors to the "boom and bust" nature of the Alaskan economy. Investor concerns over the coming decade will focus on both general obligation and revenue-supported debt because of the interdependence of all components of the Alaskan economy on oil-related activities.

Simply stated, the affordability of debt is determined by two elements: 1) the ability and 2) the willingness to repay the long-term obligation. Ability and willingness are influenced by the interaction of several factors, including: State financial resources available to repay the debt; impact of debt repayment on budgetary priorities; severity of capital investment needs; political preferences regarding long-term vs. current spending; and the market impact (on credit rating and future interest cost) of future debt issuance. These factors are largely judgmental; future debt issuance must be weighed against the State's willingness and ability to apply future resources to finance current capital spending. There are certain guidelines, however, that State officials can employ in making these important decisions.

Theoretically, the State can afford to issue debt up to an amount where the debt service payments required to support the debt place an intolerable strain on available revenues. The affordable level of debt thus becomes that point where trade-off decisions must be made in the allocation of resources between appropriations for debt service and spending on other public programs. Once bonds are issued, the payment of debt service becomes a mandetory budgetary item, not subject to cost-cutting in the budget process. The strain of debt service on the State's budget is one measure of affordability that can be measured by the ratio of annual debt service to current appropriations and general fund revenues as discussed below.

Another consideration in determining debt capacity is the degree to which capital projects are financed from current revenues instead of from the proceeds of the sale of long-term bonds. It is frequently argued that financing through current revenues places a burden on current taxpayers, whereas debt financing spreads the burden over a period of years that more closely approximates the useful life of the capital project. Debt financing is, therefore, said to promote "intergenerational equity" for taxpayers because facilities are

paid for as they are used. Alaska is somewhat different in this regard, because its greatest tax burden falls on a natural resource, and not on its citizens. However, Alaskans pay an opportunity cost if the decision to finance capital projects through current revenues precludes spending on other public priorities. The pay-as-you-go vs. current spending trade-offs are outlined further in the debt management portion of this report (see pages 166 to 175).

The above framework for assessing affordability is concerned primarily with current resources and priorities, however, and does not directly take into account the long-term impact of debt issuance. One such impact is upon the ability of future taxpayers to repay debt; if debt issuance occurs at too high a level, future state resources may be strained to meet both debt service and current budget needs. For this reason, current debt issuance and affordability must be judged based on an assessment of future ability and willingness to repay in addition to the State's present situation.

Other long-term affordability factors include the impact of large amounts of debt issuance on the State's credit rating, and the reception accorded the State's debt in the marketplace. If too much debt bearing the Alaska name enters the market, investor's portfolios could become overloaded, forcing the State and other issuers in the State to pay higher interest rates in order to attract investors. In addition, excessive debt issuance relative to economic and financial resources is likely to result in a downgrading of the State's AA credit rating which would also raise future borrowing costs for all issuers in the State.

The question of affordable debt levels must be considered separately for general obligation and revenue-supported debt, since different standards of ability to repay apply to the two types of debt. For instance, where the full faith and credit of the State is pledged, such as in the case of general obligation debt, affordability considerations involve tax rate levels; available revenues; personal income levels; tax sources used and unused; and overall budgetary priorities.

In the case of revenue-supported debt, however, affordability considerations revolve more around the revenue-raising potential of the project being financed; the bondholder trust guarantees for debt service sinking fund protection; the revenue coverage relative to present and future debt issues; the authority of the issuer to levy fees and charges; and the protection accorded the investors in the event of default. Because of the more business-like determinents of affordability with revenue-supported debt, investors as much determine the affordable level of debt issues through the standards required for the purchase of bonds as does the issuing authority through the determination of financing requirements. In the case of general obligation debt, however, investors play a much more passive role in the assessment of affordability. This means that the State must take the lead in assessing its own debt affordability.

The distinction between the affordability criteria for general obligation and revenue debt is significant. For general obligation debt, selected measures of debt capacity can be evaluated in a "macro" sense, with the result being a general assessment of affordable debt levels based upon a reasonable estimate

of overall future State resources. For revenue-supported debt, each bond issue and each project being financed must be evaluated separately and meet the test of self-sufficiency on its own merits. This requires that State officials formulate programs or projects with substantial economic soundness, a dependable underlying security structure, adequate reserve funds, and strong cash flows which generate monies in excess of operating costs that more than cover the debt service requirements.

Considering this distinction between measuring debt affordability for general government (general obligation) purposes in contrast to special agency (revenue supported) purposes it is practical in this report to address only affordability levels on overall State general obligation debt. An analysis of special purpose revenue debt is beyond the scope of this project because it is not practical to identify and evaluate future and yet to be defined revenue-supported projects. However, because revenue-supported debt affects the State's own debt affordability indirectly, a framework for assessing revenue debt is presented below. Following the discussion of revenue debt, the affordability of the State's own general obligation is addressed.

Revenue-Supported Debt

Revenue bonds influence the affordability of State general obligation debt in two principal ways. First, when bonds of this type carry a moral obligation pledge of the State there is an indirect encroachment upon the creditworthiness of the State itself since they represent a contingent liability to the State. As the volume of moral obligation bonds outstanding increases, the amount of the State's contingent liability also increases. If moral obligation debt increases at a time when overall State revenues are stable, are experiencing a rate of growth lower than the rate of growth in contingent liabilties, or are declining, the moral obligation burden may encumber the State's credit capacity. Such an occurance would make general obligation debt more costly, and therefore, less affordable due to weaker credit quality.

Second, the volume of revenue bonds may affect the cost of borrowing paid by all tax-exempt debt issuers in the State. Prices (interest rates) in the tax-exempt bond market are affected by many forces; one of which is the supply of tax-exempt bonds of the same type (revenue or general obligation), with a certain maturity, or from a particular region of the country. Institutional investors and bond portfolio managers generally try to diversify geographically their bond holdings. Therefore, excess supply of Alaska debt may saturate the market and cause interest rates for all borrowers in the State to rise, making any debt less affordable than before.

Although it is difficult to measure emperically the impact of revenue and moral obligation debt on the affordability of general obligation debt, it is worthwhile to develop a framework for analysis of the affordable levels of revenue-supported debt that covers both the financial feasibilty of the project being financed and any indirect impact on the State's creditworthiness. Assessment and monitoring of the affordable level of revenue debt should be a

concern to Alaska particulary because extensive use has been made of both moral obligation debt and revenue-supported debt.

The first phase in monitoring revenue bonds is to ensure that only fiscally sound programs or projects are financed. This entails (a) ensuring that no program or project is brought to financing unless its need and usefulness is well established, (b) ensuring that every program or project to be financed meets the test of self-sufficiency, and (c) ensuring that no project is brought to market with the State's moral obligation backing if the project's financial feasibility itself is marginal. The first phase review will protect against a program or project being financed "before its time". This is especially important because if the State is ever called upon to "bail out" a revenue bond project where the moral obligation has been pledged, and the State fails to act on its "moral" commitment, the State itself could effectively be barred from the marketplace until the problem was resolved. Hence, the State must satisfy itself that each individual revenue bond is creditworthy itself. This is the first step in ensuring not only revenue bond affordability but protecting this type of bond from negatively affecting the affordability of general State debt.

The second phase should monitor the aggregate impact of revenue-type bonds on the perception of the Alaska name as a credit in the national municipal bond market. In order to protect and preserve the quality of the Alaska bond as a trading instrument it is important that Alaska-based bonds do not proliferate to a point of saturation. Market saturation occurs when the total volume of bonds entering the marketplace (supply) out paces the demand for the bond. Determining the point at which saturation occurs is more a matter of judgment than of measurement. The dynamics of market interaction and the multiple number of participants in the market necessitates that this kind of assessment be.made by consulting periodically with a diversified arrav of municipal bond experts. Although this exercise can not produce concrete results, its usefulness as a tool in the assessment of the affordability of revenue-supported debt is important.

Measures Of General Obligation Debt Capacity

Credit analysts and investors have developed certain summary statistics which measure debt burden and debt capacity. These statistics generally take the form of debt ratios that measure the amount of debt outstanding relative to a certain economic or demographic indicator (such as outstanding debt per dollar of state personal income or debt per capita). The ratios are used not because of their comprehensive nature, but because the data are readily available and provide a uniform base against which the relative indebtedness of states can be compared. While a state should be aware of how it stands against these ratios, and its relative position to other states, individual assessment of debt capacity should be based not only upon these ratios but also upon comprehensive data covering the economic resources available to the state to repay the debt; the state's managerial and organizational characteristics; and the uniqueness of the state's debt structure in relation to its fiscal position and taxing capacity.

Before calculation of debt-related ratios can take place, however, the types of State debt that should be included in the numerator must be determined. As discussed in the Debt Profile, there are three classifications that can be considered. General obligation debt, tax-supported debt (comprised of general obligation debt and revenue debt dependent on State appropriations), and total State-level debt (general obligation and all revenue-supported debt). Finding comparable data in these three categories for all states is difficult because of the different methods used in each state to structure debt issues.

Perhaps the most reliable and consistent data are those compiled by the U.S. Department of Commerce, Bureau of the Census. However, the annual data published in the Census publication, Governmental Finances, recognizes only the distinction between general obligation debt and nonguaranteed debt (revenue-supported debt that does not have a pledge of the jurisdiction's taxing power). This distinction does not take account of all "tax-supported" debt which in Alaska's case includes ASHA lease-revenue debt, and University of Alaska debt in addition to the State's general obligation debt. The most recent Census data available are for fiscal year 1980-81. The alternative to the Census figures are the Net Tax-Supported Debt calculations of Moody's Investors Service which take account of all debt that is directly supported by state spending. However, this data is only available from Moody's begining with 1978. Both Census and Moody's data, where appropriate, will be used in the following discussion of debt ratios.

Traditional Measures of Debt Capacity

State Debt Per Capita: A frequently used measure of debt burden is the ratio of outstanding debt to population. This statistic measures the dollar amount of debt outstanding for each state resident. This ratio, however, has many shortcomings, most noticibly that it provides no information about the resources of the individuals who in the aggreagate are to pay the debt. For low-population states such as Alaska, the absolute value of this statistic is far higher than that for more populous states. In 1981, the national average for state general obligation debt per capita was $229.31 (see Table 7.1), whereas this ratio for Alaska was $1,700.97, the highest in the country. Next highest was the State of Hawaii with $1,357.08 general obligation debt per capita, which, like Alaska, is sparsely populated. Oregon's large amount of general obligation debt is comprised largely of State-guaranteed veterans mortgage bonds and is ignored for these purposes because it is primarily revenue-supported.

Alaska also has the highest per capita amount of total state-level debt (general obligation and revenue) of all states. Table 7.2 indicates that total debt amounted to $5,824 in fiscal year 1981 compared with a national average of $588. Although Alaska's per capita figures are distorted, the rate of change in per capita debt does provide comparable information on the relationship of the growth in debt issuance to population growth. A comparison of the absolute level of per capita debt, and the annual rate of change from fiscal year 1973 to

Table 7.1

Per Capita Total Outstanding State General Obligation Debt (1974-75 to 1980-81)[a]

State	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Alabama	$24.74	$26.63	$30.32	$35.74	$32.90	$33.27	$30.66
Alaska	1,035.64	1,143.02	1,299.04	1,448.78	1,651.49	1,579.31	1,700.97
Arizona	--	--	--	--	--	--	--
Arkansas	--	--	--	--	--	--	--
California	264.63	260.86	260.46	260.90	265.92	266.93	255.65
Colorado	--	--	--	--	--	--	--
Connecticut	702.04	778.95	774.89	759.33	735.62	703.76	738.39
Delaware	739.48	974.36	702.28	707.79	715.02	676.27	681.10
Florida	20.99	25.64	51.13	71.64	71.59	63.51	116.68
Georgia	26.52	65.93	73.36	100.89	97.33	100.15	94.94
Hawaii	933.20	1,178.85	1,305.11	1,482.16	1,468.61	1,470.22	1,357.08
Idaho	1.53	1.41	1.27	1.13	.99	.84	.73
Illinois	86.71	122.18	145.30	191.11	216.62	228.72	250.28
Indiana	--	--	--	--	--	--	--
Iowa	.90	.45	--	--	--	--	--
Kansas	--	--	--	--	--	11.76	11.67
Kentucky	106.47	100.79	95.52	90.36	84.73	76.95	72.09
Louisiana	189.85	248.87	329.90	373.48	415.66	453.95	560.38
Maine	262.35	260.47	253.55	250.62	240.79	226.52	229.83
Maryland	340.96	415.02	499.45	524.05	519.50	502.94	519.68
Massachusetts	344.78	518.87	555.38	558.47	574.64	567.00	573.58
Michigan	53.23	63.02	80.93	77.31	69.43	73.06	72.89
Minnesota	156.14	152.73	186.76	205.03	210.10	219.97	224.23
Mississippi	219.07	283.60	303.58	505.52	317.92	298.43	291.74
Missouri	12.13	11.00	16.39	15.00	13.58	12.96	16.45
Montana	--	9.79	9.64	8.94	8.58	8.26	7.82
Nebraska	--	--	--	--	--	--	--
Nevada	54.38	56.06	57.25	103.49	157.38	133.72	123.55
New Hampshire	171.17	211.30	263.41	278.66	298.64	274.15	352.88
New Jersey	209.62	208.33	230.07	235.23	249.31	251.69	257.60
New Mexico	18.81	14.93	20.91	15.56	14.88	17.75	17.39
New York	207.58	198.59	207.94	221.65	232.78	215.37	228.96
North Carolina	74.49	103.23	114.65	105.47	116.14	124.36	128.24
North Dakota	26.96	25.03	23.17	21.25	19.20	17.38	15.20
Ohio	161.27	181.87	185.82	196.00	210.73	212.24	219.27
Oklahoma	68.53	65.33	62.11	85.16	79.83	65.37	54.45
Oregon	732.12	859.05	1,009.28	1,220.00	1,428.88	1,717.32	2,074.76
Pennsylvania	256.80	292.66	326.37	327.27	332.44	326.31	328.33
Rhode Island	295.23	297.90	293.55	298.25	297.85	264.32	237.46
South Carolina	170.58	172.53	175.29	202.26	189.09	160.73	159.71
South Dakota	--	--	--	--	--	--	--
Tennessee	114.92	135.36	161.31	171.15	159.90	141.88	145.32
Texas	58.86	65.74	69.21	67.29	65.64	63.86	59.49
Utah	20.73	72.64	66.61	60.74	73.24	60.57	58.30
Vermont	544.99	532.93	523.68	478.84	502.32	466.30	527.52
Virginia	10.54	9.26	8.01	6.79	5.65	4.41	42.45
Washington	115.10	112.23	303.07	307.21	317.22	320.25	334.36
West Virginia	375.25	406.16	463.25	465.63	612.40	474.45	474.18
Wisconsin	133.57	194.38	259.92	304.68	343.26	362.25	362.93
Wyoming	--	--	--	--	--	--	--
Total U.S.	$158.88	$179.55	$198.93	$212.89	$220.04	$218.55	$229.31

a. Debt data from the U.S. Department of Commerce, Bureau of the Census, State Government Finances (series GF), various years. State general obligation debt is defined as all state-guaranteed debt for which states pledge their full faith and credit. Debt data measured as of June 30 of each fiscal year shown. Figures exclude debt issued by local governments, and debt issued by the District of Columbia.

Reprinted from : The Use of Tax-Exempt Bonds in California : Policy Issues and Recommendations, Legislative Analyst, Jon David Vasche, State of California, December 1982.

Table 7.2

Per Capita Total Outstanding State General Obligation and Revenue Bond Debt (1974-75 to 1980-81)[a]

State	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Alabama	$247.88	$267.71	$270.23	$268.22	$279.49	$265.38	$236.97
Alaska	1,872.88	2,044.06	2,246.53	2,744.65	3,355.98	3,861.39	5,824.02
Arizona	39.71	40.92	44.79	41.29	39.25	34.59	50.04
Arkansas	58.20	61.36	65.56	81.06	112.04	158.61	205.49
California	304.98	300.03	307.88	316.90	338.24	353.28	371.24
Colorado	48.20	48.77	74.61	114.73	153.75	159.40	240.44
Connecticut	943.57	989.66	1,021.38	1,064.98	1,152.79	1,248.13	1,407.59
Delaware	1,024.04	1,267.19	1,276.13	1,313.93	1,469.00	1,755.46	1 778.93
Florida	193.57	208.41	236.22	270.64	301.47	269.70	276.51
Georgia	233.21	259.62	252.33	265.17	267.87	257.70	247.26
Hawaii	1,342.02	1,479.02	1,664.36	1,878.24	1,854.48	1,931.83	1,889.50
Idaho	48.57	47.18	25.91	147.16	244.04	346.75	395.10
Illinois	250.33	299.48	360.92	457.72	509.21	549.76	603.71
Indiana	115.82	112.59	109.75	110.39	107.49	110.67	187.25
Iowa	44.28	43.49	42.70	78.19	128.45	130.79	151.36
Kansas	133.93	176.74	172.81	179.75	193.81	185.42	176.29
Kentucky	579.41	580.56	588.41	749.99	796.85	829.08	826.93
Louisiana	319.85	375.48	449.62	513.29	656.28	708.14	809.84
Maine	434.82	499.39	520.36	639.18	634.05	649.13	735.66
Maryland	509.12	610.56	737.33	914.57	889.64	830.70	933.99
Massachusetts	682.06	859.87	895.92	876.72	938.55	1,008.35	1,088.31
Michigan	183.20	206.87	213.50	234.26	272.13	314.98	377.12
Minnesota	222.40	256.90	309.48	439.94	461.51	507.70	585.34
Mississippi	261.00	326.66	339.79	538.35	347.11	323.30	313.71
Missouri	58.06	70.09	91.32	114.39	146.21	207.01	270.25
Montana	108.97	112.51	132.02	174.63	187.02	393.31	382.35
Nebraska	44.42	41.19	37.99	35.70	33.46	126.97	156.18
Nevada	87.80	87.15	86.12	369.91	494.39	660.79	656.33
New Hampshire	305.26	366.46	247.27	483.41	832.67	976.17	1,109.83
New Jersey	531.42	548.88	554.58	646.99	734.11	886.31	1,029.17
New Mexico	133.27	159.36	177.46	283.77	414.10	544.45	573.95
New York	811.21	1,137.00	1,119.93	1,261.99	1,302.29	1,346.48	1,400.80
North Carolina	113.56	129.73	146.26	139.66	197.53	215.48	226.99
North Dakota	98.92	108.32	103.42	124.70	199.07	335.80	322.19
Ohio	248.12	283.07	299.14	320.53	349.01	371.86	437.32
Oklahoma	346.70	342.11	334.14	388.47	522.46	504.38	559.06
Oregon	732.12	859.05	1,017.26	1,267.82	1,507.23	1,855.79	2,225.54
Pennsylvania	453.09	498.70	541.43	554.40	549.66	534.92	533.20
Rhode Island	494.13	546.39	686.31	924.35	1,267.92	1,544.98	1,810.18
South Carolina	331.26	368.28	457.25	607.48	542.33	621.11	779.00
South Dakota	99.15	133.58	335.56	560.15	841.50	1,035.18	1,010.64
Tennessee	185.44	224.66	280.52	319.21	317.04	306.24	319.41
Texas	158.07	165.61	166.00	162.70	173.16	173.50	179.61
Utah	73.73	122.92	114.06	220.63	287.53	367.61	380.96
Vermont	975.91	882.96	941.09	947.54	1,035.74	1,280.15	1,305.04
Virginia	138.58	140.73	170.68	242.56	319.95	360.32	394.40
Washington	357.01	338.76	382.28	380.98	385.84	387.51	425.25
West Virginia	589.38	640.81	720.36	746.06	871.61	931.53	944.06
Wisconsin	219.43	294.64	361.68	425.10	473.30	519.87	546.35
Wyoming	205.00	192.18	180.05	236.53	480.16	770.48	915.65
Total U.S	$339.68	$394.32	$418.14	$471.46	$509.20	$539.96	$588.06

a. Debt data from the U.S. Department of Commerce, Bureau of the Census, State Government Finances (series GF), various years. Debt data measured as of June 30 of each fiscal year shown. Figures exclude debt issued by local governments, and debt issued by the District of Columbia.

Reprinted from : The Use of Tax-Exempt Bonds in California : Policy Issues and Recommendations, Legislative Analyst, Jon David Vasche, State of California, December 1982.

Table 7.3

General Obligation and Total State-Level
Debt Per Capita
1973 - 1981

Fiscal Year	Alaska State G.O. Debt Per Capita	U.S. Average State G.O. Debt Per Capita	Total Alaska State-Level Debt Per Capita	U.S. Average Total State-Level Debt Per Capita
1973	$ 832.05	$ 134.57	$1,260.75	$ 264.92
1975	1,035.64	158.88	1,872.88	339.68
1976	1,143.02	179.55	2,044.06	394.32
1977	1,299.04	198.93	2,246.53	418.14
1978	1,448.78	212.89	2,744.65	471.46
1979	1,651.49	220.04	3,355.98	509.20
1980	1,579.31	218.55	3,861.39	539.96
1981	1,700.97	229.31	5,824.03	588.06

Annual Rates of Change

Fiscal Years	Alaska State G.O. Debt Per Capita	U.S. Average State G.O. Debt Per Capita	Total Alaska State-Level Debt Per Capita	U.S. Average Total State-Level Debt Per Capita
1973-1975	12.19%	9.33%	24.28%	13.96%
1975-1976	10.43	12.58	9.18	16.22
1976-1977	13.65	11.17	9.88	6.09
1977-1978	11.55	7.04	22.17	12.67
1978-1979	13.94	3.29	22.30	8.07
1979-1980	-4.36	-0.45	15.05	5.89
1980-1981	7.73	4.57	50.84	9.09

Source : U.S. Department of Commerce, Bureau of the Census, State Government Finances, various years.

1981 is provided in Table 7.3. The rate of growth of both Alaska general obligation debt and total State debt has exceeded the national average in seven of the eight fiscal years indicated. Moreover, the average rate of growth nationwide in total state debt was 10 percent over the 1973-81 period whereas in Alaska the average rate of growth was over 21 percent. Two factors must be noted, however, one is that Alaska did not begin to issue debt until 1958, so the base amount of debt outstanding was much less at the start of this period than for most other states. Second, Alaska's needs for basic capital infrastructure were greater during this period than for other states, so debt issuance would be expected to occur at a faster pace. Therefore, comparison of the rates of growth in Alaska and the nation does not provide a fair basis for assessment of the State's relative debt position.

State Debt per $1,000 of Personal Income: Personal income is a better measure than population of ability to repay debt, because, as a rough approximation for the level of economic activity and growth in the economy of most states, it provides information on the amount of resources available to repay the debt. In addition, many states rely on the personal income tax or sales tax for a large share of state revenue, and personal income has traditionally been the most readily available measure of the base for each of these taxes.

Personal income may be the most readily available and comparable proxy for economic growth; however, it is not necesarily the best measure of tax-generating capacity for all states, and especially those states (such as Alaska) which do not rely on a personal income tax. There are two fundamental problems with the personal income statistic; one pertaining to the definition of income, and the other to its use as a realistic measurement of a state's tax base. Such problems may cause personal income to overstate or understate tax capacity.

The definitional problem occurs in the double counting of certain types of income. Personal income figures include transfer payment income to individuals. However, taxes paid by the residents of a state to finance those transfers are not deducted (except for the employee share of social insurance contributions). This treatment results in a doublecounting and a systematic overstatement of the real income of those states in which government transfer programs, as well as taxes, are relatively large. Furthermore, personal income is generally much higher than adjusted gross income as defined by the Internal Revenue Service and which would likely form the tax base for a personal income tax if Alaska were to re-institute this tax. For example, comparison of Alaska personal income for 1979-1980 of $5.136 billion with the 1979 I.R.S. adjusted gross income of State residents of $4.097 billion demonstrates that personal income overstated the personal income tax base in that year by 25%.

As mentioned above, a critical problem with personal income is that it does not directly correspond to the broad menu of taxes which generate revenue for the State. In fiscal year 1981-82, State revenues were derived from the following sources:

Sales Taxes and User Fees	4%
Oil and Gas Based Taxes	95%
Corporate Income Tax	1%

Because Alaska no longer relies on the personal income tax, an income-based estimate of debt capacity does not address the State's true revenue-raising ability. This is true of other states which derive a large portion of state revenue from taxes on a natural resource. Under these circumstances, personal income may understate the tax capacity of a given state.

Another reason State personal income is not an accurate indicator of debt affordability in Alaska is the significant contribution that State spending makes to the Alaska economy and, therefore, to State personal income. Eight percent of the State labor force[1] and nearly 5 percent of the State's population[2] are State employees. However, the importance of State spending to State personal income extends beyond the large proportion of State employees. Though difficult to measure, the multiplier effects of State expenditures on aid to local governments, capital projects, and procurement are obviously considerable. Therefore, Alaska's total personal income would likely be severely affected by a change in State spending due to declining oil revenues, for instance. In other states, personal income is generally not as subject to spending from one or two sectors of the economy — the State and oil porduction, in Alaska's case — and is a better indicator of the economic base of the State than in Alaska.

Regardless of the deficiencies in using personal income to assess relative debt capacity, it is still a measurement that is widely used. In comparison with the general obligation debt of other states as a share of total personal income, Alaska's general obligation debt ranked highest in fiscal year 1981 (excluding Oregon), at $124 per $1,000 of State personal income, closely ahead of Hawaii (Table 7.4). Similarly, total state-level debt in Alaska comprises a far larger share of state personal income than it does in other states. This figure for Alaska is $423 per $1,000 whereas the national average is $56 (Table 7.5).

The rate of increase in outstanding debt compared with the rate of increase in personal income also serves as an interesting comparison. Table 7.6 indicates that the national averages of both general obligation debt and total state debt outstanding per $1,000 of personal income have trended gradually downward over the last 6 years, whereas similar figures for the State of Alaska have been erratic. The rate of change in State general obligation debt as a share of personal income has fluctuated from an increase of nearly 12 percent in 1978 to a drop of over 16 percent in 1980.

Ratio of Debt to Assessed Full Value: The ratio of debt to the true value of taxable property is a frequent measure of local govermental debt burden. The logic behind this is two-fold: 1) property is an indication of wealth, and 2) the property tax is an important revenue base for many types of local government. However, taxable property is not a very pertinent measure for state revenue systems. Although many states levy a nominal property tax, it does not comprise

Table 7.4

Total Outstanding State General Obligation Debt
Per $1,000 of Personal Income
(1974-75 to 1980-81)[a]

State	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Alabama	$5.30	$5.13	$5.32	$5.61	$4.70	$4.43	$3.73
Alaska	110.75	109.78	122.12	136.54	146.81	123.00	123.66
Arizona	--	--	--	--	--	--	--
Arkansas	--	--	--	--	--	--	--
California	39.72	35.71	32.48	29.29	26.41	24.34	21.44
Colorado	--	--	--	--	--	--	--
Connecticut	102.72	105.12	95.26	83.94	71.29	59.91	57.62
Delaware	112.76	136.78	91.68	84.00	75.87	65.19	61.34
Florida	3.65	4.13	7.46	9.39	8.32	6.98	11.48
Georgia	5.19	11.71	11.93	14.62	12.64	12.38	10.63
Hawaii	139.61	165.99	165.95	173.02	154.94	145.14	123.01
Idaho	.29	.24	.20	.16	.13	.10	.08
Illinois	12.67	16.51	17.93	21.44	21.99	21.68	21.62
Indiana	--	--	--	--	--	--	--
Iowa	.15	.07	--	--	--	--	--
Kansas	--	--	--	--	--	1.18	1.08
Kentucky	21.88	18.65	16.06	13.77	11.63	10.08	8.56
Louisiana	38.92	45.54	54.52	54.81	53.86	53.54	58.88
Maine	54.46	47.89	43.20	38.79	33.30	28.51	26.93
Maryland	52.57	58.68	65.35	61.23	54.26	47.96	45.28
Massachusetts	55.65	77.74	76.57	70.16	64.12	55.86	51.54
Michigan	8.87	9.35	10.68	9.15	7.40	7.33	6.76
Minnesota	26.62	24.24	26.16	25.97	23.66	22.56	20.82
Mississippi	53.68	62.11	59.48	89.59	50.73	45.25	39.38
Missouri	2.22	1.84	2.48	2.05	1.64	1.44	1.71
Montana	--	1.69	1.57	1.24	1.08	.97	.83
Nebraska	--	--	--	--	--	--	--
Nevada	8.08	7.52	6.87	10.88	14.84	12.43	10.67
New Hampshire	31.31	34.80	39.40	37.29	35.59	29.95	35.33
New Jersey	30.78	28.19	28.62	26.62	25.41	22.96	21.24
New Mexico	3.87	2.77	3.55	2.34	2.02	2.26	2.04
New York	31.72	28.40	27.61	26.86	25.42	20.93	19.97
North Carolina	15.02	18.85	19.31	15.90	15.79	15.87	14.83
North Dakota	4.39	4.23	3.80	2.77	2.32	1.98	1.49
Ohio	27.66	28.26	26.08	24.92	24.06	22.38	21.26
Oklahoma	12.98	11.28	9.59	11.63	9.54	7.15	5.31
Oregon	125.79	132.13	141.49	152.29	161.87	183.91	207.35
Pennsylvania	43.71	45.53	46.49	42.47	38.39	34.51	31.66
Rhode Island	51.47	47.40	42.74	39.06	34.49	27.89	23.39
South Carolina	36.50	33.30	30.74	32.18	27.31	22.06	19.87
South Dakota	--	--	--	--	--	--	--
Tennessee	23.66	25.27	27.56	26.02	21.81	18.33	17.20
Texas	10.52	10.54	10.01	8.68	7.45	6.67	5.54
Utah	4.20	13.33	11.11	9.16	10.04	7.90	7.01
Vermont	109.60	97.66	89.63	73.31	68.92	59.38	60.53
Virginia	1.81	1.46	1.14	.88	.65	.47	4.10
Washington	18.19	16.10	39.88	35.50	32.75	30.99	29.65
West Virginia	75.88	74.08	77.03	70.70	82.48	60.69	56.60
Wisconsin	23.80	31.70	37.99	40.36	40.16	38.65	36.17
Wyoming	--	--	--	--	--	--	--
Total U.S.	$26.79	$27.71	$27.98	$26.96	$24.90	$22.82	$21.86

a. Debt data from the U.S. Department of Commerce, Bureau of the Census, State Government Finances (series GF), various years. State general obligation debt is defined as all state-guaranteed debt for which states pledge their full faith and credit. Debt data measured as of June 30 of each fiscal year shown. Figures exclude debt issued by local governments, and debt issued by the District of Columbia.

Reprinted from : The Use of Tax-Exempt Bonds in California : Policy Issues and Recommendations, Legislative Analyst, Jon David Vasche, State of California, December 1982.

Table 7.5

Total Outstanding State General Obligation and Revenue Bond Debt Per $1,000 of Personal Income (1974-75 to 1980-81)[a]

State	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Alabama	$53.08	$51.57	$47.45	$42.12	$39.92	$35.36	$40.99
Alaska	200.29	196.31	211.19	258.67	298.34	300.73	423.42
Arizona	7.31	6.83	6.81	5.59	4.59	3.92	5.13
Arkansas	12.74	12.23	11.83	13.02	15.93	21.78	25.55
California	45.78	41.07	38.39	35.57	33.60	32.22	31.14
Colorado	7.94	7.38	10.33	14.11	16.73	15.86	21.44
Connecticut	138.06	133.55	125.56	117.73	111.73	106.25	109.83
Delaware	156.15	177.88	166.60	155.93	155.87	169.23	160.21
Florida	33.66	33.55	34.47	35.46	35.02	29.62	27.20
Georgia	45.65	46.10	41.03	38.41	34.78	31.77	27.68
Hawaii	200.77	208.25	211.63	219.25	195.65	190.71	171.26
Idaho	9.07	8.11	4.09	20.83	31.74	42.92	44.19
Illinois	36.59	40.48	44.53	51.34	51.70	52.12	52.16
Indiana	20.44	17.86	15.85	14.45	12.67	12.35	19.27
Iowa	7.34	6.87	6.11	9.68	14.75	13.94	14.45
Kansas	22.14	27.03	24.36	22.49	21.21	18.53	16.31
Kentucky	119.10	107.44	98.92	114.31	109.37	108.64	98.20
Louisiana	65.56	68.70	74.31	75.33	85.04	83.52	85.09
Maine	90.26	91.83	88.66	98.93	87.69	81.69	86.20
Maryland	78.50	86.33	96.48	106.86	92.91	79.22	81.38
Massachusetts	110.09	128.84	123.52	110.14	104.72	99.34	97.79
Michigan	30.50	30.69	28.18	27.73	28.99	31.58	34.95
Minnesota	37.92	40.77	43.35	55.73	51.98	52.08	54.36
Mississippi	63.96	71.53	66.58	95.41	55.39	49.02	42.35
Missouri	10.63	11.75	13.83	15.65	17.68	22.99	28.00
Montana	20.03	19.44	21.52	24.15	23.60	45.98	40.65
Nebraska	7.39	6.65	5.61	4.69	3.89	13.53	15.07
Nevada	13.04	11.69	10.33	38.91	46.62	61.41	56.70
New Hampshire	55.83	60.36	63.92	64.69	99.23	106.66	111.10
New Jersey	78.02	74.26	68.98	73.21	74.82	80.85	84.87
New Mexico	27.42	29.59	30.11	42.65	56.13	69.26	67.31
New York	123.95	162.61	148.73	152.90	142.19	130.86	122.17
North Carolina	22.90	23.68	24.64	21.06	26.85	27.49	26.24
North Dakota	16.11	18.32	16.94	16.24	24.00	38.31	31.52
Ohio	42.56	43.98	41.99	40.75	39.85	39.20	42.41
Oklahoma	65.69	59.06	51.62	53.04	62.42	55.19	54.55
Oregon	125.79	132.13	142.61	158.26	170.74	198.73	222.42
Pennsylvania	77.12	77.59	77.12	71.95	63.48	56.57	51.42
Rhode Island	86.15	86.94	99.93	121.05	146.82	163.02	178.29
South Carolina	70.88	71.09	80.20	96.66	78.33	85.24	96.91
South Dakota	19.39	26.28	57.27	83.73	112.04	132.08	114.48
Tennessee	38.17	41.94	47.93	48.53	43.24	39.58	37.81
Texas	28.26	26.56	24.01	20.98	19.64	18.13	16.74
Utah	14.93	22.56	19.03	33.25	39.42	47.94	45.83
Vermont	196.26	161.80	161.07	145.06	142.12	163.01	149.74
Virginia	23.85	22.15	24.36	31.25	36.97	38.27	38.11
Washington	56.43	48.61	50.31	44.03	39.83	37.50	37.71
West Virginia	119.17	116.88	119.79	113.28	117.39	119.17	112.70
Wisconsin	39.10	48.06	52.87	56.32	55.38	55.47	54.45
Wyoming	33.21	28.08	23.68	27.25	48.60	70.44	78.51
Total U.S.	$57.27	$60.85	$58.81	$59.71	$57.61	$56.39	$56.06

a. Debt data from the U.S. Department of Commerce, Bureau of the Census, State Government Finances (series GF), various years. Debt data measured as of June 30 of each fiscal year shown. Figures exclude debt issued by local governments, and debt issued by the District of Columbia.

Reprinted from : The Use of Tax-Exempt Bonds in California : Policy Issues and Recommendations, Legislative Analyst, Jon David Vasche, State of California, December 1982.

Table 7.6

General Obligation and Total State-Level
Debt Per $1,000 of Personal Income
1973 - 1981

Fiscal Year	Alaska State G.O. Debt Per $1,000 P.I.	U.S. Average State G.O. Debt Per $1,000 P.I.	Total Alaska State-Level Debt Per $1,000 P.I.	U.S. Average State-Level Debt Per $1,000 P.I.
1973	$ 140.23	$ 23.18	$ 212.48	$ 52.36
1975	110.75	26.79	200.29	57.27
1976	109.78	27.71	196.31	60.85
1977	122.12	27.98	211.19	58.81
1978	136.54	26.96	258.67	59.71
1979	146.81	24.90	298.34	57.61
1980	123.00	22.82	300.73	56.39
1981	123.66	21.86	423.42	56.06

Annual Rates of Change

Fiscal Years	Alaska State G.O. Debt Per $1,000 P.I.	U.S. Average State G.O. Debt Per $1,000 P.I.	Total Alaska State-Level Debt Per $1,000 P.I.	U.S. Average State-Level Debt Per $1,000 P.I.
1973-1975	-10.51%	7.79%	-2.87%	4.81%
1975-1976	-0.88	3.43	-1.99	7.02
1976-1977	11.24	0.97	7.48	-4.92
1977-1978	11.81	-3.65	22.27	1.72
1978-1979	7.52	-7.64	15.50	-3.39
1979-1980	-16.22	-8.35	0.67	-1.75
1980-1981	0.53	-4.20	41.00	-0.59

Source : U.S. Department of Commerce, Bureau of the Census, State Government Finances, various years.

as large a share of total revenues as it does at the local level. In fiscal year 1983, for example, property tax revenue accounted for just over four percent of Alaska's general fund unrestricted revenue. Data on assessed value is not collected annually by the Census Bureau, however the state debt medians as calculated by Moody's Investors Service for calendar year 1982 indicate that Alaska's taxsupported debt as a percent of assessed full value was 3.7 percent or 3.3 times the national median of 1.1 percent.

Comparison of other Moody's figures for net tax-supported debt at the end of 1982 indicate that Alaska had the highest per capita debt and debt as a percentage of total personal income according to this measure as well. Table 7.7 indicates that Alaska's tax-supported debt per capita is 11 times the national median, whereas taxsupported debt per dollar of personal income is 8 times the national median.

The preceeding discussion of national debt ratios demonstrated that Alaska is an "outlyer" regardless of the standard used to compare amounts of general obligation debt outstanding. Debt ratios such as these are useful when comparing states with an established and familiar record of debt issuance and a degree of certainty about their future economic prospects; however, Alaska does not fit into either of these categories. The State has been able to issue debt in amounts that exceed otherwise prudent guidelines because of its vast wealth in oil reserves and the proven ability to tax these resources. None of the above statistics measures the oil or other natural resource wealth of a state. Therefore, assessment of the affordable levels of debt in Alaska, and comparison of the State's position with other states, must be based on criteria that tailor the analysis to Alaska. As long as Alaska exhibits strong revenue generating potential from its oil reserves, traditional measures of debt capacity will be relatively meaningless; however, as the State's oil wealth contracts, the State will have to broaden its base of taxes and pay attention to traditional debt ratios.

Alaska-Specific Measures of Debt Capacity

Representative Tax Capacity: As mentioned above, neither population, personal income, nor assessed value correspond to the tax base available to the State to repay its indebtedness. A more comprehensive measure of tax capacity for all states, the representative tax system, has been developed by the U.S. Advisory Commission on Intergovernmental Relations (ACIR)[3]. The representative tax system calculates tax capacity by estimating the amount of revenue that each state would raise were an identical set of tax rates used across all states. The rates that are used are the national averages for each of the 24 tax bases that make up the index.

By combining a a wide variety of taxable resources -- such as income, property, retail sales, motor fuel, and the value of natural resources -- the ACIR method generates a broad measure of a state's tax capacity. As a measure of debt capacity, the system has the major advantage that, for each

Table 7.7

STATE DEBT MEDIANS

	Net Tax-Supported Debt(000)	Debt Per Capita	Rank	% E.F.V.	Rank	% Per. Income (1981)	Rank
Alabama	$1,630,380	$ 419.06	12	5.1%	6	5.1%	9
Alaska	1,114,718	2,783.45	1	3.7	5	19.6	1
Arizona	219,245	80.67	37	0.5	32	0.8	37
Arkansas	12,698	5.55	47	0.05	45	0.07	45
California	2,718,110	114.84	32	0.5	35	0.9	35
Colorado	22,755	7.88	45	0.05	46	0.06	47
Connecticut	2,222,886	715.31	4	3.2	8	5.5	7
Delaware	609,260	1,023.58	3	9.0	1	9.2	3
Florida	2,498,779	256.55	23	1.1	25	2.4	26
Georgia	1,421,025	260.08	21	1.1	24	2.8	20
Hawaii	1,488,061	1,542.03	2	5.0	2	13.7	2
Idaho	20,465	21.68	44	0.1	44	0.2	44
Illinois	3,272,210	286.57	17	1.6	13	2.5	24
Indiana	2,330	0.42	50	0.00	50	0.0	50
Iowa	3,700	1.27	49	0.01	48	0.01	49
Kansas	240,130	101.61	35	0.5	34	0.9	36
Kentucky	1,232,847	336.71	16	1.1	27	4.0	13
Louisiana	2,471,377	587.87	7	3.1	9	6.0	5
Maine	279,220	248.28	25	1.2	21	2.9	19
Maryland	2,853,725	672.54	6	2.8	10	5.8	6
Massachusetts	3,967,092	691.49	5	4.5	3	6.2	4
Michigan	1,059,091	114.39	33	0.5	33	1.1	32
Minnesota	1,001,624	245.67	26	1.3	20	2.3	27
Mississippi	696,827	276.45	19	2.0	12	3.7	15
Missouri	197,396	40.14	43	0.3	39	0.4	43
Montana	72,215	91.80	36	0.5	36	1.0	33
Nebraska	10,900	6.90	46	0.03	47	0.06	46
Nevada	96,866	121.21	31	0.4	38	1.0	34
New Hampshire	344,298	373.99	15	1.3	19	3.7	16
New Jersey	2,695,866	366.08	14	1.4	16	3.0	17
New Mexico	337,317	259.48	22	1.5	15	3.0	18
New York	9,042,000	514.99	8	3.3	7	4.5	11
North Carolina	933,700	158.94	29	0.9	29	1.8	29
North Dakota	35,000	53.62	41	0.1	43	0.5	42
Ohio	2,768,705	256.42	24	1.1	26	2.5	23
Oklahoma	186,669	61.70	39	0.3	41	0.6	39
Oregon	467,415	177.54	28	0.6	31	1.7	30
Pennsylvania	4,650,235	391.87	13	4.0	4	3.8	14
Rhode Island	269,629	284.67	18	1.2	22	2.8	21
South Carolina	619,805	198.74	27	1.4	17	2.4	25
South Dakota	32,055	46.44	42	0.3	40	0.5	41
Tennessee	707,003	154.01	30	1.2	23	1.8	28
Texas	867,421	60.96	40	0.3	42	0.6	40
Utah	158,325	108.36	34	0.8	30	1.7	31
Vermont	221,606	433.28	11	1.6	14	4.9	10
Virginia	420,146	78.59	38	0.4	37	0.7	38
Washington	2,033,073	492.25	9	1.4	18	4.2	12
West Virginia	899,006	461.11	10	2.2	11	5.5	8
Wisconsin	1,249,198	265.48	20	1.0	28	2.7	22
Wyoming	2,300	4.88	48	0.01	49	0.04	48
Median		$250		1.1%		2.4%	

Source: Moody's Investor Service, State Debt Medians, January 27, 1983.

source of tax revenue that in total will actually be used to pay-off debt, it measures the economic activity subject to the tax. In so doing, it provides a measure of the multiple resources claimable by state governments through a variety of taxes.

Computation of the ACIR's representative tax capacity figures is complicated, and certainly more difficult than using personal income alone; however, it can be done using readily available statistics. The most current figures available from the ACIR are for fiscal year 1980-81. Using the ACIR data for 1979 through 1981, and the ratio of tax capacity to unrestricted general fund revenues in each year, projections of Alaska's tax capacity under the representative tax system for 1982 and 1983 were made by the GFRC and are presented below.

Fiscal Year	Representative Tax Capacity	Rate of Change
1979	773	
1980	990	28.1%
1981	1373	38.7%
1982	1474	7.4%
1983	1324	- 10.2%

This chart indicates that tax capacity expanded rapidly between 1979 and 1981 as State severance tax revenues rose; however, the rate of change in tax capacity slowed and even declined in 1983 in line with the drop in oil-based revenues to the State.

The ratio of general obligation debt outstanding to the representative tax capacity index provides another measure of debt capacity against which Alaska can compare its relative position to that of other states. Table 7.8 presents such comparative ratios for general obligation debt in selected years between 1975 and 1981. Whereas the ratio for the majority of states has been fairly level, Alaska's debt as a share of tax capacity dropped from 1977 to 1981. Data on general obligation debt outstanding for all states is not yet available for 1982; however the ratio can be computed for Alaska itself. As indicated in the table below, the debt capacity index reached a low of 51 percent in 1981, however, the positive trend towards a lower index reversed in 1982 and climbed sharply in 1983.

Fiscal Year	General Obl. Debt	Tax Capacity	Debt Capacity Index
1975	392	411	95.5
1977	530	490	108.0
1979	671	773	86.7
1980	632	990	67.7
1981	746	1,373	51.0
1982	846	1,474	57.4
1983	946	1,324	71.7

Table 7.8
Debt Capacity Index
State General Obligation Debt

STATE	1975	1977	1979	1980	1981
Alabama	4.4	5.0	4.9	4.4	4.0
Alaska	95.5	108.0	86.7	67.7	51.0
California	24.8	14.3	12.1	10.7	9.1
Connecticut	70.2	75.3	65.5	57.7	54.9
Delaware	81.2	73.6	72.9	65.9	59.6
Florida	2.8	6.3	7.8	6.8	11.2
Georgia	4.2	11.0	13.2	11.7	11.3
Hawaii	115.9	155.6	159.6	137.4	126.0
Idaho	0.2	0.2	0.1	0.1	0.1
Illinois	10.3	16.6	22.0	20.8	23.4
Iowa	0.1	-	-	-	-
Kentucky	17.0	14.6	11.1	10.3	8.5
Louisiana	26.2	39.2	41.5	36.6	38.0
Maine	42.0	39.5	34.1	30.9	28.1
Maryland	46.1	63.9	60.0	54.2	51.5
Massachusetts	39.3	64.1	59.0	52.0	45.7
Michigan	7.2	10.1	7.7	7.5	7.4
Minnesota	22.0	24.5	23.4	21.5	21.8
Mississippi	32.6	46.0	43.5	39.9	34.1
Missouri	1.7	2.2	1.6	1.5	1.7
Montana	-	1.2	0.9	0.8	0.7
Nevada	5.1	4.7	10.9	9.1	8.1
New Hampshire	22.8	22.9	24.0	19.8	23.6
New Jeresy	23.1	25.7	26.1	23.8	22.9
New Mexico	2.8	2.7	1.6	1.7	1.5
New York	19.2	19.9	21.8	19.5	18.1
North Carolina	12.0	17.7	16.0	16.4	15.7
North Dakota	3.7	3.0	2.0	1.7	1.2
Ohio	15.3	14.7	12.5	11.3	10.5
Oklahoma	9.6	7.6	8.0	5.9	4.2
Oregon	99.4	124.7	154.1	175.0	203.5
Pennsylvania	35.7	42.6	40.7	37.1	35.3
Rhode Island	39.2	36.7	34.6	28.0	23.9
South Carolina	27.7	27.9	25.2	20.4	19.3
Tennessee	18.6	31.8	22.2	18.9	17.9
Texas	7.3	7.6	6.1	5.4	4.4
Utah	3.3	9.5	9.4	7.4	6.5
Vermont	79.3	72.9	66.4	57.9	61.0
Virginia	1.6	1.1	0.7	0.5	2.5
Washington	16.1	38.8	34.9	32.7	32.8
West Virginia	57.4	65.6	72.9	53.3	51.2
Wisconsin	18.5	34.3	40.5	40.2	38.8

Source : U.S. Advisory Commission on Intergovernmental Relations, and U.S. Department of Commerce, Bureau of the Census, State Government Finances, various years.

The debt capacity index shown in Table 7.8 provides the best measure against which to compare the amounts of debt issued by Alaska to that of other states. It is the only nationally available statistic that attempts to measure all revenue sources available to a state to repay its debt obligations. Alaska does not top the list by this measure of debt capacity, but ranks sixth (excluding Oregon) out of the 41 states with general obligation debt outstanding.

Although the tax-capacity measure shows Alaska to be in a more favorable position relative to other states than the earlier measures of debt burden, the volatility of this ratio demonstrates the sensitivity of the State's debt capacity to fluctuations in oil revenues. Therefore, any criteria used to assess the State's debt capacity must rely heavily on forecasts of future oil prices and their impact on tax revenues because of the preponderant role this revenue source plays in the State's ability to repay debt.

State Expenditures and Revenues: Another good measure of debt capacity which accurately measures ability to repay debt is the share of general fund unrestricted revenues that is committed to pay debt service each year. Since the state treasury must ultimately pay the debt service on general obligation and other tax-supported debt, it is the level of state tax revenues and other demands for those revenues that determine ability to repay debt. This can be measured in two ways; first by comparing the amount of debt service payments to the level of other general expenditures; and second, by comparing annual debt service requirements to unrestricted general fund revenues. These ratios provide an indication of the importance of debt service to the state budget. Because debt service is not a discretionary item once the debt has been issued, the ratios indicate whether such payments are placing a strain on the budget relative to other state spending priorities and permit a comparison with other states.

The ratio of debt service to general revenue illustrates the ability of the state to make required debt service payments in any particular year. As long as revenues are sufficient to cover debt service and other demands for state spending, high per capita or other standard debt ratios need not be of grave concern.

The ratios of debt service to general state expenditures and revenues are computed in Table 7.9 for fiscal years 1970, 1975, and 1980. The states are grouped by their Moody's Investors Service May 1982 bond rating. The ratios were computed for total state debt (revenue and general obligation) because statistics covering interest on general obligation debt alone are not available from the Census Bureau. This comparison indicates that Alaska's ratios were close to those of other states in each of these years, with the exception of 1975.

Similar figures on Alaska general obligation debt are available from the Department of Revenue. The ratios of debt service to general fund appropriations and to general unrestricted revenues for the past five years are

Table 7.9

DEBT SERVICE AS PERCENT OF STATE EXPENDITURES AND REVENUES
States Grouped by Moody's May 1982 Rating

	Expenditures			Revenues		
AAA STATES	1970	1975	1980	1970	1975	1980
Georgia	6.53	3.87	1.83	4.59	3.95	1.83
Illinois	5.34	3.16	2.84	3.14	3.31	2.84
Maryland	15.70	6.03	4.46	8.90	6.80	4.35
Missouri	6.28	3.77	1.78	4.05	3.76	1.76
New Jerse	7.40	9.53	2.42	4.59	10.69	2.47
N. Caroli	6.42	1.77	1.18	3.63	1.76	1.17
Oklahoma	4.64	5.86	1.98	3.58	5.43	1.81
S. Caroli	5.26	4.15	2.58	3.56	4.52	2.48
Tennessee	4.30	2.83	2.65	3.05	3.04	2.63
Texas	3.01	2.43	0.80	2.03	2.24	0.72
Utah	2.52	1.11	1.20	1.86	1.15	1.23
Virginia	3.27	2.40	1.27	2.16	2.50	1.24
Mean	5.89	3.91	2.08	3.76	4.10	2.04
AA STATES						
Alabama	7.61	4.83	2.96	5.40	4.74	2.92
Alaska	4.47	7.90	4.35	1.10	10.13	2.79
Californi	7.74	3.78	1.40	4.19	3.71	1.39
Connectic	16.50	14.97	7.84	13.67	16.54	7.46
Florida	7.78	2.92	1.41	4.57	3.10	1.35
Hawaii	7.39	8.23	6.19	8.58	9.06	5.82
Kentucky	8.30	6.20	2.31	6.56	5.77	2.60
Louisiana	26.45	4.02	2.51	17.44	3.99	2.34
Maine	7.72	5.71	4.79	6.32	5.99	4.64
Minnesota	4.14	3.01	3.26	2.13	2.74	3.14
Mississip	6.28	3.77	1.78	4.05	3.76	1.76
Montana	4.13	1.68	1.00	3.48	1.58	0.92
Nevada	1.20	1.22	0.88	0.84	1.15	0.87
New Mexic	4.86	2.68	2.15	3.01	2.29	1.80
Ohio	8.35	4.92	4.46	5.65	5.24	4.77
Oregon	8.13	7.40	3.93	6.44	7.24	3.81
Rhode Isl	7.40	6.55	5.87	6.07	6.68	5.86
Vermont	5.74	11.19	7.43	5.06	11.59	7.17
Wisconsin	2.51	2.64	1.63	1.29	2.72	1.62
Mean	7.72	5.45	3.48	5.57	5.69	3.32
A STATES						
Delaware	17.99	12.45	8.35	15.09	12.26	7.67
Massachus	13.58	7.11	5.53	11.26	8.32	5.50
Michigan	5.31	2.35	1.99	3.23	2.56	2.04
New Hamps	6.25	4.62	4.85	6.22	5.43	5.30
New York	11.31	7.15	7.05	4.88	7.56	6.83
Pennsylva	9.82	5.43	2.59	7.64	5.96	2.37
Washingto	6.20	3.90	1.30	4.49	3.95	1.30
W. Virgin	5.26	6.99	3.14	4.37	6.62	3.26
Mean	9.47	6.25	4.35	7.15	6.58	4.28

Source: U.S. Bureau of the Census, Governmental Finances, various years.
Data are for all state level debt

presented in Tables 7.10 and 7.11 respectively. The share of general fund appropriations accounted for by debt service over this time has averaged 5 percent. This is a manageable level and does not indicate that trade-offs between spending on current programs and debt service are being forced on the State during the annual appropriation process.

Furthermore, over this same period debt service as a percent of general fund unrestricted revenues declined from 9.03 percent in fiscal year 197[illegible] to 2.37 percent in 1982, indicating sufficient revenue coverage of debt service. However, the ratio rose to 4.05 percent in fiscal year 1983 due to of the combined effects of a sharp increase in debt service payable and a drop in general fund revenues.

Rapidity of Principal Repayment: Ratios based on debt service and debt outstanding do not account for the length of time over which payments must be made or that the debt will be outstanding. Debt which matures in five years will have the same effect on a debt per $1,000 of personal income ratio, for example, as debt which matures in 15 years. However, the maturity structure of outstanding debt affects a state's ability to repay the debt and the ability to incur additional debt and, therefore, should be considered in assessing future affordable levels of debt issuance. The average life of a bond issue is a measure of the length of time that the bonds will be outstanding. A 20-year serial bond, with equal principal maturities in each year, will have an average life of approximately 10 years. Bonds with short average lives place a heavier current strain on the issuer because debt service payments are higher than on bonds with longer average lives due to the rapid repayment of principal. However, short average lives and rapid principal repayment mean that future debt capacity will be greater, because the early retirement of debt usually creates additional later year capacity for debt issuance, other things being equal.

The credit rating agencies have developed a guideline for high-quality general obligation issuers to follow in structuring the maturities of their obligations. The maturity structure they encourage would result in 25 percent of the debt retired within 5 years, 50 percent within 10 years, and 75 percent within 15 years. This guideline is not appropriate for revenue-supported debt issuance where debt maturities should be tailored to cash flows. For example, AHFC debt should be structured to mature coincidently with the repayment schedules of its mortgages.

The general obligation guideline is also not appropriate for Alaska's general obligation debt because of the uncertainty over the level of State revenues 20 years hence. For this reason, as mentioned in the Debt Profile of the State's general obligation bonds (Chapter Two), Alaska has developed a strategy to market the State's debt that involves shortening the average maturities of bond issues to conform with the Prudhoe Bay oil curve. Table 3.10 indicates that the decrease in average life of the State's debt corresponds to an improvement in its credit rating, because maturities now correspond to more predictable State revenue streams.

Table 7.10

Debt Service Percentage of Total
General Funds Appropriations
(All figures in $ thousands)

Fiscal Year	Total General Funds Appropriations[1/]	Debt Service[2/]	Debt Service Percentage of Total General Appropriations
1975	$ 528,260.1	$ 30,144.0	5.7%
1976	627,274.5	35,115.1	5.6
1977	734,626.0	41,883.9	5.7
1978	833,794.7	50,028.0	6.0
1979	1,079,827.8	60,024.2	5.6
1980	1,135,400.0	75,072.3	6.6
1981	4,960,500.0	97,623.0	2.0
1982	5,663,400.0	102,400.0	1.8
1983	3,053,896.9	143,624.0	4.7
1984	3,158,700.0	163,415.0	5.2

SOURCE: Alaska Executive Budget, Book II-Capital Budget FY84.

1/ Total General Funds Appropriations -- Figures developed by Management and Budget to represent total appropriations of General Funds from all types of legislation, including supplementals, associated with the given fiscal year.

2/ Includes September 1982 General Obligation Bond Sale.

Table 7.11

Debt Service as a Percentage of
General Fund Unrestricted Revenues

Fiscal Year	General Fund Unrestricted Revenues	Current General Obligation Debt Service	Percent Required for Debt Service	Moody's State Rating
1973	$214.6	$23.5	10.95%	Baa
1974	258.1	26.3	10.22	A
1975	333.6	30.1	9.03	A
1976	705.4	35.1	4.98	A
1977	877.4	41.8	4.77	A
1978	768.0	50.0	6.51	A
1979	1,117.4	60.0	5.36	A
1980	2,467.3	75.1	3.04	AA
1981	3,718.2	97.6	2.63	AA
1982	4,108.4	97.5	2.37	AA
1983	3,542.0	143.6	4.05	AA

Source: John Nuveen & Co., Alaska, A New Look, April, 1981. p. 19. updated with Alaska Department of Revenue, Revenue Sources FY 1982-85, January, 1983 and Department of Administration and Finance, Bonded Debt and Debt Service, FY 1982.

Looking at the rapidity of principal repayment of the State's general obligation debt and that of all State issuers demonstrates that the extremely short average life is particular to the State's tax-supported debt, and not other State agency issuers. Table 7.12 lists the cummulative percentage of debt that will be retired by the end of each fiscal year indicated for all State-level issuers. For example, by 1987, the State will have retired 47 percent of its general obligation bonds. However, by the same year, the AHFC will have retired only 10 percent of its debt. Table 7.13 condenses the rapidity of principal repayment information for all issuers in the State. Within ten years, 85 percent of tax-supported debt, and 42 percent of indirect debt will have been retired.

Future Debt Capacity

As discussed above, the affordable level of general obligation debt is determined by a state's ability and willingness to pay debt service on the amounts borrowed. It was shown that traditional measures of debt capacity do not adequately measure Alaska's immediate ability to repay debt, and are, therefore, not appropriate for assessing the State's debt capacity for the near future. Over the next six years State tax revenues in current dollars are projected to increase due largely to Prudhoe Bay production. Although the rate of increase in State revenues will depend upon fluctuating petroleum prices worldwide, the size of the Prudhoe oil field virtually assures a reasonably strong revenue stream for the short-term. However, after the Prudhoe Curve reaches its peak around the year 1989, oil revenues as forecasted by the Department of Revenue, begin to decline. Furthermore, if expressed in real, 1983 dollars (a measure of purchasing power), total petroleum revenues are projected to decline beginning in 1983[8]. It will become necessary for the State to diversify its economy and its tax-revenue base, and, assuming it is able to broaden its tax base, the more traditional measures of ability to pay will be more appropriate for assessing debt capacity and will be of greater concern to investors.

Assessment of Alaska's capacity for future debt issuance must be based upon 1) known and predictable resources that the State is legally able to tap through currently available taxes, and 2) other unrestricted revenue streams. The State must not issue debt today with the intention of repaying the debt through the proceeds of an individual income tax, for example, if those tax revenues are not presently available. Furthermore, although the State's Permanent Fund is a valuable resource, and is expected to grow to nearly $10 billion by 1990, it must not be treated as an asset in determining debt capacity (except to the extent that interest earnings flow to the general fund) because by law the principal of the fund is untouchable.

Projections of future unrestricted general fund revenues are made quarterly by the Department of Revenue. Because these revenues are the ultimate source of repayment of the State's debt, they are the best available measure of the State's "ability to pay" in assessing debt capacity. The ratio of debt service payable in a given year to unrestricted general fund revenues is

Table 7.12

STATE OF ALASKA ISSUERS
Rapidity of Principal Repayment
Debt Outstanding as of June 30, 1982

Fiscal	State G.O. Bonds[1/]	University of Alaska	State Housing Agency	Municipal Bond Bank	Housing Finance Corp.	Alaska Power Authority	Alaska Industrial Authority	Medical Facilities	State Development Corp.	International Airport
1983	7.91	5.49	9.15	3.04	0.88	0.00	4.25	2.85	100.00	4.35
1984	17.66	9.80	18.90	6.57	2.55	17.50	8.49	5.92		8.97
1985	27.40	14.33	29.28	10.39	4.68	100.00	12.29	9.20		13.86
1986	37.27	17.95	40.33	14.58	7.04		15.82	12.75		19.03
1987	47.06	21.75	46.79	19.15	9.59		19.09	16.56		24.53
1988	56.88	25.75	53.60	23.94	12.29		21.97	20.64		30.35
1989	66.22	30.05	60.83	29.28	15.20		24.78	25.02		36.59
1990	74.76	34.57	68.50	36.19	18.39		27.69	29.71		43.20
1991	81.54	39.34	76.62	44.69	21.85		30.97	34.75		50.18
1992	86.25	44.37	85.24	54.62	36.90		34.20	40.14		57.51
1993	90.49	49.72	93.37	61.40	39.80		37.25	45.92		65.22
1994	92.49	54.38	97.80	66.29	42.88		40.57	52.10		73.34
1995	94.35	59.41	100.00	71.20	46.16		44.19	58.76		81.87
1996	96.16	64.67		76.98	49.63		48.28	65.91		90.84
1997	97.61	70.28		81.57	53.30		52.31	73.58		95.21
1998	98.91	76.22		85.04	56.87		55.79	81.77		100.00
1999	99.75	82.53		88.98	60.70		59.69	90.58		
2000	100.00	89.19		93.36	64.11		64.07	100.00		
2001		93.57		97.37	67.41		69.07			
2002		95.54		100.00	70.11		74.04			
2003		96.85			72.74		78.24			
2004		97.91			75.45		82.86			
2005		98.50			78.23		88.13			
2006		99.09			81.19		94.07			
2007		99.70			84.52		99.29			
2008		100.00			87.76		100.00			
2009					91.53					
2010					94.74					
2011					97.93					
2012					100.00					

1/ Includes October 1982 general obligation bond issue.

Table 7.13

State of Alaska
Combined Rapidity of Principal Repayment
Debt Outstanding as of June 30, 1982

Fiscal Year 1983	Tax-Supported Debt[1/]	Indirect Debt[2/]	All State Issuers
1983	7.94%	1.04%	3.22%
1984	17.59	4.21	8.44
1985	27.27	13.16	17.63
1986	37.10	15.47	22.31
1987	46.58	17.93	27.00
1988	56.12	20.53	31.79
1989	65.23	23.33	36.59
1990	73.65	26.42	41.37
1991	80.48	29.83	45.85
1992	85.42	42.93	56.38
1993	89.92	45.80	59.76
1994	92.12	48.76	62.48
1995	94.06	51.90	65.24
1996	95.82	55.25	68.09
1997	97.26	58.68	70.89
1998	98.56	61.99	73.56
1999	99.45	65.50	76.24
2000	99.80	68.70	78.54
2001	99.88	71.77	80.66
2002	99.92	74.27	82.39
2003	99.94	76.60	83.99
2004	99.96	79.01	85.64
2005	99.97	81.50	87.34
2006	99.98	84.15	89.16
2007	99.99	87.09	91.17
2008	100.00	89.81	93.04
2009		92.95	95.18
2010		95.62	97.01
2011		98.27	98.82
2012		100.00	100.00

1/ State General Obligation, University of Alaska, and Alaska State Housing Authority bonds.

2/ Alaska Housing Finance Corporation, Alaska Power Authority, Alaska Industrial Development Authority, Alaska Medical Facilities Authority, Municipal Bond Bank, State Development Corporation, and International Airport revenue bonds.

relatively straightforward and can be computed for many years into the future (currently, the Department of Revenue projects revenues until the year 2000). The reliability of these projections weakens as one gets futher into the future; however, for the immediate term, they meet the aforementioned criteria of "known and predictable".

A good starting point for assessing future debt capacity is to compare future debt service payments to which the State is currently committed to the projected levels of unrestricted general fund revenues. This comparison (shown in Table 7.14) indicates the trend in this ratio if the State does not issue further general obligation debt. Table 7.14 shows that according to the March 1983 Department of Revenue projections of unrestricted general fund revenues, debt service on general obligation debt will account for nearly 6 percent of these revenues in 1984. This figure exceeds 5 percent until 1988. Thereafter, as presently committed debt service gradually declines, the ratio falls to below 1 percent after 1994.

In assessing the State's future debt capacity, it is important to define the type of debt that should be considered in such an exercise. Because of the different considerations that suround the affordability analysis of revenue-supported debt (see page xxx), the choice is essentially between general obligation debt and tax-supported debt. In Alaska, tax-supported debt includes the lease-revenue debt of ASHA and the University of Alaska debt in addition to general obligation debt. Generally, states that have a low ratio of general obligation debt to total tax-supported debt should use the broader concept of tax-supported debt in analysing debt capacity. In Alaska this ratio is relatively high at 92 percent ($946 million general obligation debt out of $1.028 billion tax-supported debt, see Table 3.16). Because very little non-general obligation tax-supported debt has been issued from Alaska, the following analysis concentrates on general obligation debt only. However, if the ratio of general obligation debt to total tax-supported debt should drop below approximately 85 percent, the analysis of debt capacity should be broadened to include all tax-supported debt.

Short-term Guidelines

In order to plan future debt issuance, the State should establish a maximum target ratio of debt service to unrestricted general fund revenues. Such action will not only assist the State in deciding how to finance capital projects over the coming decade, it will also be favorably viewed by investors and the credit rating agencies. Deciding upon the proper level of this target ratio is not a simple task. There is no one target ratio that is recommended by credit analysts as fiscally responsible, the proper level depends on each individual state's circumstances.

As mentioned above, debt will continue to be affordable if, in the judgement of State officials, the payment of debt service does not prevent the State from attaining other objectives. The level of five to six percent of State revenues at which the most recent projections indicate the State will be until

Table 7.14
Alaska State General Obligation Debt
Projected Ratio of Debt
Service to General Fund Revenues

Fiscal Year	Unrestricted General Fund Revenue (1) (millions)	Debt Service Committed as of Dec. 1982 (millions)	Debt Service Commitment as % of Unrestricted General Fund Revenue
1983	$3542	$143.6	4.05%
1984	2737	163.4	5.97
1985	2772	156.2	5.63
1986	2838	150.6	5.31
1987	2960	142.8	4.82
1988	2871	136.3	4.75
1989	3065	124.5	4.06
1990	2946	109.8	3.73
1991	2704	85.6	3.17
1992	2631	58.9	2.24
1993	2519	50.9	2.02
1994	2423	25.8	1.06
1995	2359	23.1	0.98
1996	2206	21.5	0.97
1997	2230	16.7	0.75
1998	2261	14.4	0.64
1999	2259	9.1	0.40
2000	2268	2.6	0.11

(1) March, 1983, 30th percentile projections of The Department of Revenue.

1987, is a "safe" level. If the State maintains this ratio of debt service to unrestricted general fund revenues and continues to issue debt with maximum maturities within the "known and predictable" revenue range, it is likely that the State's creditworthiness will be preserved. Therefore, five percent is a conservative estimate of the affordable ratio of debt service to revenues.

Table 7.15 demonstrates the use of a 5 percent target ratio of debt service to projections of unrestricted general fund revenues in determining future general obligation debt capacity. Column 1 contains the March 1983, 30th percentile projections of unrestricted general fund revenues made by the Department of Revenue. Column 2 lists the 5 percent target ratio. Column 3 contains annual (by fiscal year) debt service to which the State has previously committed itself. Column 4 is the debt service payable on debt that is assumed to have been issued in the future (Column 6). Column 5 lists the additional capacity for debt service created in each fiscal year. This figure is derived by subtracting previously committed debt service (columns 3 and 4) from the 5 percent target. Column 6 lists the amount of debt that can be supported by the amount of revenues available for debt service at the 5 percent level, assuming 10-year bonds, level amortization, and an 8.0 percent average interest rate (AA-rated bonds were trading at approximately 8.4 percent at the end of May 1983, and Alaska trades slightly below the AA rates). The example in Table 7.15 assumes that an amount of bonds equal to the total debt capacity as identified in Column 5 is issued when the capacity becomes available. Alternatively, capacity could accumulate but remain unused in order to spread debt issuance over several years.

According to this framework for assessing future debt capacity, the State may issue approximately $252 million in general obligation debt through 1990 commencing in 1987; an additional $349 million between 1990 and 1995; and, if known and predictable revenues are available after 2005 at the same level as in the year 2000, an additional $401 could be issued. Total future debt capacity using this criteria is slightly over $1 billion; however, it is dependent upon the reliability of the revenue projections in Table 7.15, and the assumption that revenues beyond 2000 will continue at the same level as in 2000. If revenues beyond 2000 are lower, debt issuance as early as 1990 may have to be cut back. Uncertainty over future revenues requires that continual monitoring and revising of this kind of capacity analysis must occur as new projections become available from the Department of Revenue. Similarly, the analysis should be performed periodically when tax-exempt interest rates are fluctuating.

If the State made a conscious decision, as part of a long-term capital investment strategy, to spend a larger share of unrestricted general fund revenues on debt service, additional debt capacity would be created. Such a decision would likely require trade-offs between paying debt service and spending on other priorities. As long as the payment of debt service does not prevent the State from providing "essential" services, an increase in debt service to as much as 10 percent of revenues would not significantly erode the State's creditworthiness or access to the bond market. However, committing ten percent of revenues to the payment of debt service may cause the national

Table 7.15

Alaska State General Obligation Debt

Future Debt Capacity
Debt Service at 5 Percent of
General Fund Revenues
(millions)

Fiscal Year	(1) Unrestricted General Fund Revenue[1]	(2) Available for Debt Service[2]	(3) Debt Service Committed as of Dec. 1982	(4) Debt Service on future Borrowing[3]	(5) Additional Debt Service Capacity	(6) Future G.O Debt Capacity[4]
1983	3542	-	143.6	-	0	0
1984	2737	137	163.4	-	0	0
1985	2772	139	156.2	-	0	0
1986	2838	142	150.6	-	0	0
1987	2960	148	142.8	-	5.2	35
1988	2871	144	136.3	5.2	2.5	17 - 252
1989	3065	153	124.5	7.7	20.8	141
1990	2946	147	109.8	28.5	8.7	59
1991	2704	135	85.6	37.2	12.2	83
1992	2631	132	58.9	49.4	23.7	161
1993	2519	126	50.9	73.1	2.0	14 - 349
1994	2423	121	25.8	75.1	13.4	91
1995	2359	118	23.1	88.5	0	0
1996	2206	110	21.5	88.5	0	0
1997	2230	111	16.7	83.3	11.0	75
1998	2261	113	14.4	91.8	6.8	46 - 401
1999	2259	113	9.1	77.8	26.1	177
2000	2268	113	2.6	95.2	15.2	103
					1476	1002

1 March 1983, 30th percentile projections of the Department of Revenue.

2 5 percent of column 1.

3 Assumes that debt equal to full capacity (column 6) is issued.

4 10-year bonds at 8.0 percent (AA-rated) level amortization debt service constant is .1472 (e.g., column 5 ÷ .1472 = column 6).

credit rating agencies to reevaluate the State and result in a rating change from an AA to an A.

Using the framework described for Table 7.15, Table 7.16 presents a calculation of future debt capacity using a debt service target ratio of 10 percent. If the State allocated 10 percent of revenues to debt service, we have conservatively assumed that the credit rating would drop to an A, increasing average interest costs from 8 percent to 8.7 percent (A-rated bonds were trading at this level at the end of May 1983). Table 7.16 indicates that debt capacity rises over the 16 years until 2000 by $1.672 billion (from $1.002 billion to $2.674 billion) as a result of the increase from 5 percent to 10 percent. The timing of debt capacity also differs between the two scenarios, using the 10 percent guideline, $1.215 billion could be issued by the year 1990 rather than $252 million, and debt issuance could commence in fiscal year 1984 instead of 1987.

The decision to increase debt issuance beyond the 5 percent target level would require the State to commit a substantial portion of its budget to the payment of debt service. Maintaining the 5 percent ratio over the 27-year period from 1983 to 2010 (for debt issued between 1983 and 2000) will require the appropriation of nearly $1.4 billion more than currently committed debt service (of $1.47 billion). Raising the share of debt service to 10 percent would result in additional appropriations of $2.6 billion above the 5 percent level (a total of over $4 billion) over the 27 years.

Because debt capacity depends upon a government's willingness to repay, in addition to its ability to repay, no precise level of future debt capacity can be recommended by this study. Rather, it is recommended that the State determine an acceptable range of annual debt issuance, the low point of which (e.g., 5 percent ratio of debt service to revenues) adequately meets public service demands and the high point of which (e.g., 10 percent) results in debt service not placing a strain on resources to the extent that other public priorities must suffer. The debt affordability question, therefore, is calculated in reverse. First the affordable level of debt service must be established and from this a calculation of the level of debt that this amount of debt service can support. Once the affordable range for debt issuance has been determined, the actual amount of debt issued within this range will depend upon the costs and priorities of capital projects.

Long-term Guidelines

As long as the State continues to demonstrate an ability to tax its vast oil resources at a level that can support the payment of debt service and the provision of essential services, attention to traditional measures of ability to pay are not suitable for assessing Alaska's debt capacity. However, if there comes a time when the State's tax revenues are more broadly based, with income, sales and use, and property taxes comprising a significant share of State revenues, traditional debt capacity analysis will become applicable. As Alaska becomes more similar to other states in terms of its resources available

Table 7.16

Alaska State General Obligation Bonds

Future Debt Capacity
Debt Service at 10 Percent of
General Fund Revenues
(millions)

Fiscal Year	(1) Unrestricted General Fund Revenue[1]	(2) Available for Debt Service[2]	(3) Debt Service Committed as Dec. 1982	(4) Debt Service on future Borrowing[3]	(5) Additional Debt Service Capacity	(6) Future G.O. Debt Capacity[4]	
1983	3542	354	143.6	0	0	0	
1984	2737	274	163.4	0	110.6	729	
1985	2772	277	156.2	110.6	10.2	67	
1896	2838	284	150.6	120.8	12.6	83	1215
1987	2960	296	142.8	133.4	17.3	114	
1988	2871	287	136.3	150.7	0	0	
1989	3065	306	124.5	150.7	30.8	203	
1990	2946	295	109.8	181.5	2.9	19	
1991	2704	270	85.6	184.4	0	0	
1992	2631	263	58.9	184.4	16.7	110	
1993	2519	252	50.9	201.1	0	0	895
1994	2423	242	25.8	201.1	15.1	99	
1995	2359	236	23.1	212.9	104.1	686	
1996	2206	221	21.5	199.5	0	0	
1997	2230	223	16.7	186.9	19.4	128	
1998	2261	226	14.4	189.0	22.6	149	564
1999	2259	226	9.1	211.6	5.3	35	
2000	2268	227	2.6	186.1	38.3	252	
					4,059	2,674	

1 March 1983, 30th percentile projections of the Department of Revenue.

2 10 percent of column 1.

3 Assumes that debt equal to full capacity (column 6) is issued.

4 10-year bonds at 8.7 percent (A-rated), level amortization debt service constant .1518 (e.g., column 5 ÷ .1518 = column 6).

TABLE 7.17

CALCULATION OF FUTURE DEBT RATIOS

FY 1983 Tax-Supported
Debt Outstanding: 1114843000

	Fiscal Year	Debt Retired	Increase In Debt Outstanding	Debt Per-Capita	Debt Per-Assessed Value	Debt Per $1,000 of Personal Income
			Growth:	.005	Growth: .05	Growth: .062
1	1983	88484	0	2198.80	2.77	170.54
2	1984	107595	0	1958.50	2.37	143.75
3	1985	107950	0	1719.79	1.99	125.35
4	1986	109616	0	1479.89	1.64	109.76
5	1987	105686	0	1250.58	1.32	97.38
6	1988	106272	0	1022.30	1.04	84.78
7	1989	101650	0	805.86	0.78	73.84
8	1990	93829	0	607.74	0.56	64.75
9	1991	76118	0	448.02	0.40	58.29
10	1992	55154	0	332.82	0.28	49.55
11	1993	50109	0	229.04	0.19	42.10
12	1994	24520	0	178.18	0.14	37.54
13	1995	21593	0	133.72	0.10	33.60
14	1996	19678	0	93.54	0.07	30.15
15	1997	16004	0	61.10	0.04	27.24
16	1998	14585	0	31.81	0.02	24.67
17	1999	9921	0	12.02	0.01	22.60
18	2000	3884	0	4.32	0.00	21.05
19	2001	889	0	2.56	0.00	19.77
			0			

Base Year Assumptions: (1982)

Population:	464460
Personal Income:	5667000
Assessed Value:	3.523E10

to repay debt, its relative debt position among all states will play a greater role in determining its cost of borrowing and market access. It is recommended, therefore, that the State continually assess the impact of future debt issuance on its "external" debt statistics, and its position relative to other states.

The external debt analysis includes the types of statistics mentioned in the first half of this section. Among these are:

- tax-supported debt measured against personal income;
- net State and local debt measured against personal income;
- general obligation debt and tax-supported debt measured against the ACIR tax-capacity index;
- net State and local debt measured against market value of taxable property;
- incremental revenues measured against incremental debt service;
- Overall economic and demographic trends, such as employment, population, industrial base, bank deposits, consumer installment credit, and retail sales.

Table 7.17 demonstrates projection of the ratio of current tax-supported debt to population, assessed value, and personal income for the period 1983 to 2001 (when all currently outstanding State general obligation bonds will have been retired). The growth rates assumed for each of the variables are based on their 1978-1982 average, and are listed at the head of each column. Because of the rapid retirement of State debt, these ratios approach the current Moody's medians by 1988 (debt to assessed value), 1991 (debt to personal income), and 1994 (debt per capita). As the State issues further tax-supported debt, this type of analysis should be conducted to assess the impact of the debt on the future levels of these external debt statistics.

NOTES

CHAPTER II

1 Marnie Shaul, The Taxable Bond Option for Municipal Bonds. Columbus, OH: The Academy for Contemporary Problems. 1977.

2 The amount of revenue lost to the federal treasury depends on the tax bracket of the bondholder and is, therefore, difficult to measure.

3 John E. Petersen, "An Analysis of the Impact of the Proposed Corporate Minimum Income Tax on Tax-Exempt Interest Rates and Borrowing Costs", Washington, DC: The Government Finance Research Center, 1982.

4 Lennox L. Moak, Municipal Bonds: Planning, Sale, and Administration. Chicago: The Municipal Finance Officers Association, 1982. page 147.

CHAPTER III

1 This chapter was compiled using primarily the following sources:

Alaska Department of Administration, Division of Finance, Annual Financial Report, Fiscal Years 1981 and 1982.

Alaska Department of Administration, Division of Finance, Bonded Debt and Debt Service, Fiscal Year 1982.

Alaska Municipal Bond Bank Authority, 1982 Annual Financial Report

Alaska Housing Finance Corporation, Selected Corporation and Program Information, December 1982.

Alaska Industrial Development Authority, 1982 Annual Report.

Moody's Investors Service, Municipal & Government Manual 1983.

John Nuveen & Co., Alaska: A New Look, Chicago: John Nuveen & Co. 1981.

CHAPTER IV

1 Net Interest Cost (NIC) rather than True Interest Cost (TIC) is used as the basis of comparison because it is the method most often used by states at present to report effective interest costs.

CHAPTER V

1 Martin T. Katzman, "Measuring the Savings from State Municipal Bond Banking", Governmental Finance, Vol. 9, No. 1, March 1980.

2 see William E. Mitchell, "The Effectiveness of Debt Limits on State and Local Borrowing", The Bulletin, New York University Graduate School of Business Administration, Institute of Finance, October 1967 and Government Finance Research Center, The Fiscal Effects of State Regulations on Local Taxation and Debt Issuance, Washington, DC: The Municipal Finance Officers Association, 1983.

3 see John E. Petersen, Lisa A. Cole and Maria L. Petrillo, Watching and Counting: A Survey of State Assistance to and Supervision of Local Government Debt and Financial Administration, Chicago: Municipal Finance Officers Association and National Conference of State Legislatures, 1977.

4 William Wizeman and Jane Curtis, New Jersey's Local Units: Scurity Highlights of Municipal and School Bonds. New York: Prudential-Bache Securities. 1983.

CHAPTER VI

1 Steven Gold, "Trends in the Magnitude and Character of State Debt", published in Debt Policy: Pressing Problems, Emerging Solutions: (Summary of Conference proceedings), New York, January, 1982. Published by the National Conference of State Legislatures in cooperation with the Government Finance Research Center of the Municipal Finance Officers Association and the New York State Assembly. (Hereinafter cited as: Debt Policy Proceedings.) See also John Petersen, "The Municipal Bond Market: Recent Changes and Future Prospects", in Norman Walzer and David Chicoine, editors, Financing State and Local Governments in the 1980's (Cambridge: Oelgeschlager, Gunn and Hain, 1981), pp. 129-142.

2 Robert Lamb and Stephen Rappaport, Municipal Bonds, (New York, McGraw-Hill, 1980), 131ff.

3 Assemblyman Arthur J. Kremer, "Controls Over New York Agencies Need to Be Tightened", The Weekly Bond Buyer, (April 25, 1983), p. 13.

4 Bonded Indebtedness in Kentucky, p. 42; The Use of Tax-Exempt Bonds in California, pp. 208-9.

5 The Use of Tax-Exempt Bonds in California, pp. 208-9.

6 State of Oregon's Bonded Debt: A Review of Borrowing Practices, Industrial Development Bonds, p. 32.

7 Ed Montaneor, "The State Role in Local Government Debt Management in Florida", Debt Policy Proceedings, pp. 43-47.

8 State of Oregon's Bonded Debt: A Review of Borrowing Practices, General Obligation and Direct Revenue Bonds, pp. 23-31.

9 Robert Fairbanks, "New Power for an 'Old Statesman': Unruh's $3 billion lending machine", California Journal (February, 1983) pp. 48-52. The article provides a list of state debt issuers with the Treasurer's role delineated in each one.

10 Michael Hernandez in Debt Policy Proceedings, pp. 50-54.

11 Patrick J. Sullivan, "The Effect of Local Municipal Bond Markets on Local Government Borrowing Costs".

12 For details see Watching and Counting, Municipal Finance Officers Association and National Conference of State Legislatures, 1977; "How States Can Assist Local Governments with Debt Financing for Infrastructure", Legislative Finance Paper #19, National Conference of State Legislatures, 1982.

13 Moody's Investors Service, Inc., Pitfalls in Issuing Municipal Bonds, (New York: Moody's Investors Service), 1977.

14 Standard & Poor's Corporation, Perspective, November 26, 1980.

15 Ibid.

16 Standard & Poor's Corporation, CreditWeek, July 5, 1983.

17 Ronald W. Forbes and John E. Petersen, Local Government General Obligation Bond Sales In Pennsylvania: The Cost Implications of Negotiation vs. Competitive Bidding, Government Finance Research Center, 1979.

18 Charles K. Coe, Getting the Most From Professional Services: Fiscal Advisor, University of Georgia, Institute of Government, 1979.

19 Michael D. Joehnk and David S. Kidwell, "Advance Refunding: A Controversial Tool", The Daily Bond Buyer, April 18, 1977.

CHAPTER VII

1 Alaska Pacific Bancorporation, The Alaska Economy: An Introductory Overview, 1982.

2 from U.S. Department of Commerce, Bureau of the Census, State Goverment Finances, Fiscal Year 1982.

3 see U.S. Advisory Commission on Intergovernmental Relations, The Tax Capacity of the Fifty States: Methodology and Estimates, 1982.

4 Alaska Department of Revenue, Petroleum Revenue Division, Petroleum Production Revenue Forecast, March 1983.

APPENDIX ONE

The Basis for Incurring and Repaying Debt at the State and Local Levels

The Consitution of the State of Alaska and State law as established by the Alaska Legislature and embodied in the Alaska Statutes determine the legal framework within which the State and its political subdivisions must conduct their fiscal affairs. State laws govern the types of debt that may be incurred, the structuring and proceedures for debt issuance, and the level and types of taxes or other revenues available to repay that debt.

State Debt

Article IX, "Finance and Taxation", of the Alaska Constitution addresses the taxing authority and ability to incur debt at both State and local levels. Section 8 of Article IX, "State Debt", requires that general obligation debt be incurred only for capital improvements or to provide housing assistance to qualified veterans. This section also requires that State general obligation debt be approved by a majority of voters, except for the purposes of repelling invasion, supressing insurrection, defending the State in war, or meeting natural disasters. Section 10, "Interim Borrowing", permits the State to issue short-term notes in anticipation of the collection of revenues for that year (called tax or revenue anticipation notes) provided that such notes are repaid before the end of the following fiscal year.

Section 11, "Exceptions", exempts the revenue-supported debt of the State, its public corporations, and local governments from the voter referendum requirement, and other constitutional restrictions on contracting debt. The restrictions do not apply to any debt that securred solely by the revenues of the public enterprise or corporation. Refunding bonds and special assessment bonds are also exempted.

Section 37, Chapter 15, the "State Bonding Act", of the Alaska Statutes sets forth the specific issuance procedure and bond structure requirements for State general obligation bonds, bond anticipation notes, and International Airport revenue bonds. This act requires selling general obligation bonds to the highest responsible bidder (i.e., the bid resulting in the lowest interest cost) at an interst rate not to exceed 11 percent a year or 110 percent of the Bond Buyer 20-Bond Index for the preceeding week. The maturity structure may be set by the State Bond Committee, with a maximum maturity of 30 years unless a longer period is authorized by Statute. Bonds may be issued in either coupon or registered form, with the place of payment determined by the State Bond Committee. Facsimile signatures of the Governor and Lieutenant Governor may be used.

The State Bonding Act also creates, and establishes the composition and duties of the State Bond Committee. The required members of the Committee are the Commissioner of Commerce and Economic Development (chairman), the Commissioner of Administration, and the Commissioner of Revenue (secretary). The statutorily defined responsibilities of the Committee are to adopt the resolution and prepare the documents necessary for the issuance, sale, and delivery of State general obligation and international airport revenue bonds. The Committee must certify annually to the Department of Administration the amount of debt service which must be paid during the following year. The State

Bond Committee may secure professional legal and financial advisory services; however, firms providing financial advice may not bid on State bond issues for which they provide such assistance.

The general authority to levy taxes and charges in order to repay debt and provide for general governmental operation is contained in Article IX, Section 1 of the State Constitution. The specific taxes, their tax base and rate, that the legislature has decided to levy are identified in several State statutues. The major sources of revenue are the oil and gas production tax (AS 43.55) and the oil and gas property tax (AS 43.56). Other sales, use, and licenses taxes and charges are also levied, however their contribution to State revenues is minimal. The State does not presently levy a personal income tax.
The oil and gas property tax is a 20 mill ad valorem tax on oil and gas transportation facilities and on facilities used in oil and gas exploration or production. Most notable of the properties subject to this tax are the Trans-Alaska Pipeline System (including the terminal at Valdez) and the field production system at Prudhoe Bay. State revenues from this tax are limited, however, because the State also permits local governments to tax this property and allows the oil companies to credit local taxes paid on this property against their State property tax liability.

Debt of State Public Corporations

The ability of State public corporations such as the Alaska Housing Finance Corporation to incur debt is established in the enabling legislation for each corporation. The basic requirement is that bonds must be securred by the revenues generated by the project being financed or by revenues from other projects of the corporation, but not by State taxing authority. The Alaska Housing Finance Corporation, Alaska Industrial Development Authority, and the Municipal Bond Bank must receive annual authorization for a maximum (unspecified) level of debt issuance. The Alaska Power Authority must notify the Governor and the Legislative Budget and Audit Committee 60 days before the issuance of debt. If the Alaska State Housing Agency issues bonds through a negotiated sale, it must hire a financial advisor that is independent of the negotiating underwriter to assist in the sale.

Local Governmental Units

Article IX, Section 9, "Local Debts", of the Alaska Constitution grants local governments the authority to issue general obligation debt for capital improvements upon approval of qualified voters without limit as to amount. This section also permits local governments to issue short-term notes to be repaid from anticipated tax collections within the following fiscal year. Section 29, Chapter 58, "Municipal Debt", of the Alaska Statutes regulates local debt issuance in greater detail. General obligation bonds may be sold through negotiation or a competitive sale, with interest rates not to exceed the contract usury rate of interest provided by law. Bonds may not be sold at a price less than their par value.

Bonds issued for the construction of school facilities are eligible for State assistance in the payment of debt service (AS 43.18.100). The dollar amount of this program varies each year depending on legislative authorization. There are

no limits placed on the amount of debt that that can be issued under this program.

Other sources of repayment for municipal indebtedness are general tax revenues and specific utility or other project revenues. Article X, Section 2, "Local Government Powers", of the Constitution states that the power to tax may be delegated only to organized boroughs and cities. Alaska Statutes Chapter 29 Section 53 permits these units to levy a general property tax, subject to certain limits, and a sales tax not to exceed 6 percent on sales, rents, or services. Property taxes levied in order to pay debt service on general obligation bonds are not subject to limitation.

APPENDIX TWO

Interviews and Contacts

1. State of Alaska Agencies, Authorities and Personnel

James L. Baldwin
Assistant Attorney General
Room 412, Capitol Building
Juneau

Milton B. Barker
Legislative Finance Division
Legislative Affairs Agency
Roon 500, Capitol Building
Juneau

Raymond J. Benish
Director of Finance
Alaska Power Authority
334 W. 5th Avenue, 2nd Floor
Anchorage

Robert H. Bettisworth
Chairman, Legislative Budget
and Audit Committee
Room 500 Capitol Building
Juneau

Susan Brody
Acting Director
House Research Agency
Legislative Affairs Agency
KT00 Building
Juneau

Carole Burger
Former Commissioner of
Administration
10th Floor
State Office Building
Juneau

Mark K. Cameron
Finance Director
Alaska Housing Finance Corporation
235 E. Eight Avenue
Anchorage

Sherman Carter
Executive Vice President
University of Alaska
Fairbanks

Wilson L. Condon
Former Attorney General
Room 412
Capitol Building
Juneau

Laura L. Davis
Assistant Attorney General
Room 412
Capitol Building
Juneau

Perry T. Davis
Executive Director
Alaska Municipal Bond
Bank Authority
601 W. 5th Ave., Suite 430
Anchorage

Terry L. Early
State Assessory
Department of Community
and Regional Affairs
Local Government Assistance
Juneau

Terry Elder
Deputy Commissioner
Department of Commerce
and Economic Development
Juneau

Senator Berry Fahrenkamp
Room 125
Capitol Building
Juneau

Norman Gorsuch
Attorney General
Room 412
Capital Building
Juneau

Gordon S. Harrison
Associate Director
Division of Strategic Planning
Office of Management and Budget
Juneau

Robert D. Heath
Commissioner of Revenue
Department of Revenue
11th Floor
State Office Building
Juneau

Pete Jeans
Liaison/Senior Advisor
Senate advisory Council
Juneau

Jack Kreinheder
Analyst
House Research Agency
KT00 Building
Juneau

Ron Lehr
Assistant Director
Alaska Industrial Development
Authority
Anchorage

Richard A. Lyon
Commissioner
Department of Commerce
& Economic Development
Juneau

William C. Mullin
Former Director, Division of Finance
Department of Administration
State Office Building
Juneau

Vincent O'Reilly
Deputy Commissioner
State of Alaska
Department of Commerce
& Economic Development
Juneau

Senator Patrick M. Rodey
Room 205A
Behrends Building
Juneau

David Rose
Executive Director of
the Permanent Fund
Anchorage

Senator Arliss Sturgulewski
Room 218
Behrends Building
Juneau

Bertram L. Wagnon
Executive Director
Alaska Industrial Development
Authority
Anchorage

Margo Waring
Division of Strategic Planning
Office of Management and Budget
Juneau

Gerald L. Wilkerson
Legislature Auditor
5th Floor
State Office Building
Juneau

Interviews and Contacts

2. Other Individuals

Lois Allen
Director of Finance
City and Borough of Juneau
155 South Seward Street
Juneau

Peter Argethsinger
Wohlforth & Flint
Attorney at Law
900 West 5th ave, Suite 505
Anchorage

Anthony H. Arthur
Rating Officer
Municipal Finance Department
Standard & Poor's Corporation
25 Broadway
New York, NY

Ginny Chitwood
Alaska Municipal League
Juneau

Peter T. Clark
Vice President, Public Finance
Morgan Guaranty Trust Company
23 Wall Street, New York NY 10015

Claire Cohen
Moody's Investors Service
99 Church Street
New York, NY

Frank A. Danner
Partner
Peat, Marwick, Mitchell & Co.
Alaska Mutual Bank Bldg.
601 W. Fifth Ave., Suite 700
Anchorage

Anthony Dean
Vice President
John Nuveen & Co., Inc.
209 South LaSalle Street
Chicago, IL

John Donavon
Managing Director
Municipal Bond Department
Solomon Brothers
One New York Plaza
New York, NY

Arnold G. Espe
President & Chairman of the Board
Alaska Pacific Bank Corporation
101 W. Benson Blud.
Post Office Box 420
Anchorage

Frederick W. Gaertner
Vice President for Portfolio
Management/Morgan Guaranty
Trust Company
23 Wall Street
New York, NY

Sterling Gahlager
Vice President
John Nuveen & Co., Inc.
127 North Franklin St. Suite 222
Juneau

Mary J. Hughes
Vice President
Public Finance
Foster & Marshall
American Express Inc.
205 Columbia Street
Seattle, WA

Vernon R. Johnson
Manager
Peat, Marwick, Mitchell & Co.
Alaska Mutual Bank Bldg.
601 West Fifth Avenue
Suite 700
Anchorage

Joanne Kennedy
Salomon Brothers
One New York Plaza
New York, NY

Michael Kelliher, CPA
Stock, Inc.
Cerfified Public Accountants
600 University Avenue
Suite 5-East
Fairbanks

Harold Kuplesky
Vice President
Bankers Trust Company
One Bankers Trust Plaza
New York, NY

Thomas M. Mendel, Jr.
Vice President, Syndicate Department
Salomon Brothers
One New York Plaza
New York, NY

Max D. Nalley
Manager
Alaska Public Affairs
Exxon Western Division
Calais Office Center II
3301 "C" ST., Pouch 6601
Anchorage

Robert M. Nelson
Chief Fiscal Officer
Municipality of Anchorage
Anchorage

Jack M. Pawlik
Assistant Vice President
John Nuveen & Co., Inc.
209 South LaSalle St.
Chicago, IL

Kenneth M. Reither
Staff Tax Attorney
Exxon Western Division
Calais Office Center II
Alaska Operations
Pouch 6601
Amchorage

Vladimir Y. Stadnyk
Vice President
Municipal Finance Department
Standart & Poor's Corporation
25 Broadway
New York, NY

Eric Wohlforth
Partner
Wohlforth and Flint
900 West 5th Ave. Suite 505
Anchorage

APPENDIX THREE

GLOSSARY OF

BASIC PUBLIC FINANCE TERMINOLOGY

ACCRUED INTEREST: In an original governmental bond sale, accrued interest is the amount which has accumulated on the bonds from the dated date of issue up to, but not including, the date of delivery. Where a bond is purchased by a governmental unit, accrued interest is the amount which has accumulated on the bond from the last interest date up to, but not including, the date of purchase.

AD VALOREM TAX: A tax based on value, such as the assessed value of real (land and improvements) and personal property.

ADVANCE REFUNDING BONDS: Bonds issued to refund an outstanding bond issue prior to the date on which the outstanding bonds become due or callable. Proceeds of the advance refunding bonds are deposited in escrow with a fidiciary, invested in U.S. Treasury Bonds or other authorized securities, and used to redeem the underlying bonds at maturity or call date and to pay interest on the bonds being refunded or the advance refunding bonds.

Since the investments in which the proceeds of the advance refunding issue are invested will frequently earn a higher rate of interest than that paid on the outstanding bond issue and the advance refunding issue, the issuing agency may realize a net interest gain from the refunding operation, depending upon arbitrage restrictions.

AMORTIZATION: A straight-line reduction of debt by means of periodic payment sufficient to meet current interest and liquidate the debt at maturity.

AMORTIZATION OF PREMIUM: The periodic charges made against the interest received on bonds in order to offset any premium paid for the bonds above their par value or call price.

ARBITRAGE: The practice of investing bond proceeds at a yield greater than the coupon rate being paid on the bonds. This "profit" is strictly limited by the Internal Revenue Service.

ASSESSED VALUATION: The valuation placed on real estate or other property by a government for the purpose of levying taxes.

ASSESSMENT RATIO: The ratio of the assessed value of property to the full or true market value. Full value may be defined as fair market value at the bid side of the market less a reasonable allowance for sales and other expenses.

ASSETS: Property owned by a government which has monetary value.

AUTHORITY: A governmental unit or public agency created to perform a single function or restricted group of related activities. Usually such units are financed from service charges, fees and tolls, but in some instances they also have taxing powers. An authority may be completely independent of other governmental units, or in some cases it may be partially dependent upon other governments for its creation, its financing or the existence of certain powers.

AUTHORITY BONDS: Bonds payable from the earnings or other revenues of a specific authority created by a governmental action for a public purpose. Since such authorities usually have no revenue other than charges for services, their bonds are ordinarily revenue bonds.

AUTHORIZATION: Permission to issue the bonds. In addition to the Constitution, Statute or Charter enabling language, an election is often also required.

AVERAGE NET INTEREST COSTS: This is the expression of the average annual interest rate payable semiannually in respect to an issue or other group of bonds. There are a number of methods by which average net interest costs may be computed.

BALANCE SHEET: A statement purporting to present the financial position of an entity by disclosing the value of its assets, liabilities, and equities as of a specified date.

BALLOON MATURITY: The last bonds of an issue maturing in a substantially larger amount than those of earlier maturities. Very often a provision is made for the redemption of a part of all of these bonds by a purchase or call prior to maturity.

BASIS BOOK: A book of mathematical tables used to convert yield to maturity to equivalent dollar prices at various rates of interest.

BASIS POINT: One one-hundreth of one percent (0.01). One hundreth basis points equals one percent.

BEARER BOND: A bond which does not have the owner's name registered on the books of the Issuer. It is presumed to be owned by the bearer or the person who holds it.

BID: A statement of what a bank or syndicate of banks will pay for an entire bond issue, implying an offer to purchase the bonds. The lowest bid, i.e., the bid with lowest net or true cost, is the winning bid.

BOND: A certificate representing a promise to pay a specified sum of money, called the face value or principal sum of money, called the face value or principal amount, at a specified date or dates in the future, called the maturity date(s), together with periodic interest at a specified rate. The difference between a note and a bond is that the latter usually runs for a longer period of time and is usually a permanent financing tool while a note is typically an interim device.

BOND AND INTEREST RECORD (Also called Bond Register): The permanent and complete record maintained by a government for each bond issue. It shows the amount of interest and principal coming due each date, the bond and coupon numbers, and all other pertinent information concerning the bond issue.

BOND ANTICIPATION NOTE (BAN): Short-term interest bearing notes issued by a government unit in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related.

BOND BUYER: A daily trade paper of the municipal bond market. It also publishes The Weekly Bond Buyer which is devoted to capital market news and provides a summary of the week's municipal news.

BOND COUNSEL: Legal firm hired to advise the issuer regarding the legal and tax aspects of the sale.

BOND ORDINANCE OR RESOLUTION: A legal order approved by the appropriate body of government unit authorizing a bond issue. The rights of the bond holders and the obligations of the issuer are carefully detailed in this formal document. State laws and municipal charters prescribe whether a bond issue may be authorized by resolution, or must be made by ordinance. The latter is a more formal act of the governing body.

BONDED DEBT: That portion of indebtedness represented by outstanding bonds.

BONDS AUTHORIZED AND UNISSUED: Bonds which have been legally authorized but not issued and which can be offered and sold without further authorization. This term should not be confused with the term "margin of borrowing power" or "legal debt margin" either one of which represents the difference between the debt limit of a governmental unit and the debt outstanding against it.

BOND ISSUED: Bonds sold.

BONDS PAYABLE: The face value of bonds issued and unpaid.

CALL DATE: The date on which a bond may be redeemed before maturity at the option of the Issuer.

CALL FEATURE ("Redemption Feature"): Enables the Issuer to pay off ("redeem") a bond prior to its maturity date. The "call date" is the earliest date the bond may be redeemed ("called"). Usually a premium is paid for the earliest call dates.

CALLABLE BOND: A type of bond which permits the issuer to pay the obligation before the stated maturity date by giving notice of redemption in a mnner specified in the bond contract. Synonym: OPTIONAL BOND.

CALL PRICE: The price at which callable bonds will be redeemed if called.

CAPITAL ASSETS: Assets of significant value and having a useful life of several years. Capital Assets are also called FIXED ASSETS.

CAPITAL BUDGET: A plan of proposed capital expenditures and the means of financing them. The capital budget is usually adopted as part of the complete annual budget which includes both operations and capital outlays. The capital budget should be based on capital improvement program (CIP).

CAPITAL IMPROVEMENT PROGRAM: A plan for capital expenditures to be incurred each year over a fixed period, setting forth each capital project, identifying the expected beginning and ending date for each project, the amount to be expended in each year, and the method of financing those expenditures.

CAPITAL OUTLAYS: Expenditures for the acquisition of capital assets.

CAPITAL PROJECTS: Projects which purchase or construct capital assets. Typically, a capital project encompasses a purchase of land and/or the construction of a building or facility.

CAPITALIZED INTEREST: The issuer pays the first few interest payments from bond proceeds, usually until construction of the project if completed and the project can begin to generate revenues with which to make debt service payments.

CASH FLOW BUDGET (Cash Budget): A projection of the cash receipts and disbursements anticipated during a given period. Typically, this projection covers a year and is broken down into separate prjections for each month, week and/or day during the year.

CLOSING (Also called Delivery): After the sale, the bonds must be printed and signed by the Issuer; the transcript prepared by the bond counsel; and the funds drawn and prepared for transmission by the Underwriter. On the day of closing, the bonds are "delivered" to the Underwriter the bond counsel delivers the "legal opinion" to the Underwriter; and the Issuer receives the funds.

Note Regarding Dates - The sale date and the closing date have no further relevence. The bonds are assigned an arbitrary "issue date" or "date of the bonds," usually the beginning of a month, upon which interest begins to accrue. The bonds have this date printed upon them and often are referred to by that date (e.g. "the December 1, 1982 bonds"). Any interest which is owed between the issue date and the closing date ("accrued interest") is paid by the Underwriter to the Issuer at the closing.

COMPETITIVE BIDDING: (Also called Public Bidding): Sale of a bond issue by public advertisement in which any bidder may submit an offer to purchase the bonds and the bonds are sold to the bid with lowest interest cost.

CONCESSION: The allowance (or profit) that an Underwriter allows a non-member of the account; sometimes referred to as dealer's reallowance.

COUPON: That detachable part of a bond which serves as proof of interest due. Bondholders detach coupons from bonds, usually at semiannual intervals, and present them for payment to the Issuer's paying agent or to the bondholder's own bank for collection.

COUPON RATE (Also called Nominal Interest Rate): The interest coupons attached to a bond. In the case of registered bonds, it is the rate payable by the Issuer's automatic check to the holder.

CONVENANT: A binding agreement in the bond contract. Most are found in revenue bonds. For example, they can stipulate that the rates charged for use of the facilities are sufficient to maintain coverage of maximum annual debt service at a given level.

COVER: The spread between the winning bid and the next highest bidder. It is useful as a basis for evaluation of the bids.

COVERAGE: This term is usually connected with revenue and corporate bonds. It is usually the ratio of net revenue available for debt service to the average annual debt service requirements for an issue of revenue bonds. This ratio indicates the margin of safety for payment of debt service, reflecting the number of times by which earnings for a period of time exceed debt service payable in such periods, e.g., 1.20, referred to as "one-twenty"

CURRENT YIELD: A relation stated as a percent of the annual interest to the actual market price of the bond -- same procedure as computing a stock yield.

DEBENTURES OR MUNICIPAL DEBENTURES: A term used in Canada or other countries for municipal bonds or a corporate security other than an equity security.

DEBT: An obligation resulting from the borrowing of money or from the purchase of goods and services. Debt of governmental units include bonds, time warrants, notes, and floating debt.

Bonds: An interest-bearing promise to pay with a specific maturity.

Notes: In general, an unconditional written promise signed by the maker to pay a certain sum of money on demand or at a fixed or determinable time either to the bearer or to the order of a person therein.

Time Warrant: A negotiable obligation of a governmental unit having a term shorter than bonds and frequently tendered to individuals and firms in exchange for contractual services, capital acquisitions, or equipment purchases.

Floating Debt: Liabilities other than bonded debt and time warrants which are payable on demand or at an early date. Examples are accounts payable, notes and bank loans.

DEBT LIMIT: The maximum amount of debt which a govenrmental unit may incur under constitutional, statutory, or charter authorizations. The limitation is usually a percentage of assessed valuation and may be fixed upon either gross or net debt. If the latter is the case, the legal provision will ususally specify what deductions from gross debt are allowed in order to determine net debt.

DEBT RATIO: The ratio of the Issuer's debt to a measure of value such as assessed valuation or real value.

DEBT SERVICE: Interest requirements plus the stipulated payment of principal on outstanding debt, usually reported on an annual basis.

DEBT SERVICE FUND: A fund established to account for the payment of interest and principal on all general obligation debt, both serial and term. Usually separate funds are created for special assessment and revenue debt issued for and serviced by a governmental enterprise.

DEBT SERVICE REQUIREMENT: The amount of money required to pay the interest on outstanding debt, serial maturities of principal for serial bonds, required contributions to a debt service fund for term bonds and reserve fund payments.

DEFAULT: Failure to pay principal or interest promptly when due. If caused by a minor omission which is remedied promptly, it is known as a TECHNICAL DEFAULT.

DEFERRED SERIAL BONDS: Serial Bonds in which the first installment does not fall due for two or more years from the date of issue.

DENOMINATION: The face amount or par value of a bond which the issuer promises to pay on the bond's maturity date.

DEPRECIATION: (1) Expiration of the service life of capital assets attributable to wear and tear, deterioration, action of the physical elements, inadequacy or obsolescense. (2) That portion of the cost of a capital asset which is charged as an expense during a particular period.

DIRECT DEBT: The debt for which the issuing unit has sole responsibility. Direct debt is usually in the name of the unit, but occasionally one government assumes the debt of another. When adjoining lands are annexed to a school district, for example, there may be some assumed debt.

DIRECT OR PRIVATE PLACEMENT: The direct sale of a new security by the issuer to investors, bypassing the underwriter or middleman.

DISCOUNT: The difference between the cost of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount. Note that the price does not include accrued interest at the date of acquisition or sale.

DISCOUNT BOOK: A book of mathematical tables used to determine the rate of return on a dollar bond for a specified dicounted rate at a specified maturity.

DOLLAR BOND: A bond which is quoted and traded in terms of dollars rather than yield. For example a quotation of 97-1/2 means $97.50 per $100 of par value or $975 per $1000 par value of bonds.

DOUBLE-BARRELED BOND (Also called Dually-Secured Bond): A bond secured by a pledge of two or more sources of payment such as the unlimited taxing power of the issuer plus a special assessment of revenue pledge.

DOUBLE EXEMPTION: A municipal term applied to bonds which pay interest that is exempt from both state and federal income taxes.

EFFECTIVE INTEREST RATE: The rate of earning on a bond investment based on the actual price paid for the bond, the coupon rate, the maturity date, and the length of time between interest dates in contrast with the nominal interest rate or "coupon" rate.

ENTERPRISE DEBT: Debt which is to be retired primarily from the earnings of publicly owned and operated enterprises. (see REVENUE BOND).

ESCROWED FUND: A fund put in the hands of a third party who administers the money according to a written agreement.

FACE VALUE: The par value of a bond that appears on the face. This is the amount that the Issuer promises to pay at maturity and also the amount on which interest is computed.

FINANCIAL CONSULTANT OR ADVISOR: Consulting firm or individual hired to advise the Issuer regarding the financial and market aspects of the sale.

FISCAL AGENT: An Agent (usually an incorporated bank or trust company) designated by a government to act for it in any of several capacities in the sale, administration and payment of bonds and coupons.

FULL FAITH AND CREDIT: A pledge of the general taxing power for the payment of debt obligation. Bonds carrying such pledges are usually referred to as general obligation bonds or full faith and credit bonds.

FUND: An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives.

FUNDED DEBT (Also called Bonded Debt): That portion of the indebtedness of a municipality represented by outstanding bonds.

GENERAL LONG-TERM DEBT: Long-term debt legally payable from general revenues and backed by the full faith and credit of a governmental unit.

GENERAL OBLIGATION BONDS: A bond for whose payment the full faith and credit of the issuer is usually pledged. Most commonly general obligation bonds are payable from ad valorem property taxes.

GENERAL PROPERTY TAX: The tax usually levied on real and personal property. This tax is typically levied locally. In many emergencies it is the tax which is increased to balance the budget.

GOOD FAITH CHECK: The check which must be included with a bid on a bond sale. The bidding notice ordinarily provides that if the bonds are awarded to a syndicate that does not pick them up as agreed, the good faith check will be held as liquidated damages. The good faith checks of the unsuccessful bidders are promptly returned.

GRANT: A contribution of assets (usually cash) by one governmental unit or other organization to another. Typically, these contributions are made to local governments from the state and federal governments. Grants are usually made for specified purposes.

GROSS DEBT: The sum total of a debtor's obligations; however, in reporting gross debt, the amount of unfunded obligations of pension and retirement funds is ordinarily not included.

GROSS YIELD: The percentage return on a security which is determined by dividing the dollar price into the annual interest payment and calculating the return to maturity.

INDENTURE: A written agreement used in connection with a bond issue setting forth maturity date, interest rate, security and other terms.

INDUSTRIAL DEVELOPMENT REVENUE BONDS (IDSs, IDRBs, IRBs): Bonds issued by governmental units, the proceeds of which are used to construct plan facilities for private industrial concerns. Lease payment is made by the industrial concern to the governmental unit are used to service the bonds. Such bonds may be in the form of general obligation bonds, revenue bonds, or a combination thereof.

INTEREST: Compensation paid or to be paid for the use of money, including amounts payable at periodic intervals or as discount at the time a loan is made.

INTEREST RATE: The interest payable, expressed as a percentage of the principal available for use during a specified period of time.

INTERIM BORROWING: (1) Short-term loans to be repaid from general revenues during the course of a fiscal year. (2) Short-term loans in anticipation of tax collections or bond issuance. (See BOND ANTICIPATION NOTES and TAX ANTICIPATION NOTES)

INVERTED SCALE: When the yield is higher on the shorter maturities than on the longer ones.

INVESTMENT: Securities and real estate purchased and held for the production of income in the form of interest, dividends, rentals or base payments.

INVESTMENT BANKING (Also known as Underwriting): It is the for-profit business of financing corporations or governmental units by marketing their new securities.

INVESTMENT INSTRUMENT: The specific type of security which a government purchases and holds.

INVESTOR: ("Bondholder"): Ultimate buyer of any number of bonds from an issuer who intends to hold the bonds for investment purposes.

ISSUER: A municipal unit which borrows money through the sale of bonds, notes, or other evidence of indebtedness.

LEASE or LEASE-PURCHASE REVENUE BONDS: Revenue bonds paid from lease pyaments made on projects financed by bonds.

LEGAL OPINION: The opinion of a specialized bond attorney as to the legality of a municipal bond issue. A preliminary legal opinion is made in advance of the original sale of the bonds; the final opinion, after the bonds have been sold and issued.

LEGAL DEBT SERVICE: An arrangement of serial maturities in which the volume of maturing bonds increases at approximately the same rate as the interest declines

LEVY: (verb) To impose taxes, special assessments, or service charges for the support of government activities. (noun) The total amount of taxes, special assessments or service charges imposed by a governmental unit.

LIABILITY: Debt or other legal obligations arising out of transactions in the past which must be liquidated, renewed or refunded at some future date.

LIMITED LIABILITY BONDS: When a government issues bonds which do not pledge the full faith and credit of the jurisdiction, it issues limited liability bonds. typically pledges are made to dedicate one specific revenue source to repay these bonds, or osme other special repayment arrangements are made.

LIMITED TAX BOND: A bond secured by the pledge of a special tax, a group of taxes, or specified portion of the real estate tax which is limited as to rate or amount.

LIQUIDITY: (of investments) The ability to convert an investment to cash promptly with minimum risk to principal or accrued interest.

LONG-TERM DEBT: Debt with a maturity of more than oneyear after date of issuance.

MARKET PRICE: The price of an issued bond varies continuously as new bond issues come to market and previously issued bonds are re-traded. Thus the market price that an Investor will pay for a ten percent ten year bond today may be different tomorrow. Therefore the total market value of a portfolio changes daily.

MARKETABILITY: A measure of the ease with which a security can be sold in the secondary market.

MATURITY: The date upon which the principal or stated value of a bond becomes due and payable.

MATURITY SCHEDULE: A listing of the total principal amount of bonds maturing in each year.

MORTGAGE BONDS: Bonds secured by a mortgage against specified properties of a governmental unit, usually its public utilities or other enterprises. If primarily payable from enterprise revenues, they are also classed as revenue bonds.

MORTGAGE REVENUE BONDS ("Housing Bonds"): Revenue bonds paid from mortgage payments or rental payments from housing projects financed by bonds. (e.g. State Housing Division Low-Income Housing Bonds.) Note: State of Oregon bonds issued for the elderly are General Obligation Housing bonds.

MUNICIPAL: In its broadest sense, an adjective which denotes the state and all subordinate units of government. In a more restricted sense, an adjective which denotes a city or town as opposed to other units of local government.

MUNICIPALS: Municipal bonds. As used in the bond trade, this term includes not only the bonds of all local subdivisions such as cities, town, villages, coutnies and schools, park, sanitary and other special taxing districts, but also bonds of states and agencies of the state.

NEGOTIATED SALE: The private arrangment between two or more parties to purchase the securities of an issuer without competetive public bidding.

NET DEBT: The gross debt of a state or political subdivision less sinking fund accumulations and all self-supporting debt.

NET INTEREST COST (NIC): The average rate of interest over the life of a bond issue.

NET REVENUE AVAILABLE FOR DEBT SERVICE: Gross operating revenues of an enterprise less operating and maintenance expenses, but exclusive of depreciation and bond interest. "Net Revenue," thus defined, is used to compute "coverage" on revenue bond issues. Under the laws of some states and the provisions of some revenue bond indentures, net revenues used for computation of coverage are required to be on a cash basis rather than an accrual basis.

NEW ISSUE: The first offering of an issued security. The proceeds may be used to retire outstanding debt or for capital purposes.

NON-LITIGATION CERTIFICATE: A statement issued by the bond attorney that there are no legal suits pending (and as far as he knows none is being planned) which might result in an impairment of the validity of the bonds.

NOMINAL INTEREST RATE: The contractural interest rate shown on the face and in the body of the bond and representing the amount of interest to be paid, in contrast to the effective interest rate. This term is synonymous with COUPON RATE.

NOTICE OF SALE: Legal notice announcing the terms and conditions of the bond sale. Its content and timing for publication is prescribed by Statute. Official Statements must be available for distribution on the first day ("first publication date") the notice of sale is published.

OFFICIAL STATEMENT ("O.S."; also called Prospectus): The legal disclosure document prepared by a municipal bond issuer or its chosen representative, which sets forth all material facts necessary to fully describe the financial condition of the issuer and clarify the offering, as prescribed by law.

ORDER PERIOD: For one or two hours after the sale, the winning syndicate takes orders for the bonds from all dealers.

OVERLAPPING DEBT: That portion of the debt of other governmental units or which residents of a particular municipality are responsible. Except or special assessment debt, the amount of debt of each unit applicable to the reporting unit is arrived at by (1) determining what percentage of the total assessed value of the overlapping jurisdiction lies within the limits of the reporting unit, and (2) applying this percentage to the total debt of the overlapping jurisdiction. Special assessment debt is allocated on the basis of the ratio of assessments receivable in each jurisdiction which will be used wholly or in part to pay off the debt to total assessments receivable which will be used wholly or in part for this purpose.

OVER-THE-COUNTER SALES: Direct sales by governments to the investor public without the marketing facilities of bond dealers.

PAR VALUE: The value of a security as expressed on its face without consideration to any premium or discount; it is the amount that must be paid at maturity. It also signifies the dollar value on which bond interest is figured. Although bonds are usually issued in denominations of $5000 a quotation of 100 means "at par." Bonds quoted at 98 are selling at a discount. That is, they cost $980 for a $1000 bond. Bonds quoted at 102 are selling at a premium, that is, $1020 for a $1000 bond.

PAY-AS-YOU-GO-BASIS: A term used to describe the financial policy of a governmental unit which finances all of its capital outlays from current reveneus rather than by borrowing. A governmental unit which pays for some improvements from current revenues and others by borrowing is said to be on a partial or modified pay-as-you-go basis.

PAYDOWN: The net reduction in debt when the amount of a new issue is less than the maturing issue.

PAYING AGENT: The agency, practically always a commercial bank, where the maturing interest coupons and principal of an issue will be paid. Municipal bonds usually are payable also at the office of a public treasurer.

PRELIMINARY OFFICIAL STATEMENT: The disclosure document used by the underwriting community to assess the credit and investment value of a forthcoming bond issue and used as the basis of establishing bids (in addition to market conditions). The Preliminary Official Statement is updated after the bond sale results and any other material facts necessary for full and accurate disclosure of the financial condition of the issuer, as prescribed by law.

PREMIUM: The excess of the price at which a bond is acquired or sold over its face value or maturity value. Note that the price does not include accrued interest at the date of acquisition or sale. Also, the premium is the amount payable to the holder of a callable bond by the issuer, if and when the bond is called and assuming there is provision for a call premium.

PREMIUM CALL PRICE: Price above par at which a municipality, according to the bond contract, may call optional bonds for retirement or sinking fund purposes.

PRIMARY MARKET (the "New Issue Market"): The market for bonds, notes, or other evidences of indebtedness. Purchasers in this market are usually banks or investment banking firms.

PRINCIPAL: The face or par value of a bond, exclusive of accrued interest.

PRIVATE BIDDING: A method of issuing a bond in which the bond is not advertised in a financial journal. Within this category there are two subcategories, negotiated and competitive.

Negotiated Bids: Offers in which both parties sit down and discuss the interest rate schedule and price.

Competitive Private Bidding: Occurs when a unit solicits bids from a few selected investors and underwriters.

PRIVATE PLACEMENT: The purchase of a bond issue to be included in the portfolio of a private investor (such as a bank) rather than to be reoffered for resale to the public.

PROSPECTUS: A detailed statement issued by a company or municipality prior to the sale of new or additional securities, giving a full description of facts and information as required by the Securities and Exchange Commission or other authority.

PUBLIC BIDDING: A method of issuing debt in which the issue is advertised in a financial journal and any investor is welcome to submit an offer to purchase.

PURCHASE PRICE: Price paid by the Underwriter to the Issuer for the entire bond issue. The price may include a premium or discount from the full par value of the issue.

QUALIFIED LEGAL OPINION: Conditional affirmation of the legality of bonds, before or after they are sold. An UNQUALIFIED LEGAL OPINION, on the other hand, is an unconditional affirmation of the legality of the bonds.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

RATING: The designation used by investors' services to give relative indications of quality. Moody's ratings from the highest Aaa, down to C, while Standard & Poor's ratings range from the highest, AAA down to D.

REDEMPTION: The liquidation of indebtedness by retiring an outstanding obligation, usually at the issuer's option and prior to a stated final maturity.

REDEMPTION FUND: A fund created for the purpose of retiring a callable obligation maturing serially, or for purchasing such obligation as funds became available.

REDEMPTION PRICE: The price at which a bond may be redeemed prior to maturity, at the option of the issuer.

REFINANCING: Retiring existing securities by the sale of new issues. The object may be to save interest costs or to extend the maturity of the loan. (See REFUNDING)

REFUNDING: The redemption of existing debt on or before its first call date n order to reduce the fixed interest charge, to reduce the amount of fixed payment or to restructure the obligation. The REFUNDING BONDS may be sold for cash and outstanding bonds redeemed in cash, or the refunding bonds may be exchanged with holders of outstanding bonds.

REFUNDING BOND: A bond issued to retire a bond already outstanding. Refunding bonds may be sold for cash and outstanding bonds redeemed in cash, or the refunding bonds may be exchanged with holders of outstanding bonds.

REGISTERED BOND: A bond whose owner is registered with the issuing governmental unit and which cannot be sold or exchanged without a change of registration. When fully registered there are no coupons attached and the interest is paid to the owner by check by the paying agent.

RESERVE: An account used to indicate that a portion of fund equity is legally restricted for a specific purpose or not available for appropriation and subsequent spending.

RESERVE FOR RETIREMENT OF SINKING FUND BONDS: A reserve representing the amount of cash and other resources which should have been accumulated in the sinking fund at a certain date, according to actuarial computation, in order that the bonds outstanding may be redeemed at maturity.

REVENUE BONDS: Bonds whose principal and interest are payable exclusively from earnings of a public enterprise, such as bridges, toll roads, or utility systems. Such bonds have no claim on the borrower's taxable resources unless otherwise specified in the bond indenture. In addition to a pledge of revenues, such bonds sometimes contain a mortgage on the enterprises's property and are then known as MORTGAGE REVENUE BONDS.

SCALE: Re-offering terms to the public of a serial bond issue showing prices or yields offered on each maturity. May also refer to the coupon rates on each maturity proposed by underwriters at the time of sale

SECONDARY MARKET: The selling and trading of bonds after the underwriting account has dissolved and the bonds are distributed. Some dealers may hold a portion of the bonds in inventory for future sale.

NOTE: Any Investor may buy either bonds of a new issue or bonds previously issued and available for sale in the secondary market. A bond issue's trading success in the secondary market can thus affect future bond issues' success in the primary market. Also, the supply of an Issuer's bonds in the secondary market can affect the demand for its new issues in the primary market.

SECURITIES: Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.

SELF-SUPPORTING or SELF-LIQUIDATING DEBT: Debt obligtions whose principal and interest are payable solely from the earnings of the given municipal utility or enterprise. The earnings must be sufficient to cover the debt service with a reasonable margin of protection if the bonds are to be marketable as entirely self-liquidating (See REVENUE BONDS).

SERIAL BONDS: Bonds the principal of which is repaid in periodic installments over the life of the issue.

Serial Annuity Bonds: Serial bonds in which the annual installments of bond principal are so arranged that the combined payments for principal and interest are approximately the same each year.

Deferred Serial Bonds: Serial bonds in which the first principal installments does not fall due for two or more years for the date of issue.

SHORT-TERM DEBT: Debt with a maturity of one year or less after the date of issuance. Short-term debt usually includes floating debt bond anticipation notes, tax anticipation notes, and interim warrants.

SINKING FUND: A fund of earning assets and cash to which additions are made periodically so that future contributions plus interest earned will accumulate to the par value of the bonds at maturity and can thus be used to redeem them. Difficulties of administration have made this practice rare today, but the term is sometimes used to cover any retirement of principal other than by serial maturities. Thus, a call of a part of a bond issue in order to retire debt may be called "for sinking fund purposes."

SPECIAL ASSESSMENT: A compulsory levy made by a local government against certain properties to defray part or all of the cost of a specific improvement or service which is presumed to be of general benefit to the public and of special benefit to such properties. The term should not be used without a modifier (e.g. "special assessments for street pavings," or "special assessments for street sprinkling") unless the intention is to have it cover both improvements and services or unless the particular use is apparent from the context.

SPECIAL TAX BOND: A bond secured by a special tax, such as a gasoline tax.

SYNDICATE: A group of investment bankers who buy (that is, underwrite) a new bond issue. The syndicate is headed by a manager who submits the bid for the purchase of the securities as a lot. The syndicate members agree to distribute a specified amount of the securities to them on a pro rata or other agreed basis. Upon final distribution of all securities, the syndicate is closed and the obligation of all members is terminated. The securities are reoffered to the general public at a profit (usually) for the syndicate members.

TAKE-DOWN (Also called Take-Down Concession): The discount from the list price allowed to a member of an underwriting account on any bonds he sells.

TAX ANTICIPATION NOTES (TANs; also called Warrants): Notes issued in anticipation of collection of taxes usually retirable only from tax collections, and frequently only from the proceeds of the tax levy whose collection they anticipate.

TAX-EXEMPT BOND: Bonds exempt from federal income, state income, or state or local personal property taxes. "Municipals" are exempt from federal income taxation at present and may or may not be exempt from the state income or personal property taxation in the state where originally issued or held. Most state do not tax "municipals" issued by their own state or local jurisdictions.

TAX-INCREMENT REVENUE BOND (Also called Tax Allocation Bond, or Urban Renewal Bond): Revenue bonds paid from monies derived from "tax increment financing," a special application of taxes levied in urban renewal districts on the growth in taxable value.

TAX LIMIT: The maximum rate or amount of tax which a local government may levy. It may apply to taxes raised for a particular purpose, to taxes raised for all purposes, to a single government or class of governments, or to all governments operating in a particular area.

TAX RATE: The amount of tax stated in terms of a unit of the tax base; for example, 25 mills per thousand of assessed valuation of taxable property.

TAX RATE LIMIT: The maximum legal rate at which a municipality may levy a tax. The limit may apply to taxes raised for a particular purpose or for general purposes.

TAXES: Compulsory charges levied by a governmental unit for the purpose of financing services performed for the common benefit. The term does not include specific charges made against particular persons or property for current or permanent benefits such as special assessments. Neither does the term include charges for services rendered only to those paying such charges as, for example sewer service charges.

TERM BONDS: Bonds the entire principal of which maures on one date. Also called SINKING FUND BONDS.

TRADER or Dealer: Persons in securities firms or banks who buy, sell, or trade individual bonds but do not hold the scurities as investments. Certain dealers hold inventories ("take a position") in certain types of issues of bonds.

TRUSTEE: A bank designated as the custodian of funds and official representative of bondholders.

UNDERLYING DEBT: The debt of smaller geo-political units within a given government s jurisdiction.

UNDERWRITER: The investment house or houses that purchase a bond offering from the issuing government. A joint venture account of a number of underwriters is called the UNDERWRITING SYNDICATE or SYNDICATE.

UNLIMITED TAX BOND: A bond secured by pledge of taxes which may be levied in unlimited rate or amount.

UTILITY DEBT: Debt which has been created to provide or acquire certain utility assets, such as hydro-electric, gas or water works, street, railways etc. Utility debt may be incurred through the issuance of either general obligation bonds or revenue bonds.

WARRANT: An order drawn by the legislative body or an officer of a governmental unit upon its treasurer directing the latter to pay a specified amount to the person name or to the bearer.

YIELD: The rate earned on an investment based on the price paid for the investment, the interest earned during the period held and the selling price or redemption value of the investment.

SOOURCE: Municipal Bond Division. Oregon State Treasury, Capital Planning and Debt Issuance: An Informational Manual for Oregon Municipalities. Salem, OR: Oregon State Treasury, 1982.

SCOMM

#50:13

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

☐ *POUCH B*
JUNEAU, ALASKA 99811
PHONE: (907) 465-4700

☐ *949 E. 36TH AVENUE, SUITE 400*
ANCHORAGE, ALASKA 99508
PHONE: (907) 563-1073

March 11, 1985

POSITION PAPER

RE: HB 16

SPONSOR: Representatives Rick Uehling and Roger Jenkins

Program Effects of Bill

This bill would provide a new loan/grant program within the Department to fund the relocation of mobile homes displaced by the closure of mobile home parks. It would require the creation of five new positions and their related costs.

Comments

These comments on HB 16 have been prepared to consider the agency impact of a new loan/grant program within the Department of Community and Regional Affairs. The purpose of this program is to assist individuals with mobile home relocation when mobile home park closure dictates an eviction. Increased administration, liabilities, and accountability of a loan/grant program for this purpose is reflected in this document.

With between 16,000 and 23,000 mobile homes in the state, and approximately 82% of them located in existing parks, the Department anticipates an unprecedented increase in park closures and relocation impacts resulting from available funds. Alaska Housing Finance Corporation (AHFC) records 133 approved parks statewide. In addition, there are estimated to be another 25-35 parks, not AHFC approved, which could be subject to closure. Approximate park size is assumed to be 110 mobile homes.

The Department analyzed its current active loans on December 31, 1984. The Department accounts for 1546 loans outstanding, which have accumulated over a four year period. The Department's existing computer accounting system could accommodate new loans, in addition to the existing loans.

Underwriting standards, however, are not so easily absorbed. Such standards include debt-to-income calculations, credit checks, employment verifications, appraisal reviews and seller/servicer cor- respondence. Each activity takes as much time to process as a major mortgage loan. Smaller loan amounts will require less detailed documents for purposes such as credit review. However, calculations and review for file completeness will remain unchanged. Appraisal review, due to the fragile nature of the real estate involved, would take longer to prccess than would non-mobile home construction. The total processing time is presumed to equal or exceed that of a normal Division file.

After underwriting is completed, closing document preparation, closings, purchasing and portfolioing of a loan are performed in identical fashion to regular mortgage loans, regardless of loan amount, term, or duration of a loan.

The Department requests that an effective date of January 1, 1986 for program implementation be added to the legislation to minimize first year impact on the loan agency and to allow time for application development and regulation review. Estimated subsequent year impact could exceed 1,000 loans per year, depending on available capital funds. This volume translates into 34% portfolio increase with a second year increase of 66%.

The hidden factor of new Home Ownership Assistance Fund demand is not calculable at this writing. It is predicted, however, to have a noticeable effect of turnaround time, processing, and overall portfolio success rate beginning in the spring of 1985 and continuing in 1986.

Present processing times vary, depending on the condition of the file when it reaches the Department for review. An incomplete or hastily packaged submission requires additional staff time to complete and review. A properly packaged file will require from two to 30 days to underwrite and from 11 to 40 days to purchase. The time required for underwriting and purchasing will depend on the seasonal backlog. The new HOAF program files' computations would increase the processing time.

A final factor to consider in loan program success is insuring adequate review to maintain acceptable delinquency and default ratios. There is a disproportionate amount of expense and activity required to correct a bad loan regardless of the loan amount. Prudent management can prevent this problem from occurring only through complete and proper underwriting of the file.

The Department has attempted to calculate a service fee factor that would attract local governments' participation in the originating, underwriting, and servicing processes of mobile home relocation loans. After several factors were calculated, it was determined that insufficient incentives for local government participation were available. To minimize accounting impacts, loans will have to be offered through existing seller-/servicers.

In order for the Department to fully comply with legislative intent in this area, the Legislature needs to further define the areas of loan term and loan rates.

Note: Statistical sources include the 1980 census, AHFC, and the Municipality of Anchorage and the City and Borough of Juneau.

Emil Notti, Commissioner

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB16

Title: Mobile Home Relocation

Sponsor: Rep. Uehling & Jenkins

Requestor: House Finance

Date of Request:

FISCAL DETAIL

Agency Affected: DCRA

Program Category Affected:

BRU, Program or Subprogram(s) Affected: New Bill- Relocation/Home Displacement Fund

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES		219.1				
200 TRAVEL		16.8				
300 CONTRACTUAL		130.0				
400 SUPPLIES		2.5				
500 EQUIPMENT		10.5				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		378.9				
CAPITAL						
LOANS		1300.0				
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		1678.9	*			
TOTAL		1678.9				

POSITIONS:

FULL-TIME		5				
PART-TIME		0				
TEMPORARY		0				

ANALYSIS: Attach a separate page if necessary

Prepared By: Clark D. Boston

Phone: 561-0900

Division: Housing Assistance

Date: 2-4-85

Approved by Commissioner:

Date: 3/11/85

Agency:

Distribution (by Agency preparing fiscal note):

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

7/1/84

1.	POSITION TITLE: Loan Examiner II				RANGE/STEP: 17A	BARG. UNIT: Gen	PAGE/LINE	COV.	APPROV.	DISAPP.
2.	TYPE OF POSITION: Loan Examiner	STAFF MONTHS: 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION: Anch.	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL		ADDITION		JUSTIFICATION					

4.	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
	PERSONAL SERVICES		
5.	Salary	34,740	
6.	Benefits	5,367	
7.	Supplemental Benefits	2,129	
8.	Fixed Benefits	2,630	
9.	TOTAL PERSONAL SERVICES	01	44.8
10.	Travel	02	1.6
11.	Contractual	03	
12.	Commodities	04	0.5
13.	Equipment	05	2.5
14.	Other		
15.	TOTAL COST		49.4

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		G.F. Match	1003	
18.		General Funds	1004	
19.		I-A Receipts	1005	
20.		Program Receipts	1028	49.4
21.		Other		

FOR B&M USE ONLY
KEY NUMBER __ __ - __ __ - __ __ - __ __ - __ __

REQUEST FOR NEW POSITION

AGENCY Dept. of Community and Regional Affairs

PROGRAM Mobile Home Relocation Program

BRU Relocation/Home Displacement Fund

COMPONENT Mobile Home Relocation Loans

Page of

Revised Date

FY 86

01-1136(7/82)-13

1.	POSITION TITLE: Loan Specialist			RANGE/STEP: 19A	BARG. UNIT: Gen	PAGE/LINE	COV.	APPROV.	DISAPP.
2.	TYPE OF POSITION: Proj. Supery	STAFF MONTHS: 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION: Anch.	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL		ADDITION		JUSTIFICATION				

4. TYPE OF EXPENDITURE		AMOUNT
1	2	3
PERSONAL SERVICES		
5. Salary	40.032	
6. Benefits	6.185	
7. Supplemental Benefits	2.453	
8. Fixed Benefits	2.630	
9. TOTAL PERSONAL SERVICES 01		51.3
10. Travel 02		10.0
11. Contractual 03		
12. Commodities 04		0.5
13. Equipment 05		2.5
14. Other		
15. TOTAL COST		64.3

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		G.F. Match	1003	
18.		General Funds	1004	
19.		I-A Receipts	1005	
20.		Program Receipts	1028	64.3
21.		Other		

FOR B&M USE ONLY
KEY NUMBER __ __ - __ __ - __ __ - __ __ - __ __

REQUEST FOR NEW POSITION

AGENCY Dept. of Community & Regional Affairs

PROGRAM Mobile Home Relocation Program

BRU Relocation/Home Displacement Fund

COMPONENT Mobile Home Relocation Loans

Page of

Revised Date

FY 86

01-1136(7/82)-13

	POSITION TITLE				RANGE/STEP	BARG. UNIT	PAGE/LINE	COV.	APPROV.	DISAPP.
1.	Accounting Tech I				12A	Gen				
2.	TYPE OF POSITION	STAFF MONTHS	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION	ELECTION DISTRICT	LEG.		
	Accounting	12				Juneau				
3.	CONTINUATION LEVEL		ADDITION		JUSTIFICATION					

4.	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
	PERSONAL SERVICES		
5.	Salary	24,864	
6.	Benefits	3,841	
7.	Supplemental Benefits	1,524	
8.	Fixed Benefits	2,630	
9.	TOTAL PERSONAL SERVICES	01	32.8
10.	Travel	02	
11.	Contractual	03	
12.	Commodities	04	0.5
13.	Equipment	05	2.5
14.	Other		
15.	TOTAL COST		35.8

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		C.F. Match	1003	
18.		General Funds	1004	
19.		I-A Receipts	1005	
20.		Program Receipts	1028	35.8
21.		Other		

FOR B&M USE ONLY
KEY NUMBER __ __ - __ __ - __ __ - __ __ - __ __

REQUEST FOR NEW POSITION

AGENCY Dept. of Community & Regional Affairs

PROGRAM Mobile Home Relocation Program

BRU Relocation/Home Displacement Fund

COMPONENT Mobile Home Relocation Loans

Page of

Revised Date

FY 86

01-1136 (7/82) - 15

1.	POSITION TITLE: Loan Closer I			RANGE/STEP: 10A	BARG. UNIT: Gen.	PAGE/LINE	COV.	APPROV.	DISAPP.
2.	TYPE OF POSITION: Loan Closer	STAFF MONTHS: 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION: Anch.	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL		ADDITION		JUSTIFICATION				

4.	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
	PERSONAL SERVICES		
5.	Salary	22.020	
6.	Benefits	3.4	
7.	Supplemental Benefits	1.3	
8.	Fixed Benefits	2.6	
9.	TOTAL PERSONAL SERVICES	01	29.3
10.	Travel	02	5.0
11.	Contractual	03	
12.	Commodities	04	0.5
13.	Equipment	05	2.5
14.	Other		37.3
15.	TOTAL COST		

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		G.F. Match	1003	
18.		General Funds	1004	
19.		I-A Receipts	1005	
20.		Program Receipts	1028	37.3
21.		Other		

FOR B&M USE ONLY
KEY NUMBER ___ - ___ - ___ - ___ - ___

REQUEST FOR NEW POSITION

AGENCY Dept. of Community and Regional Affairs

PROGRAM Mobile Home Relocation Program

BRU Relocation/Home Displacement Fund

COMPONENT Mobile Home Relocation Loans

Page of

Revised Date

FY 86

01-1136 (7/82) - 15

	POSITION TITLE				RANGE/STEP	BARG. UNIT	PAGE/LINE	GOV.	APPROV.	DISAPP.
1.	Accounting Clerk III				10A	Gen.				
2.	TYPE OF POSITION: Clerical	STAFF MONTHS: 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION: Anch.	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL		ADDITION		JUSTIFICATION					

4.	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
	PERSONAL SERVICES		
5.	Salary	22.020	
6.	Benefits	3.4	
7.	Supplemental Benefits	1.3	
8.	Fixed Benefits	2.6	
9.	TOTAL PERSONAL SERVICES	01	29.3
10.	Travel	02	
11.	Contractual	03	
12.	Commodities	04	0.5
13.	Equipment	05	2.5
14.	Other		
15.	TOTAL COST		32.3

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		G.F. Match	1003	
18.		General Funds	1004	
19.		I-A Receipts	1005	
20.		Program Receipts	1028	32.3
21.		Other		

FOR B&M USE ONLY
KEY NUMBER — — - — — - — — - — — - — —

REQUEST FOR NEW POSITION

AGENCY Dept. of Community & Regional Affairs

PROGRAM Mobile Home Relocation Program

BRU Relocation/Home Displacement Fund

COMPONENT Mobile Home Relocation Loans

Page of

Revised Date

FY 86

01-1136 (7/82) - 13

Alaska State Legislature
House

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

To: Rep. John Sund, Chair
House Special Committee on State Loans

From: Rep. Rick Uehling

Subject: HB 16 "An act relating to loans or grants for mobile home relocation; and providing for an effective date."

Date: January 22, 1985

I have asked my staff to prepare the following background information for you.

During the last year, there has been increasing concern about the closure of Mobile Home Parks and the effects of these closures on mobile home owners.

As Mike Lynch, Executive Director of AHFC, wrote in a letter to former Commissioner Robert Heath,

> "Mobile home owners can be faced with several problems (when their mobile home park closes.)
>
> 1. They are forced to move their mobile home with little notice.
>
> 2. There are few vacancies in other existing mobile home parks.
>
> 3. Available lots are usually too costly or too distant for home owners to utilize.
>
> 4. Some of the mobile homes are too old and/or deteriorated to be moved.
>
> 5. Many of these home owners do not have enough funds to move the mobile home."

In addition to the points brought out by Mike Lynch, there are several other factors which should be taken into consideration. These are as follows:

1. Many mobile home owners are young families of low to moderate income starting out.

2. Many mobile home owners are Senior Citizens on fixed incomes who had planned to retire in their mobile home and are unprepared for a park closure.

3. Local governments (especially Anchorage) have not been responsive to the needs of mobile home owners and have only recently become interested in long term planning which could help alleviate problems caused by mobile home park closures.

4. While no extensive study has been done. It is thought that the closure of mobile home parks, and the shortage of available spaces has an effect on the overall market for mobile homes. With the shortage of mobile home space, mobile home prices fall and defaults begin to rise. With the large amount of direct State investment in mobile home loans, now totaling 145,410,451 million dollars, the State clearly has an interest in promoting stability in the market place.

There are perhaps four steps which should be taken to help alleviate the problem.

1. State involvement in either 'State-owned mobile home parks' or 'a public/private partnership' in which the State would provide land to a developer.

2. Creation of a loan or grant program to help residents of mobile home parks which close.

3. Passage of legislation which would allow the 'common interest ownership' of mobile home parks.' Members of the industry believe that this would help alleviate space problems.

4. A position should be created either through the Dept. of C&RA, AHFC, or the Municipality of Anchorage to help displaced residents of mobile home parks with specific relocation problems.

While the first step has several policy questions to be answered, it is also a step which is best undertaken by the Administration.

The second step is addressed in HB 16. The third step is addressed in SB 44, which is a complete rewrite of the Horizontal Property Regime. The fourth step is yet to be undertaken, and may best be done at the Municipal level.

HB 70, as introduced, would set up a grant and loan program for displaced mobile home owners. The program would be administered through the Dept. of Community and Regional Affairs. One facet of the program is that the Dept. would be allowed to contract with local governments to administer the program. HB 70 also gives the Dept. of Community & Regional Affairs the authority to promulgate regulations in order to set up and run the program.

Determining the amount of necessary funding for the program, is extremely difficult. At the present time, the Municipality of Anchorage has begun preliminary work in order to determine the number of parks which will close and the total number of spaces involved.

Park closures are functions of the marketplace, therefore, it is difficult to say which specific park will close and when. It is only possible to know that as land becomes more valuable and mobile home park land attains a higher and better use, mobile home parks will close. Preliminary funding could be set arbitrarily at $500,000 enough to fund 200 mobile home relocation loans or grants.

In 1984 and projecting through 1985 approximately 405 mobile home spaces have been closed or will be closed. However, it is difficult to use these numbers as the basis for program funding projections.

Introduced: 1/14/85
Referred: 1/16/85 House Special Committee on
State Loans and Finance

IN THE HOUSE BY UEHLING AND JENKINS

HOUSE BILL NO. 16

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to loans or grants for mobile home relocation; and providing for an effective date."

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

* Section 1. LEGISLATIVE FINDINGS. The legislature finds that the closure of mobile home parks imposes a substantial burden on owners of mobile homes who are forced to relocate their mobile homes due to the limited availability of sites on which to relocate the mobile homes.

* Sec. 2. AS 44.47 is amended by adding a new section to read:

ARTICLE 11A. MOBILE HOME RELOCATION LOANS OR GRANTS.

Sec. 44.47.650. MOBILE HOME RELOCATION LOANS OR GRANTS. (a) The commissioner may provide a loan or a grant in an amount not to exceed $2,500 for each owner of a mobile home who uses the mobile home as the primary residence and who is forced to relocate the mobile home because of the permanent closure of the mobile home park in which the mobile home is located.

(b) An applicant is not eligible for a loan or a grant under this section unless the applicant demonstrates to the satisfaction of the commissioner that the applicant was the owner of the mobile home used as the primary residence before notification of the closure of the mobile home park.

(c) The commissioner shall establish by regulation standards for the determination whether an applicant is eligible for a loan or grant under this section. In establishing the standards, the commissioner shall consider the value of the mobile home, the family income of the

applicant, and other factors considered appropriate by the commissioner.

(d) The commissioner may not grant owners of a single mobile home used as the primary residence more than $2,500, whether in a loan or in a grant, for the relocation of the mobile home.

(e) An applicant shall apply for a grant or a loan under this section on a form approved by the commissioner.

(f) The commissioner may contract with a municipality for the implementation of the authority granted under this section for the residents of the municipality. The commissioner may contract with a nonprofit corporation for the implementation of the authority granted under this section.

(g) The commissioner may adopt regulations necessary to implement this section.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

May 2, 1984

The Honorable Robert Heath
Commissioner
Deptartment of Revenue
Pouch S
Juneau, AK 99811

SUBJECT: MOBILE HOME PARK CLOSURES

Dear Commissioner Heath:

Recently AHFC has become concerned with the number of mobile home parks being sold or closed. If the land usage is changed the result is displacement of both the homeowner and the security for our loan. In some areas of Alaska there are few or no convenient lots to which these homeowners can move their mobile homes. Areas with very limited vacant lots include Anchorage, Juneau and Kodiak. Attached is a list of parks that have closed or are anticipated to close in the near future. Mobile homeowners in these areas can be faced with several problems:

1. They are forced to move their mobile home with little notice.
2. There are few vacancies in other existing mobile home parks.
3. Available lots are usually too costly or too distant for homeowners to utilize.
4. Some of the mobile homes are too old and/or deteriorated to be moved.
5. Many of these homeowners do not have enough funds to move the mobile home.

When faced with all of these problems, it is AHFC's concern that these mobile homeowners may be forced to default on their mobile home loan. Since this type of action would result in groups of foreclosures on properties that may not be salable at the amount owed, AHFC needs more assurance that the security for our loans will not suffer serious reduction in value through the sale or closure of mobile home parks. This could best be accomplished with a guarantee from the park owners that the parks will not be sold or closed during the

terms of AHFC's loans. Such a guarantee could contain the following provisions:

1. A sale could take place if the basic integrity and use of the park remains the same. The new owner must be bound by the guarantees of the previous owner.

2. The park owner would guarantee that if a sale or closure takes place (with a change of use planned), the owner must find or provide acceptable space to which the mobile homes could be moved and pay all moving expenses.

This guarantee would be included and recorded with each loan file purchased by AHFC. We believe, that if the term of the guarantee were for at least 75% of the term of AHFC's loan, we would be protected to a level that assured collateral coverage. Obviously, if the park owner would not give the guarantee, we would not make loans in that park.

Sincerely,

Michael S. Lynch
Executive Director

Attachment

MSL:sb

Mobile Home Park	Location	Anticipated Date of Closure	Total Number of Spaces	Number of Loans Owned by AHFC
Far North	Anchorage	Closed-7/1/83	55	5
Wharton	"	Anticipated-1984	33	6
Vagabond	"	Unknown-subject to zoning change	123	20
Mobile II	Juneau	Anticipated-9/1/84	27	1
Valley Court	"	Anticipated-6/30/85	119	10
Mobile Haven	"	Anticipated change of ownership	84	24

MOD.1-Attachment

PATRICK RODEY
SENATOR

ALASKA STATE SENATE

POUCH V
JUNEAU, ALASKA 99811
(907) 465-3793
(907) 465-3754

MEMORANDUM

DATE: April 24, 1984

TO: Senator Pat Rodey

FROM: Jim Kelly

RE: Mobile Homes

There is a problem. A growing number of existing trailer parks are closing as the owners of that property choose to convert their land to uses with higher economic returns, and simultaneously, the number of spaces available for units forced to relocate is rapidly being depleted

In Juneau, for example, there are two trailer parks which have already given mass eviction notices to their tenants. Valley Court, with 118 spaces, is scheduled to close June 1, 1985. It will become a gravel pit. Mobile II, with 27 spaces, is closing 11 spaces this September, and the remainder in the Spring of 1985. This property will become apartment houses. Another Juneau trailer park, Mobile Haven, with 87 spaces, is allegedly for sale.

In Anchorage, Vagabond Trailer Park, with 122 spaces, is scheduled to close April 1, 1985, although that may be affected by the decision whether or not to approve a rezoning of the property to allow higher density multi-family housing, which is to be made June 18th of this year. Additionally, the owners of Mayflower Circle Park, with 392 spaces, and Penland Park, with in excess of 250 spaces, have publicly stated recently that their tenants eventually will be looking for new homes, as their parks are "only an interim use of property".

It is quite likely that these closures are only the tip of the iceberg. Statewide, mobile homes comprise 10.5 percent of all available housing stock, and approximately three-quarters of these homes are located on rented spaces in trailer parks. In Anchorage, there are an estimated 6,500 mobile homes in this situation, and about half of them are AHFC-financed. In addition, there are another 2,000 or so mobile homes located on private lots throughout the Municipality.

As stated, the problem occurs when the owners of the mobile homes are required to relocate because of park closures, but can find no vacant land on which to place their units. In Anchorage, which has the majority of mobile homes statewide, a new trailer park has not even been proposed

since 1978. This is not hard to understand when you consider that today's developer would be looking at land and development costs of between $50,000 and $60,000 per space, and for that investment, he or she would be earning a paltry space rent of $250 per month.

So, there are no new trailer parks to move to, virtually no vacant spaces in existing parks, and according to the tenants of Vagabond, only a total of 14 private lots still available in all of Anchorage that are suitably zoned for mobile homes. These lots are priced in excess of $50,000. This is a tough set of facts for the people who are faced with relocation.

This is also a tough set of facts for AHFC, which as of April 17th has a mobile homes portfolio of 4,228 loans with an outstanding unpaid principal balance of $131 million. This total includes:

* Valley Court	10 loans	$186,400
* Mobile II	2 loans	43,500
* Vagabond	19 loans	433,700
* Mayflower Circle	238 loans	8,657,400
* Penland Park	222 loans	6,645,900
* Mobile Haven	24 loans	455,000
TOTAL:	515 loans	$16,421,000

What is to be done?

Let's look first at the plight of the tenants of the closing trailer parks. Each individual tenant has a different problem depending on his own situation. For example, some people who live in these parks don't own their trailers; they are renting them. Their problems are less than those who own their trailers outright, whose problems are in turn less than those who are still paying on their trailers. So, extent of ownership is one factor. Another is the age of the mobile home. This is significant because sometimes a park owner will allow another trailer to be moved into his or her park, if it is of a certain age or quality. Another factor, of course, is the income of the tenant. The more money a person has in this situation, the more options.

From conversations with a number of tenants, it appears that the persons who are struggling the most are those who still owe money on their mobile homes, whose mobile homes are so old that they are not welcome in other trailer parks (if there were vacancies, which there are not), and whose incomes are such that they cannot afford to borrow any additional money for another housing opportunity. Realistically, a person in this situation would be fortunate to be able to sell his or her trailer even at a significant discount.

The consequences of this problem for the tenants will range from:

* bankruptcy
* default
* destruction of the trailer
* loss of "equity"
* sale of trailer at a discount
* placement of trailer on lot far from original location, e.g. moving to Wasilla from Anchorage;
* increase in housing expenses.

What is the exposure for AHFC? Undoubtedly, AHFC will experience an increase in mobile home repossessions. How many and how quickly depends on how many parks close, and how soon. And on what changes the corporation makes between now and then to protect itself. For example, according to AHFC documents, AHFC is purchasing from $4 million to $6 million of new mobile home loans each month. Should this financing program be continued? This is really a central question.

Short of ending the program, are there any alternatives?

* Alternative #1: Continue the status quo. This is inviting disaster.

* Alternative #2: Limit new mobile home loans to borrowers who will locate their units on private lots, or in trailer parks the owners of which have guaranteed that the land will continue as a park for the life of the loan.

* Alternative #3: Require park owners to give 2-year eviction notices, if they intend to close the park.

* Alternative #4: Allow assumption of AHFC mobile home loans by persons who will not be the owner-occupiers, only in situations where the park in which the units are located is closing.

* Alternative #5: Allow borrowers who presently have an AHFC mobile home loan, and are forced to relocate because of a park closure, but can find no place to move their unit after a good faith search, to obtain another AHFC loan, and combine the payments from the two loans as a wraparound or a refinance. AHFC would take posession of the mobile home, and the borrower - if his credit and his debt ratios were OK - would be able to continue home ownership, for example in a condo.

* Alternative #6: Make financing available for the purchase of non-conforming lots in existing trailer parks, to encourage park owners to convert their rental parks to "condominiumized mobile home parks".

* Alternative #7: Encourage the development of mobile home subdivisions as planned unit developments.

* Alternative #8: Attempt to encourage private development of new trailer parks by providing public subsidies for development. For example, making public land available at less than market rate, or directing the Department of Community and Regional Affairs to make a portion of its State Assisted Rental Housing Construction Development grant money available for this purpose.

* Alternative #9: Enact legislation similar to HB 699 which would provide Mobile Home Relocation Grants or Loans.

* Alternative #10: Put into place a moratorium on the AHFC mobile home program, and have the Legislature study the problem over the interim.

ALASKA STATE SENATE

PATRICK RODEY
SENATOR

POUCH V
JUNEAU, ALASKA 99811
(907) 465-3793
(907) 465-3754

M E M O R A N D U M

DATE: May 16, 1984

TO: Senator John Sackett

FROM: Senator Pat Rodey

RE: Suggested Changes to AHFC Mobile Home Financing Program

1) The legislature should amend AHFC law, specifically AS 18.56.088 to increase the corporation's flexibility in insuring the continued security of the mobile home loan portfolio. Suggested language, which should be added to HB 663, is as follows:

AS 18.56.088 is amended by adding a new subsection to read:

(i) The board may adopt regulations under (a) - (f) of this section that establish conditions and terms for mobile home loans that are not in accordance with the provisions of this chapter, including conditions and terms relating to owner-occupancy, the number of loans that may be assumed by a single borrower, loan guidelines, and borrower eligibility requirements, if the board first determines that the regulations are necessary to insure the continued security of the mobile home loan portfolio.

2)A letter of intent should be prepared at accompany HB 663. Suggested language is as follows:

The legislature is concerned about the number of trailer parks being sold or closed, and the increased risk this causes to portions of AHFC's mobile home loan portfolio and to certain borrowers under this program.

It is the intent of the legislature that AHFC act immediately to make changes in its mobile home financing program through the adoption of emergency regulations as provided by AS 18.56.088(e). The emergency regulations shall require that new mobile home loans will not be made unless the borrowers own the land on which the mobile homes are to be placed, or if the mobile homes are to placed in mobile home parks, the owners of the parks guarantee that there will be no change in the land use of the parks for a specified period of time.

Additionally, as part of its annual trailer park approval process, AHFC shall require owners of approved trailer parks to provide at least

six months eviction notice to their tenants prior to implementing a change in the land use of the property.

Finally, after implementing emergency regulations, AHFC shall establish a Mobile Home Task Force to make recommendations to its board of directors regarding permanent changes to the mobile home program regulations. The task force shall include representatives from the legislature, trailer park tenants, mobile home dealers, trailer park owners, real estate brokers, seller-servicers, and local government.

Prepared by Staff of House Finance — La Ann

SUGGESTED CHANGES TO AHFC MOBILE HOME FINANCING PLAN

The Problem

The present AHFC mobile home financing program provides loans to individuals to buy mobile homes to be placed on land that they do not own. (The program also provides financing for mobile homes that will be placed on land owned by the borrower, but this is not a problem.) Typically, these mobile homes are placed in mobile home parks where the land is owned by the park owner. Because mobile home park land is often more valuable if converted to another use, many park owners plan to evict tenants in the near future and sell their land for another use. The evicted tenants generally have no place to put their mobile home since there is generally no land available to put the home on and/or they cannot afford to buy available land. Since there is so little land zoned for mobile homes, the price of that land has risen dramatically.

This is a serious problem for AHFC for the following reasons:
(1) As of 4/17/84, approximately $16.5M of AHFC's $131M mobile home loan portfolio is in jeopardy. The $16.5M represents loans that are in the predicament described above. If these borrowers are forced to move, it is possible that they will not be able to continue making payments, since they will have the added financial burden of moving and associated costs. Potentially, AHFC could have a substantial number of mobile home loans in default --- most knowledgable people think the $16.5M is just the tip of the iceberg.
(2) The question of how to protect the present portfolio is further complicated by the need to make changes in the financing program as soon as possible that assure the protection of any future loans.

In sum, there is a serious problem with both the present and future portfolio of AHFC mobile home loans.

AHFC's Proposed Solution

In a letter to Commissioner Heath dated 5/2/84, Mr. Lynch proposes that AHFC address the future problem by not making any more mobile home loans unless AHFC is guaranteed that the park owner will not change the use of the land for a specified period. If the term of the guarantee is at least 75% of the loan term, AHFC believes it will be adequately secured.

Although this suggestion has merit, it is not a total solution to the problem. Although it would not be advisable to rush into changes without adequately thinking through their ramifications, there is more that can be done than what Mr. Lynch has proposed. Therefore, a more complete set of suggestions is proposed below.

Staff Suggestions

These suggestions would resolve as much as can be resolved immediately, and at the same time, give AHFC the necessary direction to find longer term solutions.
Before listing the suggestions, a discussion of AHFC's regulatory

authority is in order. The statute allows AHFC to adopt emergency regulations for 120 days or for longer if the appropriate public notice and hearing requirements are met during the 120 day period. Permanent regulations can be adopted to determine borrower eligibility, loan guidelines and terms, "characteristics" of eligible housing, qualifications of originators and servicers, and commitments. (A copy of AHFC's regulatory authority is attached.) Though this authority is broad, other language in the statute provides for owner occupancy and other requirements that may no longer be suitable for mobile home loans. Thus, in addition to making some changes through regulation, AHFC will need statutory guidance from the legislature in order to make additional changes that may not conform with the present language of the statute.

1. AHFC should adopt emergency regulations as follows: (a) No more mobile home loans unless park owner provides a guarantee not to change the use of the property for a set period of time or the mobile home is placed on land owned by the borrower. (b) For both current and future loans, if the loan is for a mobile home on land not owned by the borrower, the land owner must provide at least one year notice to tenants before eviction. Under the terms of the statute, these emergency regulations can become permanent regulations as long as the notice and public hearing requirements are met during the 120 day period.

2. AS 18.56.088 should be amended to allow AHFC the necessary flexibility to insure the security of present and future mobile home loans. The necessary language could allow for cooperatives, condominiums, wrap arounds, non-owner occupancy, and/or other creative financing mechanisms if they are deemed appropriate. The actual language should include legislative findings regarding the severity of the current situation and the need to address it in order to secure AHFC's present and future portfolio. The language must be broad enough to give AHFC the necessary time to study the problem and propose solutions. These solutions can then be incorporated into the program through the regulatory structure. To insure participation on the part of the legislature and other interested parties in the development of the new financing schemes, the language should also mandate a task force to develop the solutions that includes a least one representative of the legislature, trailer park tenants, mobile home dealers, trailer park owners, real estate brokers, seller-servicers, local government and AHFC. (The importance of the local government representative is to insure that the subject of availability of mobile home land is discussed and possibly resolved. If more land can be made available for people to buy to put mobile homes on, by changing local zoning requirements or by local disposals, then the problem will be less severe. Obviously any proposed solutions on this issue would have to be implemented by local governments, not through the AHFC regulatory structure.)

A DRAFT of the proposed language is as follows:
"AS 18.56.088 is amended by adding a new subsection to read:

The legislature is concerned about the number of trailer parks being sold or closed, and the increased risk this causes to portions of AHFC's mobile home loan portfolio and to certain borrowers under this program. AHFC shall act immediately to make changes in its mobile home loan financing program through the adoption of emergency regulations. These emergency regulations shall require that mobile home loans will not be made unless borrowers own the land that the mobile home will be placed on or the mobile home park owner guarantees that the land will not be sold during a specified time frame. Additionally, the emergency regulations shall require, for both current and future loans, that park owners give at least 1 year notice before eviction. After adopting emergency regulations, AHFC shall establish the Mobile Home Task Force to make recommendations to the board regarding permanent changes to its regulations. The task force shall include representatives from the legislature, trailer park tenants, trailer park owners, mobile home dealers, real estate brokers, seller-servicers, local government, and AHFC. In order to implement these permanent regulations, the board may adopt regulations that are not in accord with the provisions of AS 18.56, including conditions and terms relating to owner-occupancy, the number of loans that may be assumed by a single borrower, loan guidelines, and borrower eligibility requirements, if the board determines that such regulations are necessary to insure the continued security of the AHFC mobile home loan portfolio."

(NOTE: Some of this language may more properly be placed in temporary law.)

3. After refinement, SB 464 should be enacted. Although this bill is mainly concerned with rewriting the condominium statutes, it would also allow for mobile home parks to be condominiumized. If it turns out that this would be a viable option to better secure AHFC's mobile home loan portfolio, the condo law should be changed to allow for it.

4. SB 524 can also be enacted. This would provide for $2500 grants to mobile home owners who are forced to relocate. Apparently, this is more needed in Juneau than any other area of the state, so it can not be viewed as necessary from a statewide perspective.

5. HB 666 should not be enacted. This is the bill that authorizes an additional $100M in bond sales for FY84 in order to finance mobile home loans. Since we are so close to the end of the fiscal year, it is hard to believe that the $1.5B authorization for FY85 (contained in HB 663) will not allow AHFC to do the same thing they would have done with HB 666. Even though AHFC says they must do the bond issue before the end of this fiscal year, the viability of the entire sale rests on an IRS ruling of the tax status of the bonds, and this has not come through yet, according to our information.

6. It seems reasonable to get AHFC reaction to these suggestions before they are the subject of final decisions on your part. This is particularly true in the case of suggestion #5.

corporations established under this section or with other persons. In exercising a power under this section, the corporation may not subject its assets to risk of loss through foreign currency exchange. A guarantee under this section constitutes a bond of the corporation as defined in AS 18.56.210(13). (§ 16 ch 113 SLA 1982)

Sec. 18.56.088. Administrative procedure. (a) Except for AS 44.62.310 and 44.62.312, regarding public meetings, and AS 44.62.320(a) regarding legislative review of regulations, the Administrative Procedure Act (AS 44.62) does not apply to AS 18.56.010 — 18.56.210. The corporation shall make available to members of the public copies of the regulations adopted under (b) — (e) of this section. Within 45 days after adoption, the chairman of the board shall submit a regulation adopted under (b) — (e) of this section to the chairman of the Administrative Regulation Review Committee under AS 24.20.400 — 24.20.460. The provisions of AS 44.62.320(a) apply to regulations adopted under (b) — (e) of this section.

(b) The board may adopt regulations by motion or by resolution or in any other manner permitted by its bylaws.

(c) The board may adopt regulations to carry out the purposes of this chapter, and shall adopt regulations necessary for the following purposes:

(1) determination of borrower eligibility including, but not limited to, income limitations and the determination of remote, underdeveloped or blighted areas of the state;

(2) loan guidelines and terms including but not limited to maximum loan amounts and required loan-to-value ratios, but excluding mortgage loan interest rates;

(3) characteristics of housing eligible for loans or purchase of loans; and

(4) the qualifications of loan originators and servicers and the method of allocating amounts available for the purchase of loans.

(5) establishment of a procedure, including a fee schedule, for the commitment for one year or less of money for the purchase of an individual mortgage loan at a specific interest rate.

(d) Except as provided in (e) of this section, at least 15 days before the adoption, amendment, or repeal of a regulation on a subject specified in (c) (1) — (4) of this section, the board shall give public notice of the proposed action by publishing the notice in at least three newspapers of general circulation in the state and by mailing a copy of the notice to every person who has filed a request for notice of proposed regulations with the board or the corporation. The public notice must include a statement of the time, place, and nature of the proceedings for the adoption, amendment, or repeal of the regulation and must include an informative summary of the proposed subject of the regulation. On the date and at the time and place designated in the notice, the board shall give each interested person or his authorized rep-

resentative, or both, the opportunity to present statements, arguments, or contentions in writing, and shall give members of the public an opportunity to present oral statements, arguments, or contentions for a total period of at least one hour. The board shall consider all relevant matter presented to it before adopting, amending, or repealing a regulation. At a hearing under this subsection, the board may continue or postpone the hearing to a time and place which it determines. A regulation which is adopted, or its amendment or repeal, may vary in content from the informative summary specified in this subsection if the subject matter of the regulation, or its amendment or repeal, remains the same and the original notice was written so as to assure that members of the public are reasonably notified of the proposed subject of the board's action in order for them to determine whether their interests could be affected by the board's action on that subject.

(e) A regulation or order of repeal on a subject specified in (c) of this section may be adopted as an emergency regulation or order of repeal if the board makes a finding in its order of adoption or repeal, including a statement of the facts which constitute the emergency, that the adoption of the regulation or order of repeal is necessary for the immediate preservation of the orderly operation of the corporation's loan and bonding programs. The requirements of (d) of this section do not apply to the initial adoption of an emergency regulation covering a subject specified in (c) (1) — (4) of this section; however, upon adoption of an emergency regulation, the board shall, within 10 days after adoption, give notice of the adoption in accordance with (d) of this section. No emergency regulation adopted under this subsection remains in effect more than 120 days unless the board complies with (d) of this section during the 120-day period.

(f) A regulation adopted under (b) — (e) of this section becomes effective immediately upon its adoption by the board, unless otherwise specifically provided by the order of adoption.

(g) The provisions of (b) — (e) of this section do not apply to regulations governing interest rates on the corporation's mortgage loan programs.

(h) The board shall adopt regulations in accordance with (a)—(f) of this section which establish a procedure by which a seller of mortgage loans may appeal a decision of the corporation not to purchase mortgage loans offered by the seller. (§ 5 ch 167 SLA 1978; am § 19 ch 106 SLA 1980; am § 17 ch 113 SLA 1982)

Effect of amendments. — The 1982 amendment added paragraph (5) to subsection (c).

Sec. 18.56.089. Executive Budget Act. The operating budget of the corporation is subject to the Executive Budget Act (AS 37.07). To further ensure effective budgetary decision making by the legislature,

Alaska HOUSING FINANCE CORPORATION

May 22, 1984

The Honorable John Sackett
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator:

The following are the positions of AHFC on various items presently under consideration before the Senate Finance Committee:

Mobile Home Park Closures

The closure of mobile home parks and the impact of the closures on the security of AHFC's mobile home loan portfolio has been the subject of hearings. In addition to the hearings many short-term recommendations for reducing the risks of loss have been put forward in the following correspondence:

a) a letter from AHFC to Commissioner Heath regarding Mobile Home Park Closures.

b) a memorandum from Senator Pat Rodey regarding Mobile Home Park Closures.

c) a memorandum prepared by House Finance Committee staff regarding suggested changes in Alaska Housing Finance Corporation's Mobile Home financing.

These recommendations should be consolidated to the following steps.

a) As part of AHFC's park approval process AHFC will require park owners to give tenants one years notice of eviction when the reason for eviction is closure of the park. This will give present park occupants increased notice (present requirement is 90 days) and failure by a park owner to agree to the extended notice, while not conclusive evidence of an intent to close the park, should at least alert tenants to the possibility. This change can be made to the program through regulation.

b) As part of AHFC's mobile home loan underwriting criteria AHFC will require that all mobile homes be located on land owned by the borrower, land leased to the borrower for a period that exceeds the term of the loan or if located on land on a short-term rental, then the owner of the land must guarantee to allow the mobile home to remain on the land for a time period equal to 75% of the loan term. This would not affect the assumability of existing loans on units in parks but would stop the increase of exposure to AHFC. This step could be accomplished by regulation.

Long term, if mobile homes are to remain as a low cost housing alternative, other solutions must be found. The steps recommended above may substantially reduce the number of mobile homes that will qualify for AHFC financing. These solutions should be developed by a task force composed of members drawn from the

Telephone (907) 276-5539
235 East 9th Avenue
Third Floor
P.O. Box 101020
Anchorage, Alaska 99510

Legislature, mobile home park tenants, mobile home park owners, mobile home dealers, real estate brokers, AHFC seller/servicers, municipal government and AHFC. The task force should be formed immediately with instructions to research the problem, develope alternatives or solutions and make recommendations to the Legislature by January 1, 1985.

To facilitate the above recommendations AS 18.56.088 should be amended by adding:

18.56.088 Administrative Proceedure
(c)(5) insure the security of existing and future mobile home loans,

In addition a new section should be enacted which specifically authorizes the Corporation to adopt emergency regulations for the purposes of 18.56.088(c)(5) and which further authorizes the Corporation to waive or otherwise modify the statutory criteria set out in AS 18.56 to the extent necessry to meet the objectives of AS 18.56.088(c)(5). This section, of course, would constitute non-codified law but would allow the Corporaton flexibility necessary to assure the security of the mobile home loan portfolio. The statutory amendment and temporary law have been recommended by Jonathan Rubini of the Attorney General's office.

CS SB 464 "An Act revising the laws relating to horizontal property regimes and permitting the establishment of condominiums for mobile homes."

This bill expands the horizontal regime act to allow the condominiumizing of various facilities including mobile home parks. Clearly, the bill will provide owners of present mobile home parks a vehicle for selling their parks at a high value without changing the use and displacing present park residents. There are however, several results of the condominiumizing of a mobile home park which must be considered:

a) When a park is condominiumized present park residents who either cannot afford to acquire their space or do not wish to make the additional investment will be forced out of the park. This has been estimated to be 25% of the residents in a park.

b) The fact that a park is condominiumized does not guarantee that AHFC will finance acquisition of the space by residents. Just as AHFC now has standards for residential condominiums, AHFC will have to develop standards for condominium mobile home parks. These standards should be relatively easy for a newly constructed park to meet but may be difficult if not impossible for a conversion of an existing park as is the case with many existing multi-family buildings.

c) Many present mobile home parks were approved as Temporary Land uses and do not meet present mobile home zoning requirements such as area per mobile home and spacing of the mobile homes. Passage of the bill could allow park owners to make permanent situations that do not meet present zoning codes.

Recognizing these potential problems which cannot be addressed in this bill, AHFC supports the concept of condominium mobile home parks.

CS HB 663 "An Act relating to certain state housing loan programs; and providing for an effective date."

HB 663, introduced by the Governor, corrects drafting errors contained in the 1983 Legislation, incorporates clarifying amendments to AHFC statutes recommended by the Attorney General's Office, and amendments recommended by members of the Board and Staff which would allow the Corporation to maximize savings to the State and homebuyers and to respond to the anticipated funding level of mortgage demand for FY 1985.

Section 1

- Clarifies the statutory basis for the Home Ownership Assistance Program.

Section 2

- Clarifies the statute allowing one first mortgage loan per person from AHFC or HAD loan programs. Present statutes [AS 18.56.098(f)(4)] requires that a residence for which the Corporation purchases a loan must be owner-occupied. Allowing only one State loan at a time to a person would more clearly state what is implied.

- Corrects statutory language to allow 100 percent financing for loans which are federally insured or guaranteed. 1983 Legislation unintentionally excluded federally insured loans and 95 percent financing for mobile homes. AHFC has always allowed both and it is felt they were excluded due to a drafting error.

Section 3

- Sets the rate on the first $90,000 for mortgages financed with tax-exempt bond proceeds at the same rate as the taxable program. The tax-exempt rate on the first $90,000 remains at 10 percent unless the [redacted]. The intent of this legislation is for the rates on the Veterans Mortgage Program, the Taxable Program, the Tax-Exempt Program, and Mobile Home Program to be set so they are the same for the first $90,000, the amount of the loan subsidized by the State.

Section 4

- Clarifies the ability of the Corporation to incur a general obligation.

Section 5

- Changes the definition of rural as it applies to the Division of Housing Assistance. Rural would now mean a community in the First or Second Judicial Districts of less than 4,500; a community of less than 4,500 that is 100 nautical miles from Anchorage in the Third Judicial District; or community of less than 4,500 that is 35 nautical miles from Fairbanks in the Fourth Judicial District.

Section 6

- Raises AHFC's 12-month bonding authority from $980 million to $1.5 billion. AHFC is estimating for FY 1985 budget purposes that mortgage demand will be $1.316 billion of which $1.150 billion will need to be funded by bond proceeds. The present twelve-month bond authorization level is $980 million. A level of $1.5 billion would cover all contingencies.

The FY '85 capitol budget request of $16 million is based on Sections 2, 3, and 6.

CS HB 664 "An Act making appropriations to the Alaska Housing Finance Corporation; and providing for an effective date."

Section 1 of this bill responds to a question which has been raised by the Attorney General's Office concerning the possibility that retention of some revenues and receipts of the Corporation may be in conflict with the "dedicated funds" provisions of the State Constitution. The bill removes any doubt as to the proper retention of revenues and receipts of the Corporation.

Section 2 of this bill transfers all assets of the Home Ownership Fund to the Alaska Housing Finance revolving fund which was established by the Legislature in 1983 to alleviate some of the "dedicated funds" questions and to provide legal certainty for the Corporation's mobile home program.

The FY '85 Capitol Budget request of the Corporation of $16 million is based on retention of these funds.

CS HB 665 "An Act relating to the issuance of tax-exempt, state-guaranteed revenue bonds by the Alaska Housing Finance Corporation to finance mortgages for qualifying veterans under AS 18.56; and providing for an effective date."

This bill authorizes placement on the November, 1984 ballot of a $700 million bond proposition for the Veterans Mortgage Program. Prompt legislative consideration is considered important because of pending Congressional action.

The FY '85 Capital Budget request of the Corporation of $16 million is based on Legislative and voter approval of this bond proposition.

CS HB 666 "An Act increasing the Alaska Housing Finance Corporation's bond authorization level; and providing for and effective date."

Because of a revised bond schedule there is no longer a need for this bill.

I believe this addresses all of the AHFC related issues presently before the Senate Finance committee.

Very truly yours,

Michael S. Lynch
Executive Director

MSL:sb

ED/484a

Alaska HOUSING FINANCE CORPORATION

May 8, 1984

Jim Kelly
c/o Senator Rodey
Pouch V
Juneau, Alaska 99811

Dear Mr. Kelly:

Enclosed please find the listing of mobile home park owner/managers and addresses that you have requested. I apologize for the delay in forwarding this information to you, however, it has taken longer than I anticipated to compile the data.

According to the information contained in our files, there is an indication that 9,324 spaces are available with 8,269 of these spaces occupied. Please note, however, that the majority of these numbers are based on 1982, or prior, applications and is not accurate as of this date. In addition, a substantial number of these vacancies are in areas like Kenai, Valdez and Fairbanks. At this time, the number of vacancies in these areas may have decreased somewhat due to the age of the information.

In reference to your request to have the Anchorage area mobile home parks designated from those shown on the printout previously submitted, enclosed please find another copy of that printout with the parks in question highlighted.

Again, I apologize for the delay in submitting this information. Please feel free to call with any questions you may have on this data.

Sincerely,

Kathy Jones

Kathy Jones
Assistant Loan Officer

KJ/dfb

Enclosures

Telephone (907) 276-5599

235 East 8th Avenue
Third Floor

P.O. Box 101020
Anchorage, Alaska 99510

MOBILE HOME PARKS
OWNERS/MANAGERS/ADDRESSES

Afton Coon's Trailer Court - Sitka
Afton & Vera Coon
1902 Sawmill Creek Road
Sitka, Alaska 99835

Alaska Pacific Trailer Court - Kodiak
Tony Perez
P.O. Box 6
Kodiak, Alaska 99615

Alaskan Village
Elaine Seegers, Manager
3351 Arctic Blvd.
Anchorage, Alaska 99503
(562-3399)

Allied Mobile Home Park - Valdez
Stephen C. Holland
4241 "B" Street
Anchorage, Alaska 99503

Alta Vista Trailer Court - Anchorage
Edwin E. Wendell
1100 W. 32nd Avenue
Anchorage, Alaska 99503

Anchor Court - Kenai
Michael Sellay
3741 W. 79th
Anchorage, Alaska 99502

Arrowhead Court - Sitka
Dorothy M. Cucchiani
1300 Sawmill Creek Road
Sitka, Alaska 99835

Aspen Park - Soldotna
Alfred Gagnon or Kenneth Kimes
P.O. Box 304
Soldotna, Alaska 99669

Back Tracks Trailer Court - Sterling
David P. Truesdell
P.O. Box 1022
Soldotna, Alaska 99669

Badger Mobile Home Park - Fairbanks
Joseph J. Bielski
503 Lignite Street
Fairbanks, Alaska 99701

Baker's Trailer Park - Wrangell
John A. or Judith A. Baker
P.O. Box 927
Wrangell, Alaska 99929

Baxter Road Trailer Court - Anchorage
Charlotte Bradley, Manager
4235 McLean #113
Anchorage, Alaska 99504

Beach Crest Mobile Home Park - Ketchikan
Rosemary Shull
Route 1 Box 804
Ketchikan, Alaska 99901

Bear Creek Trailer Park - Seward
Joseph D. Stanton
P.O. Box 165
Seward, Alaska 99664

Bernice Lake Estates - Kenai
Dean Bartsch
Box 8125 NRB
Kenai, Alaska 99611

Bethel Trailer Court - Bethel
Galen Dirksen
Bethel, Alaska 99559

Big "D" Park - Delta Junction
Jeannette J. McGhee
P.O. Box 1009
Delta Junction, Alaska 99737

Birch Lane Mobile Home Park - Soldotna
Sheryl Frobich
P.O. Box 416
Soldotna, Alaska 99669

Birchwood Loop Terrace - Chugiak
Bruce & Melody Swanson
Box 285
Eagle River, Alaska 99577

Olson Trust Rentals - Petersburg
c/o Mary F. Covington
P.O. Box 1148
Petersburg, Alaska 99833

Brookside Manor - Anchorage
Van I. Hawkins
P.O. Box 8-201
Anchorage, Alaska 99508

Butte Mobile Home Park - Palmer
Fred Lloyd
Address Unknown

Channel Trailer Court - Sitka
Patsy B. Arugon
P.O. Box 151
Sitka, Alaska 99835

Clark's Trailer Court - Kodiak
Attn: David Cook
P.O. Box 785
Kodiak, Alaska 99615

Clear Trailer Court - Nenana
Myron C. Stokes
Star Route 2
Nenana, Alaska 99760

Close In Trailer Park - Anchorage
Lorraine A. Lamoureux
3200 Turnagain Blvd.
Anchorage, Alaska 99502

Columbia Mobile Home Park - Fairbanks
Alaska National Bank of the North
Attn: Dennis Giittinger, Asst. Cashier/Property Mgr.
P.O. Box 60730
Fairbanks, Alaska 99701

Copper Valley - Valdez
Copper Valley Telephone Co-op, Inc.
John Friberg, General Manager
P.O. Box 337
Valdez, Alaska 99686

Dimond Estates - Anchorage
Dimond Estates, Inc.
Barbara May, Secretary/Treasurer
1200 W. Dimond Blvd.
Anchorage, Alaska 99502

Don's Trailer Park - Anchorage
Donald P. Wagner
300 W. Klatt Road Box 169
Anchorage, Alaska 99515

Eagle River Mobile Home Park - Eagle River
Dale Briggs
S.R. Box 65
Eagle River, Alaska 99577

East Anchorage Mobile Home Park - Anchorage
Three B Company
Michael Brady, General Partner
4001 Turnagain Blvd. East
Anchorage, Alaska 99503

Felzien's Mobile Court - Palmer
Gertrude Felzien
P.O. Box 634
Palmer, Alaska 99645

Forest Park Mobile Home Court - Chugiak
Harry Witman
Star Route Box 247
Eagle River, Alaska 99577

Forest Park Trailer Court - Anchorage
Thomas J. Moore
1908 W. Hillcrest
Anchorage, Alaska 99503

Four Seasons Mobiland - Anchorage
Elaine Seegers, Manager
3351 Arctic Blvd.
Anchorage, Alaska 99503
(562-3399)

Four Seasons North - Wasilla
Ann Lewis
S.R. Box 5499
Wasilla, Alaska 99687

Glacier Mobile Home Park - Anchorage
Dorothy Keller, Manager
4110 DeBarr
Anchorage, Alaska 99504

Glacier View Mobile Home Park - Juneau
Barnes Development Company, Inc.
William Barnes
3555 Mendenhall Loop Road
Juneau, Alaska 99801

Glasen Trailer Park - Cordova
Danny R. Glasen
P.O. Box 575
Cordova, Alaska 99574

Glencaren Park - Anchorage
Nanook Court - Anchorage
Carey Homes, Inc.
Robert Slater, Manager
3317 Mt. View Drive
Anchorage, Alaska 99501

Glenn-Muldoon Park - Anchorage
Van I. Hawkins
P.O. Box 8-201
Anchorage, Alaska 99508

Goldrush Estates - Fairbanks
Paul Nord, Manager
P.O. Box 80828
Fairbanks, Alaska 99701

Green Acres - Anchorage
Green Acres, Inc.
C.I. Freeman
SRA Box 30C
Anchorage, Alaska 99507

Hardings Trailer Court - Kodiak
Beverly M. Jones
Address Unknown

Heney Mobile Home Court - Cordova
Michael Hammersmith
P.O. Box 1229
Cordova, Alaska 99574

Haven Mobile Court - Sitka
Mr. & Mrs. Jack Parrish
P.O. Box 1145
Sitka, Alaska 99835

Highlands Trailer Park - Kenai
Jack B. Buster
P.O. Box 854
Soldotna, Alaska 99669

Home Park Estates - Anchorage
Hoyt M. Cole
3128 Princeton Way
Anchorage, Alaska 99504

Huffman Mobile Home Park - Fairbanks
Herman Hauck
1219 9th Avenue
Fairbanks, Alaska 99701

Jackson's Mobile Home Park - Kodiak
Manager Unknown (Owner Deceased)
P.O. Box 1215
Kodiak, Alaska 99615

Idle Wheels Mobile Home Park - Anchorage
Al Bennett
702 W. 42nd Avenue
Anchorage, Alaska 99503

Kathy O'Estates - Anchorage
Lucille Gunter
909 Chugach Drive
Anchorage, Alaska 99503

Kodzoff Acres - Juneau
Kodzoff II - Juneau
Anita G. Kodzoff
107 W. 1st
Juneau, Alaska 99801

La Chateau - Anchorage
John L. Phillips
4203 Wilson
Anchorage, Alaska 99503

Lakeview & Lakeview Terrace - Fairbanks
Lakeview Enterprises, Inc.
1000 Lakeview Terrace
Fairbanks, Alaska 99701

Lazy Mountain Trailer Court - Eagle River
Swain-Williams, Inc.
101 E. 9th Avenue, Suite 128
Anchorage, Alaska 99501

Lemon Creek Manor - Juneau
Marlene C. Schneider
5875 Glacier Hwy., Space 5
Juneau, Alaska 99801

Maggies Trailer Court - Anchorage
Raymond D. Moma, Jr.
2900 Boniface Pkwy., #478
Anchorage, Alaska 99508

Ft. Magill Trailer Court - Petersburg
Frederick & Enid Magill
P.O. Box 444
Petersburg, Alaska 99833

Malaspina Mobile Home Park - Anchorage
Dorothy Keller, Manager
4110 DeBarr
Anchorage, Alaska 99504

Manoogs Isle Mobile Home Park - Anchorage
Arthur Simonian
P.O. Box 1563
Anchorage, Alaska 99510

Mayflower Circle - Anchorage
Ira E. Walker
Waldec Enterprises, Inc.
6208 Staedem Drive
Anchorage, Alaska 99504

McLaughlin Lakeshore Court - Cordova
William J. McLaughlin, Owner
Dorene Anderson, Manager
P.O. Box 126
Cordova, Alaska 99574

Mill Bay Court & Apartments - Kodiak
Richard A. Rohrer
P.O. Box 2219
Kodiak, Alaska 99615

Miller's Mobile Park - Anchorage
Keith H. Miller
P.O. Box 102546
Anchorage, Alaska 99510

Mitkof Mobile Home Park - Petersburg
Mike J. & Bonnie Erickson
c/o Box 961
Petersburg, Alaska 99833

Southwood Manor - Anchorage
Leonard H. Gross
9499 Brayton Drive
Anchorage, Alaska 99507

Mountain View Trailer Court - Ketchikan
Jay E. & Stella Coon
P.O. Box 6500
Ketchikan, Alaska 99901

Mt. Eccles Estates - Cordova
Robert L. VanBrocklin
Box 848
Cordova, Alaska 99574

Nikiski Village - Kenai
Stanford Poll
Address Unknown

Oceanside Mobile Home Park - Sitka
Dale & Lorelie Jensen
P.O. Box 675
Sitka, Alaska 99835

Olson's Salmon Creek Park - Seward
V.L. & Tamara Olson
P.O. Box 1858
Seward, Alaska 99664

Peaceful Meadows - Fairbanks
Lynn Thiele
S.R. Box 50264
Fairbanks, Alaska 99701

Penland Park - Anchorage
Robert C. Penny
801 Airport Heights
Anchorage, Alaska 99508

Piper Court - Anchorage
Raymond D. Moma, Jr.
2900 Boniface Pkwy., #478
Anchorage, Alaska 99508

Plaza 36 - Anchorage
Consolidated Services, Inc.
Pamela Ross, Property Manager
300 W. 36th
Anchorage, Alaska 99503

Pleasant Park - Anchorage
Paul B. Baer
501 W. Northern Lights Blvd., Suite #207
Anchorage, Alaska 99503

Rangeview - Anchorage
Joe L. Gielarowski
705 Muldoon Road
Anchorage, Alaska 99504

Rainbow Valley Mobile Home Park - Fairbanks
Melvin L. Avara
S.R. 50161
Fairbanks, Alaska 99707

Ridgewood Mobile Home Park - Ketchikan
Robert C. & Rosemary H. Crowder
Rt. 1 Box 523A
Ketchikan, Alaska 99901

River Bend Park - Kenai
Chester & Mavis Cone
P.O Box 263
Kenai, Alaska 99611

Riverview Mobile Home Park - Fairbanks
Dorothy M. Fickes
P.O. Box 2618
Fairbanks, Alaska 99701

Riveria Terrace - Anchorage
F.L. Newton
3307 Boniface Pkwy., #3A
Anchorage, Alaska 99504

River Terrace Mobile Home Park - Soldotna
Gary C. Hinkle
P.O. Box 322
Soldotna, Alaska 99669

Sea & Ski Trailer Court - Sitka
Ernestine Griffin
P.O. Box 808
Sitka, Alaska 99835

Shafers Trailer Court - Sitka
Clifford Trudeau
P.O. Box 4361
Mt. Edgecumbe, Alaska 99835

Simmons Trailer Court - Valdez
Errol R. Simmons
944 W. 10th Avenue
Anchorage, Alaska 99501

Sleepers Trailer Court - Kenai
Clarence Aumiller
Rt. 1A Box 375
Kenai, Alaska 99611

Sollar's Trailer Court - Sitka
Barton Sollar, Sr.
P.O. Box 771
Sitka, Alaska 99835

Smith's Green Acres - Delta Junction
Lawrence W. Smith
P.O. Box 1129
Delta Junction, Alaska 99737

Southcentral II - Valdez
R.L. Davis, Jr.
P.O. Box 1309
Valdez, Alaska 99686

South Park Estates - Anchorage
Jack White Company Midtown Equities
Attn: Don Hilligas, V.P.
3201 "C" Street
Anchorage, Alaska 99503

Spruce Court of Kodiak - Kodiak
Chris Billings
P.O. Box 315
Dutch Harbor, Alaska 99692

Spruce Park Trailer Court - Anchorage
Tower Realty
Nancy Cole, Property Manager
3300 "C" Street, Suite #103
Anchorage, Alaska 99503

Sprucewood Mobile Home Park - Juneau
James M. Wilcox, Sr.
1914 Churchill Court
Juneau, Alaska 99801

Starr Mobile Estates - Palmer
Red & Delia A. Starr
P.O. Box 2521
Palmer, Alaska 99645

Starrigavin Mobile Home Park - Sitka
Bob Meyer
5306 Halibut Point Road
Sitka, Alaska 99835

Sterling Mall, Inc. Trailer Court - Sterling
Joe E. & Hugh R. Chumley
P.O. Box 856
Sterling, Alaska 99672

Stough's Mobile Home Park - Wrangell
Stephen D. Urata, Manager
P.O. Box 1348
Wrangell, Alaska 99929

Sunset Trailer Park - Anchorage
Robin Miller, Manager
4200 E. 4th #110
Anchorage, Alaska 99508

Swearingen Trailer Court - Sitka
Ann Swearingen
P.O. Box 1666
Sitka, Alaska 99835

Switzer Village - Juneau
Marlene Schneider
6590 Glacier Hwy., #82-A
Juneau, Alaska 99801

Tanana Trailer Village - Fairbanks
Alaska Northwest Properties, Inc.
Wayne Mitchell, Properties Manager
P.O. Box 80490, College Station
Fairbanks, Alaska 99708-490

Terror Lake Village - Kodiak
Michael Rasmussen
c/o Kodiak Transfer
P.O. Box 347
Kodiak, Alaska 99615

Town & Country Mobile Home Park - Fairbanks
Walter D. & Suzanna L. Crawford
SR Box 30988
Fairbanks, Alaska 99701

Towne Trailer Park - Petersburg
Mr. & Mrs. Lon Marifern
P.O. Box 175
Petersburg, Alaska 99833

Thunder Mountain Mobile Home Park - Juneau
Joe Bays, Manager
8479 Thunder Mountain Road
Juneau, Alaska 99801

Trails End - Anchorage
Thomas L. Gielarowski
2708 Havitier Way
Anchorage, Alaska 99504

Vennetti's Mobile Home Park - Sitka
Barbara Vennetti
Address Unknown

Vienna Woods - Wasilla
Starkie, Reekie & Dunbar
Jerry Dunbar
P.O. Box 802
Wasilla, Alaska 99687

The Village - Fairbanks
Ron Nelson
P.O. Box 888
Fairbanks, Alaska 99701

Wildwood Mobile Home Court - Fairbanks
Connie C. Moore
SR Box 31098
Fairbanks, Alaska 99701

Vagabond Trailer Park - Anchorage
Bankers Realty Corporation
200 W. 34th, Suite #800
Anchorage, Alaska 99503

Best View-Phase I & II - Wasilla
Q.C. Company
J.C. Lazarus
3910 North Point Drive
Anchorage, Alaska 99502

Penquin Park - Anchorage
William A. McKillop & William A. Borchardt
P.O. Box 10-2199
Anchorage, Alaska 99510

TYPE DWELLING	TYPE PROGRAM				TYPE PROGRAM H			
	COUNT OF LOANS COMMITTED	COUNT% OF LOANS COMMITTED	SUM OF NOTE AMOUNT	SUM% OF NOTE AMOUNT	COUNT OF LOANS COMMITTED	COUNT% OF LOANS COMMITTED	SUM OF NOTE AMOUNT	SUM% OF NOTE AMOUNT
MOHM	130	82.8	$5,739,900.00	82.4	27	17.2	$1,230,104.00	17.6

TOTAL NUMBER OF RECORDS PROCESSED 157

MOBILE HOME PARKS ONLY

YEAR BUILT	COUNT OF LOANS SELECTED	COUNT% OF LOANS SELECTED	SUM OF UNPAID PRINCIPAL BALANCE	AVG OF UNPAID PRINCIPAL BALANCE
LT 1900	50	1.4	$1,157,841.31	$23,156.83
BG 1900 1970	515	14.0	$10,401,446.13	$20,196.98
BG 1971 1975	1478	40.1	$37,039,816.05	$25,060.77
GE 1976	1644	44.6	$58,372,977.35	$35,506.68
*OTHER		.0	$.00	$.00
	3687*		$106,972,082.84 *	$29,013.31 *

TOTAL NUMBER OF RECORDS PROCESSED 3687

MOBILE HOME PARKS ONLY

UNPAID PRINCIPAL BALANCE	COUNT OF LOANS SELECTED	COUNT% OF LOANS SELECTED	SUM OF UNPAID PRINCIPAL BALANCE
LE 25000.00	1457	39.5	$27,074,985.79
RG 25000.01 50000.00	2068	56.1	$73,415,441.99
RG 50000.01 75000.00	161	4.4	$9,398,191.07
GE 75000.01	1	.0	$83,463.99
*OTHER		.0	$.00
	3687*		$106,972,082.84 *

VAGABOND MOBILE HOME PARK

C COMM- NAME D ITMENT E NUMBER	ADDRESS	CONDOSELL PROJ.SERV NUMB	PRESENT PRINCIPAL BALANCE	
97696WELSHEIMER JUDITH A	4225 SPENARD RD SP 70	00140CITY	11,938.24	
97865KITTLESON ROBERT W II	4225 SPENARD ROAD #56	00140ANB	26,059.40	
97925WILLIAMS BRIAN K	4225 VAGABOND SP 26	00140CITY	20,777.78	
98252MCCULLOUGH NELSON J	4225 SPENARD RD SP 79	00140NBA	14,454.93	
98496BARRY ELOISE I	4225 SPENARD RD	00140NBA	15,622.21	
98528ROGERS ROBERT T	4225 SPENARD DRIVE	00140FNB	19,623.46	
98682DOLAN PAUL E & CYNTHIA R	4225 SPENARD RD SP 75	00140CITY	20,639.60	
98703TOZER ROBERT W & KATHLEEN D	4225 SPENARD ROAD SP 80	00140AKUSA	25,481.25	
98786RUHL BRUCE D & LISA K	4225 SPENARD RD SP 90	00140CITY	29,762.90	
98915STEVENS M ROBERTA	4225 SPENARD RD SP 111	00140CITY	16,392.98	
99074WOOD LEONARD R & REBECCA A	4225 SPENARD RD SP 93	00140CITY	19,459.14	
99137PETRIE JUDITH R	4225 SPENARD RD #118	00140AKUSA	25,940.74	
99153HANNAH BRUCE A	4225 SPENARD #122	00140FNB	24,380.41	
99241VANN BLAYLOCK GREGORY SR	4225 SPENARD SP 121	00140CITY	32,640.17	
99329MAURO PASQUALI C JR	4225 SPENARD #17	00140CITY	29,448.27	
99465MATHIS KENNETH E & DUNCAN JEFFREY M	4225 SPENARD RD SP 88	00140CITY	26,071.23	
99595YATES JEFFREY F & CHERYL	4225 SPENARD RD SP 76	00140FNB	28,190.84	
100192HUMMEL PAUL R	4225 SPENARD RD, SP #87	00140CITY	23,489.95	
100390VANZHOL JAMES M & SHIRLEY M	4225 SPENARD ROAD SP 61	00140FNB	29,700.83	
			440,084.54	12 *
			440,084.54	19 **

TOTAL NUMBER OF RECORDS PROCESSED 19

MOBILE HOMES ON LOTS

YEAR BUILT	COUNT OF LOANS SELECTED	COUNT% OF LOANS SELECTED	SUM OF UNPAID PRINCIPAL BALANCE	AVG OF UNPAID PRINCIPAL BALANCE
LT 1900	19	3.5	$627,994.88	$33,052.36
BG 1900 1970	77	14.2	$2,937,275.51	$38,140.44
BG 1971 1975	211	39.0	$6,582,319.74	$40,674.50
GE 1976	234	43.3	$11,964,234.98	$51,129.21
OTHER		.0	$.00	$.00
	541*		$24,111,825.11 *	$44,568.99 *

TOTAL NUMBER OF RECORDS PROCESSED 541

MOBILE HOMES ON LOTS

UNPAID PRINCIPAL BALANCE	COUNT OF LOANS SELECTED	COUNT% OF LOANS SELECTED	SUM OF UNPAID PRINCIPAL BALANCE
LE 25000.00	62	11.5	$1,183,184.28
RG 25000.01 50000.00	274	50.6	$10,129,500.72
RG 50000.01 75000.00	197	36.4	$12,144,191.37
GE 75000.01	9	1.5	$654,948.74
*OTHER		.0	$.00
	541*		$24,111,825.11 *

MOBILE HOMES ON LOTS

04/17/84 07:03:12 MHSUMMARY1 --- PRIVATE LOT MOBILE HOME ACTIVE LOANS PURCHASED THRU 4/10/84 PAGE 1

PARK NUMBER	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT	
88888	$164,317.98	$164,350.00	2	*
99999	$23,947,507.13	$24,711,923.00	539	*
	$24,111,825.11	$24,876,273.00	541	**

TOTAL NUMBER OF RECORDS PROCESSED 541

* Type I
** Type II

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
1	ALASKAN VILLAGE-	$4,651,771.32	$4,751,101.00	179 *
1		$4,651,771.32	$4,751,101.00	179 **
2	BROOKSIDE MANOR-	$787,524.69	$817,963.00	37 *
2		$787,524.69	$817,963.00	37 **
3	DIAMOND ESTATES MOBILE HOME PARK-	$7,012,086.61	$7,167,029.00	246 *
3		$7,012,086.61	$7,167,029.00	246 **
4	FAR NORTH-	$163,179.12	$167,900.00	7 *
4		$163,179.12	$167,900.00	7 **
5	FOREST PARK TRAILER COURT	$246,574.10	$248,900.00	6 *
5		$246,574.10	$248,900.00	6 **
6	FOUR SEASONS MOBILAND	$3,297,690.40	$3,362,736.00	125 *
6		$3,297,690.40	$3,362,736.00	125 **
7	KATHY D. ESTATES	$684,645.15	$702,850.00	24 *
7		$684,645.15	$702,850.00	24 **
8	MANOOGS ISLE MOBILE HOME PARK	$5,237,164.69	$5,360,497.00	186 *
9		$5,237,164.69	$5,360,497.00	186 **
9	MAYFLOWER TRAILER PARK	$8,657,368.97	$8,817,246.00	238 *
9		$8,657,368.97	$8,817,246.00	238 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
10	MONTAGUE MANOR MOBILE PARK	$8,807,024.35	$8,980,337.00	273 *
10		$8,807,024.35	$8,980,337.00	273 **
11	PENLAND MOBILE HOME PARK	$6,645,902.39	$6,814,591.00	222 *
11		$6,645,902.39	$6,814,591.00	222 **
12	RANGEVIEW MOBILE HOME PARK	$2,643,162.12	$2,706,902.00	104 *
12		$2,643,162.12	$2,706,902.00	104 **
13	BETHEL TRAILER PARK	$569,975.64	$590,100.00	20 *
13		$569,975.64	$590,100.00	20 **
14	CHUGIAK TERRACE	$327,129.72	$337,900.00	13 *
14		$327,129.72	$337,900.00	13 **
15	HENEY MOBILE HOME PARK	$910,850.94	$946,350.00	30 *
15		$910,850.94	$946,350.00	30 **
16	LAKEVIEW TRAILER PARK	$28,435.91	$28,950.00	1 *
16		$28,435.91	$28,950.00	1 **
17	BERGSTADS TRAILER PARK	$84,235.92	$91,650.00	4 *
17		$84,235.92	$91,650.00	4 **
18	RIVERVIEW M. H. PARK	$1,312,820.01	$1,332,177.00	36 *
18		$1,312,820.01	$1,332,177.00	36 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
19	COLUMBIA MOBILE HOME PARK	$723,152.54	$746,250.00	24 *
19		$723,152.54	$746,250.00	24 **
20	EILSON MOBILE HOME PARK	$94,797.31	$100,150.00	4 *
20		$94,797.31	$100,150.00	4 **
21	GOLDRUSH ESTATES	$2,313,650.53	$2,378,501.00	77 *
21		$2,313,650.53	$2,378,501.00	77 **
22	LAKEVIEW MOBILE HOME PARK	$2,682,294.71	$2,752,973.00	89 *
22		$2,682,294.71	$2,752,973.00	89 **
23	NELSON ROAD MOBILE HOME PARK	$35,946.78	$36,250.00	1 *
23		$35,946.78	$36,250.00	1 **
24	RAINBOW VALLEY MOBILE HOME PARK	$743,888.62	$762,071.00	26 *
24		$743,888.62	$762,071.00	26 **
25	TANANA TRAILER COURT	$173,434.10	$208,550.00	11 *
25		$179,434.10	$208,550.00	11 **
26	TOWNE AND COUNTRY MOBILE HOME COURT	$861,500.23	$884,265.00	27 *
26		$861,500.23	$884,265.00	27 **
27	GLACIER VIEW TRAILER COURT	$1,613,024.60	$1,654,205.00	49 *
27		$1,613,024.60	$1,654,205.00	49 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
28	KODZOFF ACRES TRAILER PARK	$187,333.03	$205,050.00	10 *
28		$187,333.03	$205,050.00	10 **
29	LEMON CREEK MANOR MOBILE HOME PARK	$1,669,325.63	$1,722,600.00	53 *
29		$1,669,325.63	$1,722,600.00	53 **
30	MOBILE HAVEN	$454,967.77	$498,600.00	24 *
30		$454,967.77	$498,600.00	24 **
31	SPRUCEWOOD MOBILE HOME PARK	$737,597.50	$784,950.00	35 *
31		$737,597.50	$784,950.00	35 **
32	SWITZER VILLAGE MOBILE HOME PARK	$3,060,554.64	$3,196,084.00	113 *
32		$3,060,554.64	$3,196,084.00	113 **
33	THUNDER MT. MOBILE HOME PARK	$360,837.50	$376,400.00	17 *
33		$360,837.50	$376,400.00	17 **
34	ANCHOR COURT	$136,495.73	$139,350.00	7 *
34		$136,495.73	$139,350.00	7 **
35	BEACH CREST MOBILE HOME PARK	$208,187.89	$217,350.00	10 *
35		$208,187.89	$217,350.00	10 **
36	BERG MOBILE HOME PARK	$39,736.45	$39,400.00	1 *
36		$39,736.45	$39,400.00	1 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
37	M.H. DEV. CO., INC.	$43,912.40	$42,150.00	2 *
37		$43,912.40	$42,150.00	2 **
38	MOUNTAIN VIEW COURT	$767,242.36	$819,760.00	31 *
38		$767,242.36	$819,760.00	31 **
39	RIDGEWOOD MOBILE HOME PARK	$204,492.87	$216,600.00	8 *
39		$204,492.87	$216,600.00	8 **
40	ALASKA PACIFIC TRAILER COURT	$177,006.15	$184,700.00	5 *
40		$177,006.15	$184,700.00	5 **
41	COVE TRAILER COURT	$27,445.84	$35,150.00	2 *
41		$27,445.84	$35,150.00	2 **
42	JACKSON MOBILE HOME PARK	$1,025,379.33	$1,063,694.00	32 *
42		$1,025,379.33	$1,063,694.00	32 **
43	MILL BAY COURT AND APARTMENTS	$34,658.11	$37,900.00	2 *
43		$34,658.11	$37,900.00	2 **
44	SPRUCE COURT OF KODIAK	$97,829.00	$101,200.00	4 *
44		$97,829.00	$101,200.00	4 **
45	FORT MAGILL MOBILE HOME PARK	$230,718.26	$239,250.00	10 *
45		$230,718.26	$239,250.00	10 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
46	TOWNE TRAILER PARK	$52,024.06	$53,200.00	2 *
46		$52,026.06	$53,200.00	2 **
48	AFTON CONDS TRAILER COURT	$64,383.13	$69,950.00	3 *
48		$64,383.13	$69,950.00	3 **
49	ARROWHEAD COURT	$159,782.53	$172,200.00	8 *
49		$159,782.53	$172,200.00	8 **
50	CHANNEL VIEW MOBILE HOME PARK	$112,990.17	$116,750.00	4 *
50		$112,990.17	$116,750.00	4 **
51	FOREST SERVICE EMPLOYEES MOBILE HOME PK	$33,468.79	$46,200.00	3 *
51		$33,468.79	$46,200.00	3 **
52	HAVEN MOBILE COURT	$69,167.71	$73,650.00	3 *
52		$69,167.71	$73,650.00	3 **
53	STARGAVIN TRAILER COURT	$167,143.29	$192,150.00	8 *
53		$167,143.29	$192,150.00	8 **
54	ASPEN PARK	$207,561.08	$215,600.00	11 *
54		$207,561.08	$215,600.00	11 **
55	RIVER TERRACE MOBILE HOME PARK	$273,638.60	$291,450.00	11 *
55		$273,638.60	$291,450.00	11 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
56	VISTA DEL SOL	$39,162.98	$41,300.00	2 *
56		$39,162.98	$41,300.00	2 **
57	ALLIED MOBILE PARK (JHS)	$273,316.17	$291,300.00	18 *
57		$273,316.17	$291,300.00	18 **
58	BAYPORT	$17,606.03	$18,500.00	1 *
58		$17,606.03	$18,500.00	1 **
59	JOHNSON TRAILER COURT	$9,492.34	$10,900.00	1 *
59		$9,492.34	$10,900.00	1 **
61	INDIAN HILLS TRAILER PARK	$35,814.96	$38,000.00	1 *
61		$35,814.96	$38,000.00	1 **
62	WILDWOOD MOBILE HOME COURT	$457,634.26	$477,485.00	22 *
62		$457,634.26	$477,485.00	22 **
63	VALLEY COURT	$186,386.83	$197,716.00	10 *
63		$186,386.83	$197,716.00	10 **
64	CLARKS TRAILER COURT	$43,301.41	$46,400.00	2 *
64		$43,301.41	$46,400.00	2 **
65	SPRUCE CAPE TRAILER COURT & RENTALS	$34,654.29	$36,900.00	2 *
65		$34,654.29	$36,900.00	2 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
66	MITKOF MOBILE HOME COURT	$111,029.03	$112,200.00	3 *
66		$111,029.03	$112,200.00	3 **
67	TWO PINES TRAILER PARK	$27,543.85	$28,000.00	1 *
67		$27,543.85	$28,000.00	1 **
68	ACRES TRAILER COURT	$73,602.61	$73,750.00	2 *
68		$73,602.61	$73,750.00	2 **
69	SOUTH CENTRAL MOBILE HOME PARK II	$407,150.84	$421,900.00	17 *
69		$407,150.84	$421,900.00	17 **
70	CREEK SIDE TRAILER PARK	$167,927.20	$173,950.00	5 *
70		$167,927.20	$173,950.00	5 **
71	BAKERS TRAILER COURT	$53,370.64	$54,150.00	2 *
71		$53,370.64	$54,150.00	2 **
72	GLENCAREN COURT	$10,408,945.56	$10,586,886.00	236 *
72		$10,408,945.56	$10,586,886.00	236 **
73	GLENN MULDOON	$1,903,194.76	$1,943,069.00	65 *
73		$1,903,194.76	$1,943,069.00	65 **
74	IDLE WHEELS VENTURES	$721,732.95	$738,418.00	29 *
74		$721,732.95	$738,418.00	29 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
75	MALASPINA M. H. P.	$2,059,941.09	$2,116,318.00	79 *
75		$2,069,841.09	$2,116,318.00	79 **
76	PLEASANT PARK	$207,743.38	$211,761.00	7 *
76		$207,743.38	$211,761.00	7 **
77	ANCHOR POINT M. H. VILLAGE	$13,526.78	$14,700.00	1 *
77		$13,526.78	$14,700.00	1 **
78	GLASEN COURT	$113,311.32	$121,000.00	4 *
78		$113,311.32	$121,000.00	4 **
80	HIGHLAND TRAILER PARK	$73,837.29	$75,050.00	2 *
80		$73,837.29	$75,050.00	2 **
81	SOLLARS TRAILER COURT	$285,308.39	$299,150.00	10 *
81		$285,808.39	$299,150.00	10 **
83	STERLING MALL, INC.	$13,692.21	$11,300.00	1 *
83		$13,692.21	$11,300.00	1 **
84	LA CHATEAU	$253,291.29	$263,300.00	10 *
84		$253,291.29	$263,300.00	10 **
85	GLACIER TERRACE	$1,187,714.81	$1,215,543.00	50 *
85		$1,187,714.81	$1,215,543.00	50 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
86	PENQUIN PARK	$152,304.52	$154,661.00	5 *
86		$152,304.52	$154,661.00	5 **
87	PLAZA 36 M/H PARK	$2,893,279.77	$2,949,283.00	107 *
87		$2,893,279.77	$2,949,283.00	107 **
89	RIVIERA TERRACE	$1,821,757.37	$1,863,928.00	67 *
89		$1,821,757.37	$1,863,928.00	67 **
90	VILLAGE M/H PARK	$3,001,245.25	$3,070,015.00	94 *
90		$3,001,245.25	$3,070,015.00	94 **
91	SLEEPERS TRAILER COURT	$19,965.95	$20,900.00	1 *
91		$19,965.95	$20,900.00	1 **
92	SCHAFERS TRAILER COURT	$141,177.17	$151,122.00	7 *
92		$141,177.17	$151,122.00	7 **
94	PIPER MOBILE HOME COURT	$58,749.25	$61,450.00	3 *
94		$58,749.25	$61,450.00	3 **
95	SPRUCE PARK	$202,706.52	$206,823.00	9 *
95		$202,706.52	$206,823.00	9 **
96	WHARTONS M. H. PARK	$155,708.72	$160,600.00	7 *
96		$156,708.72	$160,600.00	7 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
97	BIG O M. H. PARK	$77,863.44	$81,200.00	4 *
97		$77,863.44	$81,200.00	4 **
98	BERNICE LAKE ESTATES	$45,954.66	$46,500.00	2 *
98		$45,954.66	$46,500.00	2 **
99	HARDINGS TRAILER COURT	$23,248.75	$20,900.00	1 *
99		$23,248.75	$20,900.00	1 **
100	BUTTE MOBILE HOME PARK	$97,633.10	$100,700.00	3 *
100		$97,633.10	$100,700.00	3 **
101	BURRELL TR.CT./TONKA VIEW M. H. PARK	$32,342.71	$35,500.00	2 *
101		$32,342.71	$35,500.00	2 **
102	SIMMONS TRAILER PARK	$55,347.78	$51,700.00	4 *
102		$55,347.78	$61,700.00	4 **
103	NANOOK COURT	$367,593.98	$380,186.00	15 *
103		$367,593.98	$380,186.00	15 **
104	LITTLE DELTA TRAILER COURT	$15,870.35	$18,050.00	1 *
104		$15,870.35	$18,050.00	1 **
105	VENNETTIS TRAILER COURT	$194,895.51	$203,400.00	10 *
105		$194,895.51	$203,400.00	10 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
106	MILLERS MOBILE PARK	$117,424.89	$119,600.00	5 *
106		$117,424.89	$119,600.00	5 **
107	FOREST PARK MOBILE HOME COURT	$623,526.61	$647,092.00	25 *
107		$628,526.61	$647,092.00	25 **
108	TRAILS END MOBILE HOME COURT	$116,757.87	$118,367.00	5 *
108		$116,757.87	$118,367.00	5 **
109	WILLOW LAKE MOBILE HOME PARK	$41,053.15	$42,750.00	1 *
109		$41,053.15	$42,750.00	1 **
110	SUNSET TRAILER PARK	$221,621.88	$225,622.00	8 *
110		$221,621.88	$225,622.00	8 **
111	RIDGEWAY TRAILER COURT	$87,663.73	$92,550.00	4 *
111		$87,663.73	$92,550.00	4 **
113	FELZIENS MATANUSKA MOBILE COURT	$259,246.65	$263,650.00	9 *
113		$259,246.65	$263,650.00	9 **
114	CLEARWATER TRAILER COURT	$23,878.31	$30,650.00	2 *
114		$28,978.31	$30,650.00	2 **
115	OLSON TRUST RENTALS (BIGELOW'S)	$195,934.09	$198,140.00	6 *
115		$195,834.09	$198,140.00	6 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
116	EAST ANCHORAGE MOBILE HOME CT.	$311,910.34	$320,500.00	13 *
116		$313,910.34	$320,500.00	13 **
117	FORT EYAK TRAILER COURT	$27,662.41	$28,500.00	1 *
117		$27,662.41	$28,500.00	1 **
119	BACK TRACKS TRAILER PARK	$45,435.53	$46,800.00	2 *
119		$45,435.53	$46,800.00	2 **
120	GLACIER VALLEY MOBILE HOME PARK	$52,795.29	$54,100.00	2 *
120		$52,795.29	$54,100.00	2 **
121	LAZY MOUNTAIN TRAILER COURT	$335,044.21	$343,600.00	14 *
121		$335,044.21	$343,600.00	14 **
122	DON'S TRAILER PARK	$45,430.66	$46,200.00	2 *
122		$45,430.66	$46,200.00	2 **
124	HOME PARK ESTATES	$105,114.62	$109,200.00	4 *
124		$105,114.62	$109,200.00	4 **
125	OCEANSIDE TRAILER PARK	$79,244.42	$83,150.00	2 *
125		$79,244.42	$83,150.00	2 **
126	MCLAUGHLIN LAKESHORE COURT	$193,759.53	$207,550.00	8 *
126		$193,759.53	$207,550.00	8 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
129	MINERAL CREEK PARK	$267,520.40	$283,250.00	7 *
129		$267,520.40	$283,250.00	7 **
130	STOUGH'S MOBILE HOME PARK	$17,828.17	$18,050.00	1 *
130		$17,828.17	$18,050.00	1 **
131	NIKISKI VILLAGE TRAILER COURT	$49,921.45	$52,700.00	3 *
131		$49,921.45	$52,700.00	3 **
132	VIENNA WOODS MOBILE HOME PARK	$450,692.11	$459,950.00	17 *
132		$450,692.11	$459,950.00	17 **
134	FOUR SEASONS	$466,201.48	$481,200.00	18 *
134		$466,201.48	$481,200.00	18 **
135	BEST VIEW MOBILE HOME PARK	$16,301.66	$17,150.00	1 *
135		$16,301.66	$17,150.00	1 **
136	COPPER VALLEY TELEPHONE M.H.P. (CVEA)	$31,026.16	$33,650.00	2 *
136		$33,026.16	$33,650.00	2 **
137	PEACEFUL MEADOWS	$93,950.12	$93,450.00	4 *
137		$93,950.12	$93,450.00	4 **
139	SOUTH PARK ESTATES	$166,933.09	$168,000.00	6 *
139		$166,933.09	$168,000.00	6 **

PARK NUMBER	PARK NAME	UNPAID PRINCIPAL BALANCE	ORIGINAL LOAN AMOUNT	COUNT
140	VAGABOND	$433,730.45	$452,450.00	19 *
140		$433,730.45	$452,450.00	19 **
141	MAGGIES	$147,041.23	$149,900.00	6 *
141		$147,041.23	$149,900.00	6 **
142	DEARMOUN MOBILE HOME PARK	$31,094.68	$32,150.00	2 *
142		$31,094.68	$32,150.00	2 **
143	NOAA MOBILE HOME PARK	$51,918.73	$51,750.00	2 *
143		$51,918.73	$51,750.00	2 **
144	MOBILE II	$43,482.91	$47,000.00	2 *
144		$43,482.91	$47,000.00	2 **
145	SMITH'S GREEN ACRES	$78,379.47	$80,800.00	2 *
145		$78,379.47	$80,800.00	2 **
146	BIRCH LAVE MOBILE HOME PARK	$56,184.40	$57,200.00	1 *
146		$56,184.40	$57,200.00	1 **
147	ALTAVISTA	$30,347.56	$30,850.00	1 *
147		$30,347.56	$30,850.00	1 **
149	HUFFMAN PARK	$22,798.81	$23,900.00	1 *
149		$22,798.81	$23,900.00	1 **

3 YEARS OLD

TRAILER COURTS

Name	Address	Spaces
Airport Village	4407 Spenard Rd.	14
Alaskan Village, Inc.	7800 DeBarr Rd.	505
Alta Vista Mobile Home Park	1100 W. 32 Av.	24
Artesan Court	602 N. Lane St.	12
Baxter Road Trailer Court	4308 Baxter Rd.	16
Big Dipper	3920 McPhee Rd.	6
Brookside Manor	2205 Boniface Pkwy.	100
Cache Trailer Court	325 N. Park St.	13
Center Village	3600 Minnesota Dr.	19
Chateau Mobile Home Park	4203 Wilson St.	30
Chugach Drive Trailer Court	1115 Chugach Dr.	14
Clearwater Trailer Park	4040 Folker St.	30
Cordova Trailer Court	1200 Cordova St.	16
Cupid Trailer Park	2605 E. 50 Av.	15
DeArmoun Trailer Court	3533 Richmond	24
Dimond Estates	1200 W. Dimond Blvd.	520
Don's Trailer Park	Klatt Rd.	13
Eagle River Mobile Home Park	Box 65, St. Rt. Eagle River	26
E & J	3805 Cope	4
East Anchorage Mobile Home	5750 Glenn Hwy.	68
Far North Trailer Park	1616 Medfra St.	58
Forrest Park Trailer Court	1908 W. Hillcrest Dr.	47
Forty-niner Trailer Court	1009 W. 26 Av.	17
Four Seasons Mobiland	5901 E. 6 Av.	402
G & G Trailer Court	4619 E. 4 Av.	9
Glacier Terrace Trailer Court	4110 DeBarr Rd.	381
Glen Caren	2221 Muldoon Rd.	399
Glenn-Muldoon Trailer Court	7505 Glenn Hwy.	131
Golden Nugget Camper Park	1315 S. Hoyt	86
Granite Trailer Court	326 Irwin	2
Green Acres Mobile Home Court	4030 Lore Rd.	24
Grizzly Trailer Court	4222 Spenard Rd.	21
Hancock's Trailer Court	1417 W. 26 Av.	10
Handy's Trailer Court	1225 C St.	22
Highlander Trailer Court	2704 Fairbanks	33
Hill's Court	2702 McRae Rd.	9
Hillside Trailer Court	2150 Gambell	36
Home Park Estates	4403 Spenard Rd.	18
Huffman Camper Park	Jackass Ln.	151
Ida's	8730 Lake Otis Pkwy.	
Idle Wheels Mobile Court	4100 Arctic Blvd.	75
Kathy-O-Estates	909 Chugach Wy.	82
King's Court Trailer Court #1	2617 McRae Rd.	7

TRAILER COURTS

Name	Address	Spaces
King's Court #2	3301 Commercial Dr.	16
King's Rentals	2316 C St.	7
L & L Trailers & Spaces	1003 Chugach Wy.	35
La Honda Trailer Park	2907 La Honda Dr.	56
La Vie En Rose Mobile Home Park	3200 Turnagain Blvd. East	10
Linda Kay Trailer Ct. & Apts.	202 N. Klevin St.	17
Maggie's Trailer Court	4503 Spenard Rd.	43
Malaspina Mobile Home Park	1545 S. Hoyt	138
Manoog's Isle Mobile Home Park	2611 Pago Pago St.	284
Mayflower Circle Park	1001 Boniface Pkwy.	
Merchant's Trailer Court	412 E. 13 Av.	12
Miller's Mobile Park	3313 Spenard	17
Montague Manor Mobile Home Pk.	9499 Brayton Dr.	318
Mt. View Trailer Court	160 S. Klevin St.	20
Nanook Courts, Inc.	3500 Mt. View Dr.	52
Panoramic View Campe. Trailer Park	Huffman Rd.	
Park Street Court	501 North Park St.	6
Parka Trailer Court	3508 Woodland Dr.	10
Pair-O-Dice Trailer Court	2606 Gambell St.	17
Penland Park	801 Airport Heights	453
Penguin Trailer Park	3407 Spenard Rd.	62
Piper Court	4222 Piper St.	24
Plaza 36 Mobile Home Park	3701 Eureka St.	222
Preferred Trailer Court	2906 W. 30 Av.	16
Rangeview Annex	905 Muldoon Rd.	97
Rangeview Mobile Home Park	705 Muldoon Rd.	318
Richmond Trailer Court	134-136 Schodde St.	10
Riviera Terrace Mobile Home Park	3307 Boniface Pkwy.	114
Scenic View Trailer Court	8007 Old Seward Hwy.	26
South Park Estates	3007 Arctic Blvd.	70
Spruce Park Trailer Court	7100 Lake Otis Pkwy.	50
Steven's Trailer Park	3804 Cope St.	7
Sullivan's	608 Mumford	5
Sunny Slope Trailer Court	4000 E. 2 Av.	7
Sunset Trailer Park	4200 E. 4 Av.	135
Talkeetna Trailer Court	4020 McPhee	19
Top Hand Trailer Court	2409 McRae Rd.	29
Totem Trailer Town	701 Klevin St.	137
Trailer City	4420 E. 2 Av.	49
Trails End Mobile Home Park	100 McCarrey St.	26
Troy Hill Trailer Court	211 E. 26 Av.	10
Tudor Vista Mobile Park	1601 E. Tudor Rd.	11
Twin Birch Trailer Court	4433 Wright St.	32
Vagabond Park	4225 Spenard Rd.	130
Vandemere Mobile Home Park	6033 Tudor Rd.	36
Wagon Wheels Mobile Home Park	4220 Baxter Rd.	34
Wharton Park	2208 Eureka St.	34
White Birch Trailer Park	1040 E. 6 Av.	60

Alaska State Legislature

Senate

Committee on Finance

Pouch V
State Capitol
Juneau, Alaska 99811

Official Business

Friday, May 25 1984

Letter of Intent to accompany SCSCSHB-663 (Fin.):

The Legislature is concerned about the number of trailer parks being sold or closed, and the increased risk this causes to portions of AHFC's mobile home loan portfolio and to certain borrowers under this program.

It is the intent of the Legislature that AHFC act immediately to make changes in its mobile home financing program through the adoption of emergency regulations as provided by AS 18.56.088(e). The emergency regulations will require that all mobile homes for which new mobile home loans are made be located on property owned by the borrower, property leased to the borrower for a period of time that exceeds the term of the loan, or if located on rented property, then the owner of the property must guarantee to allow the mobile home to remain on the property for a time period equal at least 75% of the loan term. As used here, the term "new mobile home loan" means a loan secured by collateral which is not already securing an existing AHFC mobile home loan.

AHFC shall continue to allow assumptions of existing mobile home loans, and shall use the flexibility authorized by section 1 of this bill to minimize undue hardship for owners of mobile homes under this program.

Additionally, as part of its annual trailer park approval process, AHFC shall require owners of approved trailer parks to provide at least one years eviction notice to their tenants prior to implementing a change in the land use of the property.

It is further the intent of the legislature that during the period the emergency regulations are in effect, the House and Senate Finance Committees, and the House Special Committee on State loans, in conjunction with the Commissioner of the Department of Revenue, and the Board and Executive Director of the Alaska Housing Finance Corporation, will develop proposed regulations for AHFC to consider regarding permanent changes to its mobile home loan financing program. In developing these proposed regulations, public hearings and other means will be utilized to gather input from all parties affected by the AHFC mobile home loan financing program.

Signed: _____

JOHN C. SACKETT
Co-Chairman, SFC

ALASKA HOUSING FINANCE CORPORATION

LOAN SUMMARY - MORTGAGES PURCHASED
MOBILE HOMES

	FY '82	%	FY '83	%	JUL - MAR FY '84	%
Sales Price	27,966		34,235		38,524	
Appraised Value	29,160		35,096		40,620	
Note Amount	25,878		31,376		36,372	
Monthly Income	2,710		2,864		2,910	
Age of Borrower	32.9		31.9		32.2	
Size of Household	2.6		2.5		2.6	
Loan to Sales Price Ratio	92.54		91.65		94.41	
Weighted Average Int. Rate	11.34		11.39		10.26	
Monthly P & I Payment	285.20		343.12		368.81	
Dwelling Type						
Mobile Homes	1,324	100.00	1,872	100.00	1,326	100.0
New/Existing						
New	132	9.97	390	20.83	264	19.9
Existing	1,192	90.03	1,482	79.17	1,062	80.0
	1,324	100.00	1,872	100.00	1,326	100.0
First Time Homeowner						
Yes	840	63.44	1,249	66.72	924	69.6
No	484	36.56	623	33.28	402	30.3
	1,324	100.00	1,872	100.00	1,326	100.0
Insurance Type						
FHA	-	-	-	-	-	-
VA	74	5.59	267	14.26	5	.3
CONV	1,250	94.41	1,605	85.74	1,321	99.6
	1,324	100.00	1,872	100.00	1,326	100.0
Eligible State Veteran	71	5.36	263	14.05	290	21.8
Non-Eligible State Veteran	1,253	94.64	1,609	85.95	1,036	78.1
	1,324	100.00	1,872	100.00	1,326	100.0
Original Balance	34,263,450.00		58,735,850.00		48,229,435.00	

cf19

MOBILE HOME LOANS IN PARKS

Anchor Point	~~68,527~~ 13 526	~~4~~ 1
Anchorage	79,702,874	2627
Bethel	573,052	20
Chugiak	1,136,385	36
~~Copper Center~~	41,053	1
Cordova	1,464,287	47
Delta Junction	169,702	9
Eagle River	553,765	21
Fairbanks	13,427,537	429
Juneau	8,013 160	377
Kenai	420,274	21
Ketchikan	1,104,510	48
Kodiak	1,656,231	54
~~Nenana~~	47,114	1
North Pole	163,909	6
Palmer	420,412	14
Petersburg	463,688	19
Sitka	1,297,797	60
Soldotna	677,751	30
Sterling	34,218	2
OK Valdez	1,060,291	50
Wasilla	1,024,505	30
~~Willow~~	~~24,081~~	~~1~~
Totals	113,585,123	3904

of 129

(29,0[illegible])

AHFC APPROVED MOBILE HOME PARKS

NAME OF PARK	EXPIRATION DATE	AHFC#
	ANCHOR POINT	
Anchor Point Mobile Home Village	6/24/83	77
	ANCHORAGE	
Altavista	10/13/83	147
Alaskan Village	6/23/84	1
Baxter Trailer Court	6/15/83	152
Brookside Manor	7/26/84	2
Close In Aka LaVie En Rose	10/06/84	148
DeArmoun Mobile Home Park	7/12/83	142
Dimond Estates Mobile Home Park	2/25/85	3
Don's Trailer Park	10/12/84	122
East Anchorage Mobile Home Court	2/17/85	116
Forest Park Trailer Court	9/27/84	5
Four Seasons Mobiland	6/21/84	6
Glacier Terrace	2/21/85	85
Glencaren Court	5/10/84	72
Glenn Muldoon	7/26/84	73
Green Acres Trailer Court	6/15/84	93
Home Park Estates	7/26/84	124
Idle Wheels Ventures	11/12/84	74
Kathy O. Estates	5/15/84	7
La Chateau	4/26/85	84
Maggies	12/21/84	141
Malaspina Mobile Home Park	2/25/85	75
Manoogs Isle Mobile Home Park	2/10/35	8
Mayflower Circle Trailer Park	4/21/85	9
Millers Mobile Park	9/14/84	106
Nanook Court	5/10/84	103
Penland Mobile Home Park	3/21/85	11
Penquin Park	12/07/84	86
Piper Mobile Home Court	12/21/84	94
Plaza 36 Mobile Home Park	8/02/84	87
Pleasant Park	9/20/84	76
Rangeview Annex & Rangeview Mobile Home Park	5/25/84	12
Riviera Terrace	10/26/84	89
South Park Estates	8/02/84	139
Southwood Manor (Montague Manor)	3/30/85	10
Spruce Park	12/13/84	95
Sunset Trailer Park	8/25/84	110
Trails End Mobile Home Court	11/15/84	108
Vagabond	8/31/84	140
	BETHEL	
Bethel Trailer Park	7/08/84	13
	CHUGIAK	
Birchwood Loop Terrace	12/21/84	14
Forest Park Mobile Home Court	5/24/84	107

AHFC APPROVED MOBILE HOME PARKS

CORDOVA

Glasen Court	12/10/83	78
Heney Mobile Home Park	10/11/84	15
McLaughlin Lakeshore Court	12/31/84	126
Mt. Eccles Estates	12/31/83	156

DELTA JUNCTION

Big D Mobile Home Park	1/21/85	97
Smith's Green Acres	9/14/83	145

EAGLE RIVER

Eagle River Trailer Park	2/24/85	115
Lazy Mountain Trailer Court	6/25/84	121

FAIRBANKS

Columbia Mobile Home Park	3/31/84	19
Eielson Mobile Home Park	5/25/84	20
Goldrush Estates	7/21/85	21
Huffman Park	11/19/84	149
Lakeview Mobile Home Park	12/02/84	22
Peaceful Meadows	6/14/84	137
Rainbow Valley Mobile Home Park	12/07/84	24
Riverview Mobile Home Park	9/14/85	18
Tanana Trailer Court	1/21/85	25
Towne And Country Mobile Home Park	2/02/85	26
Village Mobile Home Park	5/04/85	90
Wildwood Mobile Home Court	12/26/84	62
Badger Mobile Home Park	7/21/84	155

GIRDWOOD

Glacier Valley Mobile Home Park	7/14/83	120

JUNEAU

Glacier View Trailer Court	12/15/84	27
Kodzoff Acres Trailer Park	12/15/84	28
Kodzoff II	12/15/84	158
Lemon Creek Manor Mobile Home Park	12/15/84	29
Mobile II	NOT ELIGIBLE	144
Mobile Haven	12/15/84	30
Sprucewood Mobile Home Park	12/15/84	31
Switzer Village Mobile Home Park	12/15/84	32
Thunder Mtn. Mobile Home Park	12/15/84	33
Valley Court	NOT ELIGIBLE	63

AHFC APPROVED MOBILE HOME PARKS

KENAI

Anchor Court	9/09/84	34
Bernice Lake Estates	10/22/84	98
Greatland Village	6/07/83	79
Highland Trailer Park	6/27/84	80
Nikiski Village Trailer Court	6/14/83	131
Sleepers Trailer Court	12/17/84	91

KETCHIKAN

Beach Crest Mobile Home Park	12/02/84	35
Mountain View Court	5/12/85	38
Ridgewood Mobile Home Park	9/20/83	39

KODIAK

Alaska Pacific Trailer Court	12/27/84	40
Clarks Trailer Court	12/06/83	64
Hardings Trailer Court	6/25/83	99
Jacksons Mobile Home Park	5/04/85	42
Mill Bay Court and Apartments	8/02/83	43
NCAA Mobile Home Park	5/26/84	143
Spruce Court of Kodiak	1/06/85	44

NENANA

Clear Trailer Court	1/06/85	154

PALMER

Butte Mobile Home Park	5/18/84	100
Felziens Matanuska Mobile Court	3/21/85	113
Starr Mobile Estates	10/21/84	151

PETERSBURG

Olson Trust Rentals (Bigelow's)	11/24/84	150
Fort Magill Mobile Home Park	11/19/84	45
Mitkof Mobile Home Court	2/15/85	66
Towne Trailer Park	8/17/83	46

SEWARD

Olson's Salmon Creek Trailer Court (Two Pines)	6/02/83	67
Bear Creek Trailer Park	12/06/84	153

AHFC APPROVED MOBILE HOME PARKS

SITKA

Afton Conns Trailer Court	1/04/84		48
Arrowhead Court	12/13/84		49
Channel View Mobile Home Park	9/30/84		50
Forest Service Employees M. H. P.	11/21/84		51
Haven Mobile Court	8/10/83		52
Oceanside Trailer Park	2/16/85		125
Schafers Trailer Court	2/16/85		92
Sollars Trailer Court	1/15/85		81
Starrigavan Trailer Court	12/10/83	(Excluding Sp. 1 - 6)	53
Vennettis Trailer Court	8/02/84		105
Swearingens Trailer Court	8/31/84		157

SOLDOTNA

Aspen Park	1/24/85	54
Birch Lane Mobile Home Park	9/22/84	146
River Terrace Mobile Home Park	12/14/84	55

STERLING

Back Tracks Trailer Park	12/17/84	119
Sterling Mail, Inc.	6/20/84	83

VALDEZ

Allied Mobile Home Park (JHS)	12/20/84	57
Copper Valley Telephone M.H.P. (CVEA)	8/05/84	136
Simmons Trailer Park	6/14/83	102
South Central II aka Mineral Creek	11/15/83	69

WASILLA

Best View Mobile Home Park	12/23/82	135
Four Seasons	5/28/84	134
Vienna Woods Mobile Home Park	5/12/84	132

WRANGELL

Bakers Trailer Court	11/24/84	71
Stough's Mobile Home Park	11/22/84	130

COPY

Alaska State Legislature

POUCH V
JUNEAU ALASKA 99811
(907) 465-4821

REPRESENTATIVE RICK UEHLING
CHAIRMAN
REPRESENTATIVE WALT FLANAGAN
REPRESENTATIVE NILO HOPE
REPRESENTATIVE JERRY WARD
REPRESENTATIVE RON BENSON

House Special Committee on State Loans

MEMORANDUM

To: Members
House Special Committee on State Loans

From: Rep. Rick Uehling, Chair
House Special Committee on State Loans

Subject: AHFC Default Rates

Date: August 13, 1984

Attached please find profiles of AHFC's conventionally built home loan program and their mobile home loan program default rates. These figures are provided, by AHFC, in response to questions by members of the Loans Committee and members of the Anchorage Caucus. If you have additional questions or need additional information please contact David Cobb, of my staff at 274-2441.

ALASKA HOUSING FINANCE CORPORATION

PROFILE OF MOBILE HOME PORTFOLIO

TOTAL LOANS OUTSTANDING	4,342 LOANS -	136,542,560.00
TOTAL LOANS IN DEFAULT	194 LOANS -	5,836,004.77

LOANS IN DEFAULT

# OF DAYS	DOLLAR AMOUNT	% OF DOLLAR AMOUNT IN DEFAULT
30 DAYS	3,808,222.84	2.79%
60 DAYS	795,581.36	.58%
90 DAYS	451,534.20	.33%
120 DAYS	780,666.37	.57%
TOTALS	5,836,004.77	4.27%

ALASKA HOUSING FINANCE CORPORATION

PROFILE OF CONVENTIONALLY BUILT HOME LOAN PORTFOLIO

TOTAL LOANS OUTSTANDING	42,371 LOANS -	3,643,104,982.32
TOTAL LOANS IN DEFAULT	1,329 LOANS -	111,507,595.61

LOANS IN DEFAULT

# OF DAYS	DOLLAR AMOUNT	% OF DOLLAR AMOUNT IN DEFAULT
30 DAYS	74,748,740.72	2.05%
60 DAYS	16,084,779.37	.44%
90 DAYS	6,676,075.95	.18%
120 DAYS%	13,997,999.57	.38%
TOTALS	111,507,595.61	3.05%

Boettcher & Company
Management Services Since 1910

Management/Leasing Office
Suite 215
8400 East Prentice Avenue
Englewood, Colorado 80111
(303) 740-0895

May 30, 1984

Ms. Carol Rion
Resourse Coordinator of
the Mayors Office
Municipal Hill Building
632 W. 6th Avenue
Pouch 6-650
Anchorage, Alaska 99502-0650

Dear Carol:

I appreciated the opportunity to meet with you, Sandra Wicks, and our Architect, Bob Herndon last Friday, May 18. As you recall, we intend to develop the Vagabond Trailer Court into an Apartment Project.

I will restate for you the various points of the offers we have made to help mitigate the dislocation of the existing trailer park residents:

1. We have offered to rebate the trailer park residents $.50 of each dollar paid for space rental from the time that we obtain our approved rezoning application through March of 1985. Current rentals are approximately $220.00 per space. We anticipate receiving approval from the Municipal Assembly July 31, 1984. Therefore, the amount of the offer is currently $880.00 per space. This is an effort to help the residents with relocation expenses for their trailers or help towards down payment of requirements for purchase of other housing.

2. We have offered to provide a lease from the time of approval of such rezoning until March 31, 1985, that would not be terminable by the landlord, but would be terminable by the residents upon 30 days notice. This is to provide flexibility for the residents in finding alternate housing while giving them the ability to seize such alternate housing when it is obtained. It is interesting to note that to the best of the knowledge of the sellers of this property, none of the residents have asked for anything greater than a month-to-month period.

3. We have offered to those residents who have school-age children attending Northwood Elementary to provide rental housing in the immediate area, in which to live until the 1984 school year is complete.

4. We have offered to be responsible for the demolition and removal of any personal property left by the residents. Further, the rental abatement offer stated in Item #1 on the first page is not conditioned upon removal of or demolition of personal property.

5. We have offered to hire a relocation counselor who is skilled and knowledgable in Anchorage Housing Alternatives to assist residents in finding and negotiating for alternate housing. The services to be provided would be locating apartments and other urban locations, alternate mobile home parks, either planned or existing, assistance in preparing financial statements and personal resumes to obtain financing for home ownership or new mobile homes in other parks, and an explanation of State or Municipal programs for aid and assistance in relocation matters.

6. We have offered to discuss any specific and unique hardships of elderly residents of the park on a one-to-one basis. Our intent is to identify those residents who are particularly burdened in relocation due to their age.

With the exception, of course, of some of the more voiceful residents at Vagabond, the conversations and meetings that we have conducted with various neighbors and neighborhood groups have given us the impression that their feeling is that we are offering responsive solutions to the dislocation concern in an amount much greater than we are both required to and have heretofore been considered by redevelopers of Anchorage's Mobile Home Parks.

Again, thank you for extending the courtesy of visiting with us last week. As I mentioned, we sincerely wish to be a good neighbor and a responsible provider of quality housing.

Sincerely,

BOETTCHER PROPERTIES LTD.

Donald B. Berland
General Partner

DBB/chh

cc: Sandy Wicks ✓
Bob Herndon

Sandra J. Wicks
Attorney at Law
608 West 4th Avenue #22
Anchorage, Alaska 99501
(907) 338-6387

June 8, 1984

ubject: Case No. 84-56, Vagabond Trailer Court Rezoning

ar Anchorage Plannning & Zoning Commission Members:

Thank you very much for according my client, Boettcher and mpany, the opportunity to have a work session with you on its equest to rezone the Vagabond Trailer Court. I hope you felt that ou gained worthwhile information for the extra time you put in uring the noon hour. As Alicia Iden, Toni Jones and I discussed fter the session, I think where there are complex land use and ocial issues in a case, some opportunity for the proponent of a roject to do more than a 10 minute presentation is really neces- ary -- particularly where citizens who are properly organized, hough perhaps ill-informed, may manage to testify for hours on a roposal.

On reflection, I thought perhaps it would be useful to the embers who were not at the work session, as well as to those who ere, to have me review for you some of the points the developer wanted to make. I have also attached copies of some of the materials that were referred to in the presentation. I think it is particularly important to review the comprehensive plan pages I have attached and highlighted. They are important for a proper balance in applying the comprehensive plan to rezoning requests. Not just the land use and residential intensity maps should be considered. Equally important are the goals and policies and the narrative sections that explain that you should look at the gross density for the area and not go below the minimum densities shown for the various geographic areas. Too often, I believe, people have looked at the density range for a particular parcel and stopped the analysis at that point without considering whether the plan for the area is being met.

As I explained in the work session, using the maps we provided (and I hope those of you who were not at the work session were provided the maps we left for you) several conclusions emerge about the part of Spenard around Vagabond Trailer Court:

1. Single-family and multi-family dwellings co-exist side by side through much of the area;

2. The zoning is not an accurate indicator of the actual development;

3. There is almost no vacant residential land remaining in the area;

4. The area is divided into small lots making unified redevelopment with urban amenities unlikely or at least difficult, and finally,

5. There is so much single-family development in the area that the comprehensive plan density ranges are not being met -- thus Spenard is not providing the share of housing allocated to it by the comprehensive plan.

The comprehensive plan guidelines, goals and policies indicate that Spenard is an area where higher density multi-family should be encouraged and higher density multi-family should be encouraged near arterials (Spenard Road) and open space (Northwood Park). Under the circumstances depicted above, higher density development should be permitted with the focus on design to mitigate impacts.

As you saw at the work session, after much interaction with the community, Boettcher and Company has produced a conceptual design that mitigates many of the impacts of higher density development. Copies of the conceptual site plan and elevation are attached to this letter, too. The conceptual design includes a wide buffer around the perimeter and three-story buildings clustered in the center of the property. Much more of the site is in usable open space than the 30% figure in the PUD provisions. The traffic circulation follows the recommendations of the traffic study performed for the developers. It lines up the ingress and the egress with Barbara Street and 45th Avenue. Forty-fourth Avenue will not be used and could be vacated as a right-of-way. Depending on the exact postioning of the buildings and parking, a vegetative strip 20 to 30 feet wide along Fish Creek could be included in the design.

Because of the front-end costs involved with PUD's and the delay before approval would be certain, the developer seeks to use the alternate approach of rezoning to R-3 with special limitations to provide the same type of assurances to the community that a PUD provides.

The developer would like to volunteer the following special limitations establishing design standards for the property.

1. The number of dwelling units permitted shall be limited to 300.

2. There shall be ingress and egress to both Spenard Road and Northwood with the intersections aligned with Barbara Street and West 45th Avenue.

3. There shall be a minimum of 40% usable open space.

4. There shall be a site plan review by the Planning and Zoning Commission to include ingress/egress, parking, building footprint, open space and landscaping on the appearance request of the petitioner.

5. Before the petitioner may obtain an appearance request review of its site plan, it must provide the Spenard Community Council an opportunity to review and comment on the site plan.

6. Construction on the project shall not commence before April 1, 1985.

The developer is also willing to discuss other limitations or variations on the above limitations in an effort to produce a product that meets the community's needs. The important thing is to provide certainty at this time to the developer and to the trailer court residents who will be displaced.

With regard to the issue of displacement of the trailer court tenants, it is my legal opinion that the commitments made in the letter to Carol Rion of the Mayor's office (additional copies of which are attached to this letter) are not appropriate special limitations on a rezoning request, although they are nonetheless, commitments representing an expenditure of approximately $150,000 to which the developer intends to adhere. Special limitations should only deal with the land use issues.

In summary, because of the shortage of vacant residential land in all of the Northwest area of Anchorage and because the rezoning request conforms to the narrative policies in the comprehensive plan, the density of development requested by Boettcher and Company should be approved with special limitations to protect the surrounding areas from impacts of the increased density. This project has the possibility of providing needed housing, a buffer for Fish Creek and a shot in the arm for the revitalization of the Spenard Road area while minimizing the impact on the adjacent residential neighborhoods through appropriate design.

While there has been a lot of community discussion on the project and there is not unanimous agreement on it, there is considerable community support for it. Attached to this letter are petitions and letters signed by people supporting the project. The two attached letters are from property owners in Lakeway Subdivision, the subdivision on the northeast corner. They are neighbors of Mr. Beck, an outspoken critic of the project, and they hold diametrically opposed views to his. They do not see the project as a threat to their lifestyle or their property values. They feel the project will enhance their neighborhood and help stabilize its residential character.

Thank you for taking the time to read this lengthy letter and for allowing the developer to address you in the work session.

Sincerely,

Sandra J. Wicks

Sandra Wicks, Esq.

Enclosures

cc: Mayor Knowles
Bill Luria, Director Community Planning
Assembly Member, Dave Walsh
Assembly Member, Rick Mystrom
Spenard Community Council Co-Chairmen, Myron Igtanloc and Mary McKinnon
Don Berland, Boettcher and Company
Bob Herndon, Herndon and Associates

SW/mm

SCOMM
#50:14

ALASKA MORTGAGE BANKERS ASSOCIATION
P.O. BOX 4-2691/ANCHORAGE, ALASKA 99503

January 25, 1985

Mr. Willis Kirkpatrick
Director of Banking, Securities and Corporations
Department of Commerce and Economic Development
Pouch D
Juneau, Alaska 99811

Dear Mr. Kirkpatrick:

The Alaska Mortgage Bankers Association has reviewed House Bill 51 and Senate Bill 6, relating to Interest on Escrows.

Banks, of their own volition, do not require funds held in escrow on mortgage loans. This is only one requirement of the investors purchasing the mortgages, with which banks must comply in order to originate and sell mortgage loans.

The bills are discriminatory, in that they would affect banks only; escrows on mortgage loans are held not only by banks, but by Credit Unions, Savings and Loan Associations, Savings Banks and Mortgage Companies. Requiring only banks to pay interest on escrows would give non-bank institutions an unfair advantage and a disadvantage to non-bank borrowers.

The bills also would require banks to pay interest at the rate of interest charged to the borrower on a mortgage loan. Since Alaska lenders sell the majority of loans to investors, such as Alaska Housing Finance Corporation, and service the loans for the investors for a set fee, the rate of interest paid on the loan is not relevant to the escrow. This requirement would create a real computer nightmare if it is even possible, adding to the cost of performing escrow functions.

Banks have never wanted to collect reserves (escrows) on mortgage loans. During the Depression in the 1930s, many borrowers lost their homes due to inability to pay taxes. The federal government and lending institutions determined there should be a better way, and collection of reserves on a monthly basis evolved, in great part as a result of the Housing Act of 1934, which created FHA. Reserve accounts have helped standardize mortgage loans, which has resulted in loans requiring minimal down payments and lower interest rates than would otherwise be available, thus making homeownership available to more people.

AHFC, which purchases some 75-80% of all mortgage loans in Alaska, requires collection of reserves. Without the assurance that funds are available to pay taxes and insurance, we question whether AHFC could sell their bonds, and if so, at what price. The cost to Alaska homebuyers would definitely increase.

The bills would exempt those loans where escrows are required by federal law or regulation; this would exempt FHA and VA loans, and possibly loans sold to Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). As AHFC now sells its' loans to FNMA, these could possibly also be exempted. The majority of loans in Alaska could therefore come under exemption.

Lenders holding escrow funds in connection with mortgage loans perform significant services which accrue to the benefit of the borrowers, local tax authorities, insurers and mortgage investors.

1) Collection of taxes and insurance monthly.
2) Collection of assessments in certain instances.
3) Obtaining tax bills and paying in a timely manner.
4) Payment of assessments in a timely manner.
5) Payment of insurance premiums to assure coverage.
6) Analyzing sufficiency of escrow accounts and adjusting payments as necessary due to changes in taxes, insurance and assessments.
7) Answering questions and complaints including those regarding increases in taxes which should more properly be directed to taxing authorities.
8) Distributing an annual statement of account.
9) Advancing lenders' own funds when necessary to insure timely payment of taxes and insurance. Repayment of these advances are often spread over a period of time, without charge, to ease the financial burden to the borrower.

The cost of administering escrow accounts is significant. Lenders currently absorb this cost because it is partially offset by non-interest bearing deposits. Should lenders be required to continue the escrow function and to pay interest on the escrows, the full cost of performing the services required would necessarily be passed on to the borrowers.

The Alaska Mortgage Bankers Association urges thoughtful consideration of these bills prior to any action. At this time, we urge these bills be rejected.

Please keep us advised of any hearings.

Sincerely,

Paula Cranmer
President
Alaska Mortgage Bankers Association

attachment: Membership list, Alaska Mortgage Bankers Assoc.

Introduced: 1/14/85
Referred: 1/16/85 House Special Committee on
State Loans and Finance

IN THE HOUSE BY DUNCAN, SUND AND MARROU

HOUSE BILL NO. 51

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act requiring banks to pay interest on money in reserve accounts held in connection with mortgage loans."

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

* Section 1. AS 06.05 is amended by adding a new section to read:

Sec. 06.05.285. INTEREST ON RESERVE ACCOUNTS. (a) A bank that requires the payment of money by a borrower into an escrow or similar reserve account for the payment of taxes, insurance premiums, or home owner's association dues in connection with a mortgage loan shall pay interest on the money in that account unless the account is required by federal law or regulation. The rate of interest paid on money in a reserve account shall equal the rate of interest charged to the borrower for the mortgage loan and shall be computed on the average monthly balance in that account on the first of each month.

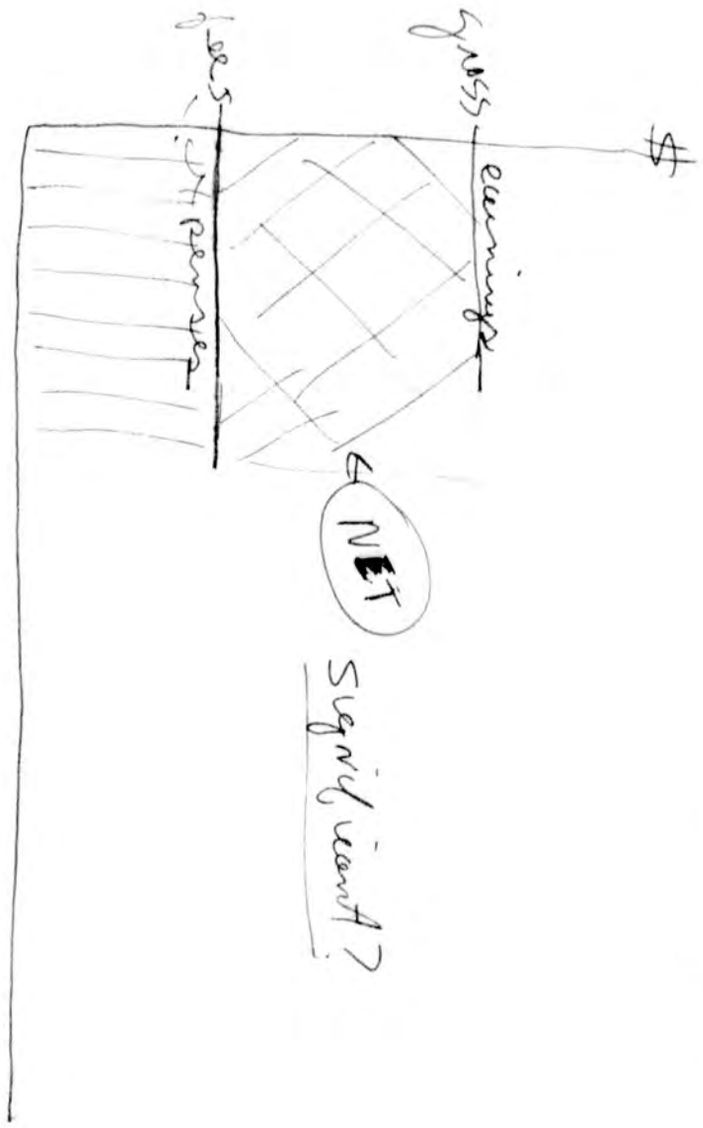
(b) Interest earned on money in a reserve account shall be annually credited to the remaining principal balance on the mortgage loan, or at the election of the borrower, shall be paid to the borrower.

* Sec. 2. AS 06.05.285 enacted in sec. 1 of this Act applies to escrow and similar reserve accounts established before the effective date of this Act, as well as to accounts established after the effective date of this Act, with interest to be paid beginning on the effective date of this Act on money in those accounts.

sec 3 + allow fees to be collected

Question -

How much net income do the Banks recieve from interest etc on the "float".



What is Done w/ $?

MORTGAGE ESCROW ACCOUNTS

(States which require the payment of interest on escrow accounts are marked with an asterisk.)

ARKANSAS, Stat. Ann. Secs. 67-2217 and 2218

Requires escrow funds be held separate from company accts.

All monies paid to a mortgage loan company (required to be licensed under state law) for the payment of taxes or insurance premiums on property secured by a loan made by the company shall be deposited in an insured account and kept separate, distinct and apart from funds belonging to the mortgage loan company. The company shall, upon reasonable notice, account to the mortgagor and to the Commissioner for all funds in the account. Such funds are not subject to execution or attachment on any claim against the company.

***CALIFORNIA,** Civil Code, Secs. 2954 - 2955

Impound accounts maintained in connection with mortgages secured by single-family, owner-occupied dwellings are optional unless: (1) required by state or federal regulatory authority; (2) the state or federal government makes, guarantees or insures the loan; (3) the borrower or purchaser is delinquent in paying two consecutive tax installments; (4) the original principal amount of the loan is 90 percent or more of the appraised value of the property; or (5) whenever the combined principal balance of all loans secured by the real property exceeds 80 percent of the appraised value of the property securing the loans.

Every mortgagor is entitled to receive one itemized accounting of the impound account per year and may request additional similar accountings for one or more months upon written request and advance payment of a set fee. Any increase in monthly payments must be preceded by an itemized accounting, a statement of the new monthly rate and an explanation of the cause of the increase. Violation of these provisions is punishable by a fine of not less than $25 nor more than $100. Lenders are responsible for making timely payments of property taxes and insurance premiums.

Requires 2% min. interest

Every bank, savings and loan association, credit union or any other person or organization making loans secured by real property containing a 1-4 family residence shall pay a minimum 2 percent simple interest charge on impound account funds collected in connection with such loans. Interest is payable annually or upon termination of the account, whichever is earlier. Lenders may not impose any fee in connection with the maintenance or disbursement of an account that will reduce the effective interest rate below 2 percent per annum. Exempted from the interest requirement are monies <u>required</u> by a state or federal regulatory authority to be placed by a financial institution other than a bank in a non-interest-bearing demand trust fund account at a bank.

Home policies?

All monies held in impound accounts for the payment of taxes or insurance premiums shall be retained in the state and, if invested, may only be invested within the state. (62 Op. Att'y Gen. 351 ruled that this provision is constitutional.)

Special Note:

For several years Section 2954.8 of the Civil Code has required the payment of 2 percent interest on impounds unless the impounds were kept in non-interest bearing accounts. Most mortgage bankers were required by the Real Estate Commissioner's Regulations to keep the money in "demand" accounts which do not pay interest. Therefore they were not required to pay interest on impound accounts.

A. B. 575, effective January 1, 1980, changed Section 2954.8 to provide that interest must be paid unless the funds are required to be kept in non-interest bearing accounts. Effective February 16, 1980, the California Real Estate Commissioner's regulations were changed to permit impounds to be placed in interest-bearing accounts. The Commissioner has adopted a new Section 2830.1 to read:

Section 2830.1, Interest on Impounds. A real estate broker who receives funds in trust from or on behalf of an obligor for the payment of property taxes, assessments, insurance or other purposes relating to real property containing only a one to four family residence shall not be precluded by provisions of Section 2830 from depositing and maintaining said fund in an interest-bearing account in a bank, savings and loan association or other financial institution provided that the account is insured by an agency of the federal government.

This, in effect, removed the exemption that had applied to mortgage bankers.

COLORADO, Rev. Stat. 39-1-119

?? Escrow account balances may not exceed three months' total escrow charges.

*CONNECTICUT, Gen. Stat. Sec. 49-2a et. seq.

4% Minimum

Credited to reserves - Better than proposed Alaska bills

Requires each bank, trust company, savings and loan association, mutual savings bank, insurance company and other mortgagee or mortgage servicing company holding funds of a mortgagor in an escrow account to pay interest on such funds at a rate not less than 4 percent per annum. These provisions apply to mortgages secured by 1-4 unit, owner-occupied residences and housing cooperatives occupied solely by the shareholders. Interest payments shall be annually credited towards the payment of taxes and insurance premiums in the ensuing year. If the debt is paid prior to the end of the year, the interest to the date of payment shall be paid to the mortgagor. Violation of these provisions by a mortgagee or mortgage servicing company shall result in a fine not to exceed $100 for each offense.

Interest may not be required to be paid on escrow accounts where (1) there is a contract between the parties, entered into before October 1, 1975, which contains an express disclaimer on the part of the mortgagee to pay such interest; (2) the payment of such interest would violate a federal law or regulation, or (3) the account is maintained with a mortgage servicing company, neither affiliated with nor owned in whole or in part by the mortgagee, under a written contract or any mortgage agreement, entered into before October 1, 1975, that does not permit the company to earn or receive a return from the investment of such accounts; or (4) the account is maintained in connection with a loan entered into on and after October 1, 1977, which is serviced or held for sale for not more than one year by a

mortgage servicing company, neither affiliated with nor owned in whole or in part by the purchaser of the mortgage loan.

A rate of 2 percent per annum applies where a contract that contained an express provision to pay 2 percent was entered into prior to October 1, 1977.

DISTRICT OF COLUMBIA, Code Ann. Sec. 28-3301 (b)(4)

Any loan which is secured by a mortgage or deed of trust on residential real property shall be subject to the following provision... (4) any borrower who has made a down payment equaling 20 percent or more of the total purchase price of the property is not required by the lender to make advance payments of real estate taxes or casualty insurance premiums to enable the lender to have funds on hand for disbursement for payment of such taxes or insurance premiums. Lenders are required to inform borrowers, in writing, of this right to pay such taxes and insurance premiums directly.

Requires borrower consent to collect escrow on 80% or less loan/value

FLORIDA, Stat. Ann. Sec. 501.137

All lenders of money whose loans are secured by mortgages on real estate located in the State and who maintain escrow accounts for the payment of property taxes shall promptly pay taxes when they become due and adequate escrow funds are deposited so that the maximum tax discount available may be obtained. If the escrow account is deficient, the lender must notify the depositor within fifteen days after receipt of the tax notification. Each mortgagee must issue an annual statement of the escrow account to the mortgagor at the expiration of the annual accounting period.

***GUAM,** Laws 1980, Bill No. 419

Requires interest to be paid on home mortgage escrow accounts at a rate not less than that paid on regular passbook savings accounts by a Guam bank or savings and loan association. The law applies to mortgage escrow accounts established pursuant to mortgages executed both before and after the effective date of the law, September 1, 1980.

HAWAII, Rev. Stat. Sec. 449-16.5

In all escrow agreements involving the sale of real property . . . in which an escrow depository acts as a fiduciary party holding the funds in escrow, any interest earned on such funds shall accrue to the credit of the purchaser unless otherwise instructed in writing by the purchaser and seller in the escrow agreement. (This section does not apply to banks, trust companies, building and loans, savings and loans or insurance companies, when acting as escrow depositories.)

IDAHO, Code Sec. 26-1931(8)

Limits the collection of escrow to one-half of the estimated annual requirement. If funds are placed in a savings account, interest must be paid on those funds.

ILLINOIS, Ann. Stat. Ch. 17 Secs. 4901-5001

Mortgage lenders may, in lieu of establishing an escrow account, permit a borrower to pledge an interest-bearing savings account with the lender in an amount sufficient to secure the payment of anticipated taxes. "Mortgage Lender" - banks, savings and loan associations, building and loan associations, or other institution, association, partnership, corporation or person who extends the loan of monies for the purpose of enabling another to purchase a residence.

When a mortgage loan is reduced to 65 percent of its original amount by timely payments of the borrower, a mortgage lender must notify the borrower that he may terminate the escrow account or elect to continue the account until he requests a termination, or until the loan is paid in full, whichever occurs first. Borrowers shall not have this right of termination in conjunction with mortgages insured, guaranteed, supplemented or assisted by the state or the federal government that require an escrow arrangement for their continuation.

If, after terminating an escrow account, the borrower does not furnish to the lender sufficient evidence of timely payment of taxes, the lender, after verifying the nonpayment, may reestablish an escrow arrangement with the borrower within thirty days after the payment due date.

All lenders must furnish to borrowers written notice of the requirements of this act at the date of closing. Failure of any lender operating within the state to comply with the provisions of this act shall entitle the borrower to actual damages in a court action.

Mortgage lenders using the capitalization method of accounting (crediting tax payments directly to the loan principal upon receipt and increasing the loan balance when the taxes are paid) are exempted from the provisions of this act.

ILLINOIS, Ann. Stat. Ch. 17 Sec. 2301

Mortgage bankers, licensed to do business in Illinois, are required to place all monies received during the course of business: (1) in escrow with an escrow agent located and doing business in Illinois, or (2) deposit the funds in a trust or escrow bank account maintained by the mortgage banker with a bank located and doing business in Illinois. Violation of this requirement will result in suspension or revocation of the mortgage bankers' license and a fine of up to $10,000.

***IOWA**, Code Ann. Sec. 524.822

Effective July 1, 1982, banks, savings and loan associations and credit unions that maintain escrow accounts in connection with loans secured by one- to two-family, owner-occupied dwellings, must pay interest to the borrower on those funds at the rate the institution pays to depositors of funds in ordinary savings accounts. Interest must be calculated on a daily basis and a written annual accounting of all account transactions must be delivered to each mortgagor.

A state bank may act as an escrow agent with respect to real property and shall act as a fiduciary for all such funds. A bank maintaining such an account, whether or not the mortgage has been assigned to a third person, shall deliver to the

mortgagor a written summary of all transactions made during each calendar year. Credit unions and savings and loan associations are also authorized to act as escrow agents, but only in connection with real property loans made by the institution.

KANSAS, Stat. Ann. Sec. 2.02(4)(b)(iv)

Limits the collection of escrow funds by savings and loan associations to one-half of the estimated annual taxes and insurance premiums.

KENTUCKY, Rev. Stat. Sec. 294.130

If escrow funds placed in interest-bearing acct, borrower receives interest.

All monies paid to a mortgage loan company (required to be licensed under Chapter 294) for the payment of taxes or insurance premiums on property secured by a loan made or serviced by the company shall be deposited in an insured account and kept separate, distinct and apart from funds belonging to the mortgage loan company. Any interest earned on the funds shall belong to the borrower and will be applied to the expenses that will be paid from such account. The mortgage company must, upon reasonable notice, account for all funds deposited by a borrower and, upon reasonable notice, account to the Commissioner of Banking and Securities for all funds deposited. Escrow account funds are not subject to execution or attachment on any claim against the mortgage company.

LOUISIANA, Rev. Stat. Sec. 6:828

Savings and loan associations are permitted to require borrowers to pay monthly, in advance, the equivalent of one-twelfth of the estimated annual taxes, insurance premiums and other expenses upon real estate securing a loan so as to enable the association to pay such charges as they become due from the funds so received. The funds are to be held, without interest, for the credit of the borrower.

***MAINE**, Rev. Stat. Ann. Art. 9-B Sec. 429

Where a financial institution (trust company, savings bank, savings and loan, industrial bank or credit union) maintains an escrow account for the payment of taxes in connection with a first purchase money mortgage on a 1-4 family dwelling located in the state, the institution must: (1) pay the mortgagor quarterly dividends or interest at a rate at least 1/2 of the highest annual interest rate paid by that institution on regular savings accounts. Such interest may not be reduced by any service or maintenance charge on the account; or (2) to the extent of the account, pay the appropriate taxing authority when the taxes are due.

Interest shall be computed on the daily balances in the account from the date of receipt to the date of disbursement and be credited to the account as of the last business day of each calendar quarter or fiscal year. Mortgagors must be given an annual statement showing interest credited on the account during that period.

***MARYLAND, Comm. Law, Secs. 12-109, 12-109.1**

Requires any bank, savings bank or savings and loan association doing business in Maryland that lends money secured by a first mortgage or first deed of trust on any interest in residential real property and creates or is the assignee of an escrow account in connection with such a loan, to pay interest on the funds at a rate which is the greater of: (a) 3 percent per annum simple interest or; (b) the rate regularly paid by the lending institution on regular passbook saving accounts. All interest shall be computed on the average monthly balance and credited annually to the borrower's account. The lending institution must provide an annual statement of the account balance. This section applies only to loans made after May 31, 1974.

These provisions do not apply to institutions which provide for the payment of taxes, insurance or other expenses under the direct reduction method by which these expenses when paid by the lender, are added to the outstanding principal balance of the loan.

? Loans purchased by an out-of-state lender through FNMA, GNMA or the FHLMC are exempted if the purchasing lender elects to service the loan.

Funds held in escrow accounts may not be used to reduce the loan principal or to pay interest or other loan charges except upon foreclosure or release unless there is periodically an overage in the account. In these cases, the borrower shall be given, at least annually, the option of receiving a refund, applying the overage to the payment of principal and interest or leaving the excess amount in the account. If the borrower does not reply to the lender's notice of these options within sixty days, the lender must return the overage to the borrower.

***MASSACHUSETTS,** Ann. Laws, Ch. 183, Sec. 61

Requires a mortgagee doing business in the commonwealth and holding a first mortgage or lien on a 1-4 unit, owner-occupied dwelling who requires advance payments for the payment of real estate taxes to pay interest on such funds. Interest shall be paid at least annually at a rate and in a manner to be determined by the mortgagee. Mortgagees must file an annual statement with the commissioner of banks showing the amount of profit or loss from the investment of the escrow funds. If the lender shows a net loss from these investments, the commissioner may grant an exemption from the interest requirement. These provisions apply only to advance deposits for the payment of taxes on mortgaged property made after July 1, 1975.

MICHIGAN, Comp. Laws Sec. 565.161

Any mortgagee or agent receiving escrow funds from a mortgagor for the payment of taxes, insurance premiums or improvements to the property, must furnish the mortgagor with an annual statement of the escrow account within sixty days of the close of the calendar year.

The annual statement is not required where the mortgagor is provided with a monthly billing form or mortgage passbook that lists the account balance and records tax expenditures. Mortgagees will be liable for any fees or penalties

incurred by the mortgagor as a result of failure to make timely payments of taxes when due.

Sec. 438.31(c)(12) - An interest bearing deposit account held in a depository institution may be established as a condition of the making of a mortgage or land contract where the primary security is an owner-occupied dwelling. The account shall be pledged to the lender as additional security for the mortgage or land contract. The lender may make withdrawals as agreed upon in the mortgage and such withdrawals will be applied against the periodic payments otherwise due from the borrower pursuant to the terms of the mortgage. All interest earned on the pledged deposit amount shall be credited to the account. Lenders who make five or more mortgages in any one calendar year may not require the establishment of such an escrow account on more than 20 percent of mortgages made during the year. (This provision expires on April 1, 1985.)

•MINNESOTA, Stat. Ann. Sec. 47.20 (9)

Requires all banks, trust companies, savings and loan associations, mortgage banks, mutual savings banks, insurance companies, credit unions or assignees of the above that require a mortgagors' funds to be paid into an escrow or similar account for payment of taxes or insurance in connection with a mortgage on a 1-4 family, owner-occupied residence in the state to pay interest on the funds at a rate not less than 5 percent per annum. Interest shall be computed on the average monthly balance on the first of each month and be annually credited to the remaining balance on the mortgage or, at the election of the mortgagee, be paid to the mortgagor, or credited to the escrow account. If the interest exceeds the remaining balance, the excess shall be paid to the mortgagor. The payment of interest is not required if the escrow is mandatory under federal law, is maintained in connection with a conventional loan in an original principal amount in excess of 80 percent of the lender's appraised value at the time the loan is made, or if the loan is insured or guaranteed by HUD, the VA or the FmHA.

Lenders not requiring the maintenance of an escrow account may permit a mortgagor to elect to maintain a non-interest bearing escrow account to be serviced by the mortgagee at no extra charge if the mortgagor is also offered the option of managing the payment of insurance and taxes himself or opening a passbook savings account for that purpose. A mortgagee that is not a depository institution offering passbook savings accounts shall notify its mortgagors, (1) that they may open accounts at a depository institution and (2) of the current maximum legal interest rate on such accounts. These options do not apply to escrow accounts which are specifically exempted from the interest paying requirements.

Lenders are specifically prohibited from charging a direct fee for the administration of escrow accounts and are required to make timely payments of tax and insurance bills provided that there are sufficient funds in the account. Failure to make such payments shall subject the mortgagee to liability for all damages caused.

Mortgagors must be promptly notified of any account shortages.

MONTANA, Code Ann. Secs. 71-1-113 through 71-1-115

Limits escrow accounts to no more than 110 percent of the projected amount needed unless parties agree in writing to a larger amount.

Lending institutions that maintain reserve accounts for the payment of taxes and insurance premiums in connection with a mortgage on real property must keep itemized records of such accounts and annually mail a statement of total receipts and disbursements to each borrower.

NEBRASKA, Rev. Stat. Sec. 8-330

Building and loan associations may pay interest on funds held in an escrow account for the payment of taxes, insurance and similar payments, if agreed to in writing by the borrower and association.

Sec. 45-101.05 - Lenders are prohibited from requiring a borrower to deposit, in any one month, an amount larger than one-twelfth of the total yearly amount of estimated taxes and insurance premiums.

NEVADA, Rev. Stat. Secs. 645B.165, 645B.170, 645B.180

All money paid to a mortgage company (licensed under Chapter 645B) for the payment of taxes and insurance shall be deposited in a bank and kept separate, distinct and apart from funds belonging to the company and shall be designated as an "impound trust account". The company shall, upon reasonable notice account for any funds paid by a mortgagor and, upon reasonable notice, account to the commissioner of savings associations for all funds held in the impound trust account. Such funds are not subject to execution or attachment on any claim against the mortgage company.

***NEW HAMPSHIRE**, Rev. Stat. Secs. 384.16c - 384.16e

Any bank which requires or accepts monies for deposit in escrow accounts maintained for the payment of taxes, insurance premiums or other expenses related to loans on property secured by a real estate mortgage shall credit each account with interest at a rate of not less than 2 percent below the rate paid on regular savings deposits in said bank. (Effective January 1, 1974.)

Any company that is in the business of making loans for the purpose of financing the acquisition of single-family homes and which requires or accepts money for deposit in escrow accounts maintained for the payment of taxes, insurance premiums or other related expenses must credit each such escrow account with interest at a rate of not less than 4 percent per annum. (Effective January 1, 1984.)

NEW MEXICO, Stat, Ann. Sec. 48-7-8

Mortgagees may impose a monthly charge to be held in escrow for the payment of taxes, insurance premiums and other charges under the terms of a mortgage. Any

balance exceeding two months' total escrow charges shall, upon the demand of the mortgagor but not more than once each year, be credited to the principal amount of the mortgage within sixty days of the demand. Failure of mortgagee to credit such excess shall cause a penalty at the rate of 6 percent per year, payable to the mortgagor.

*NEW YORK, McKinneys Banking Law, Section 14-b, General Obligation Law, Section 5-601

Requires any mortgage investing institution (bank, trust company, savings bank, savings and loan association, private bank, investment company, insurance company or other entity which makes, extends or hold mortgage loans) that maintains an escrow account in connection with a loan secured by a 1-6 family, owner-occupied residence or on any property owned by a cooperative apartment corporation to pay interest at a rate not less than 2 percent per annum or a rate prescribed by the banking board, whichever is higher. The banking board shall prescribe the method or basis of computing interest and and the minimum rate paid shall be a net rate over and above any service charges imposed. Interest shall be computed on daily balances and credited to the account as of the last business day of each quarter of the calendar year or the bank's fiscal year. Service charges in connection with the maintenance of an escrow account are prohibited unless expressly authorized in a loan contract executed prior to this act's effective date (1974).

Interest is not required where: (1) there is a contract between the mortgagor and the mortgage investing institution entered into before the effective date of the act (1974) which contains an express disclaimer of an obligation on the part of the mortgage investing institution to pay interest on such accounts; (2) the payment of such interest would violate any federal law or regulation or (3) such accounts are maintained with a mortgage servicing company, neither affiliated with nor owned in whole or in part by the mortgage investing institution, under a written contract, entered into before the effective date of this act, which contract does not permit the mortgage investing institution to earn or receive a return from the investment of such accounts.

Earnest Money or Purchase

Lien Law, Section 71-a(3)-Requires that any initial advance pursuant to a residential real estate sale or construction contract on a residential condominium on not more than a two-family residence be placed in an interest-bearing escrow account in a bank, trust company or savings and loan association. Alternatively, the recipient of the advance may post a bond guaranteeing the return of the money otherwise required to be held in escrow. A boldface statement of the purchaser's right to demand an escrow or bond must be contained in the contract of sale.

*OREGON, Rev. Stat. Secs. 86.205 - 86.275

Lenders (any person who makes, extends or holds a real estate loan agreement including, but not limited to, mortgagees, beneficiaries under trust deeds and vendors under conditional land sale contracts) who require a lender's security provision in connection with a real estate loan agreement shall require either a direct reduction provision, an escrow account or a pledge of an interest-bearing savings account in an amount not to exceed the maximum amount which a lender may require a borrower to deposit in an escrow account and bearing interest at a rate not less than the rate required on an escrow account.

Interest on escrow accounts shall be paid quarterly at a rate not less than 3/4's of 1 percent less than the normal passbook rate and in no event less than 4½ *percent. If a lender does not offer an open passbook, the rate of interest shall be 4½ percent. Interest shall be computed on the average monthly balance of the account. This requirement does not apply to loan agreements entered into prior to September 1, 1975.

Lenders are prohibited from imposing a service charge in connection with an interest-bearing escrow account. Escrow accounts may be terminated when the principal balance of a mortgage loan falls below 85 percent of the purchase price or original appraised value, whichever is less.

If a lender fails to pay the borrower's taxes in time to take advantage of any authorized discounts, the lender shall credit to the account an amount equal to the discount plus any accrued interest on the unpaid property taxes to the date the taxes are paid. If the lender's failure to make the timely payments is willful or if the lender fails to credit the borrower's account with the correct amount, the borrower shall have a cause of action against the lender to recover an amount equal to fifteen times the amount of discount that the borrower should have received, plus any interest that would have accrued. Borrowers recovering damages shall be entitled to attorney fees as determined by the court in addition to costs and necessary disbursements. Violation by the lender of any of these provisions shall render the lender's security provision voidable at the option of the borrower, and make the lender liable to the borrower in an amount equal to actual damages or $100, whichever is greater, and court costs and attorney fees in the case of a successful action by the borrower.

These provisions do <u>not</u> apply to a loan agreement which is serviced or held for sale within one year by a mortgage servicing company neither affiliated with nor owned in whole or in part by the purchaser and which is made or held by a purchaser whose principal place of business is outside of the state.

*Prior to October 25, 1983, the minimum rate of interest that must be paid was 4 percent per annum.

*RHODE ISLAND, Gen. Laws Ann. Sec. 19-5-22

Requires all banks, trust companies, savings and loan associations, mutual savings banks, insurance companies and other mortgagees holding funds of a mortgagor in escrow for the payment of taxes and insurance premiums to pay or credit interest on such funds at a rate not less than 2 percent per annum. This requirement is effective July 1, 1979, and applies to escrows maintained in connection with mortgage loans secured by 1-4 unit, owner-occupied residential properties located in the state. Interest shall be credited annually toward the payment of taxes and insurance premiums in the ensuing year. If the mortgage debt is paid prior to June 30th in any year, the interest to the date of payment shall be paid to the mortgagor. These provisions may not be waived and violation of this act by a mortgagee will result in a fine not to exceed $100. FmHA, HUD, VA or privately insured mortgages are exempt. The bank commissioner is empowered to make rules and regulations necessary to carry out these provisions and shall furnish forms to mortgagees for the purpose of reporting to mortgagors the interest due.

Exempts most loans

***UTAH, Code Ann. Secs. 7-17-1 et. seq.**

Applies to any person who regularly makes, extends or holds real estate loans and includes, but is not limited to, mortgagees, beneficiaries under trust deeds and vendors under conditional land sales contracts who regularly require or maintain reserve accounts. (Effective June 30, 1979)

Each lender is required to pay at least 5.25 percent interest per annum on mandatory reserve accounts maintained in connection with a mortgage secured by a 1-4 unit owner-occupied residence. Interest shall be computed on the average of the month end balances at the end of the calendar year. Within sixty days after the end of each calendar year, the interest shall be credited to the remaining principal balance on the loan, paid to the borrower or credited to the account, at the election of the lender. In the event of payoff of the loan, the interest must be paid or credited to the borrower within thirty days after the payoff date. Lenders may not require or impose a service charge for the administration of the account. Payment of interest is <u>not</u> required: (1) if the account is required by a governmental insurer or guarantor; (2) the original principal amount of the loan exceeded 80 percent of the appraised value of the property at the time the loan was made (when the principal balance of the loan is paid down to 80 percent, this exception shall not apply) or (3) if such payment of interest is prohibited by federal law. Lenders not requiring the establishment of reserve accounts shall offer the following options to the borrower: (1) borrower may maintain a non-interest-bearing account to be serviced by the lender at no charge to the borrower, or (2) borrower may manage the payment of insurance premiums and taxes from his own account. If the borrower selects option (2) and is delinquent more than once in the payment of the taxes or insurance premiums, the lender may require a reserve account without interest or other compensation for the use of the funds.

Lenders must furnish an itemized statement to the borrower, within sixty days after the end of each calendar year, showing monies received for interest and principal repayment and received and held in or disbursed from a reserve account. Negligent failure by the lender to make timely payments for taxes and insurance premiums shall subject the lender to liability for all damages directly resulting from the failure. Failure of the borrower to promptly deliver all notices of tax assessments or assigns shall relieve the lender from such liability. A lender who violates this act is liable to the borrower for actual damages suffered or $100, whichever is greater. If an action is commenced, the prevailing party may be awarded reasonable attorney's fees. No action may be brought more than one year after the date of the violation.

Sec. 7-7-33(6) - A savings and loan association may require (subject to the above provisions) a borrower to pay monthly, in advance, equivalent of one-twelfth of the estimated annual taxes, assessments, insurance premiums, and other charges upon the real estate securing the loan. If the association advances its own funds, that amount shall be secured by the mortgage or trust deed with the same priority as the original amount advanced under the mortgage or trust deed.

VERMONT, Stat, Ann. T.9 Sec. 44

Agreements to maintain with the lender non-interest bearing reserves or deposits with which to pay when due taxes and insurance premiums shall not be construed to be interest or a prohibited charge.

VIRGINIA, Code Sec. 6.1-2.8

Any bank or lender maintaining escrow accounts for the payment of taxes and insurance which, upon receipt of a notice thereof, fails to make timely payment and incurs a penalty or late charge or a cancellation for nonpayment if there are sufficient funds in the account at least five days before the payment due date, shall be liable for the penalty or late charge assessed and for any loss as a result of the property being uninsured for nonpayment. Lenders must give written notice to any obligor of the payment of such penalty or late charge within five days after payment is made.

***WISCONSIN**, Stat. Ann. Sec. 138.051(5)

Requires a bank, credit union or mutual savings bank which originates a loan and which requires an escrow to assure the payment of taxes or insurance premiums to pay interest on the outstanding principal balance of the escrow of not less than 5.25 percent per annum.

Sec. 138.052(5), effective January 1, 1983, requires a bank, credit union, mutual savings bank, savings and loan association or mortgage banker which originates a loan and requires an escrow to assume the payment of taxes or insurance premiums to pay interest on the outstanding principal balance of the escrow of not less than 5.25 percent unless the escrow funds are held by a third party in a non-interest-bearing account (effectively exempting mortgage bankers from this requirement.)

Parties may agree to waive payment of all or part of the interest if more than 75 percent of the lender's interest in the loan is sold to a third party who is not a person related to the lender and the escrow funds are held by a third party.

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
(907) 465-4920

AGENDA

TUESDAY, 2/12/85, 3:30 p.m.
Room 124 (House Judiciary)

* HB 51 "An Act requiring banks to pay interest on money in reserve accounts held in connection with mortgage loans."

* HB 59 "An Act making a special appropriation to the Department of Natural Resources, division of parks, for the youth hostel loan fund; and providing for an effective date."

* HB 61 "An Act relating to loans for youth hostels"

For more information, contact John Hartle, room 411, 465-4919.

* Indicates first public hearing

why / August assessment specific / failure to pay taxes PASSBOOK SAVINGS OR LESS

Introduced: 1/14/85
Referred: 1/16/85 House Special Committee on
State Loans and Finance

CAN'T BELIEVE IT

IN THE HOUSE BY DUNCAN, SUND AND MARROU

HOUSE BILL NO. 51

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act requiring banks to pay interest on money in reserve accounts held in connection with mortgage loans."

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

* Section 1. AS 06.05 is amended by adding a new section to read:

Sec. 06.05.285. INTEREST ON RESERVE ACCOUNTS. (a) A bank that requires the payment of money by a borrower into an escrow or similar reserve account for the payment of taxes, insurance premiums, or home owner's association dues in connection with a mortgage loan shall pay interest on the money in that account unless the account is required by federal law or regulation. The rate of interest paid on money in a reserve account shall equal the rate of interest charged to the borrower for the mortgage loan and shall be computed on the average monthly balance in that account on the first of each month.

(b) Interest earned on money in a reserve account shall be annually credited to the remaining principal balance on the mortgage loan, or at the election of the borrower, shall be paid to the borrower.

* Sec. 2. AS 06.05.285 enacted in sec. 1 of this Act applies to escrow and similar reserve accounts established before the effective date of this Act, as well as to accounts established after the effective date of this Act, with interest to be paid beginning on the effective date of this Act on money in those accounts.

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
(907) 465-4920

AGENDA

TUESDAY, 2/12/85, 3:30 p.m.
Room 124 (House Judiciary)

* HB 51 "An Act requiring banks to pay interest on money in reserve accounts held in connection with mortgage loans."

* HB 59 "An Act making a special appropriation to the Department of Natural Resources, division of parks, for the youth hostel loan fund; and providing for an effective date."

* HB 61 "An Act relating to loans for youth hostels"

For more information, contact John Hartle, room 411, 465-4919.

* Indicates first public hearing

Alaska State Legislature

SENATOR
ARLISS STURGULEWSKI
Chairman, Senate Resources Committee
Vice-Chairman, Senate Health, Education and Social Services Committee
Member, Senate Community and Regional Affairs Committee



Senate

2957 SHELDON JACKSON STREET
ANCHORAGE, ALASKA 99508

While in Juneau
POUCH V
JUNEAU, ALASKA 99811
(907) 465-3818

M E M O R A N D U M April 18, 1985

TO: Representative John Sund
Chairman, Committee on State Loans

FROM: Senator Arliss Sturgulewski

RE: Attached material from Al Bruck

Al Bruck of Anchorage, a valued constituent of mine, has sent me material relevant to House Bill 51 which will be of interest to your committee. Copies are attached for your information. I appreciate any information or assistance you can offer to Mr. Bruck on the matter.

cc: Al Bruck

P.O. Box 100678
Anchorage, Alaska 99510

March 12, 1985

The Honorable Arliss Sturgulewski
Alaska State Senate
Pouch V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

House Bill 51, an Act requiring banks to pay interest on money on reserve accounts, is of considerable interest to me, and I solicit your support for this bill.

I would, however, suggest that it be applied equally to all types of loans and would therefore recommend that the phrase starting on line 15... "unless the account is required by federal law or reputation" be deleted.

As an attachment I have provided a simple example of the magnitude of the problem using my own situation, which can be considered modest at best. It is readily apparent that lending institutions have the use of a very significant amount of "free" money.

Sincerely yours,

A. B. Bruck

cc: Steve Rieger
House of Representatives

ATTACHMENT
Ref. HB 51

EXAMPLE OF RESERVE BALANCES AVAILABLE FOR BANK USE

	Payments	Balance
Reserve Account Balance 2/28/85		1045.72
March 1 Payment (Reserve only)	238.38	1284.10
April 1 Payment (Reserve only)	238.38	1522.48
May 1 " " "	238.38	1760.86
June 1 " " "	238.38	1999.24
1st half tax prior to June 15	[714.83]	1284.41
July 1 Payment (Reserve only)	238.38	1522.79
August 1 " " "	238.38	1761.17
2nd half tax prior to August 15	[714.83]	1046.34
September 1 Payment (Reserve only)	238.38	1284.72
September Assessment	[74.18]	1210.54
October 1 Payment (Reserve Only)	238.38	1448.92
November 1 Payment (Reserve Only)	238.38	1687.30
Hazard Insurance	[750.00]	937.30
Mortgage Loan Insurance	[225.38]	711.92
December 1 Payment (Reserve Only)	238.38	950.30
Reserve Account Balance 12/31/85		$950.30

A B BRUCK
LOIS E BRUCK

ALASKA MUTUAL BANK
LOAN NUMBER 200217

ANALYSIS DATE 02/28/85

PRESENT MONTHLY DEPOSIT	FUNDS ARE COLLECTED IN YOUR ESCROW ACCOUNT FOR THESE ITEMS	NEXT DUE DATE MO	NEXT DUE DATE YR	TERM IN MOS	ESTIMATED AMOUNT OF NEXT DISBURSEMENT	NEW MONTHLY ESCROW DEPOSIT	ESCROW REQUIRED NO MOS	ESCROW REQUIRED ITEM BALANCE
119.14	FIRST HALF TAXES	05	85	12	714.83	59.57	10	595.70
	SECOND HALF TAXES	08	85	12	714.83	59.57	07	416.99
6.18	ASSESSMENTS	09	85	12	74.18	6.18	06	37.08
55.25	HAZARD INSURANCE	11	85	12	750.00	62.50	04	250.00
	ESTIMATED			12	225.38	18.78		
.93	SHORTAGE				254.25	31.78		

ESCROW BALANCE	1045.52	BAL REQD TO BE ON DEPOSIT	1299.77	SHORT	-254.25	NEW PAYMENT

PRINCIPAL & INTEREST	+ SERVICE CHARGE	+ NEW MONTHLY ESCROW	+ OPTIONAL INSURANCES	+ OTHER	= AMOUNT	EFFECTIVE DATE
269.50		238.38			507.88	03-01-85

YOUR NEW PAYMENTS CONSIST OF THE ITEMS SHOWN ABOVE.

You are hereby notified that the property described on the face of this notice has been reappraised for the current year.

Alaska Statutes require that a person receiving an assessment notice shall advise the Assessor of errors or omissions in the assessment of his/her property. Failure to so advise will not negate the tax.

If, after reveiwing the current values, you feel that the appraisal is in excess of fair market value, you may contact the Assessor's office for an appraisal review. If, after the review, you still feel that your property has been over appraised, **you may request a petition of appeal to the Board of Equalization.** Either a letter requesting a petition, or a completed petition, must be received by the Assessor's office prior to the date shown on the face of this notice. Alaska law requires that the written appeal be in the form which the Board may require, otherwise the right of appeal ceases, unless the Board finds that the taxpayer was unable to comply.

The Board of Equalization will begin meeting in April. You will be notified as to the place and date of the hearing for your appeal. If you are unable to attend the meeting, the Board will proceed in your absence.

Statements for the first one half tax payments are mailed prior to May 15th and become delinquent and subject to penalty on June 15th, Statements for the second one half tax payments are mailed prior to July 15th and become delinquent and subject to penalty on August 15th.

It is your responsibility to notify the Assessor's office in writing if there is an error in your name or address. Do not notify the Collector's office.

THIS IS A VALUATION NOTICE – NOT A TAX STATEMENT.

Introduced: 1/14/85
Referred: 1/16/85 House Special Committee on
State Loans and Finance

IN THE HOUSE BY DUNCAN, SUND AND MARROU

HOUSE BILL NO. 51

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act requiring banks to pay interest on money in reserve accounts held in connection with mortgage loans."

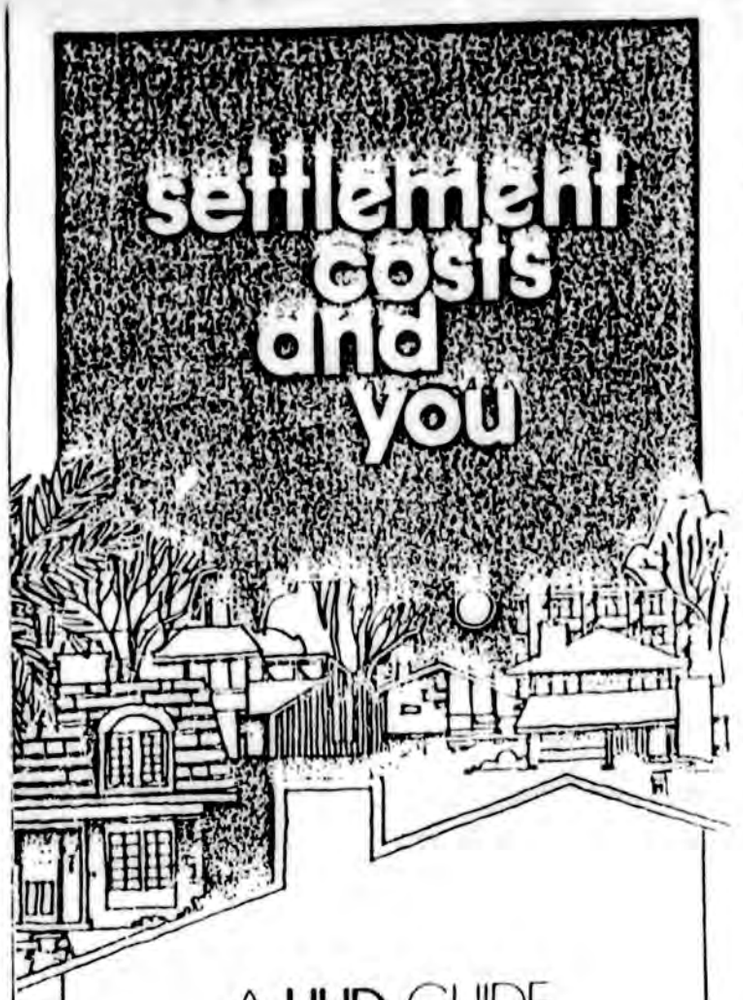
BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 06.05 is amended by adding a new section to read:

Sec. 06.05.285. INTEREST ON RESERVE ACCOUNTS. (a) A bank that requires the payment of money by a borrower into an escrow or similar reserve account for the payment of taxes, insurance premiums, or home owner's association dues in connection with a mortgage loan shall pay interest on the money in that account unless the account is required by federal law or regulation. The rate of interest paid on money in a reserve account shall equal the rate of interest charged to the borrower for the mortgage loan and shall be computed on the average monthly balance in that account on the first of each month.

(b) Interest earned on money in a reserve account shall be annually credited to the remaining principal balance on the mortgage loan, or at the election of the borrower, shall be paid to the borrower.

* Sec. 2. AS 06.05.285 enacted in sec. 1 of this Act applies to escrow and similar reserve accounts established before the effective date of this Act, as well as to accounts established after the effective date of this Act, with interest to be paid beginning on the effective date of this Act on money in those accounts.



A HUD GUIDE
FOR
HOME BUYERS

Alaska Mutual Bank
POUCH 4-9003
ANCHORAGE, ALASKA 99509

300. CASH AT SETTLEMENT FROM/TO BUYER

Remaining are the summary lines which are 301-303 for the borrower (and 601-603 for the seller). Subtracting line 302 (gross amount paid by or for the borrower) from line 301 (gross amount due from the borrower) results in the net cash the borrower must pay at settlement.

RESERVE ACCOUNTS

In most instances, a monthly mortgage payment is made up of a payment on the principal amount of the mortgage debt which reduces the balance due on the loan, an interest payment which is the charge for use of the borrowed funds, and a reserve payment (also known as an escrow or impound payment) which represents approximately one-twelfth of the estimated annual insurance premiums, property taxes, assessments and other recurring charges.

When settlement occurs you may need to make an initial deposit into the reserve account; otherwise, your regular monthly deposits to it will not accumulate enough to pay the taxes, insurance or other charges when they fall due. Under RESPA, the maximum amount the lender can require borrowers or prospective borrowers to deposit into a reserve account at settlement is a total gross amount not to exceed the sum of: (a) an amount that would have been sufficient to pay taxes, insurance premiums, or other charges which would have been paid under normal lending practices, and *ending* on the *due date* of the first full monthly mortgage installment payment, plus (b) an additional amount not in excess of one-sixth (2 months) of the estimated total amount of taxes, insurance premiums and other charges to be paid on the dates indicated above during any twelve month period to follow.

An illustration will help clarify this calculation. Assume the following set of facts on a loan, and that taxes are paid at the end of the period against which taxes are assessed.

Example:

Settlement date	April 30, 1977
Due Date of first mortgage loan repayment	June 1, 1977
Taxes due yearly	$360.00
Monthly tax accrual	$ 30.00
Due date for taxes	December 1st for the calendar year

The reserve amount for category (a) is $180.00. This represents the amount of taxes accruing between December 1, 1976 (the last tax due date) and May 30, 1977 ($30.00 x 6 months). Reserve amounts chargeable under category (b) could be up to two months advance payment times $30.00 or a total of $60.00. Therefore, total reserve deposits for taxes at settlement would be a maximum of $240.00. Changing the due date for taxes and/or the first mortgage payment results in a different reserve amount for the same illustration.

The same procedure is used to determine the maximum amounts that can be collected by the lender for insurance premiums or other charges. You need to know the charges and due dates in order to compute the amounts.

Once you begin your monthly mortgage payments, you cannot be required to pay more than one-twelfth of the annual taxes and other charges each month, unless a larger payment is necessary to make up for a deficit in your account or to maintain the cushion of the one-sixth of annual charges mentioned in (b) above. A deficit may be caused, for example, if your taxes or insurance premiums are raised.

You should note that the above monthly mortgage payments reserve limitations apply to all RESPA covered mortgage loans whether they were originated before or after the implementation of RESPA.

ADJUSTMENTS BETWEEN BUYER AND SELLER

The previous section dealt with setting up and maintaining your reserve account with the lender. At settlement it is also

Department of Commerce & Economic Development / POSITION PAPER

HB 51 "An Act requiring banks to pay interest on money in reserve accounts held in connection with mortgage loans."

The safety and soundness of state-chartered financial institutions is not affected by provisions of HB 51. There would be only minor review time involved in examinations to determine compliance.

The committee may wish to consider having these types of interest rate provisions under AS 45.45 and include all mortgage lenders except the State housing programs.

/s/ Loren H. Lounsbury, Commissioner

Date: 2/12/85

1588We21285c

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 51

Title: Interest on money in reserve accounts

Sponsor: Duncan, Sund & Marrou

Requestor:

Date of Request:

FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.

Program Category Affected: Banking and Securities

BRU, Program or Subprogram(s) Affected: Banking and Securities

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: Attach a separate page if necessary

Prepared By: N. T. Lusk Phone: 465-2521

Division: Division of Banking and Securities Date:

Approved by Commissioner: Loren H. Lounsbury Date: 2/12/85

Agency: Commerce & Economic Development

Distribution (by Agency preparing fiscal note):

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

7/1/84

1588Wal2985a

FNMA

PART 1 GENERAL REQUIREMENTS FOR 1ST MORTGAGES

In general, all 1st mortgages sold to us must be acceptable to other institutional investors and informed buyers in the community where the mortgaged property is located.

In addition, mortgages must meet certain requirements before we will purchase them. Our general eligibility requirements for FHA, VA and conventional 1st mortgages follow in this Part. The specific eligibility requirements for certain types of mortgages—including 2nd mortgages—are described in Parts 2 through 9 of this Chapter.

Sec 101 Origination and Ownership of Mortgage

A Lender may deliver a mortgage that has been originated by another Lender. However, the selling Lender is responsible for meeting all of our requirements, and must own the mortgage on the date it is delivered to us.

Sec 102 "Open-End" Advances

We will purchase a mortgage that includes an "open-end" advance provision only if the provision gives us the option not to make any advances. If the Lender has already made an advance, the mortgage is eligible for purchase.

Sec 103 Monthly Payments (also see Sec 209, 309, 509 and 705)

Generally, the mortgage must fully amortize over its term, through level monthly installments of principal and interest, payable the 1st day of each month. However, mortgages, and growing equity mortgages—that do not provide for level monthly payments over the full mortgage term.

Since we will not decline submissions for purchase because of slight differences in payment calculations, the Lender may use any widely-accepted amortization tables or formulas. We include in our Servicing Guide the formulas that we use to calculate fixed installments and to amortize a mortgage.

Sec 104 Escrow Deposit Accounts (also see Sec 205, 412 and 905)

Mortgages must provide for the monthly deposit of escrow funds to pay taxes, ground rents, special assessments, mortgage insurance premiums and hazard insurance premiums as they come due. For VA and conventional mortgages, the Lender may waive this requirement, but the standard escrow provision must remain in the mortgage documents.

Whenever the Lender waives the right to collect escrows, it must retain our right to enforce the requirement if the borrower fails to act responsibly.

We do not require escrow deposits to cover hazard insurance premiums for individual condominium or PUD units when the project containing the unit is covered by a blanket hazard insurance policy purchased by the owners' association.

Sec 105 Payment Status (also see Sec 906)

Payments on the mortgage must be current at the time of delivery. The 1st payment made to us must be a full installment of principal and interest.

We will accept delivery of a 1- to 4-family mortgage up to 45 days from the due date of the last paid installment. For example, if the due date of the last paid installment was April 1, we will accept the mortgage at any time through May 15. If the mortgage is delivered on May 16, it will not be acceptable until the May 1 payment is applied.

If the mortgage is new and no installment has been applied when the mortgage is delivered, the Lender should report the 1st day of the month preceding the due date of the 1st full installment as the "interest paid-to" date. The 45-day limit will then be clocked from this date.

Sec 106 Lien Requirements (also see Sec 205, 409, 514, 806 and 907)

The lien of the security instrument must be a 1st and paramount lien on the mortgagor's estate in the real property and on any personal property identified in the instrument. It may be subject only to liens for taxes and special assessments that are not in arrears and to conditions, restrictions and encumbrances that we do not consider as material. The Lender must provide documentation to show that the current installments of taxes and assessments (which may have been attached as prior liens but are not now in arrears) have been paid or that sufficient deposits are being collected to pay them.

106.01 Borrower's Estate. In most cases, the borrower must own the property in fee simple. However, we will purchase mortgages secured by leasehold estates in areas where they have received market acceptance.

Generally, leasehold estates must have a remaining term that equals or exceeds the remaining term of the mortgage. In most cases, the term of the estate should run, or be renewable at the borrower's option, for at least 10 years beyond the maturity date of the mortgage, unless fee simple title will vest in the borrower (or the owners' association if the mortgage is on a PUD unit) at an earlier date. However, the term may vary for different types of mortgages. When the term of the leasehold estate differs from those normally used in the area, the Lender should contact the local regional office to determine if it is acceptable.

Sec 412 Special Assessments

If special assessments are not paid at the time of closing, the maximum mortgage otherwise available must be reduced by the principal amount of the unpaid special assessment.

In addition, any improvement to the premises that results from the assessment must be included in the appraised value of the property. The mortgagor's monthly payment should include 1/12th of the estimated annual payment toward the assessments.

Sec 413 Payment of Settlement Costs

Certain prepaid settlement costs must be paid by the purchaser of the property in order for the mortgage to be eligible for purchase. They are

- **interest charges covering any period after the settlement date;**
- **real estate taxes covering any period after the settlement date;**
- **hazard insurance premiums; and**
- **escrow accruals required for renewal of mortgage insurance premium.**

Other costs may be paid by the property seller or purchaser. However, if any costs normally the responsibility of the purchaser are paid by the seller, the Lender must advise the appraiser.

Sec 414 Trade Equities

The property seller may take the borrower's existing property in trade as all or part of the down payment, as long as the borrower's equity contribution is a true value consideration. This contribution is usually determined by subtracting the outstanding mortgage balance of the property being traded, plus any transfer costs, from the lesser of the property's appraised value or the trade-in value agreed to by both parties.

Sec 415 Subordinate Financing

We will consider purchasing mortgages subject to subordinate financing as long as that lien is clearly subordinate to our 1st mortgage lien. Lenders must disclose subordinate financing repayment terms when applying for a mortgage insurance commitment.

When the subordinate financing repayment terms provide for regular monthly payments, they must remain constant for each 12-month period over the term of the mortgage. In addition, the change in the monthly payment at the end of each 12-month period cannot exceed 7½%.

If the subordinate financing will not fully amortize under a level monthly payment plan, it may not have a maturity or call option date of less than 5 years.

We will not permit subordinate financing on a cooperative share loan.

FNMA

PART 2 DEPOSIT ACCOUNTS, TAXES AND INSURANCE

Generally, the mortgages we purchase require that a portion of the mortgagor's monthly payment be put into an escrow deposit account so that funds will be available to pay taxes, special assessments, hazard insurance premiums, mortgage insurance premiums, ground rents and similar items when they come due.

The Servicer may waive the escrow deposit account requirement on individual cases. The waiver should be in writing and should clearly state that it may be revoked at the Servicer's option. Even when the escrow deposit account requirement has been waived, the Servicer remains responsible for the timely payment of the taxes and insurance premiums. If the mortgagor fails to pay the taxes or does not keep the insurance in force, the Servicer should revoke the waiver and begin collecting monthly deposits for the escrow deposit account.

We do not require the Servicer of a 2nd mortgage to maintain an escrow account. However, to assure that the expenses for the 2nd mortgage are paid promptly—particularly when the Servicer of the 1st mortgage does not collect escrow funds—the Servicer may establish an escrow account if it wishes.

Sec 201 Administration of Escrow Deposit Accounts

The Servicer must assume full responsibility for administering the mortgagor's escrow deposit account. It must estimate the monthly deposit required to assure that funds will be available to pay each expense as it comes due. Each year, it should analyze the account to determine that the balance is adequate and, if necessary, make any adjustments required to meet the estimated future charges.

201.01 Additional Deposits. The Servicer may collect deposits for items that we do not require (such as disability or credit life insurance). If it does, the Servicer must

- identify in its records the purpose and the recipient of the additional deposits;
- accept the monthly payment even if it does not include these additional deposits;
- collect any shortages in these deposits from the mortgagor. The regular deposit account funds may not be used to cover these shortages; and
- separate the amount of the additional deposits from the installment we require on the mortgagor's monthly billing or payment coupon.

201.02 Advances. When the borrower's deposit account does not have enough funds to cover a particular expense, the Servicer should request the mortgagor to pay the additional amount. If the borrower's payment cannot be received in time to avoid a penalty, the Servicer should advance its own funds.

When the Servicer has to advance its own funds, the mortgagor should be billed for that amount. If the mortgagor does not repay the advance, his or her subsequent

mortgage payments may be used to repay the Servicer if local law does not prohibit it. If the advance involves $500 or more and was necessary to protect our interest in the property, the Servicer of a whole mortgage may submit a Cash Disbursement Request (Form 571) to request us to reimburse it for the advance. In that case, any repayments subsequently made by the mortgagor would be sent to us.

201.03 Annual Analysis. The Servicer must analyze the account each year to determine its status and to estimate the funds needed for the coming year. After analyzing the account, the Servicer can adjust the monthly deposits to the account according to different situations.

- If there is a shortage in the account, the Servicer may either request the mortgagor to pay it in full, or take the shortage into account when it establishes the monthly escrow deposits for the next year.
- If there is an overage, the Servicer may refund it to the mortgagor if the mortgage is current or take it into account when the monthly escrow deposits for the next year are established. If the mortgage is delinquent, the Servicer should request the mortgagor to apply the overage toward the delinquency.

When the monthly payment changes as a result of the escrow analysis, the Servicer should give the mortgagor reasonable notice of the new payment.

201.04 Interest on Escrow. Some jurisdictions require that interest be paid on the funds in the mortgagor's escrow deposit account. When these requirements apply to mortgages that we own, the Servicer must pay the interest. The Servicer may also voluntarily pay the interest.

Normally, we will not reimburse the Servicer for required or voluntary interest payments. However, if we are holding a portion of the escrow deposit funds, we will reimburse the Servicer for our share of any required interest payments. In that case, the Servicer should submit a Request for Disbursement of Excess Escrow Funds or Interest on Escrow Accounts (Form 843) within 30 days after it pays the interest.

201.05 Annual Statement. At the beginning of each year, the Servicer must send the mortgagor a statement of activity in his or her mortgage account during the past year. The statement should include

- the escrow deposit account balance at the beginning of the year, any deposits to or withdrawals from the account during the year, and the account balance at year-end;
- the amount of interest that the mortgagor paid during the year;
- the amount of real estate taxes paid during the year;
- the unpaid principal balance of the mortgage at the end of the year;

- the amount by which the mortgage balance increased during the year as a result of negative amortization (when applicable); and
- the amount of interest paid (or credited) to the mortgagor as "interest on escrow".

In addition, the Servicer must provide a detailed analysis of all transactions relating to a mortgagor's monthly payments and escrow deposit account whenever the mortgagor requests it. The Servicer cannot charge the mortgagor for the annual statement or the detailed analysis.

Sec 202 Taxes and Assessments

The Servicer must maintain accurate records on the status of real estate taxes, ground rents or any other assessments that could become a lien against the property. The Servicer should always pay these expenses before any penalty date. Whenever funds are available, the Servicer should pay these expenses early enough to take advantage of the maximum discounts allowed. If a penalty is incurred for late payments of taxes—and the mortgagor was a factor in delaying the payment—the Servicer may collect the penalty from the mortgagor. Otherwise, the Servicer must pay the penalty from its own funds.

When the owners' association of a PUD or condominium project in which the Servicer services mortgages notifies the Servicer that a mortgagor is 60 days delinquent in the payment of assessments or charges levied by the association, the Servicer should advance the funds to pay the charges if necessary to protect our interest in the mortgage.

Sec 203 FHA and Conventional Mortgage Insurance

The Servicer must keep in effect the FHA or conventional mortgage insurance that existed when we purchased the mortgage. However, there are special situations that may affect the continuation of mortgage insurance coverage.

203.01 FHA Mortgage Insurance. The Servicer may consider a mortgagor's written request to cancel the FHA mortgage insurance if the borrower has a satisfactory payment record and our interests will continue to be adequately protected.

Before agreeing to cancel the insurance, the Servicer should obtain a current appraisal of the property. Then, if the property clearly meets the standards that we would require for a new conventional mortgage and the unpaid balance of the mortgage is not greater than 80% of the property's value, the Servicer may cancel the insurance.

The appraisal is not necessary if the Servicer believes that the mortgage balance is substantially less than 80% of the current property value.

203.02 FHA Coinsured Mortgages. If the mortgage is current, FHA coinsured mortgages are automatically converted to full insurance when the 60th monthly

payment is made. The Servicer does not have to notify us of this automatic change, but should contact us in cases where the conversion is not automatic. For example, when a mortgage is under a special relief provision on the date the 60th monthly payment is scheduled to occur, the Servicer should request HUD to convert it to full insurance if the mortgage is current under the terms of the relief provision. If HUD agrees to the conversion, the Servicer should then notify us.

If the Servicer cannot continue its coinsurance obligations because of its dissolution or bankruptcy, it should notify HUD and provide a list of all coinsured mortgages in its FNMA portfolio. When HUD acknowledges that the mortgages will be converted to full insurance, the Servicer should send us the list of mortgages and a copy of HUD's acknowledgement.

203.03 Conventional Mortgage Insurance. Servicers may cancel insurance coverage on a 1st mortgage when the balance has been paid down to 80% of the original value of the property. Coverage on a 2nd mortgage can be cancelled when the combined loan amount for the 1st and 2nd mortgages has been paid down to 65% of the property's original value. If the Servicer thinks that the property may have depreciated in value since the original appraisal, it may require the mortgagor to submit a current appraisal for the property before it cancels the coverage. If a mortgagor whose payments are current requests cancellation of coverage and the property has retained its value, the Servicer must cancel the coverage.

The Servicer may also approve a mortgagor's request to cancel the conventional mortgage insurance on a 1st mortgage if the mortgagor has a satisfactory payment record and a new appraisal indicates tha the mortgage balance is below 80% of the current value of the property. Requests to cancel coverage on a 2nd mortgage—based on a new appraised value—may be approved only if the borrower has had an acceptable payment record for at least 1 year. In either case, the new appraisal should be made a part of the permanent mortgage records.

At any time, the mortgagor can replace the original policy with equivalent mortgage insurance from another acceptable mortgage insurer. The Servicer must promptly send our local regional office the new original insurance policy or certificate. When the coverage expires or is cancelled, we will return the original insurance policy or certificate if the mortgage insurer requires us to do so.

Sec 204 Hazard and Flood Insurance

The Servicer must make sure that the hazard and flood insurance coverages that were required when we purchased the mortgage are maintained. Those requirements are described in Chapter One, Part 1, of our Lending Guide. If the mortgage covers a PUD, cooperative or condominium unit, the Servicer should also verify that the coverages required of the owners' association or cooperative corporation—hazard, flood, liability and fidelity—are being maintained. These requirements are discussed in

Chapter Three of the Lending Guide. In addition, the insurance that HUD requires for FHA-insured home improvement loans must be kept in force.

A Servicer may act as an insurance broker or agent to sell insurance to the mortgagor. Any activities relating to this role are outside the scope of the Servicer's authority to act on our behalf. As a result, we will not reimburse the Servicer for any fees or costs resulting from claims on coverages that exceed our requirements. In addition, the Servicer must reimburse us for any fees or costs that we incur in response to any action or defense the mortgagor might bring in connection with this coverage.

204.01 Replacement Policies. The mortgagor can modify the existing insurance coverage or replace it with a policy from another acceptable company. If the mortgagor allows the insurance coverage to lapse, the Servicer should immediately obtain new coverage that meets our basic requirements. If necessary, the Servicer should advance its own funds to pay the premium.

The owners' association of a PUD or condominium project or the cooperative corporation of a cooperative project may also have its existing insurance coverage modified or replaced with a policy from another insurance company. In this case, the owners' association or cooperative corporation must give the Servicer notice of the change so that the Servicer can determine if the coverage adequately protects our interests.

204.02 Changes in Coverage. Certain things may happen to make the existing insurance coverage inadequate to protect our interests or to cause us to be over-insured in some cases. When either situation occurs, the coverage should be changed.

When a property becomes vacant, the Servicer should add the proper endorsement to change a homeowner's policy to a fire and extended coverage policy.

The mortgagor may discontinue flood insurance coverage if the property is no longer included in a flood zone because the flood plain has been redefined. On the other hand, if the redefinition of a flood plain will result in the property being included in a flood zone, the Servicer must notify the mortgagor to obtain coverage to protect against possible damage. If the mortgagor refuses to obtain the required coverage, the Servicer should contact the regional office for further instructions.

204.03 Evidence of Insurance. Unless the Servicer is covered by mortgage impairment insurance or mortgagee interest insurance, it must keep the original insurance policy in its custody. Instead of holding the complete policy, the Servicer may accept a short form certificate of insurance if it shows all of the necessary information and is signed by the insurer. A complete text of the full policy must be available in the Servicer's office.

Many condominium or cooperative units are covered by "master" or "blanket" policies instead of individual policies. This is also true for some PUD units. In these cases, the Servicer may maintain a copy of the current "master" or "blanket" policy and a certificate of insurance showing that the individual unit is covered under the policy.

Regardless of the form used as evidence of insurance, the Servicer must be able to give us copies of the individual insurance policies if we need them.

204.04 Notice of Loss. When we purchase the mortgage on a condominium, cooperative or PUD unit, the owners' association or cooperative corporation of the project agrees to give the Servicer prompt notice of any change in its insurance coverage or of any condemnation or casualty loss that may have a material effect on the project or on our security. Therefore, the Servicer should send a notice, identifying the units it is servicing, to the owners' association of each condominium or PUD project and the cooperative corporation of each cooperative project in which it services mortgages.

Sec 205 Insurance Loss Settlements

As soon as the Servicer of a whole mortgage learns of a casualty loss, it should contact the mortgagor to get complete details on the damage and discuss plans for having the property repaired. If the Servicer is unable to contact the mortgagor, it should determine the extent of the damage and the required repairs, and submit to our local regional office a recommendation regarding the restoration of the damaged property.

When a property is damaged, the Servicer must closely monitor the filing of the claim with the insurance carrier, the repairs to the property and the disbursement of the insurance proceeds. The Servicer's responsibilities include

- helping the mortgagor to determine the nature of the needed repairs and to get the necessary bids;
- reviewing and approving the final plans for repair;
- submitting a Report of Hazard Insurance Loss (Form 176) to our local regional office for approval if
  - —the mortgage is in foreclosure or the property has been acquired through foreclosure or a deed in lieu of foreclosure,
  - —the insured improvements have suffered a total or near-total loss,
  - —the insurance proceeds are greater than the cost of restoring the property to its original condition, or
  - —the Servicer believes that the insurance proceeds should be applied to the mortgage debt instead of being used to repair the property;
- inspecting the repairs to see that they comply with the final plans;
- getting the proper lien releases; and
- disbursing the proceeds.

If the Servicer of a 2nd mortgage can determine that the repairs were made in a satisfactory manner, it does not have to inspect the property. However, it should include in the individual mortgage file documentation describing the quality of the workmanship.

In cases involving extensive repairs, the Servicer should consider making progress payments as portions of the work are completed.

Sec 206 Uninsured Losses

When a disaster (such as an earthquake, flood or tornado) results in an uninsured loss to the property, the Servicer should

- determine the extent of the damage;
- secure the property, if it is abandoned;
- develop plans for repairing the property; and
- send a complete report of the damage to our local regional office.

The Servicer should help the mortgagor file for any disaster relief aid that may be available. If the damage is extensive, the Servicer should agree to any reasonable forbearance plans or modification agreements that the mortgagor proposes.

a different office in special instructions to the Servicer. When used in connection with accounting transactions, the applicable Freddie Mac regional office is the Freddie Mac regional office serving the state where the Seller's principal office is located.

6103

Borrower

The borrower is the party obligated to repay the indebtedness secured by the mortgaged premises. For a home mortgage or HIL, the borrower must be an individual or individuals.

6104

Condominium unit; condominium project

A condominium unit is a single family dwelling located in a condominium project.

A condominium project is real estate that includes the separate ownership in fee (or on an acceptable leasehold estate) of a specified residential unit with an undivided interest in the real estate designated for common ownership solely by unit owners.

6105

Date of the Seller's offer

The date of the Seller's offer is the date the Seller telephones Freddie Mac offering to sell mortgages to Freddie Mac. Freddie Mac will insert this date on the purchase contract in the applicable space for each offer Freddie Mac accepts.

6106

Delinquency

Delinquency occurs when any part of the borrower's monthly payment of principal, interest, and escrow under the mortgage is past due and unpaid after the due date.

6107

Delivery date

The delivery date is the date Freddie Mac receives a Contract Delivery Summary (Form 381) and either a Mortgage Submission Voucher (Form 13SF or 13 Multi) completed for each mortgage or a Mortgage Loan Submission Schedule (Form 11), together with any other documentation required to be delivered to Freddie Mac before payment by Freddie Mac. Delivery to Freddie Mac occurs when the applicable Freddie Mac regional office takes possession of all documentation required to be submitted. The posting of such documentation with the U.S. Postal Service or any other mail service does not constitute delivery to Freddie Mac.

6108

Due date

The due date is the date on which the borrower's monthly payment is due, as stated in the mortgage documents.

6109

Escrow

Escrow includes all funds collected to cover expenses to be paid

under the mortgage, including, but not limited to, taxes, special assessments, ground rents, and other charges that are or may become first liens on the mortgaged premises, as well as hazard insurance premiums and mortgage insurance premiums.

6110

FHA; FHA mortgage

FHA is the Federal Housing Administration. An FHA mortgage is a mortgage insured by the FHA.

6111

Home improvement loan

A home improvement loan is a home mortgage to finance permanent improvements for energy conservation, solar installation, rehabilitation, modernization, or addition.

6112

Home mortgage

A home mortgage is a mortgage on real estate on which there is located a structure designed principally for residential use by no more than four families.

6113

MI

An MI is a mortgage insurer approved by Freddie Mac.

6114

Minimum gross yield

The minimum gross yield is the sum of the Freddie Mac required net yield plus the Freddie Mac required minimum servicing spread.

6115

Minimum servicing spread

The minimum servicing spread is the minimum amount of the interest income retained by the Servicer as compensation for servicing mortgages purchased in whole by Freddie Mac.

6116

Mortgage

A mortgage is a loan secured by a lien on real estate held in fee simple or on an acceptable leasehold estate; when used alone, and unless the context indicates otherwise, the term "mortgage" includes home mortgages, multifamily mortgages, and home improvement loans.

6117

Mortgaged premises

The mortgaged premises are the land and improvements thereon subject to the lien of a mortgage.

6118

Mortgages purchased in whole or in part

Mortgages purchased in whole have been purchased in their entirety by Freddie Mac. Mortgages purchased in part are mortgages in which Freddie Mac has purchased or retained a participation interest.

separate agreement, incorporating this guide by reference. In such a case, the term "purchase documents" means the separate agreement and this guide.

6124

Real estate owned (REO)

Real estate owned (REO) is property acquired through foreclosure or deed in lieu of foreclosure.

6125

Required net yield

The required net yield is the amount of interest Freddie Mac receives from each mortgage purchased as stated in the purchase contract.

6126

Seller

A Seller is a mortgage lender approved to sell mortgages to Freddie Mac.

6127

Servicer

A Servicer is a mortgage lender approved to service mortgages purchased by Freddie Mac. The Servicer may be the Seller, a wholly owned subsidiary of the Seller, a subsidiary of the Seller and other Sellers, a servicing agent of the Seller (under section 6201), or a transferee of the Seller (under section 6311).

6128

Servicing

Servicing is the performance of applicable obligations described in the purchase documents, including tasks necessary to maintain mortgages sold to Freddie Mac in a manner that protects Freddie Mac's interests.

6129

Servicing agent

A servicing agent is a Servicer unaffiliated with the Seller that has received Freddie Mac's authorization to act on the Seller's behalf in servicing mortgages purchased by Freddie Mac.

6130

Transfer of ownership

For the purposes of chapters 69 and 73, transfer of ownership means, but is not limited to mean, the conveyance of the mortgaged premises or any right, title, or interest in the mortgaged premises, whether legal or equitable, voluntary or involuntary, by any of the following methods:

- outright sale
- deed
- installment sale contract
- land contract
- contract for deed
- leasehold interest with a term greater than three years
- lease-option contract
- land trust

relieve the Seller of its responsibilities to Freddie Mac under the purchase documents.

6202

Servicing facilities and duties

The Servicer must maintain servicing facilities with staff trained to adequately service mortgages according to the requirements in the purchase documents. The Servicer's staff must be familiar with all regulations and requirements affecting mortgages serviced for Freddie Mac. These regulations and requirements include, but are not limited to, those issued by Freddie Mac, FHA, VA, MIs, and local or federal agencies having jurisdiction. The Servicer must perform all duties of the mortgagee under the security instrument, FHA insurance, VA guaranty, and mortgage insurance policy.

6203

Borrower inquiries

If asked by the borrower, the Servicer must inform the borrower whether Freddie Mac has purchased the borrower's mortgage. If Freddie Mac has purchased the mortgage, the Servicer must explain to the borrower that it services the mortgage for Freddie Mac. The Servicer must answer the borrower's inquiries and not refer or advise the borrower to contact Freddie Mac directly concerning the mortgage. Borrowers must be given prompt, clear, and accurate information about whether their mortgages are assumable, and if they are, on what terms the assumption will be allowed and how long those terms will apply.

6204

Mortgage file

(a) Contents. The Servicer must maintain an individual file for each mortgage. The file must contain all documents required to be held by the Seller, as stated in the *Sellers' Guide FHA/VA*, Section 3.302 or in section 2415 of this guide, as well as all legal notices, correspondence, forms, and reports concerning the mortgage. The file must contain the originals of all documents submitted to Freddie Mac (except when the original documents are retained by Freddie Mac). When the Servicer possesses the original note, the note may be segregated from the file if it is maintained in a fireproof storage area. The Servicer must also maintain adequate records of collection efforts and make the records available for Freddie Mac's inspection on request. At a minimum, the records must show:

- the dates that letters and notices were mailed;
- results of conversations with the borrower;
- dates of personal contacts;
- dates and results of property inspections; and
- reasons for prior and current defaults.

Where applicable law or local custom requires the original security instrument to secure its release, the Servicer agrees to maintain a certified copy of the original security instrument, complete with recordation notation.

(b) Maintenance. The Servicer must prudently maintain all mortgage files, related documents, and records held pursuant to this section and the purchase documents. Each file must be clearly marked to indicate Freddie Mac's percentage of interest in the mortgage and the Freddie Mac loan number assigned to it.

The Servicer agrees to maintain the entire mortgage file while Freddie Mac retains any interest in the mortgage and for at least three years from the date Freddie Mac's interest in the mortgage is satisfied. If the mortgage is accelerated, the Servicer must maintain the entire file at least six years from the date Freddie Mac's interest in the mortgage is satisfied.

(c) Microfilm copies. Instead of maintaining the original documents required by this section, all documents (except the security instrument and the note) may be maintained in the form of microfilm or microfiche provided that

- the copies were made in the regular course of business pursuant to a written policy of the Servicer applying to all its mortgage files;
- the copies were made by a process that accurately reproduces or forms a durable medium for reproducing the original;
- the copies are satisfactorily identified;
- the Servicer maintains the copies in a manner that permits ready transfer to legible hard copies of the material relating to the mortgages serviced for Freddie Mac;
- reader/copiers that can be used by Freddie Mac representatives are kept in the same offices where the copies are kept.

(d) Damage or loss. The Servicer must bear the entire cost of restoring mortgage files and related documents and records damaged or lost for any reason.

(e) Inspection by Freddie Mac. When Freddie Mac requests, either before or after termination of servicing, the Servicer must permit Freddie Mac at any time during normal business hours to inspect the mortgage files and all of the Servicer's records pertaining to mortgage operations related to Freddie Mac.

6205

Reports

The Servicer must submit all servicing reports for any mortgage to the applicable Freddie Mac regional office at the time and in the form requested by Freddie Mac.

Whether there is any delinquency in the mortgage serviced for Freddie Mac or not, the Servicer must provide Freddie Mac with a monthly Summary of Delinquencies and Foreclosures (Form 100, exhibit 80) for each state where mortgaged premises are located. The report must be received by Freddie Mac within eight business days after the last day of each month.

Mortgage impairment or mortgagee interest insurance is acceptable if it provides errors and omissions coverage on substantially the same terms as stated above. Deductibles may not exceed the higher of $10,000 or 2.5 percent of the liability per occurrence.

(b) Reports. In connection with its fidelity and mortgage errors and omissions coverage, the Servicer must

- obtain evidence of the insurer's agreement to notify Freddie Mac 30 days or more before canceling, reducing, not renewing, or restrictively modifying any coverage for any reason;
- promptly advise Freddie Mac of any embezzlement, fraud, dishonesty, errors, or omissions within its organization, whether Freddie Mac's funds are involved or a claim is filed with the insurer, if the ensuing loss exceeds the deductible amounts allowed in sections 6402-6403.

6404

General property insurance requirements

The Servicer must ensure that the mortgaged premises are covered by insurance meeting the requirements in this and subsequent sections.

(a) Licensing of insurer. All insurers and reinsurers must be licensed, or otherwise authorized by law, to conduct business in the jurisdictions where the mortgaged premises are located.

(b) Assessments. Insurance contracts must provide that no assessment may be made against the Servicer or Freddie Mac and that any assessment made against others may not become a lien on the mortgaged premises superior to the outstanding liens.

(c) Rating of insurer. The required insurance must be underwritten by an insurer currently rated B/VI or better in Best's Insurance Reports. The following alternatives are acceptable:

- the insurer has a rating of A/V or better;
- the insurer is reinsured by a company rated B/VI or better. In this case, both the insurer and reinsurer must execute an Assumption of Liability Agreement or a similar endorsement providing for 100 percent reinsurance of the insurer's policy and requiring the reinsurer to give the borrower, Servicer, and insurer 90-day written notice before cancelling or otherwise terminating the reinsurance (this agreement must be attached to the insurance policy); or
- the coverage is underwritten by Lloyd's of London or by a Fair Access to Insurance Requirements (FAIR) or beach and windstorm plan.

6405

Hazard insurance

(a) 1–4 family properties. At a minimum, the mortgaged premises must be protected against loss or damage from fire and other perils covered within the scope of standard extended coverage. Insurance must at least equal the lesser of 100 percent of the insurable value of the improvements or the unpaid balance of the mortgage. For a HIL, insurance must be at least equal to the

lesser of 100 percent of the insurable value of the improvements or the aggregate unpaid balance of the HIL and all outstanding superior liens on the mortgaged premises. The insurance may not be less, however, than the minimum amount required under the terms of coverage to fully compensate for any damage or loss on a replacement cost basis. The Servicer must ensure that the mortgaged premises are adequately covered even when vacant and, where necessary and available, must obtain a vacancy permit endorsement.

Deductibles may not exceed the lower of $1,000 or 1 percent of the applicable amount of coverage.

(b) Planned unit developments. Requirements for 1–4 family and multifamily properties apply to similar residential properties within a planned unit development (PUD).

If the individual units are covered by insurance purchased by their respective owners, the PUD homeowners' association must maintain "all risk" coverage for common areas and property for 100 percent of their insurable value and providing for loss or damage settlement on a replacement cost basis. The association must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location, and use, including the following where applicable and available:

- agreed amount
- demolition cost
- increased cost of construction
- boiler and machinery

The insurer's minimum liability per accident under boiler and machinery coverage must equal the insurable value of the building housing such boiler or machinery or $2 million, whichever is less.

Deductibles may not exceed the lower of $10,000 or 1 percent of the applicable amount of coverage. Funds for such deductibles must be included in the association's reserves and be so designated.

Freddie Mac will also accept blanket insurance covering all units in the PUD as well as insurable common areas and property, if called for in the PUD's constituent documents. Such coverage must meet the requirements applicable to each PUD unit and those applicable to insurable common areas and property. Deductibles are allowed under this blanket coverage provided that the deductible for losses to an individual unit does not exceed the lower of $1,000 or 1 percent of the unit's insurable value. Funds for any deductibles must be included in the association's reserves and be so designated.

The PUD's insurance policy must name the insured in substantially the same language indicated below:

"Association of Owners of the ... Planned Unit Development for the use and benefit of the individual owners (designated by name, if required by law or the constituent documents)."

(c) Condominiums. The condominium owners' association must maintain blanket "all risk" coverage for the following:

- general and limited common elements within the condominium;
- fixtures, machinery, equipment, and supplies maintained for the service of the condominium;
- fixtures, improvements, alterations, and equipment within the individual units.

Coverage must be for 100 percent of the insurable value of the common elements or property described above and provide for loss or damage settlement on a replacement cost basis.

The additional coverages required of PUD homeowners' associations are also required of condominium owners' associations where applicable and available.

Deductibles may not exceed the lower of $10,000 or 1 percent of the applicable amount of coverage. Funds for such deductibles must be included in the association's reserves and be so designated.

The insurance policy of the condominium owners' association must name the insured in substantially the same language indicated below:

"Association of Owners of the ... Condominium for the use and benefit of the individual owners (designated by name, if required by law or the constituent documents)."

(d) Multifamily properties. At a minimum, the mortgaged premises must be protected against loss or damage from fire and other perils covered within the scope of standard extended coverage. Insurance must at least equal the lesser of 100 percent of the insurable value of the improvements or the unpaid balance of the mortgage. The insurance may not be less, however, than the minimum amount required under the terms of coverage to fully compensate for any damage or loss on a replacement cost basis.

Deductibles may not exceed the lower of $10,000 or 1 percent of the applicable amount of coverage.

The additional coverages required of PUD and condominium owners' associations are also required for multifamily properties.

Further, rent loss coverage must be in force, providing for insurer's liability in an amount equal to the gross rentals for at least 6 months for buildings not more than three stories high and at least 12 months for buildings higher than three stories.

6405

Flood Insurance

If the area where the mortgaged premises are located has been identified by the Secretary of Housing and Urban Development (HUD) or the Director of the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area, the Servicer must ensure that flood insurance is maintained and that it provides coverage at least equivalent to that provided under the National Flood Insurance Program (NFIP) in the amount specified later in this section.

The Servicer may waive the flood insurance requirement if

- the land or a portion of it is in a Special Flood Hazard Area but the dwelling is not; or
- the borrower has provided the Servicer with a Letter of Map Amendment from FEMA excluding the dwelling or the entire property from a Special Flood Hazard Area.

(a) 1–4 family properties. Building coverage must be maintained in an amount at least equal to the least of the following:

- the maximum available under the NFIP's regular program;
- the maximum available under the NFIP's emergency program if the regular program is not yet in effect in the area where the mortgaged premises are located;
- the minimum amount required under the terms of coverage to compensate for any damage or loss on a replacement cost basis, or the unpaid balance of the mortgage (in the case of a HIL, the aggregate unpaid principal balance of the HIL and all outstanding superior liens on the mortgaged premises) if replacement cost compensation is not available for the type of building insured.

Deductibles may not exceed the lower of $1,000 or 1 percent of the amount of coverage.

(b) Individual PUD units. Flood insurance requirements for 1–4 family and multifamily properties apply to similar residential properties within a PUD.

(c) PUD homeowners' associations. The PUD homeowners' association must maintain coverage on common areas and property for 100 percent of their insurable value. Deductibles may not exceed the lower of $5,000 or 1 percent of the applicable amount of coverage. Funds for such deductibles must be included in the association's reserves and must be so designated.

(d) Individual condominium units. Flood insurance requirements for townhouses and rowhouses are those applicable to 1–4 family properties. Flood insurance is not required for individual units within a high-rise or vertical condominium.

(e) Condominium owners' associations. The condominium owners' association must maintain coverage for detached common elements and property for 100 percent of their insurable value.

If the condominium consists of high-rise or other vertical dwelling units, the condominium association must maintain coverage that meets the following requirements:

- The amount of buildings coverage must equal 100 percent of the insurable value of the common elements and property, including any machinery and equipment that are part of the buildings.
- The contents coverage must equal 100 percent of the insurable value of all contents, including machinery and equipment not part of the buildings, that are owned in common by the association members.
- Deductibles may not exceed the lower of $5,000 or 1 percent of the applicable amount of coverage.
- Funds for such deductibles must be included in the association's reserves and be so designated.
- A separate condominium association endorsement is required if not already a part of the policy.

(f) Multifamily properties. If the entire property is in a Special Flood Hazard Area, the aggregate amount of flood insurance must equal, at a minimum, the lesser of the insurable value of all buildings or the unpaid balance of the mortgage.

If only part of the property is in a Special Flood Hazard Area, insurable buildings exposed to flood hazards must be covered by flood insurance in an aggregate amount equal, at a minimum, to the lesser of the insurable value of the exposed buildings or that prorated portion of the unpaid balance of the mortgage on the entire property determined by the ratio of the square foot area of the exposed buildings to the total square footage of all buildings comprising the property.

Deductibles may not exceed the lower of $5,000 or 1 percent of the applicable amount of coverage.

6407

Liability Insurance requirements

(a) Planned unit developments and condominiums. The PUD or condominium owners' association must carry comprehensive general liability (CGL) insurance covering all common areas, common elements, commercial spaces, and public ways in the PUD or condominium.

If not already included in the terms of the CGL coverage, there must be a "severability of interest" endorsement precluding the insurer's denial of a unit owner's claim because of negligent acts by the association or other unit owners.

The association must also carry any additional coverage commonly required by private mortgage investors for developments similar in construction, location, and use, including the following where applicable and available:

- contingent liability from operation of building laws
- comprehensive automobile liability

- bailee's liability
- elevator collision liability
- garage keeper's liability
- host liquor liability
- workers' compensation and employer's liability
- contractual liability

The insurer's limit of liability per occurrence for personal injury, bodily injury, or property damage under the terms of the above coverages must be at least $1 million.

(b) Multifamily properties. A multifamily rental property must be covered by liability insurance to the extent required of a PUD or condominium owners' association.

6408

Fidelity insurance requirements for planned unit developments and condominiums

The PUD or condominium owners' association must carry fidelity insurance covering losses resulting from dishonest or fraudulent acts committed by the association's directors, managers, trustees, employees, or volunteers who manage the funds collected and held for the benefit of the PUD or condominium unit owners. This coverage must have the following characteristics:

- the coverage must equal the maximum amount of funds in the association's custody at any one time but must be no less than the sum of three months of assessments on the entire project plus reserves;
- the PUD or condominium owners' association must be named as the insured;
- a professional management firm must be insured to the same extent as a PUD or condominium owners' association managing its own operation and must submit evidence of such coverage to the association.

6409

Mortgage clause

All insurance policies must have the standard mortgage clause commonly used by private institutional mortgage investors. Such clause must provide that the insurer will notify the named mortgagee at least 10 days before any reduction in coverage or cancellation of the policy.

If the mortgage is owned in whole by Freddie Mac, "(name of Servicer), its successors and assigns" should be named as mortgagee instead of Federal Home Loan Mortgage Corporation. In deed-of-trust jurisdictions, the mortgagee should be designated as "(name of Servicer), its successors and assigns, beneficiary."

The mortgage clause of insurance policies obtained by PUD or condominium owners' associations must be endorsed to fully protect Freddie Mac's interest or the interests of Freddie Mac and the Servicer where applicable.

Regardless of how the mortgage clause is endorsed, the Servicer must arrange for all insurance drafts, notices, policies, invoices, etc., to be delivered directly to the Servicer. If the Federal Home Loan Mortgage Corporation must be named as mortgagee, the endorsement must show the Servicer's address in lieu of Freddie Mac's, as shown in the example below:

Federal Home Loan Mortgage Corporation
c/o ABC Savings and Loan Association
100 Main Street
Hometown, USA 12345

When a mortgage clause is not applicable (e.g., in a separate policy of comprehensive general liability), a certificate of insurance must be provided to the Servicer. This certificate must contain the information required for certificates or other evidence of insurance in section 6410, with the Servicer named as certificate holder instead of the mortgagee.

6410

Evidence of Insurance

For each property securing a mortgage owned by Freddie Mac, the Servicer must maintain the following documentation:

- for 1–4 family properties, an original of the hazard insurance policy, flood insurance policy (if applicable), and any related endorsement;
- for properties covered under a blanket PUD or condominium association policy, an original of the blanket policy, any flood insurance policy, and any related endorsement;
- for multifamily properties, an original of the blanket policy, any flood insurance policy, and any related endorsement.

Microfilm or microfiche copies of the required policies are acceptable if they meet the requirements of section 6204.

In lieu of a policy, the Servicer may maintain a certificate or other evidence of insurance showing at least the following information:

- named insured and mortgagee (named insured association, unit owner, and unit owner mortgagee if a PUD or condominium unit);
- property address;
- type, amount, and effective dates of coverage;
- deductible amount;
- any endorsement or optional coverage obtained and made part of the original policy;
- insurer's agreement to provide at least 10 days' notice to the mortgagee (or applicable unit owner mortgagee if for a PUD or condominium unit) before any reduction in coverage or cancellation of the policy; and
- signature of an authorized representative of the insurer, if required by law.

The Policy Declarations page of an NFIP policy is acceptable evidence of flood insurance.

The Servicer must possess a specimen of each policy and endorsement for which a certificate or other evidence of insurance is maintained in lieu of the policy or endorsement.

The Servicer must carry mortgage impairment or mortgagee interest insurance if it elects not to maintain the documentation described above. The mortgage impairment or mortgagee interest policy must meet the following requirements:

- be underwritten by an insurer currently rated B/IX or better in Best's Insurance Reports (policies issued by Lloyd's of London are also acceptable) and licensed or otherwise authorized by law to conduct business in the jurisdictions where the properties are located;
- provide coverage for the Servicer and/or Freddie Mac;
- provide coverage in scope and amounts at least equal to those required under section 6403;
- provide for at least 180 days' written notice to the Servicer and, if applicable, Freddie Mac before canceling or terminating the coverage;
- be approved by any regulatory authority to which the Servicer is subject, if such approval is required.

In addition to all other remedies of Freddie Mac provided for in the purchase documents, the Servicer will indemnify Freddie Mac for any loss Freddie Mac sustains due to the Servicer's failure to verify that the required insurance is in force on the mortgaged premises. The Servicer's obligation shall in no way be limited to the amount of coverage in force under a mortgage impairment or mortgagee interest policy.

6411

Insurance charges

Premiums for insurance covering the mortgaged premises will be paid when due by borrowers or the Servicer if the Servicer collects escrows for such purposes.

Premiums for insurance obtained by a PUD or condominium owners' association for the benefit of the PUD or condominium project will be paid by the association as a common expense assessable to all unit owners.

6412

Changes in insurance requirements

The Servicer must require the borrower to obtain appropriate insurance coverage in accordance with the terms of the security instrument when the following conditions exist:

- the Servicer becomes aware that existing coverage does not adequately protect the mortgaged premises;
- the area where the mortgaged premises are located was not subject to flood insurance requirements at inception of the

mortgage or when Freddie Mac purchased the mortgage, but has now been classified as a Special Flood Hazard Area and the Servicer has become aware of such classification.

The Servicer will follow up to verify that adequate coverage has been obtained and remains in force. If the borrower does not obtain such coverage, the Servicer must do so. The Servicer will then adjust the borrower's escrow payments accordingly or bill the borrower to recover the advance if the Servicer does not maintain an escrow account for the borrower. If the borrower refuses to reimburse the Servicer, the Servicer may recommend acceleration to Freddie Mac for the borrower's default under the terms of the security instrument.

If the additional coverage cannot be obtained, the Servicer will immediately make appropriate recommendations to Freddie Mac.

The Servicer may authorize the borrower to discontinue flood insurance coverage upon verification of map revision or receipt of a Letter of Map Amendment from FEMA.

6413

Insurance loss settlements

Upon notification of loss or damage to the mortgaged premises, the Servicer will monitor and coordinate the claim process with the borrower and the insurer. The Servicer must take appropriate action to

- verify the extent of the loss or damage;
- ensure judicious disbursement of insurance proceeds for the necessary repairs;
- protect the priority of the mortgage by obtaining waivers of materialman's or mechanic's liens; and
- document completion of the repairs.

The Servicer may be named as loss payee on insurance drafts and must comply with any applicable law and, where applicable, any requirement of the FHA, VA, or MI. Details concerning the loss or damage and disposition of the insurance proceeds must be recorded in the loan file.

The Servicer need not submit a report and related recommendations to Freddie Mac unless

- the mortgage is in foreclosure or the mortgaged premises have been acquired by the Servicer through foreclosure or deed in lieu of foreclosure;
- the insured improvements have suffered a total or near total loss;
- the Servicer wishes to apply insurance proceeds to the mortgage debt instead of repairing the property; or
- insurance proceeds exceed the amounts required to restore the property to its original condition.

6414

Natural disaster losses

When a natural disaster (earthquake, flood, tornado, etc.) results in losses or damages to the mortgaged premises, the Servicer must promptly

- ascertain the number of such mortgaged premises;
- determine the extent of the losses or damages;
- secure any abandoned mortgaged premises;
- assist the affected borrower in filing for any disaster relief aid available;
- assist the affected borrower through counseling and any appropriate repayment plan as provided under sections 6510-6513;
- notify the applicable Freddie Mac regional office with appropriate recommendations.

6415

Mortgage insurance requirements

†The mortgage insurance required under sections 1406 and 1601 may be canceled at the Servicer's option and the collection of mortgage insurance premiums discontinued when the conditions below are met.

(a) Owner-occupied properties. Mortgage insurance coverage may be canceled when the unpaid balance of the mortgage is reduced to 80 percent or less of the original purchase price or original appraised value, whichever is less, and the borrower has a history of timely payments.

Mortgage insurance coverage may also be canceled upon transfer of ownership, if the unpaid balance of the mortgage is reduced to 80 percent or less of the current purchase price or current appraised value, whichever is less. This appraised value must be based on an appraisal made within 60 days by an appraiser acceptable to the Servicer, using the applicable Freddie Mac appraisal report form.

(b) Nonowner-occupied properties. Mortgage insurance coverage may be canceled when the unpaid balance of the mortgage is reduced to 65 percent or less of the original purchase price or original appraised value, whichever is less, and the borrower has a history of timely payments.

Mortgage insurance coverage may also be canceled upon transfer of ownership, if the unpaid balance of the mortgage is reduced to 65 percent or less of the current purchase price or current appraised value as explained above, whichever is less.

discontinued, all fees and costs incurred are to be collected from the borrower unless prohibited by law, in which case Freddie Mac will share the expenses with the Servicer in proportion to Freddie Mac's interest in the mortgage.

(e) Foreclosure instruments. The Servicer must prepare and forward with the foreclosure recommendation any necessary papers for execution by Freddie Mac. When appropriate, the Servicer will request the note from Freddie Mac. If the note is sent to the Servicer, the Servicer will be responsible for its safe storage and must return it to Freddie Mac promptly should the foreclosure proceedings be discontinued.

(f) Servicing. Freddie Mac reserves the right to direct the Servicer to relinquish servicing of a mortgage in default and resume servicing when appropriate.

6603

Action during foreclosure

(a) Protection of the mortgaged premises. The Servicer must take appropriate action during the foreclosure process to protect the mortgaged premises. The Servicer must obtain Freddie Mac's prior approval for any expenditure over $500 to protect the property. When delaying protective action might result in impairment of the mortgaged premises, the Servicer should call the applicable Freddie Mac regional office for immediate approval. Freddie Mac will send the Servicer a confirmation of the cost and nature of the protective action approved.

(b) Escrow funds. The Servicer must retain the borrower's escrow funds and unapplied funds, if any. The Servicer must obtain bills for and effect payment of all expenses to be paid under the security instrument. Such expenses include taxes, special assessments, ground rents, and other charges that are or may become first liens on the mortgaged premises. If the borrower's escrow funds are insufficient to pay these items as they become due during foreclosure, the Servicer must advance funds to pay these expenses when and to the extent necessary to protect Freddie Mac's interest.

(c) Buydown account. Any funds remaining in the buydown account of a mortgage in foreclosure must be disposed of according to the terms of the buydown agreement. The funds must not be automatically applied to reduce the principal balance of the borrower's mortgage or to reduce any other of the borrower's obligations under the mortgage. The funds may be so applied with the borrower's consent when the application of funds is sought.

(d) Inspection. The Servicer must inspect the mortgaged premises at least monthly and more frequently when circumstances warrant.

68

Home mortgage and HIL servicing: partial prepayment (curtailment); escrow; adverse matters

6801

Partial prepayments (curtailments)

Partial prepayments of principal in any amount may be accepted by the Servicer according to the terms of the note. Upon request by the borrower, the monthly principal and interest installments may be reduced provided that

- the monthly payments (including payments to superior lienholders, for a HIL) are current;
- there is no extension of the maturity date of the note;
- FHA, VA, or MI approval is obtained, if applicable;
- the rate of interest stated in the note remains unchanged.

If the monthly payments are reduced, a modification agreement must be prepared and executed by or consented to in writing by all necessary parties, such as the holder of the note, the borrower and any comaker, guarantor, surety, or other obligor. Freddie Mac need not approve any modification meeting these requirements.

Freddie Mac's execution of any document submitted by the Servicer does not imply that it has reviewed the document for legal adequacy. This is the Servicer's responsibility. When required by local law or practice, the Servicer must obtain the consent of any statutory or contractual lienholder and binding confirmation by the title insurer that no loss in the dignity of the lien is incurred. The Servicer must make any necessary recordation. To the extent of local law and practice, the Servicer may require the borrower to reimburse the Servicer's costs and pay expenses incurred in preparing or recording the modification agreement. For mortgages purchased in whole by Freddie Mac, the Servicer must send the original modification agreement to Freddie Mac for its records. See section 8011 for Freddie Mac's accounting requirements regarding this subject.

6802

Escrow for taxes, ground rents, assessments, and other charges

The FNMA/FHLMC uniform security instruments provide for the collection of escrow, subject to applicable law, unless waived by the lender. If escrow is being collected when the mortgage is

purchased by Freddie Mac, the Servicer must continue to collect one-twelfth of the yearly charge for escrow with each monthly installment of principal and interest. The Servicer may, if requested by the borrower, also collect and administer funds to pay expenses not provided for in the mortgage, such as life insurance on the borrower. The escrow must be held in an account insured by an agency of the United States.

The Servicer must obtain bills for and pay all escrow items before the applicable penalty or termination date. The Servicer must maintain adequate records to prove payment of all taxes, ground rents, assessments, and other charges that are or may become first liens on the mortgaged premises.

At least annually, the Servicer must compute the required escrow payment based on reasonable estimates of assessments and bills to determine that sufficient funds are being collected to meet all escrow payments. If the amount held in escrow by the Servicer, together with the future monthly installments of escrow, exceeds the amount required to pay charges as they fall due, the Servicer must either repay the excess promptly to the borrower (if there is no default under the terms of the security instrument) or credit the excess to the borrower by a reduction in monthly escrow installments. Any interest payable to the borrower for escrow or any other funds held by the Servicer, whether due to contractual agreement or operation of law, must be paid by the Servicer at its own expense.

If the amount held in escrow by the Servicer is deemed insufficient to pay charges when due, the Servicer should obtain the necessary additional funds from the borrower before the latest date on which the charges may be paid prior to penalty, lapse of insurance policies, etc. If the borrower fails to remit the deficient amount, or if there is insufficient time to obtain the amount, the Servicer must pay any charges due and reflect a shortage in the borrower's escrow account.

The Servicer may, without Freddie Mac's approval, start collecting escrow not previously required. The Servicer may discontinue collecting escrow if

- the mortgage has not been delinquent for 30 days or more at any time during the previous 6 months;
- the Servicer retains the right to resume collection of escrow if there is any nonpayment of the items for which escrow had previously been collected.

If the Servicer chooses not to collect escrow or if the terms of the security instrument or applicable law do not provide for collection of escrow, the Servicer must require proof of payment of all taxes, ground rents, assessments, and other charges or use other means commonly employed by private institutional mortgage investors to satisfy itself that those items are promptly paid. The Servicer must notify Freddie Mac immediately of any

charge not promptly paid and recommend to Freddie Mac a course of action to be followed in this event.

6803

Adverse matters: notice of liens, vacancy, waste, etc.

It is the Servicer's responsibility to act in the most timely, efficient, and responsible manner to protect the interests of Freddie Mac, or the respective interests of the Servicer and Freddie Mac. The Servicer must exercise diligence to prevent any losses, and must immediately advise and make appropriate recommendations to the applicable Freddie Mac regional office, on notification or discovery of any of the following conditions:

- attachment of prior liens to the mortgaged premises (for a HIL, prior liens other than those on record at the origination of the HIL);
- vacancy of the mortgaged premises;
- deterioration of, waste of, or lack of repair to the mortgaged premises;
- default under the terms of the security instrument, note, superior lien obligations (HILs only), condominium or PUD constituent documents, or similar borrower's obligations;
- sale or transfer of the mortgaged premises not approved by the Servicer;
- litigation involving the mortgaged premises that may adversely affect the secured position of Freddie Mac or the Servicer and Freddie Mac; or
- any other situation that may have an adverse impact on the mortgage.

For each case, the Servicer must maintain accurate records of any of these conditions, detailing its actions to prevent losses.

6804

Adverse matters: bankruptcies

The Servicer must take appropriate action to best protect Freddie Mac's interest in the mortgaged premises during state insolvency or federal bankruptcy proceedings in which the borrower is the "debtor." The Servicer is responsible to effectively handle such mortgages. The Servicer should act with the advice of competent legal counsel well-versed in the Bankruptcy Reform Act of 1978 and other relevant areas of law.

(a) Attorney's fees. The amount of the attorney's fees incurred in connection with the proceedings must be consistent with fees commonly charged for similar services in the area where the mortgaged premises are located. The Servicer should attempt to obtain payment of the attorney's fees and costs resulting from the proceedings directly from the borrower or from the bankruptcy court.

(b) Notification to Freddie Mac. The Servicer is not required to submit to Freddie Mac any special notice regarding such proceedings involving a mortgage purchased by Freddie Mac. However, if a mortgage involved in such proceedings is delin-

quent, the Servicer must report to Freddie Mac according to section 6205 by submitting Form 102. The following additional items should be included in the Servicer's comments on Form 102 when a delinquent borrower is involved in such proceedings:

- the date the petition was filed;
- the Chapter of the Bankruptcy Act or citation to relevant law cited in the petition;
- the date the Servicer received notification of the proceedings;
- a copy of the proof of claim, including the date it was filed;
- a list of all lienholders and any unpaid taxes or assessments;
- a copy of the Chapter 11 or 13 Plan, if accepted.

Follow-up reports should be submitted monthly to update the status of the case. If a Freddie Mac mortgage is current when the bankruptcy petition is filed and the mortgage remains current, no notification need be submitted to Freddie Mac.

6805

Adverse matters: reimbursement of expenses

In any situation described in sections 6803-6804, expenses incurred by the Servicer to comply with Freddie Mac's instructions will be reimbursed to the Servicer in proportion to Freddie Mac's interest in the mortgage, unless collection from the borrower is allowed under applicable law. Freddie Mac's prior written approval of these expenses is required under the same circumstances as described in chapters 66-67. Any reimbursement will not prejudice any rights Freddie Mac may have against a Seller or Servicer with respect to the sale or servicing of the mortgage.

When delaying protective action might result in impairment of the mortgaged premises, the Servicer should call the applicable Freddie Mac regional office for immediate approval. Freddie Mac will send the Servicer a confirmation of the cost and nature of the protective action approved.

70

Multifamily mortgage servicing

7001

Inspection of property; financial statements

A periodic inspection of the mortgaged premises and a review of the profit and loss statements for the mortgaged premises are important tools in preventing default of a multifamily mortgage. Annually, the Servicer must inspect the mortgaged premises and, when permitted by the mortgage documents, obtain a rent roll and a signed profit-and-loss statement for the mortgaged premises. The Servicer must forward copies of the inspection report, rent roll, and profit-and-loss statement to Freddie Mac for any mortgage with an original amount of $250,000 or more. Any inspection report or profit-and-loss statement that indicates deferred maintenance, an operating loss, or any other potential servicing problem must be forwarded to the applicable Freddie Mac regional office, regardless of loan balance.

Freddie Mac reserves the right to require more frequent inspections when loans are delinquent or when Freddie Mac deems necessary. Where commonly required by private institutional mortgage investors, profit-and-loss statements must be prepared by a certified public accountant.

7002

Reserves for replacements and other escrows

The Servicer must hold and administer in accordance with the applicable documents all funds or bonds that constitute the reserve for replacements, working capital deposits, escrow for latent defects, operational deficiency deposits, or other escrow required by the mortgage, the security instrument, and other related documents.

If the applicable documents provide that a fund shall be in cash, or obligations of, or securities fully guaranteed as to principal and interest by the United States, Freddie Mac authorizes the Servicer to accept monthly deposits in either cash or bonds, provided such bonds are in bearer form. If the borrower proposes to substitute bonds for cash already deposited in such a

fund, the Servicer may approve the substitution, provided the amount of cash disbursement to the borrower from the fund does not exceed the market value of the bonds, as computed on the basis of the price quoted for such bonds on the date they are received by the Servicer. Before the bonds are deposited in the fund, the Servicer must obtain written general authority from the borrower to permit the Servicer, acting for Freddie Mac, to sell or redeem such bonds at any time and deposit the cash proceeds, less brokerage fees, in the fund. The Servicer must require additional deposits in the event of a decrease of more than 5 percent in the market value of the bonds, if permissible under the applicable agreement.

The Servicer may not purchase bonds or disburse cash from the fund to the borrower to purchase bonds. The Servicer must collect interest on the bonds as it becomes due and, if the borrower is not in default, must promptly pay the interest to the borrower. In addition, the Servicer must collect the principal of the bonds as they mature. Only to collect the interest and proceeds of the bonds may the Servicer release the bonds. If it becomes necessary to convert the bonds into cash to carry out the purpose of a fund, the Servicer must request, in writing, Freddie Mac's written approval. After obtaining the written approval and notifying the borrower, the Servicer may effect the conversion.

7003

General requirements for dealing with delinquencies

The Servicer should treat each delinquency individually, based on its knowledge of the borrower, the location and type of mortgaged premises, and the extent of the delinquency. Generally, the Servicer may assume that it is dealing with a knowledgeable real estate investor. If it becomes apparent that this is not so, the Servicer must emphasize to the borrower the seriousness of not promptly paying all mortgage installments when due.

The Servicer must contact the borrower on or before the 10th day after a payment is due and remains unpaid to ascertain the reason for the late payment and the borrower's intentions for curing the delinquency. Any promise for payment must be followed closely, and the borrower must be contacted immediately if payment is not received when promised. When contacting a delinquent borrower, the Servicer must try to obtain a current rent roll with the names of all tenants, the amount of rent for each unit, the date to which rent has been paid, and the details of all leases.

Before the 20th day after the payment due date, the Servicer must inspect the mortgaged premises unless it has received a promise of payment. An immediate inspection is required when a payment promise has been broken. The mortgaged premises must be inspected monthly after the loan becomes more than one month delinquent. Inspection reports must accompany the monthly servicing reports that the Servicer sends to Freddie

FED VA

b. **Interest on Advances.** Interest on advances made pursuant to VA Regulation 4313 may not be in excess of the rate reported by the lender when requesting evidence of guaranty or insurance.

c. **Late Charge.** A late charge, not to exceed 4 percent of any installment paid more than 15 days after due date, is permitted, if the loan instruments so provided. If a payment is due on the first day of the month, a late charge cannot be claimed unless the payment is first received after the 16th day of the month; i.e., the 17th or later. Late charges must not be deducted from regular installment payments and are collectible only on installments actually paid. **(Also see sec. F, par. 7.)**

7. **FEES AND CHARGES**

a. **Allowable Fees And Charges.** In making a guaranteed or insured loan, no charge may be made against, or paid by the borrower except those expressly permitted under schedules established in advance by VA. The approved schedule for a particular area is available at the VA regional office serving the specific area involved and lenders should obtain this particular schedule prior to the closing of any loans. In general, however, the veteran may pay reasonable and customary amounts for any of the following items:

(1) Fee of VA appraiser and compliance inspector if designated by VA, except appraisal fees incurred for the predetermination of reasonable value requested by other than veteran or lender.

(2) Recording fees or recording taxes or other charges incident to recordation.

(3) Credit report.

(4) That portion of taxes, assessments, and other similar items for the current year chargeable to the borrower and an initial deposit (lump-sum payment) for the tax and insurance escrow account.

(5) Hazard insurance as required by VA Regulation 4326.

(6) Survey, if required by lender or veteran; except that any charge for a survey in connection with a loan under VA Regulation 4358 (Condominium Loans) must have the prior approval of VA.

(7) Title examination and title insurance, if any.

(8) Such other items authorized in advance by VA as proper in a particular local situation.

(9) A lender may also charge and the veteran may pay a flat charge not exceeding 1 percent of the loan amount provided that this flat charge shall be in lieu of all other charges relating to costs of origination not expressly specified and allowed in this schedule.

(10) If the lender makes advances to a veteran during the progress of construction, alteration, improvement or repair (either under a commitment of the VA to issue a guaranty certificate or insurance credit upon completion, or if the lender would be entitled to guaranty or insurance on such advances when reported under automatic procedure) the lender may make a charge against the veteran of not exceeding 2 percent of the amount of the loan for its services in supervising the making of advances and the progress of construction notwithstanding that the holdback or final advance is not actually paid out until after the construction, alteration, improvement, or repair is fully completed; provided that the major portion (51 percent or more) of the loan proceeds is paid out during the actual progress of the construction, alterations, improvement or repair. Such charge may be in addition to the 1 percent charge described in subparagraph (9) above.

(11) In construction, alteration, improvement or repair loans, including supplemental loans made pursuant to VA Regulation 4355, when no charge is permissible under provisions of subparagraph (10) above, the lender may charge and the veteran may pay a flat sum not exceeding 1 percent of the loan amount. Such charge may be in addition to the 1 percent allowed under subparagraph (9) above.

(12) **Allowable Discounts**

(a) The veteran-borrower, subject to the limitations below, may pay a discount required by a lender when the loan proceeds will be used as follows:

(b) The letter of credit is assigned to a third-party escrow agent or trustee. Ordinarily, this will be the mortgagee who must be either a supervised lender or an FHA approved mortgagee. However, if there is an identity of interest between the builder and the mortgagee, it is necessary to obtain an independent third party as trustee. The trustee is obligated to complete all delayed work in a manner acceptable to VA if the builder fails to do so.

(c) A trust agreement setting forth the duties, obligation and responsibilities of the trustee is required. For this purpose, VA Form 26-1849 or VA Form 26-6378, as appropriate, may be used. The trust agreements and the letters of credit are reviewed by the VA District Counsel.

(d) A letter of credit, to be acceptable, must be irrevocable and must be a valid and binding obligation of the issuing bank. It must be for a term extending at least 6 months beyond the final date for completion of the improvements specified in the escrow agreement. It should be clearly understood that if the builder fails to perform and it is intended that the issuer of the letter of credit be called upon to pay, the holder of the letter must make demand prior to expiration of the term of the letter of credit. The issuer has no liability after that date. Approval by VA of any request for an extension will be conditioned upon receipt of written assurance that the supporting letter of credit is likewise extended for a term ending not less than 90 days after the new date for performance by the builder. However, no extension will be granted except for the most cogent reasons.

(e) The builder will be required to furnish a copy of the letter of credit and trust agreement for the regional office files. A letter of credit file will be established for each subdivision covered thereby and a control will be maintained on the balance of credit available. A VA Form 26-1847 must be executed by the veteran to reflect that the property is included in the section or subdivision covered by the letter of credit and trust agreement which has been accepted by the VA.

(f) A letter of credit accepted by FHA conforming to the standards set forth here will also be acceptable for VA purposes, provided the escrow agent or trustee agrees to keep the VA apprised of all sums charged against the letter of credit for VA and FHA loans so that control may be maintained on the balance of credit available.

g. **Relation to FHA.** If funds for the completion of postponed improvements exterior to the dwelling units are withheld in an escrow account established under FHA procedure, the amount may be considered for VA purposes as available for completion of the improvements provided. When an agreement assuring completion of offsite improvements has been entered into between the FHA and a local governmental authority, such an agreement will be acceptable provided the VA has approved it.

13. **COLLECTION FOR TAXES, INSURANCE AND ASSESSMENTS.** The loan instrument may provide that a proportion of the annual taxes, ground rents, special assessments, and fire and other hazard insurance premiums shall be paid with each regular amortization payment and that failure to make such payments will constitute a default.

14. **HAZARD INSURANCE**

a. **General.** Hazard insurance must be procured and maintained in an amount sufficient to protect the property which is the security for a loan against the risks or hazards to which it may be subjected to the extent customary in the locality. Ordinarily, this requirement would be met by maintaining insurance for fire protection and such extended coverage as is customary in the area where the property is located, in an amount at least equal to the outstanding loan balance or the insurable value of the improvements, whichever is less. Insurance value generally is defined as the reproduction cost of the improvements less physical depreciation.

b. **Flood Insurance.** Effective July 1, 1975, or within 1 year after formal identification, whichever is later, no loan may be guaranteed or insured when the security is located in an identified flood-prone area, unless the community has qualified for the National Flood Insurance Program by adopting effective land use and land management controls, and the individual security for the loan is covered by flood insurance. Flood insurance will be required in an amount equal to the outstanding loan balance or the maximum limit of coverage available through the National Flood Insurance Program, whichever is less.

c. If insurance becomes unavailable, the fact should be reported to the VA for determination as to a waiver or declaration of the loan to be in default.

d. All moneys received under such policies covering payment for insured losses must be applied to the restoration of the security or to the loan balance.

e. **Insurance Less Than Mortgage.** If a mortgagee wishes to obtain hazard insurance for an amount less than the mortgage balance, the lender may request information about the land value from the appropriate VA office. Such lender must request this on its own form which will be endorsed by VA to show the land value and then will be returned to the lender. In prior approval cases, the request should be made with the loan application package. In automatic cases, the request can be made at any time after the issuance of the CRV.

15. **SECURITY FOR LOANS**

a. Any loan for the purchase of real property or a leasehold estate as limited in the regulations must be secured by a first lien on the property.

b. Any loan for the alteration, repair or improvement of real property and for more than $1,000 and more than 40 percent of the reasonable value of the property or estate before alteration, repair or improvement, must be secured by a first lien, except a lien of lesser dignity will suffice if it is immediately junior to the lien securing the original guaranteed or insured loan.

c. Any loan for the alteration, repair or improvement of real property and for more than $1,000, but 40 percent or less of the prior reasonable value of the property, shall be secured by a first or second lien.

d. Any loan for $1,000 or less for the alteration, repair or improvement of real property need not be secured and, in lieu of a title examination, the lender may obtain a statement from the borrower that he or she has an interest in the property not less than prescribed in VA Regulation 4350(A).

16. **INTEREST IN REAL ESTATE.** Any loan for the purchase of any interest in residential realty, or for the cost of any construction, alteration, repair or improvement of realty owned by the veteran will be eligible for guaranty or insurance only if the veteran has or will become vested with an estate in the property no less than a fee simple estate, legal or equitable; a leasehold estate running or renewable at the option of the lessee for a period of not less than 14 years from the maturity of the loan, or to any earlier date at which the fee simple title will vest in the lessee, which is assignable or transferable, if the same be subjected to the lien; or a life estate, provided that the remainder and reversionary interests are subjected to the lien. In rare instances a leasehold which is not freely assignable may, on a prior approval basis, be accepted by the VA.

17. **JOINT OBLIGORS**

a. **Prior Approval.** The prior approval of the VA is necessary in respect to the guaranty or insurance of any loan made to an eligible veteran, whether made solely to the veteran, or to the veteran and another and the veteran is to acquire only an undivided interest in the property; i.e., when title to the property is to be vested in the names of the veteran and a person other than his or her spouse.

b. **Effect of Spouse.** The prior approval of the VA is not required in respect to the guaranty or insurance of a loan when there is a joinder of a veteran and spouse in the ownership of residential property. In such cases, the full amount of the loan may be the basis for guaranty or insurance. If both spouses are eligible veterans, either or both may utilize available entitlement within the limitations on the maximum proportion of a loan which may be guaranteed or insured and on the maximum entitlement available to each.

c. **Computation of Entitlement.** In respect to a joint loan to two or more persons (other than when a veteran and spouse are to join in the ownership of residential property), one or more of whom, but not necessarily all, are eligible veterans, the guaranty or insurance will be computed on and will relate to only that portion of the loan allocable to the veteran which represents the proper contribution of that veteran to the transaction. The amount of the loan shown on the evidence of guaranty will be only the veteran's portion of the loan.

lender determines that such declaration will impair or limit any rights of the lender under any mortgage insurance policy.

8. Additional Security Rider (Pledged Account Mortgage).

This rider must be a part of the deed of trust for any Pledged Account Mortgage (PAM) loan. The rider specifies the savings/share account pledged as additional security for the loan.

(b) Appraisal Reports. AHFC accepts appraisal reports completed on the current FNMA/FHLMC Residential Appraisal Report, AHFC Appraisal Reports, VA Certificates of Reasonable Value, or FHA Conditional Commitments, as applicable.

Please refer to various sections of this guide for detailed descriptions of required appraisal reports.

.02 Amortization and Deposit Requirements.

AHFC requires full amortization of the mortgage amount over the term of the loan by level installment of principal and interest payable the first day of each month. Loans structured with the Alaskan Building Equity (ABE) will have periodic increases in monthly payments with the entire increase applied to principal reduction.

AHFC will usually require that deposits for taxes, ground rents, special assessments, fire and other hazard insurance premiums, and mortgage insurance premiums, if applicable, be paid with the regular monthly payments.

Part 1. Custodial Accounting.

6001.1 General.

The Servicer must establish appropriate custodial accounts for the deposit of funds collected in connection with AHFC mortgages. All accounts and related records will be maintained in accordance with sound and generally accepted accounting practices and in such a manner as will permit representatives of AHFC, at any time, to examine and audit such accounts and records.

The Servicer must establish and maintain separate custodial accounts for each mortgage payment reporting system. The two systems currently in effect are:

1) Aggregate Exception System (AES)

2) Actual Loan Collection System (ALCS)

The Servicer may elect to combine the custodial accounts provided the Servicer maintains detailed records sufficient to identify each payment reporting system's contribution to the combined account. Mortgage reserve payments should be maintained in an account separate from principal and interest.

6001.2 Custodial Account Requirements.

The following conditions apply to the establishment and maintenance of custodial accounts:

1) The accounts must be established with a depository institution (commercial bank, mutual savings bank, savings and loan association or credit union), the

deposits of which are insured by FDIC, FSLIC, or NCUA. A Servicer whose accounts are insured by FSLIC or FDIC may establish and maintain custodial accounts within its own internal operating account.

2) The accounts are to be denominated in the name of the Servicer acting as agent for borrower payments in order to show that the accounts are custodial in nature. The Lender must maintain records identifying each borrower, the amount of each borrower's payment and the account into which each payment is deposited.

3) AHFC must be notified each time there is a change in account number or depository. The notification should include account title, account number, depository name and address, and effective date of change.

4) The Servicer must establish a reasonable daily cutoff of its work to ensure that collections are credited to the appropriate custodial account no later than the business day following their receipt; and,

5) Upon sale of a mortgage to AHFC by the Servicer, the Servicer must transfer any funds on hand related to mortgages to the appropriate custodial accounts.

6001.3 Clearing Accounts

Where the systems and procedures of the Servicer necessitate the use of clearing accounts, all such clearing accounts will be governed by the following conditions:

1) The titles of such accounts must reflect that they are custodial in nature and the depository in which the accounts are maintained must be informed, in writing, that they are custodial accounts;

2) A check drawn on a custodial account and its deposit to a disbursement clearing account must be concurrent with or prior to the issuance of any checks on the clearing account;

3) A single clearing account must not be utilized as both a collection and disbursement clearing account;

4) The accounts must be established with depository institutions, the accounts of which are insured by FDIC, FSLIC, or NCUA; and

5) The Servicer must maintain adequate records and audit trails to support all credits to, and charges from, the mortgagors' payment records and accounts.

S.O.A. - CSRA
HOUSING ASST DIV

Use Of Loan

Home mortgage loans approved under the Housing Loan Program can be used to purchase, construct, improve or renovate a year-round residence designed for use as a single family or duplex residence. The structure must serve as the borrower's principal residence. **Vacation homes, fishing cabins, similar seasonal properties, condominiums, and mobile homes are not eligible.**

Borrowers who receive a home mortgage loan under this program will not be eligible to receive another loan under the program unless the original loan has been paid off or assumed by another purchaser with the Division's approval.

Borrowers with an owner-occupied home mortgage under Alaska Housing Finance Corporation will not be eligible to receive another loan under this program unless the AHFC loan is paid off.

Assumption

updated 8-3-84

(AT END OF MANUAL - AFTER PAGE 64)

Loans made under the Housing Loan Program may not be assumed unless the subsequent purchaser of the property meets borrower eligibility requirements and **the assumption is approved by the Division.**

If the subsequent purchaser is not eligible to receive a veteran's interest rate reduction, the regular interest rate in effect at the time the original loan was made will be charged.

The Division must determine that the assumptor(s) is not currently obligated for a Division or AHFC loan.

Fees/Costs

Direct Loans - Construction/Purchase

- Loan Origination Fee - One (1) percent of the principal loan amount approved by the Division **may** be charged to the borrowers.
- Extension Fee - on request, a construction commitment contract may be extended for 30 days. A fee of one-eighth (1/8) of one (1) percent **may** be charged to the borrower for this service.

- Tax Service Registration Fee - $30.00 on the first $100,000, plus $2.50 for each additional $50,000.00.
- Recording Fees.
- Deed Preparation (Attorney's Fees).
- Homeowners Dues (Subdivision, etc.).
- Survey.
- Appraisal.
- Reserve For Hazard Insurance - Flood Insurance.
- Reserve for Taxes.
- Tax Pro-Ration.
- Title Insurance (ALTA policy or standard policy).
- Credit Report.

Insurance

The housing for which the loans are made under this program must be insured against loss equal to or exceeding the unpaid principal balance of the loan less the value of the land, but not less than the replacement cost of the residential structure. **The Division shall be named loss payee on the insurance policy.** Insurance coverage must include:

- Extended coverage.
- Loss by fire.
- Loss by flood, if the structure is located in a federally designated, 100-year flood plain.

For homes which are located in areas where fire and/or hazard insurance are not normally available, the borrower may be assisted by the Division's Field Office Staff in securing other sources of insurance. Also, the Director of the Division has the authority to waive, in full or in part, any insurance requirements if the borrower can show the cost is unreasonably high.

Health/Safety

The Division may not originate or purchase a loan for any property that poses a health or safety threat to occupants unless the threat will be eliminated as a result of the application of loan proceeds. Such a threat is considered to exist if:

- Exterior walls, roof, floor, foundation, or other weight bearing members are structurally unsound.
- Any on-site water supply system is contaminated or in danger of becoming contaminated by sewage, refuse, excessive micro-organisms, or other pollutants.
- Any on-site sewage system does not provide adequate sanitary disposal of waste and/or poses an on-site or off-site contamination threat to water supplies.

11.
Closing - Direct Loans

The closing for any Direct Loan will be conducted by the Housing Assistance Division closing staff utilizing the Division-approved closing documents for the program.

The borrower must be present to execute the closing documents. In cases where the borrower cannot be present because of inclement weather, distance, or other factors, an alternative arrangement will be made for closing.

A Division representative who is authorized to execute Note purchase documents on behalf of the Division also must be present.

Closing Documents

At the loan closing, the following documents will be executed by the borrower:

- Mortgage note in favor of the lender (Form **DCRA-HA-17**).
- Deed of trust in favor of the lender (Form **DCRA-HA-18**).
- Warranty deed (Form **DCRA-HA-20**).
- Waiver and release of liability of the Division (Form **DCRA-HA-20A**).
- Monthly payment estimate (Form **DCRA-HA-21**).
- Loan Settlement Form (Form **DCRA-HA-22**).

Additional Documents

Other exhibits to the closing will include, when required:

- Fire insurance policy with the lender as mortgagee (Loss Payee).
- Hazard insurance policy.
- Flood insurance policy.
- Construction insurance (covering builder's risk) policy or binder.

Key Documents

At the closing, an authorized representative of the Division will execute the closing documents:

- Note.
- Deed of Trust.

Closing Costs

At the time of closing, the borrower will pay closing costs, including the following:

- Fire, hazard and flood insurance premiums, if required.
- First installment on tax reserve.
- First installment on insurance reserve.
- Down payment.
- Other applicable charges for appraisal, filing, recording, or the survey.
- Real estate commission, if applicable.
- Title insurance fee.
- Other charges related to the loan, as outlined on the Loan Settlement Form (Form **DCRA-HA-22**).

Disbursements

The disbursements may include items such as:

- Origination fee.
- Interest adjustment.
- Alaska realty tax.
- Recording fees.
- Hazard/flood insurance reserves.
- Tax pro-ration.
- Survey.
- Appraisal.
- Title insurance.
- Deed preparation.
- Credit report.

A state certified warrant (check) for the loan principal along with the cashier's check from the borrower for the total closing costs will be deposited into a bank controlled checking account. Funds from this account will be disbursed according to the instructions in the closing documents.

Actions After Closing

When the Direct Loan is closed, the Division will:

- Secure title clearance.
- Record the closing documents with the title company.

The closing documents will be recorded simultaneously.

Construction Loans

An interim loan can be executed while construction is

taking place on residential units financed as new construction. At the completion of the construction phase, the permanent mortgage loan for new construction will be closed.

The interest rate for the interim loan during the construction phase will be the same as that established for the permanent loan.

12.
Closing - Indirect Loans

Closing

The closing for any Indirect Loan will be conducted by the participating private financial institution.

The borrower must be present to execute the closing documents. In cases where the borrower cannot be present because of inclement weather, distance, or other factors, an alternative arrangement will be made for closing.

Action After Closing

When the Indirect Loan is closed, the participating lender will:

- Secure title clearance.
- Record the closing documents with the title company and assign them to the Division.
- Prepare the loan package for submission to the Division for loan purchase.

13.
Loan Purchase Procedures - Indirect Loans

The Loan Purchase Agreement is an agreement between the Division and the lender in which the Division agrees to purchase Notes originated by the lender. Every Note purchased by the Division will be closed with a commitment contract executed by the Division in accordance with this program handbook, and fully executed Note Purchase Folder.

Non-Recourse Purchase. The Division will purchase Notes evidencing loans approved under the Housing Assistance Loan Program on a non-recourse basis, subject to the conditions of the Note Purchase Agreement.

Commitment Date. The commitment date to purchase the loan is the date which the completed loan file must be delivered to the Division's Anchorage office.

Purchase Date. The purchase date shall be that date upon which the participating private financial institution receives the funds after the Division approves the Note Purchase Folder. The Division will purchase only closed loans with fully completed documentation.

Purchase Price. The price paid by the Division for the mortgage loan Note will be equal to the face amount of the Note.

Loan Purchase Checklist

The Loan Purchase Checklist (Form **DCRA-HA-23A**) is used to assist lenders and the Division staff in making sure all necessary documents are executed for a loan purchase. Included on the checklist are the following documents:

- Promissory Note, which must bear the endorsement "Pay to the order of State of Alaska, Department of Community and Regional Affairs, Housing Assistance Division, Without Recourse." The Note must be an original.

- Waiver and Release of Liability of the Department, properly executed.

- Deed of Trust, along with the additional standard form rider when the security instrument covers property located in a planned unit development project.

- Assignment of Deed of Trust to "State of Alaska, Department of Community Affairs, Housing Assistance Division" -- duly recorded.

- Title Insurance Policy copy, including 100 and 116 endorsements to an ALTA policy.

- Survey, certified by a licensed surveyor or engineer if not included in the title policy.

- Inspection certificates by the seller, or other evidence of compliance with any condition on the appraisal report or the Division's commitment contract.

- Certification by the appraiser, in cases of recently completed property, that the improvements to the property have been completed in substantial compliance with the plans and specifications reviewed by the appraiser for the preparation of the appraisal report. Deviation from the plans and specifications must be explained in detail and the effect of such noncompliance on the original estimate of value must be reported. If the original appraiser is unavailable, the certification must be made by another appraiser acceptable to the Division. Minor items not affecting livability, whether on or off site, may be incomplete on delivery provided that the seller assumes the responsibility for establishing an escrow to guarantee timely completion.

- Photographs of completed property, if the property has been approved as proposed construction. Include

front and rear views, and a street scene with the property indicated with an arrow.

- Settlement sheets (copies).
- Hazard insurance policy or binder (copies).
- Flood insurance policy or binder (copies), if applicable.
- Security agreement (nonowner-occupied).
- Uniform Commercial Code financing statements (nonowner occupied).
- Certification that funds were used only for building materials and/or contract labor for new construction, renovation, and building materials loans (Form **DCRA-HA-35C**).

Loan Purchase

Participating lenders must submit a completed Note Purchase Folder (Form **DCRA-HA-23**) to the Housing Assistance Division for review and approval before an Indirect Loan is accepted. The following steps can occur:

Loan Purchase Rejection. If the Division finds the loan unacceptable, it will so advise the participating lender in writing of the reasons for the rejection.

Loan Purchase Approval. If the Division accepts the loan, it will:

- Issue a loan purchase approval letter indicating that funds for the purchase have been ordered and when they can be expected.
- Complete and execute a **Loan Purchase Voucher** (Form **DCRA-HA-16**) and forward it to the Administrative Services Division of the Department of Community and Regional Affairs for transmittal to the Department of Revenue, Housing Assistance Loan Account.

FORM DCRA-HA-1 (SAMPLE ONLY)

ESTIMATED CLOSING COSTS

Purchase Price _____ Buyer _____

Loan Amount _____ Seller _____

Rate _____ Term _____ Date _____

Loan To Value Ratio _____

Down Payment		_____
Hazard Ins. Premium		_____
Flood Ins. Premium		_____
Tax Reserve	_____	
Hazard Ins. Reserve	_____	
M.I.P. Reserve	_____	
Flood Ins. Reserve	_____	
Total Reserve		_____
Credit Report		_____
Warranty Deed	_____	
Private Mortgage Insurance	_____	_____
Bank Fee	_____	_____
Commitment Fee	_____	_____
Appraisal Fee	_____	_____
Filing & Recording Fees	_____	_____
Tax Registration	_____	_____
Mortgagees Title Insurance	_____	_____
Owners Title Insurance	_____	_____
Assessments	_____	_____
Discount	_____	_____
Real Estate Commission	_____	_____
Survey	_____	_____
Daily Interest		_____
Other	_____	_____
APPROXIMATE TOTALS	_____	_____

Payments to begin	_____	_____
Principal and Interest		_____
1/12 annual Mortgage Insurance		_____
1/12 annual Fire Insurance		_____
1/12 annual Taxes		_____
1/12 annual Flood Insurance		_____

TOTAL MONTHLY PAYMENT: $ _____

RESPA BOOKLET RECEIVED AND ESTIMATE OF CLOSING COSTS ACKNOWLEDGED:

_____ _____ DATE _____

Borrower

FORM DCRA-HA-22 (SAMPLE ONLY)

CLOSING STATEMENT FOR MORTGAGOR

Loan Number_____ Date of Closing_____

Mortgagor(s)_____

Mailing Address_____

Address of Security Property_____

CREDITS

Loan Amount..... $_____

..... _____

On Deposit..... _____

TOTAL NET CREDITS $_____

DEBITS

Closing costs:

Title Insurance Premium..... $_____

Tax Registration Fee..... _____

Recording Fees..... _____

As-Built Survey..... _____

Credit Report..... _____

Appraisal Fee..... _____

Bank Service Charge..... _____

Legal Expenses..... _____ $_____

Other disbursements:

Interest_____to_____ _____

Balance of Purchase Price due... _____

Insurance Premium Due..... _____

Mortgage Reserves..... _____

_____ _____

_____ _____

_____ _____

TOTAL PREPAID ITEMS $_____

TOTAL DISBURSEMENTS $_____

Net amount to mortgagor(+) or net amount due DCRA (-) $_____

TOTAL DEBITS $_____

First payment due_____ APPROVED_____
For DCRA

Principal & Interest$_____ _____
Reserves _____ Mortgagor
TOTAL _____

Taxes___Ins._____ _____
Mortgagor

IX. PURCHASE PROCEDURES

Requests for funds must be accompanied by the documents listed on the appropriate checklist based on loan type (Exhibits F, G, H and I) in the order shown.

A. Standard documents for all loan types:

1. Original Note and one copy.

2. Verification that Assignment of Deed of Trust to Seafirst has been recorded or sent for recording (must be obtained prior to release of funds). Certified copy of documents going for recording (with copies of signatures) should be in file.

3. All taxes due, prior to or within 15 days after assignment of the loan to Seafirst, shall be paid by the broker/closer in closing, thereby holding Seafirst harmless against any and all liability, cost, damage or expense that may be suffered or incurred by reason of any failure to pay such taxes.

4. Any impound advances and/or prepaid interest buydown fees shall be net funded at the time the loan is purchased. Impounds must be collected in an amount sufficient to pay the taxes and insurance when they are next due.

5. Tax Service must be ordered and paid for by closing agent. Use Transamerica Tax Service in California, Colorado and Utah; Realty Tax (Ticor) in all other states. On Seconds, and nonreserve loans, request type "B" Service (delinquency), on all others request type "C" (tax reserve).

   See Exhibit F (pg. 1) attached for Tax Schedule by state and Exhibit F (pg. 2 & 3) for examples of the contracts with Ticor and Transamerica.

6. HUD-1 or estimated costs (original within three days).

7. Truth-in-Lending Disclosure with signatures and an Itemization of the Prepaid Finance Charge. Notice of Right to Cancel and Acknowledgement of Non-Rescission, if appropriate.

8. Binder or original hazard policy with first year premium paid and Lender's Loss Payable Endorsement. Hazard policy must have coverage equal to loan amount or have 100% replacement cost coverage for the structure. The mortgagor's last name must be correct, and if possible, the whole names should read the same as the Deed of Trust. Property address must read the same as Deed of Trust. Loss Payee may read Seafirst Mortgage Corporation and/or assigns, or originating lender with copy of change to agent.

9. Flood insurance determination and policy, if flood insurance is required. (Policy may follow in 15 days if copy of application for insurance is in file).

10. Preliminary Title Report: Check the property address if shown on the sketch and legal against the Deed of Trust for accuracy.

11. Purchase Agreement/Deposit Receipt: If the loan is not insured, check to see that any special agreements between buyer and seller regarding payment of closing costs agree with final closing statement.

12. Appraisal: Applicable appraisal must be in file, with evidence that any conditions set by the appraiser have been met. Conventional appraisal (or completion certification) must be no more than 90 days old at time of closing.

13. Letter to Borrower advising them of sale of the loan. Not required on concurrent fundings.

14. All forms required for compliance with state and federal regulations, i.e., good faith, fair lending, truth-in-lending, Initial ARM Disclosure, etc.

15. Original, signed, handwritten application.

B. Government Loans:

1. The credit package must be included in the file consisting of the same documents listed in Section C, 2 (A-E) except the Underwriters Loan Analysis Form.

2. A copy of the LGC/MIC request must be in file.

3. Certificate of Loan Disbursement (VA-1876) or (VA 1820) Report of Home Loan Processed on Automatic Basis.

4. Firm Commitment - Check percent of entitlement on VA loans to be sure it is sufficient for FNMA/GNMA requirements. File must contain documentation to satisfy any conditions indicated on the commitment.

5. Photos are not required.

6. FHA 92080 - only on warehouse purchases.

C. Conventional Loans:

1. PMI Certificate if required.

2. Credit Package Accompanied by Completed Underwriter's Loan Analysis Form.

A. Application: The employment and deposit information is checked against the verifications of employment and deposit to make sure they are all in the file. Mortgage Ratings should be in the file for any other real estate indicated on the application. Application must be signed by Lender's representative above typed name on line provided. On balloon loans, the Comptroller's Notice must be attached (Balloon Info. Form GS6954).

B. Credit Report: Employment information and debts are checked against the application. All slow accounts, judgements and bankruptcies must have a written explanation in the file. If mortgage ratings on other property indicate late payments, obtain an explanation for this also. The Credit Report may be no more than 90 days old at time of closing.

C. Employment Verification: Verifications are checked against application to ensure they are all in the file. At least two years of employment must be verified and lapses of employment must have a letter of explanation. Tax returns must be signed by Borrower. Employment Verification must be no more than 90 days old at time of closing.

D. Deposit Verification: Verifications are checked against application to ensure that we have one for each account listed. Must be signed by depository, and no more than 90 days old at closing.

E. The file is checked to make sure that any miscellaneous items such as divorce finals, rental agreements, etc., are in the file when applicable.

F. If the loan is an ARM, the file should contain evidence that the Initial ARM disclosure appropriate for the particular ARM loan was provided to the borrower with the application or earlier. Acknowledgement from the borrower of the form will suffice, or a copy of the form used with an indication of date provided must be in the file.

DEED OF TRUST

AHFC
H.O.

THIS DEED OF TRUST is made this 19 ,

among the Trustor (herein "Borrower"),

(herein "Trustee"), and the Beneficiary

a corporation organized and existing under the laws of , whose address is (herein "Lender").

BORROWER, in consideration of the indebtedness herein recited and the trust herein created, irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in the

Recording District Judicial District,

State of Alaska.

which has the address of

[Street] [Borrower's Post Office Address, if Different] (herein "Property

[City] [State and Zip Code]
Address");

TOGETHER with all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, rents (subject however to the rights and authorities given herein to Lender to collect and apply such rents), royalties, mineral, oil and gas rights and profits, water, water rights, and water stock, and all fixtures now or hereafter attached to the property, all of which, including replacements and additions thereto, shall be deemed to be and remain a part of the property covered by this Deed of Trust; and all of the foregoing, together with said property (or the leasehold estate if this Deed of Trust is on a leasehold) are herein referred to as the "Property";

TO SECURE to Lender (a) the repayment of the indebtedness evidenced by Borrower's note dated (herein "Note"), in the principal sum of Dollars, with interest thereon, providing for monthly installments of principal and interest, with the balance of the indebtedness, if not sooner paid, due and payable on ; the payment of all other sums, with interest thereon, advanced in accordance herewith to protect the security of this Deed of Trust; and the performance of the covenants and agreements of Borrower herein contained; (b) the repayment of any future advances, with interest thereon, made to Borrower by Lender pursuant to paragraph 21 hereof (herein "Future Advances"); and (c) any amounts declared

owing under an Assistance Agreement dated 19 , and any successor agreements thereto.

Borrower covenants that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property, that the Property is unencumbered, and that Borrower will warrant and defend generally the title to the Property against all claims and demands, subject to any declarations, easements or restrictions listed in a schedule of exceptions to coverage in any title insurance policy insuring Lender's interest in the Property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. **Payment of Principal and Interest.** Borrower shall promptly pay when due the principal of and interest on the indebtedness evidenced by the Note, prepayment and late charges as provided in the Note, and the principal of and interest on any Future Advances secured by this Deed of Trust.

2. **Funds for Taxes and Insurance.** Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly installments of principal and interest are payable under the Note, until the Note is paid in full, a sum (herein "Funds") equal to one-twelfth of the yearly taxes and assessments which may attain priority over this Deed of Trust, and ground rents on the Property, if any, plus one-twelfth of yearly premium installments for hazard insurance, plus one-twelfth of yearly premium installments for mortgage insurance, if any, all as reasonably estimated initially and from time to time by Lender on the basis of assessments and bills and reasonable estimates thereof.

The Funds shall be held in an institution the deposits or accounts of which are insured or guaranteed by a Federal or state agency (including Lender if Lender is such an institution). Lender shall apply the Funds to pay said taxes, assessments, insurance premiums and ground rents. Lender may not charge for so holding and applying the Funds, analyzing said account or verifying and compiling said assessments and bills, unless Lender pays Borrower interest on the Funds, and applicable law permits Lender to make such a charge. Borrower and Lender may agree in writing at the time of execution of this Deed of Trust that interest on the Funds shall be paid to Borrower, and unless such agreement is made or applicable law requires such interest to be paid, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for the sums secured by this Deed of Trust.

If the amount of the Funds held by Lender, together with the future monthly installments of Funds payable prior to the due dates of taxes, assessments, insurance premiums and ground rents, shall exceed the amount required to pay said taxes, assessments, insurance premiums and ground rents as they fall due, such excess shall be, at the Borrower's option, either promptly repaid to Borrower or credited to Borrower on monthly installments of Funds. If the amount of the Funds held by Lender shall not be sufficient to pay taxes, assessments, insurance premiums and ground rents as they fall due, Borrower shall pay to Lender any amount necessary to make up the deficiency within 30 days from the date notice is mailed by Lender to Borrower requesting payment thereof.

Upon payment in full of all sums secured by this Deed of Trust, Lender shall promptly refund to Borrower any Funds held by Lender. If under paragraph 18 hereof the Property is sold or the Property is otherwise acquired by Lender, Lender shall apply, no later than immediately prior to the sale of the Property or its acquisition by Lender, any Funds held by Lender at the time of application as a credit against the sums secured by this Deed of Trust.

3. **Application of Payments.** Unless applicable law provides otherwise, all payments received by Lender under the Note and paragraphs 1 and 2 hereof shall by applied by Lender first in payment of amounts payable to Lender by Borrower under paragraph 2 hereof, then to interest payable on the Note, then to the principal of the Note, and then to interest and principal on any Future Advances.

4. **Charges; Liens.** Borrower shall pay all taxes, assessments and other charges, fines and impositions attributable to the Property which may attain a priority over this Deed of Trust, and leasehold payments or ground rents, if any, in the manner provided under paragraph 2 hereof or, if not paid in such manner, by Borrower making payment, when due, directly to the payee thereof. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph, and in the event Borrower shall make payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Borrower shall promptly discharge any lien which has priority over this Deed of Trust; provided, that Borrower shall not be required to discharge any such lien so long as Borrower shall agree in writing to the payment of the obligation secured by such lien in a manner acceptable to Lender, or shall in good faith contest such lien by, or defend enforcement of such lien in legal proceedings which operate to prevent the enforcement of the lien or forfeiture of the Property or any part thereof.

5. **Hazard Insurance.** Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage", and such other hazards as Lender may require and in such amounts and for such periods as Lender may require; provided, that Lender shall not require that the amount of such coverage exceed that amount of coverage required to pay the sums secured by this Deed of Trust.

The insurance carrier providing the insurance shall be chosen by Borrower subject to approval by Lender; provided, that such approval shall not be unreasonably withheld. All premiums on insurance policies shall be paid in the manner provided under paragraph 2 hereof or, if not paid in such manner, by Borrower making payment, when due, directly to the insurance carrier.

All insurance policies and renewals thereof shall be in form acceptable to Lender and shall include a standard mortgage clause in favor of and in form acceptable to Lender. Lender shall have the right to hold the policies and renewals thereof, and Borrower shall promptly furnish to Lender all renewal notices and all receipts of paid premiums. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, provided such restoration or repair is economically feasible and the security of this Deed of Trust is not thereby impaired. If such restoration or repair is not economically feasible or if the security of this Deed of Trust would be impaired, the insurance proceeds shall be applied to the sums secured by this Deed of Trust, with the excess, if any, paid to Borrower. If the Property is abandoned by Borrower, or if Borrower fails to respond to Lender within 30 days from the date notice is mailed by Lender to Borrower that the insurance carrier offers to settle a claim for insurance benefits, Lender is authorized to collect and apply the insurance proceeds at Lender's option either to restoration or repair of the Property or to the sums secured by this Deed of Trust.

Unless Lender and Borrower otherwise agree in writing, any such application of proceeds to principal shall not extend or postpone the due date of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amount of such installments. If under paragraph 18 hereof the Property is acquired by Lender, all right, title and interest of Borrower in and to any insurance policies and in and to the proceeds thereof resulting from damage to the Property prior to the sale or acquisition shall pass to Lender to the extent of the sums secured by this Deed of Trust immediately prior to such sale or acquisition.

6. **Preservation and Maintenance of Property; Leaseholds; Condominiums; Planned Unit Developments.** Borrower shall keep the Property in good repair and shall not commit waste or permit impairment or deterioration of the Property and shall comply with the provisions of any lease if this Deed of Trust is on a leasehold. If this Deed of Trust is on a unit in a condominium or a planned unit development, Borrower shall perform all of Borrower's obligations under the declaration or covenants creating or governing the condominium or planned unit development, the by-laws and regulations of the condominium or planned unit development, and constituent documents. If a condominium or planned unit development rider is executed by Borrower and recorded together with this Deed of Trust, the covenants and agreements of such rider shall be incorporated into and shall amend and supplement the covenants and agreements of this Deed of Trust as if the rider were a part hereof.

7. **Protection of Lender's Security.** If Borrower fails to perform the covenants and agreements contained in this Deed of Trust, or if any action or proceeding is commenced which materially affects Lender's interest in the Property, including, but not limited to, eminent domain, insolvency, code enforcement, or arrangements or proceedings involving a bankrupt or decedent, then Lender at Lender's option, upon notice to Borrower, may make such appearances, disburse such sums and take such action as is necessary to protect Lender's interest, including, but not limited to, disbursement of reasonable attorney's fees and entry upon the Property to make repairs. If Lender required mortgage insurance as a condition of making the loan secured by this Deed of Trust, Borrower shall pay the premiums required to maintain such insurance in effect until such time as the requirements for such insurance terminates in accordance with Borrower's and Lender's written agreement or applicable law. Borrower shall pay the amount of all mortgage insurance premiums in the manner provided under paragraph 2 hereof.

Any amounts disbursed by Lender pursuant to this paragraph 7, with interest thereon, shall become additional indebtedness of Borrower secured by this Deed of Trust. Unless Borrower and Lender agree to other terms of payment, such amounts shall be payable upon notice from Lender to Borrower requesting payment thereof, and shall bear interest from the date of disbursement at the rate payable from time to time on outstanding principal under the Note unless payment of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate permissible under applicable law. Nothing contained in this paragraph 7 shall require Lender to incur any expense or take any action hereunder.

8. **Inspection.** Lender may make or cause to be made reasonable entries upon and inspections

of the Property, provided that Lender shall give Borrower notice prior to any such inspection specifying reasonable cause therefore related to Lender's interest in the Property.

9. **Condemnation.** The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of the Property, or part thereof, or for conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender.

In the event of a total taking of the Property, the proceeds shall be applied to the sums secured by this Deed of Trust, with the excess, if any, paid to Borrower. In the event of a partial taking of the Property, unless Borrower and Lender otherwise agree in writing, there shall be applied to the sums secured by this Deed of Trust such proportion of the proceeds as is equal to that proportion which the amount of the sums secured by this Deed of Trust immediately prior to the date of taking bears to the fair market value of the Property immediately prior to the date of taking, with the balance of the proceeds paid to Borrower.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemnor offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date such notice is mailed, Lender is authorized to collect and apply the proceeds, at Lender's option, either to restoration or repair of the Property or to the sums secured by this Deed of Trust.

Unless Lender and Borrower otherwise agree in writing, any such application of proceeds to principal shall not extend or postpone the due date of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amount of such installments.

10. **Borrower Not Released.** Extension of the time for payment or modification of amortization of the sums secured by this Deed of Trust granted by Lender to any successor in interest of Borrower shall not operate to release, in any manner, the liability of the original Borrower and Borrower's successors in interest. Lender shall not be required to commence proceedings against such successor or refuse to extend time for payment or otherwise modify amortization of the sums secured by this Deed of Trust by reason of any demand made by the original Borrower and Borrower's successors in interest.

11. **Forbearance by Lender Not a Waiver.** Any forbearance by Lender in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any such right or remedy. The procurement of insurance or the payment of taxes or other liens or charges by Lender shall not be a waiver of Lender's right to accelerate the maturity of the indebtedness secured by this Deed of Trust.

12. **Remedies Cumulative.** All remedies provided in this Deed of Trust are distinct and cumulative to any other right or remedy under this Deed of Trust or afforded by law or equity, and may be exercised concurrently, independently or successively.

13. **Successors and Assigns Bound; Joint and Several Liability; Captions.** The covenants and agreements herein contained shall bind, and the rights hereunder shall inure to, the respective successors and assigns of Lender and Borrower, subject to the provisions of paragraph 17 hereof. All covenants and agreements of Borrower shall be joint and several. The captions and headings of the paragraphs of this Deed of Trust are for convenience only and are not be be used to interpret or define the provisions hereof.

14. **Notice.** Except for any notice required under applicable law to be given in another manner, (a) any notice to Borrower provided for in this Deed of Trust shall be given by mailing such notice by certified mail addressed to Borrower at the Property Address or at such other address as Borrower may designate by notice to Lender as provided herein, and (b) any notice to Lender shall be given by certified mail, return receipt requested, to Lender's address stated herein or to such other address as Lender may designate by notice to Borrower as provided herein. Any notice provided for in this Deed of Trust shall be deemed to have been given to Borrower or Lender when given in the manner designated herein.

15. **Uniform Deed of Trust; Governing Law; Severability.** This form of deed of trust combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property. This Deed of Trust shall be governed by the law of the jurisdiction in which the Property is located. In the event that any provision or clause of this Deed of Trust or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Deed of Trust or the Note which can be given effect without the conflicting provision, and to this end the provisions of the Deed of Trust and the Note are declared to be severable.

16. **Borrower's Copy.** Borrower shall be furnished a conformed copy of the Note and of this Deed of Trust at the time of execution or after recordation hereof.

17. **Transfer of the Property.** Lender may, at Lender's option, declare all the sums secured by this Deed of Trust to be immediately due and payable if either (1) the property ceases to be

the principal residence of the Borrower, or (2) if all or any part of the Property or an interest therein is sold or transferred by Borrower without Lender's prior written consent excluding (a) the creation of a lien or encumbrance subordinate to this Deed of Trust, (b) the creation of a purchase money security interest for household appliances, (c) a transfer by devise, descent or by operation of law upon the death of a joint tenant or (d) the grant of any leasehold interest of three years or less not containing an option to purchase.

If Lender exercises such option to accelerate, Lender shall mail Borrower notice of acceleration in accordance with paragraph 12 hereof. Such notice shall provide a period of not less than

30 days from the date the notice is mailed within which Borrower may pay the sums declared due. If Borrower fails to pay such sums prior to the expiration of such period, Lender may without further notice or demand on Borrower, invoke any remedies permitted by paragraph 18 hereof.

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

18. **Acceleration; Remedies.** Except as provided in paragraph 17 hereof, upon Borrower's breach of any covenant or agreement of Borrower in this Deed of Trust, including the covenants to pay when due any sums secured by this Deed of Trust, Lender prior to acceleration shall mail notice to Borrower as provided in paragraph 14 hereof specifying: (1) the breach; (2) the action required to cure such breach; (3) a date, not less than 30 days from the date the notice is mailed to Borrower, by which such breach must be cured; and (4) that failure to cure such breach on or before the date specified in the notice may result in acceleration of the sums secured by this Deed of Trust and sale of the Property. The notice shall further inform Borrower of the right to reinstate after acceleration and the right to bring a court action to assert the non-existence of a default or any other defense of Borrower to acceleration and sale. If the breach is not cured on or before the date specified in the notice, Lender at Lender's option may declare all of the sums secured by this Deed of Trust to be immediately due and payable without further demand, and those remedies permitted by applicable law may be invoked. Lender shall be entitled to collect all reasonable costs and expenses incurred in pursuing the remedies provided in this paragraph 18, including, but not limited to, reasonable attorney's fees.

If the power of sale is invoked, Trustee shall execute a written notice of the occurrence of an event of default and of the election to cause the Property to be sold and shall record such notice in each Recording District in which the Property or some part thereof is located. Lender or Trustee shall mail copies of such notice to the persons and in the manner prescribed by applicable law. Trustee shall give public notice of sale to the persons and in the manner prescribed by applicable law. After the lapse of such time as may be required by applicable law, Trustee, without demand on Borrower, shall sell the Property at public auction to the highest bidder at the time and place and under the terms designated in the notice of sale in one or more parcels and in such order as Trustee may determine. Trustee may postpone sale of all or any parcel of the Property by public announcement at the time and place of any previously scheduled sale. Lender or Lender's designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser Trustee's deed conveying the Property so sold without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements made therein. Trustee shall apply the proceeds of the sale in the following order: (a) to all reasonable costs and expenses of the sale, including but not limited to, reasonable Trustee's and attorney's fees and costs of title evidence; (b) to all sums secured by this Deed of Trust; and (c) the excess, if any, to the person or persons legally entitled thereto.

19. **Borrower's Right to Reinstate.** Notwithstanding Lender's acceleration of the sums secured by this Deed of Trust, Borrower shall have the right to have any proceedings begun by Lender to enforce this Deed of Trust discontinued at any time prior to the earlier to occur of (I) the sale of the Property pursuant to the power of sale contained in this Deed of Trust or (II) entry of a judgment enforcing this Deed of Trust if: (a) Borrower pays Lender all sums which would be then due under this Deed of Trust, the Note and notes securing Future Advances, if any, had no acceleration occurred; (b) Borrower cures all breaches of any other covenants or agreements of Borrower contained in this Deed of Trust; (c) Borrower pays all reasonable expenses incurred by Trustee in enforcing the covenants and agreements of Borrower contained in this Deed of Trust and in enforcing Trustee's remedies as provided in paragraph 18 hereof, including, but not limited to, reasonable attorney's fees; and (d) Borrower takes such action as Lender may reasonably require to assure that the lien of this Deed of Trust, Lender's interest in the Property and Borrower's obligation to pay the sums secured by this Deed of Trust shall continue unimpaired. Upon such payment and cure by Borrower, this Deed of Trust and the obligations secured hereby shall remain in full force and effect as if no acceleration had occurred.

20. **Assignment of Rents; Appointment of Receiver; Lender in Possession.** As additional security hereunder, Borrower hereby assigns to Lender the rents of the Property, provided that Borrower shall, prior to acceleration under paragraph 18 hereof or abandonment of the Property, have the right to collect and retain such rents as they become due and payable.

Upon acceleration under paragraph 18 hereof or abandonment of the Property, Lender, in person, by agent or by judicially appointed receiver, shall be entitled to enter upon, take possession of and manage the Property and to collect the rents of the Property including those past due. All rents collected by Lender or the receiver shall be applied first to payment of the costs of management of the Property and collection of rents, including, but not limited to, receiver's fees, premiums on receiver's bonds and reasonable attorney's fees, and then to the sums secured by this Deed of Trust. Lender and the receiver shall be liable to account only for those rents actually received.

21. **Future Advances.** Upon request of Borrower, Lender, at Lender's option prior to full reconveyance of the Property by Trustee to Borrower, may make Future Advances to Borrower. Such Future Advances, with interest thereon, shall be secured by this Deed of Trust when evidenced by promissory notes saying that said notes are secured hereby.

22. **Reconveyance.** Upon payment of all sums secured by this Deed of Trust, Lender shall request Trustee to reconvey the Property and shall surrender this Deed of Trust and all notes evidencing indebtedness secured by this Deed of Trust to Trustee. Trustee shall reconvey the Property without warranty and without charge to the person or persons legally entitled thereto. Such person or persons shall pay all costs of recordation, if any.

23. **Substitute Trustee.** Lender, at Lender's option, may from time to time remove Trustee and appoint a successor trustee to any Trustee appointed hereunder. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee herein and by applicable law.

IN WITNESS WHEREOF, Borrower has executed this Deed of Trust.

_____ _____

Borrower -Borrower

_____ _____

Borrower -Borrower

STATE OF ALASKA,.....Judicial District ss:

On this day of , 19 , before me, the undersigned, a Notary Public in and for the State of Alaska, personally appeared

to me known and known to me to be the person(s) named as Trustor(s) in the foregoing deed, and acknowledged to me that ..he.. executed the same freely and voluntarily for the uses and purposes therein mentioned.

Witness my hand and official seal the day and year in this certificate first above written.

My Commission expires: _____

Notary Public for Alaska

REQUEST FOR RECONVEYANCE

TO TRUSTEE:

The undersigned is the holder of the note or notes secured by this Deed of Trust. Said note or notes, together with all other indebtedness secured by this Deed of Trust, have been paid in full. You are hereby directed to cancel said note or notes and this Deed of Trust, which are delivered hereby, and to reconvey, without warranty, all the estate now held by you under this Deed of Trust to the person or persons legally entitled thereto.

Date:..... .....

_____ (Space Below This Line Reserved for Lender and Recorder) _____

AHFC Homeownership Assistance Deed of Trust

[Space Above This Line For Recording Data]

AMB LOAN NO._____

DEED OF TRUST

THIS DEED OF TRUST ("Security Instrument") is made on ....., 19 ..... The Trustor is ..... ("Borrower"). The trustee is ..... ("Trustee"). The beneficiary is **ALASKA MUTUAL BANK**, which is organized and existing under the laws of **STATE OF ALASKA**, and whose address is **601 West Fifth Avenue, Anchorage, Alaska 99501** ("Lender"). Borrower owes Lender the principal sum of ..... Dollars (U.S. $ .....). This debt is evidenced by Borrower's note dated the same date as this Security Instrument ("Note"), which provides for monthly payments, with the full debt, if not paid earlier, due and payable on ..... This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest, and all renewals, extensions and modifications; (b) the payment of all other sums, with interest, advanced under paragraph 7 to protect the security of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in the ..... Recording District, ... Judicial District, Alaska:

which has the address of ....., ...
[Street] [Borrower's Post Office Address, if Different]

....., Alaska ..... ("Property Address");
[City] [Zip Code]

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, rents, royalties, mineral, oil and gas rights and profits, water rights and stock and all fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

[Space Above This Line For Recording Data]

AMB LOAN NO._____

DEED OF TRUST

THIS DEED OF TRUST ("Security Instrument") is made on ....., 19..... The Trustor is ..... ("Borrower"). The trustee is ..... ("Trustee"). The beneficiary is **ALASKA MUTUAL BANK,** which is organized and existing under the laws of **STATE OF ALASKA,** and whose address is **601 West Fifth Avenue, Anchorage, Alaska 99501** ("Lender"). Borrower owes Lender the principal sum of ..... Dollars (U.S. $.....). This debt is evidenced by Borrower's note dated the same date as this Security Instrument ("Note"), which provides for monthly payments, with the full debt, if not paid earlier, due and payable on ..... This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest, and all renewals, extensions and modifications; (b) the payment of all other sums, with interest, advanced under paragraph 7 to protect the security of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in the ..... Recording District, ... Judicial District, Alaska:

which has the address of ....., ...
[Street] [Borrower's Post Office Address, if Different]

....., Alaska ..... ("Property Address");
[City] [Zip Code]

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, rents, royalties, mineral, oil and gas rights and profits, water rights and stock and all fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. Payment of Principal and Interest; Prepayment and Late Charges. Borrower shall promptly pay when due the principal of and interest on the debt evidenced by the Note and any prepayment and late charges due under the Note.

2. Funds for Taxes and Insurance. Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly payments are due under the Note, until the Note is paid in full, a sum ("Funds") equal to one-twelfth of: (a) yearly taxes and assessments which may attain priority over this Security Instrument; (b) yearly leasehold payments or ground rents on the Property, if any; (c) yearly hazard insurance premiums; and (d) yearly mortgage insurance premiums, if any. These items are called "escrow items." Lender may estimate the Funds due on the basis of current data and reasonable estimates of future escrow items.

The Funds shall be held in an institution the deposits or accounts of which are insured or guaranteed by a federal or state agency (including Lender if Lender is such an institution). Lender shall apply the Funds to pay the escrow items. Lender may not charge for holding and applying the Funds, analyzing the account or verifying the escrow items, unless Lender pays Borrower interest on the Funds and applicable law permits Lender to make such a charge. Borrower and Lender may agree in writing that interest shall be paid on the Funds. Unless an agreement is made or applicable law requires interest to be paid, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for the sums secured by this Security Instrument.

If the amount of the Funds held by Lender, together with the future monthly payments of Funds payable prior to the due dates of the escrow items, shall exceed the amount required to pay the escrow items when due, the excess shall be, at Borrower's option, either promptly repaid to Borrower or credited to Borrower on monthly payments of Funds. If the amount of the Funds held by Lender is not sufficient to pay the escrow items when due, Borrower shall pay to Lender any amount necessary to make up the deficiency in one or more payments as required by Lender.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender. If under paragraph 19 the Property is sold or acquired by Lender, Lender shall apply, no later than immediately prior to the sale of the Property or its acquisition by Lender, any Funds held by Lender at the time of application as a credit against the sums secured by this Security Instrument.

3. Application of Payments. Unless applicable law provides otherwise, all payments received by Lender under paragraphs 1 and 2 shall be applied: first, to late charges due under the Note; second, to prepayment charges due under the Note; third, to amounts payable under paragraph 2; fourth, to interest due; and last, to principal due.

4. Charges; Liens. Borrower shall pay all taxes, assessments, charges, fines and impositions attributable to the Property which may attain priority over this Security Instrument, and leasehold payments or ground rents, if any. Borrower shall pay these obligations in the manner provided in paragraph 2, or if not paid in that manner, Borrower shall pay them on time directly to the person owed payment. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this paragraph. If Borrower makes these payments directly, Borrower shall promptly furnish to Lender receipts evidencing the payments.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in the Lender's opinion operate to prevent the enforcement of the lien or forfeiture of any part of the Property; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more of the actions set forth above within 10 days of the giving of notice.

5. Hazard Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage" and any other hazards for which Lender requires insurance. This insurance shall be maintained in the amounts and for the periods that Lender requires. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's approval which shall not be unreasonably withheld.

All insurance policies and renewals shall be acceptable to Lender and shall include a standard mortgage clause. Lender shall have the right to hold the policies and renewals. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, if the restoration or repair is economically feasible and Lender's security is not lessened. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. If Borrower abandons the Property, or does not answer within 30 days a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may collect the insurance proceeds. Lender may use the proceeds to repair or restore the Property or to pay sums secured by this Security Instrument, whether or not then due. The 30-day period will begin when the notice is given.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraphs 1 and 2 or change the amount of the payments. If under paragraph 19 the Property is acquired by Lender, Borrower's right to any insurance policies and proceeds resulting from damage to the Property prior to the acquisition shall pass to Lender to the extent of the sums secured by this Security Instrument immediately prior to the acquisition.

6. Preservation and Maintenance of Property; Leaseholds. Borrower shall not destroy, damage or substantially change the Property, allow the Property to deteriorate or commit waste. If this Security Instrument is on a leasehold, Borrower shall comply with the provisions of the lease, and if Borrower acquires fee title to the Property, the leasehold and fee title shall not merge unless Lender agrees to the merger in writing.

7. Protection of Lender's Rights in the Property; Mortgage Insurance. If Borrower fails to perform the covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, probate, for condemnation or to enforce laws or regulations), then Lender may do and pay for whatever is necessary to protect the value of the Property and Lender's rights in the Property. Lender's actions may include paying any sums secured by a lien which has priority over this Security Instrument, appearing in court, paying reasonable attorneys' fees and entering on the Property to make repairs. Although Lender may take action under this paragraph 7, Lender does not have to do so.

Any amounts disbursed by Lender under this paragraph 7 shall become additional debt of Borrower secured by this Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

(Space Above This Line For Recording Data)

AMB LOAN NO._____

DEED OF TRUST

THIS DEED OF TRUST ("Security Instrument") is made on ....., 19..... The Trustor is ..... ("Borrower"). The trustee is ..... ("Trustee"). The beneficiary is **ALASKA MUTUAL BANK,** which is organized and existing under the laws of **STATE OF ALASKA,** and whose address is **601 West Fifth Avenue, Anchorage, Alaska 99501** ("Lender"). Borrower owes Lender the principal sum of ..... Dollars (U.S. $.....). This debt is evidenced by Borrower's note dated the same date as this Security Instrument ("Note"), which provides for monthly payments, with the full debt, if not paid earlier, due and payable on ..... This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest, and all renewals, extensions and modifications; (b) the payment of all other sums, with interest, advanced under paragraph 7 to protect the security of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in the ..... Recording District, ... Judicial District, Alaska:

which has the address of ....., ...
[Street] [Borrower's Post Office Address, if Different]

....., Alaska ..... ("Property Address");
[City] [Zip Code]

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, rents, royalties, mineral, oil and gas rights and profits, water rights and stock and all fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. Payment of Principal and Interest; Prepayment and Late Charges. Borrower shall promptly pay when due the principal of and interest on the debt evidenced by the Note and any prepayment and late charges due under the Note.

2. Funds for Taxes and Insurance. Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly payments are due under the Note, until the Note is paid in full, a sum ("Funds") equal to one-twelfth of: (a) yearly taxes and assessments which may attain priority over this Security Instrument; (b) yearly leasehold payments or ground rents on the Property, if any; (c) yearly hazard insurance premiums; and (d) yearly mortgage insurance premiums, if any. These items are called "escrow items." Lender may estimate the Funds due on the basis of current data and reasonable estimates of future escrow items.

The Funds shall be held in an institution the deposits or accounts of which are insured or guaranteed by a federal or state agency (including Lender if Lender is such an institution). Lender shall apply the Funds to pay the escrow items. Lender may not charge for holding and applying the Funds, analyzing the account or verifying the escrow items, unless Lender pays Borrower interest on the Funds and applicable law permits Lender to make such a charge. Borrower and Lender may agree in writing that interest shall be paid on the Funds. Unless an agreement is made or applicable law requires interest to be paid, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for the sums secured by this Security Instrument.

If the amount of the Funds held by Lender, together with the future monthly payments of Funds payable prior to the due dates of the escrow items, shall exceed the amount required to pay the escrow items when due, the excess shall be, at Borrower's option, either promptly repaid to Borrower or credited to Borrower on monthly payments of Funds. If the amount of the Funds held by Lender is not sufficient to pay the escrow items when due, Borrower shall pay to Lender any amount necessary to make up the deficiency in one or more payments as required by Lender.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender. If under paragraph 19 the Property is sold or acquired by Lender, Lender shall apply, no later than immediately prior to the sale of the Property or its acquisition by Lender, any Funds held by Lender at the time of application as a credit against the sums secured by this Security Instrument.

3. Application of Payments. Unless applicable law provides otherwise, all payments received by Lender under paragraphs 1 and 2 shall be applied: first, to late charges due under the Note; second, to prepayment charges due under the Note; third, to amounts payable under paragraph 2; fourth, to interest due; and last, to principal due.

4. Charges; Liens. Borrower shall pay all taxes, assessments, charges, fines and impositions attributable to the Property which may attain priority over this Security Instrument, and leasehold payments or ground rents, if any. Borrower shall pay these obligations in the manner provided in paragraph 2, or if not paid in that manner, Borrower shall pay them on time directly to the person owed payment. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this paragraph. If Borrower makes these payments directly, Borrower shall promptly furnish to Lender receipts evidencing the payments.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in the Lender's opinion operate to prevent the enforcement of the lien or forfeiture of any part of the Property; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more of the actions set forth above within 10 days of the giving of notice.

5. Hazard Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage" and any other hazards for which Lender requires insurance. This insurance shall be maintained in the amounts and for the periods that Lender requires. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's approval which shall not be unreasonably withheld.

All insurance policies and renewals shall be acceptable to Lender and shall include a standard mortgage clause. Lender shall have the right to hold the policies and renewals. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, if the restoration or repair is economically feasible and Lender's security is not lessened. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. If Borrower abandons the Property, or does not answer within 30 days a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may collect the insurance proceeds. Lender may use the proceeds to repair or restore the Property or to pay sums secured by this Security Instrument, whether or not then due. The 30-day period will begin when the notice is given.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraphs 1 and 2 or change the amount of the payments. If under paragraph 19 the Property is acquired by Lender, Borrower's right to any insurance policies and proceeds resulting from damage to the Property prior to the acquisition shall pass to Lender to the extent of the sums secured by this Security Instrument immediately prior to the acquisition.

6. Preservation and Maintenance of Property; Leaseholds. Borrower shall not destroy, damage or substantially change the Property, allow the Property to deteriorate or commit waste. If this Security Instrument is on a leasehold, Borrower shall comply with the provisions of the lease, and if Borrower acquires fee title to the Property, the leasehold and fee title shall not merge unless Lender agrees to the merger in writing.

7. Protection of Lender's Rights in the Property; Mortgage Insurance. If Borrower fails to perform the covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, probate, for condemnation or to enforce laws or regulations), then Lender may do and pay for whatever is necessary to protect the value of the Property and Lender's rights in the Property. Lender's actions may include paying any sums secured by a lien which has priority over this Security Instrument, appearing in court, paying reasonable attorneys' fees and entering on the Property to make repairs. Although Lender may take action under this paragraph 7, Lender does not have to do so.

Any amounts disbursed by Lender under this paragraph 7 shall become additional debt of Borrower secured by this Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

HB51

STATE OF ALASKA

SALES AND SERVICING AGREEMENT

I. THIS AGREEMENT is made and entered into as of June 2, 1983 in the State of Alaska between Alaska Mutual Bank (employer identification number 92-00283-15) herein called "Seller-servicer", and STATE OF ALASKA DEPARTMENT OF REVENUE, herein called "Buyer", for mutual consideration herein evidenced.

II. This agreement under which the Buyer, having conditions of purchase, may offer to buy and the Seller-servicer, having met the conditions of purchase may offer to sell first mortgage loans on residential or commercial real estate, herinafter called collectively "mortgages" and individually "the mortgage", shall govern the sale and transfer of such mortgages by Seller-servicer to Buyer, and the servicing and other incidents thereof, and each such mortgage shall be subject to warranties, representations and agreements herein. The Buyer's conditions to purchase are set forth in the document transmitted concurrently with the mortgage funds from the Buyer to the Seller-servicer. Basic conditions to purchase are established at the time of each commitment in an attachment called "Commitment Requirements". In addition, the Seller-servicer shall underwrite all loans for the Buyer using standard industry practices as given by either FNMA or FHLMC guidelines. Approval prior to closing will be required. These standards will be amended only upon written notice from the Seller-servicer with justification and the acceptance in writing from the Buyer of the amendment(s).

III. Seller-servicer represents and warrants as to each such mortgage offered for sale under this Agreement that:

A. The mortgage has been duly executed by the mortgagor, acknowledged and recorded, is valid, and is a first lien on the real property held in fee simple.

B. The Seller-servicer is the sole owner of the mortgage and has authority to sell, transfer, and assign the same on the terms herein set forth; and there has been no assignment, sale, hypothecation thereof by Seller-servicer except the usual past hypothecation of the papers in connection with Seller-servicer's normal banking transactions in the conduct of its business; and that the sale is free and clear of claims or encumbrances of any type.

C. The full principal amount of the mortgages has been advanced to the mortgagor, either by payment direct to him or by payment made on his request or approval; the unpaid principal balance is as stated; all costs, fees and expenses incurred in making, closing, and recording the mortgage have been paid, no part of the mortgage property has been released from the lien of the mortgage; the terms of the mortgage have in no way been changed or modified, and the mortgage is current and there has not been any prior default.

D. Each mortgage which the Seller-servicer represents to be insured by the Federal Housing Administration (FHA), or by a private mortgage insurance company, or to be guaranteed by the Veterans Administration (VA) or Small Business Administration (SBA) guaranteed portion is so insured or guaranteed.

E. The mortgage was originated and has been serviced since the date of its origination by the Seller-servicer or the mortgage in a new loan package submitted for commitment to purchase before the loan is closed.

F. The security for the mortgage is real property located in the State of Alaska.

G. All applicable State and Federal rules and regulations have been complied with, and all conditions within the control of the Seller-servicer as to the validity of the insurance or guaranty as requir . by the National Housing Act of 1934, as amended, and the rules and regulations thereunder, or as required by the Servicemen's Readjustment Act of 1944, or the Small Business Act of 1953, as amended, and the rules and regulations thereunder, or by the private mortgage insurance companies, have been properly satisfied, and said insurance or guaranty is valid and enforceable.

H. Each mortgage which shall have qualified for mortgage assistance or rent assistance program of the National Housing Act of 1934, the Housing and Urban Development Act of 1965 or the United States Housing Act, shall contain such provisions as shall be required in order to establish and maintain the qualification of the mortgage for such assistance or subsidy payments, and all such assistance or subsidy payments shall be current and there shall not have been any prior default in the payment thereof.

I. There is in force a paid-up title insurance policy on the mortgage issued by an accredited title company in an amount at least equal to the outstanding principal balance of the mortgage.

J. There is in force for each such loan, hazard insurance policies meeting the specification of Clause VIII.

K. The assignment, if any, of the mortgage from the Seller-servicer to the Buyer is valid and sufficient.

L. All documents submitted in connection with obtaining the mortgage, any insurance thereon or any assistance or subsidy payments in respect thereof and the purchase by the Buyer hereunder are genuine, and all other representations as to each such mortgage are true and correct and meet the requirements and specifications of all parts of this Agreement.

IV. The Seller-servicer agrees to perform all acts necessary to perfect title to the mortgages in the Buyer, and shall sell, assign and deliver to the Buyer with respect to the purchase of each such mortgage the following supporting documents where applicable, all subject to the approval of the Buyer and its legal counsel as to the proper form and execution:

A. Mortgage note properly endorsed by the Seller-servicer without recourse, and if an FHA or a mortgage insurance company insured mortgage, duly endorsed by Federal Housing Commissioner or the mortgage insurance company, and if a VA or SBA guaranteed mortgage, accompanied by the Loan Guaranty Certificate duly executed by the Veterans' Administration or Small Business Administration.

B. Mortgage, accompanied by those documents and instruments necessary to record and perfect ownership thereof in the Buyer.

C. Appraisal report of an appraiser whose qualifications are acceptable to the Buyer with pictures and when applicable a completion certificate.

D. Mortgagee title insurance policy, with any exceptions therein subject to approval of Buyer's legal counsel, and proper assignment thereof if required in event a mortgage assignment is being placed of record.

E. Survey of premises identifying property by address and legal description, this being required only if title policy contains an exception as to boundary and building line restrictions.

F. If an FHA mortgage, application, commitment, amortization schedule, notice of transfer and all required documents of a similar nature; if a VA or SBA mortgage, all such required documents of a similar nature.

G. Hazard insurance certificates that meet the specifications of Clause VIII.

H. Statement showing unpaid principal balance on mortgage, amount of periodic installments and date to which interest is paid.

I. Certified copy of resolution of Seller-servicer authorizing sale of the mortgage.

J. Evidence of authority of Seller-servicer to act as a servicer of FHA, VA and SBA mortgages.

K. Individual Participation Certificates are required on all participation loans.

L. Original private mortgage insurance certificate endorsed to Buyer.

V. The Seller-servicer shall comply with, and shall use its best efforts to cause each mortgagor to comply with all applicable state and federal rules and regulations or requirements of the mortgage insurance companies, including those requiring the giving of notice. Where applicable, the Seller-servicer shall comply with the National Housing Act of 1934, as from time to time amended, the Housing and Urban Development Act of 1965, the United States Housing Act and with the Servicemen's Readjustment Act of 1944 and Small Business Act of 1953, as amended, and with all rules and regulations issued under either, and with the requirements of mortgage insurance companies, including the giving of all notices and submitting of all claims required to be given or submitted to the Federal Housing

Administration, the Veterans Administration, the Small Business Administration, or to the mortgage insurance companies to the end that the full benefit of either the Federal Housing Administration insurance, the guaranty of the Veterans Administration, or Small Business Administration, or the mortgage insurance will insure to the Buyer. The seller-servicer will forward copies of all such notices or claims to the Buyer.

VI. The Seller-servicer agrees to repurchase any mortgage covered by this agreement within one year after date of the Buyer's remittance if any misstatement of material fact is disclosed by actual inspections by the Buyer or its representative, or otherwise, for an amount equal to its then unpaid principal based on the same percentage rate at which it originally was purchased, plus accrued interest and costs incurred by the Buyer for action taken, but this provision shall not apply to FHA insured, VA guaranteed, SBA guaranteed, or mortgage insurance company insured mortgages. In the case of insured or guaranteed mortgages, if the FHA insurance, the VA guaranty, SBA guaranty, or the insurance of a mortgage insurance company with respect to any of the mortgages lapses as a result of the Seller-servicer's act or omission, the Seller-servicer upon the Buyer's request shall repurchase such mortgage for an amount equal to its then unpaid principal based on the same percentage rate at which it originally was purchased, plus accrued interest and costs incurred by the Buyer for action taken, and remit the aggregate of said amounts to the Buyer.

VII. The Seller-servicer, at its own expense, shall keep in force during the term of this agreement or any extension thereof, a Fidelity Bond and a policy or policies of insurance, covering errors and omissions on the part of any and all of their employees involved with the mortgages bought, sold, serviced or assigned under this contract. The Bond or Bonds shall insure the Buyer against loss arising from dishonest, criminal or fraudulent acts of any above referenced employee of the Seller-servicer.

VIII. The Seller-servicer shall see that the improvements on the premises, securing each mortgage, are kept insured by hazard insurance policies issued by a company acceptable to the Buyer in an amount at least equal to the outstanding principal of the mortgage or the full insurable value of the improvements, whichever is less, and of a type at least as protective as fire and extended coverage, containing a mortgagee clause naming the Buyer as an insured, substantially in the form of the standard New York mortgagee clause, and containing suitable provisions for payment on all present and future mortgages on such premises in order of precedence. Seller-servicer shall hold for the Buyer's account such policies and renewals thereof.

IX. The Seller-servicer shall furnish a detailed statement of its financial condition, not later than ninety days after the close of the Seller-servicer's fiscal year, and give the Buyer or its authorized representative opportunity at any time during business hours to examine the Seller-servicer's books and records. The Seller-servicer agrees to keep records satisfactory to the Buyer pertaining to each mortgage, and such records shall be the property of the Buyer and upon termination of this Agreement, shall be delivered to the Buyer.

X. Until the principal and interest of each such mortgage is paid in full the Seller-servicer shall:

A. Proceed diligently to collect all payments due under the terms of each mortgage as they become due.

B. Keep a complete and accurate account of and properly apply all sums collected by it from the mortgagor on account of each such mortgage for principal and interest, taxes, assessments, and other public charges, hazard insurance premiums and FHA insurance or private mortgage

insurance premiums, and upon request to furnish Buyer with evidence acceptable to the Buyer of all expenditures for taxes, assessments and other public charges, hazard insurance premiums and FHA insurance or private mortgage insurance premiums. In the event any mortgagor fails to make a payment to said Seller-servicer required to be made under the terms of said mortgage, Seller-servicer agrees to notify the Buyer of such fact within thirty days after the same shall have become due and payable.

C. Deposit all funds received in respect of such mortgage, subject to withdrawal on demand, in a segregated trust or custodial account in a state or national bank, the deposits of which are insured by the Federal Deposit Insurance Corporation. Such account shall be held by Seller-servicer as trustee or custodian and the Seller-servicer shall maintain detailed records to show the respective interests of each individual mortgagor in the account. Each such account shall be established and maintained in a manner which complies with the applicable rules and regulations of the Federal Deposit Insurance Corporations.

D. From the funds so deposited, (1) pay promptly to the proper parties when and if due FHA, VA, SBA and private mortgage insurance premiums, taxes, special assessments, ground rents, and premiums on hazard insurance, and (2) pay and report, within five working days of the established cut off, to the Buyer all amounts of principal and interest due to it under its participation in the mortgage, and (3) on loan payoffs pay and report to the Buyer within five working days of the payoff all amounts of principal and interest due to it under the mortgage. Any amount not timely remitted, shall bear interest payable to the Buyer at the interest rate of the note(s) per day times the balance from the date that such remittance was actually postmarked. (4) Submit monthly reports which consist

of a Summary of Remittance, Principal Trial Balance, and Delinquency Reports for all loans over thirty days delinquent.

(5) Retain as full compensation for all services performed hereunder, the earned portion of the servicing fee per annum agreed to in the commitment for each specific loan or block of loans, plus "late charges", if any collected, from the mortgagor pursuant to the terms of the mortgage.

E. Have prior written approval from the buyer to modify any Notes or Deeds of Trust.

F. Upon request submit to the Buyer an audit of the balance in each such trust account, together with a certificate that all disbursements were made for proper purposes, and that all payments required to be made hereunder have been made, with exceptions, if any.

G. Perform such other customary duties, furnish such other reports and execute such other documents in connection with its duties hereunder as the Buyer from time to time reasonably may require.

XI. The Seller-servicer shall use due diligence to ascertain, and shall forthwith notify the Buyer of the failure of any mortgagor to perform any obligations under the mortgage, and also of any of the following which might come to the attention of the Seller-servicer;

A. The vacating of or any change in the occupancy of any premises securing a mortgage.

B. The sale or transfer of any such premises, to the degree of liability of original mortgagor. If original mortgagor has been released from liability a credit package on new mortgagor must be furnished buyer.

C. The death, bankruptcy or insolvency of a mortgagor.

D. Any loss or damage to any such premises, in which event, in addition to notifying the Buyer, the Seller-servicer shall also promptly notify the insurance companies concerned.

E. Any lack of repair or any other deterioration or waste suffered or committed in respect of the premises covered by the mortgage. It is understood, however, that the Seller-servicer shall not be obligated to give notice to the Buyer of any facts other than those of which the Seller-servicer shall have actual notice, and those of which it would, except for its negligence, have had notice.

F. Any loss of eligibility of the mortgagor, either in whole or in part, for any mortgage assistance or rent subsidy payments under any programs providing therefore and for which the mortgage has qualified.

XII. The Seller-servicer shall not accept any prepayment of mortgage principal, except as permitted by the terms of the mortgage, nor waive, modify, release or consent to postponement on the part of the mortgagor of any term or provision of the mortgage without the written consent of the Buyer.

XIII. The Seller-servicer shall be required to reinspect only those properties on which the mortgage becomes sixty or more days delinquent. The Seller-servicer must notify the Buyer in writing of all action taken to collect the delinquencies and list methods and recommendations to bring the loans current or for foreclosure.

XIV. The Seller-servicer shall upon the request and under the direction of the Buyer assist in the foreclosure or other acquisition of the property securing any mortgage, the transfer of such property to the FHA or VA and the collection of any applicable mortgage insurance, and pending completion of these steps, protect such property from waste and strip. At

the option of the Buyer, Buyer may assign such mortgage to the Seller-servicer which shall then conduct all such proceedings in its own name, promptly thereafter assigning or conveying to the Buyer any title, equity, or other property or right acquired by such proceedings. Seller-servicer will take title to the property in the name designated by the Buyer. Buyer agrees to reimburse the Seller-servicer for its reasonable out-of-pocket expenses so incurred, including attorney's fees mutually agreed upon in advance at the percentage of Buyers participation in the mortgage. All property foreclosed in the name of the Buyer will be managed by the Seller-servicer or an approved management firm. The Buyer will be advised of all management efforts monthly. The Seller-servicer will be required to interpret all legal requirements and financial obligations for each loan foreclosed on.

XV. In the event the Buyer shall assign its interest under the terms of this contract and in the mortgages to a third party, the assignee shall accede to all of the rights and obligations hereunder of the Buyer and this Agreement shall remain in full force and effect, and the Seller-servicer shall remit all principal and interest installments payable under the mortgages so assigned directly to such third party after deduction of the service fee as herein provided. The obligation to make direct remittances to such third party shall arise upon thirty days written notice of such assignment given by the Buyer to the Seller-servicer.

XVI. Compensation of the Seller-servicer shall be as agreed at the time each mortgage is accepted and as evidenced by each commitment to purchase made by the Buyer. Such compensation shall be earned, computed and payable as of the time interest on each

individual mortgage is paid to Buyer, except that the compensation represented by late charges, if any, shall be retained as paid by the mortgagor. Compensation shall be earned and computed only upon mortgages on which payment of principal and interest actually occurs. No additional compensation shall be payable to the Seller-servicer in the event of termination of this Agreement, except as provided in Clause XVII.

XVII. The Buyer may, by notice to the Seller-servicer, terminate this Agreement as to mortgages being serviced if:

A. The Seller-servicer becomes insolvent or bankrupt or is placed under conservatorship or receivership.

B. The Seller-servicer assigns or attempts to assign the rights and obligations hereunder, or there is a transfer of a controlling interest in Seller-servicer, without written consent of the Buyer.

C. The Seller-servicer fails to take positive action to correct any deficiency in the performance of its obligations hereunder within sixty days after the Buyer has given Seller-servicer written notice of such deficiency.

D. In any event, and without cause, upon sixty days written notice and payment to the Seller-servicer of a sum equal to 1/2 of 1 percent of the aggregate principal amounts then outstanding of all of the mortgages subject to this Agreement.

XVIII. This Agreement may be terminated as to the future acceptance of mortgages by either party at any time upon giving thirty days written notice of termination to the other party, but such termination shall not in any respect change or modify the obligation of the Seller-servicer to service mortgages then already accepted, and the Seller-servicer shall continue to service such mortgages unless the Buyer shall act pursuant to Clause XVII hereof.

XIX. Upon any termination of this Agreement under Clause XVII the Seller-servicer shall account for and turn over to the Buyer all funds collected under each mortgage, less only the compensation then due the Seller-servicer, and deliver to the Buyer or its representative all records and documents relating to each such mortgage described in Clauses IV and VIII that it may have in its possession.

XX. The words "mortgage" and "mortgages" as used herein shall include mortgages, security deeds, trust deeds, and deeds of trust, and the words "mortgagor" and "mortgagors" shall be deemed to mean mortgagors, trustors of trust deeds and deeds of trust, and the grantors of any security deeds, it being agreed that the appointment of any trustees under any trust deeds or deeds of trust shall be subject to the approval of the Buyer.

XXI. In the event of a dispute between the Buyer and the Seller-servicer or any of their assigns, said dispute will initially be reviewed and if possible settled by reference to this contract, and its addendum(s), and if this contract or its addendum(s) are ambiguous or silent on the point or points in question, the prevailing conditions in the industry as set forth in a current updated copy of the Servicer's Guide, issued by the Federal National Mortgage Association, shall apply.

XXII. This document contains the entire agreement between the parties hereto and cannot be modified in any respect except by an amendment in riting signed by both parties. The invalidity of any portion of this Agreement shall in no way affect the

balance thereof. This Agreement shall remain in effect until the Buyer's interests in all of the mortgages referred to, including the underlying security, are liquidated completely.

XXIII. From the effective date of this agreement all other agreements and its addendums are superseded by this agreement. All State of Alaska statutes and amendments to statutes effecting mortgage investments will automatically be an integral part of this Agreement and will, when applicable, replace any phraseology in this Agreement. Outstanding commitments to purchase effected by amendments will be honored. (State of Alaska Statutes, Exhibit A -PERS, Exhibit B - TRS)

IN WITNESS WHEREOF, each party has caused its seal to be affixed hereto and this instrument to be signed in its name on its behalf by its proper officials duly authorized.

Effective this 2nd day of June, 1983.

SELLER-SERVICER:

Alaska Mutual Bank

By _____

Wesley W. Clubb

Title Vice President

Date June 2, 1983

(SEAL)

BUYER:

State of Alaska, Department of Revenue

By _____

Title Deputy Commissioner

Date 6-8-83

Exhibit A

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Effect of amendments. — The 1977 amendment in subsection (b), substituted "record" for "[illegible]" in the first sentences of paragraphs (1) and (2), deleted "shall be credited as of the date of deduction or payment, as the case may be" from the end of the first sentences of paragraphs (1) and (2), substituted "retirement" for "granting a pension" near the beginning of the third sentence of paragraph (1), deleted "an employee's" preceding "retirement, the amount," in the fourth sentence of paragraph (2), substituted "savings account" for "contribution account" in two places in the fourth sentence of paragraph (2), and deleted an exception from the end of the second sentence of paragraph (3). The amendment also, in paragraph (4) of subsection (b), deleted "credited with all contributions of employers for the purposes of meeting their respective proportion of the total administrative expenses of the system during each fiscal year, and it shall be" following "This account shall be" near the beginning of the second sentence and rewrote the third sentence.

Sec. 39.35.110. Investments. (a) When, in the opinion of the commissioner of administration, there is on hand in the pension fund a surplus over and above a reasonably safe amount to take care of current demands upon the fund, the surplus, or so much of it as in the judgment of the commissioner of administration is considered proper, may be invested at competitive national market rates by the commissioner of revenue in

(1) Repealed by § 15 ch 122 SLA 1980.

(2) Repealed by § 15 ch 122 SLA 1980.

(3) Repealed by § 15 ch 122 SLA 1980.

(4) Repealed by § 15 ch 122 SLA 1980.

(5) shares of federally chartered savings and loan associations in Alaska, to the extent that the investment is insured by the federal government or an agency of the federal government;

(6) deposits with mutual savings banks in Alaska, to the extent that the investment is insured by the federal government or an agency of the federal government;

(7) deposits with state and national banks in Alaska to the extent that the investment is insured by the federal government or an agency of the federal government;

(8) Repealed by § 15 ch 122 SLA 1980.

(9) the guaranteed portion of Small Business Administration loans;

(10) first lien real estate mortgages guaranteed by the federal Veterans Administration;

(11) notes secured by mortgages of commercial or residential buildings if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least $20,000,000; however,

(A) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the minimum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50-60 percent and 15 percent for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent, and

(B) no mortgage insurance is necessary for residential loans having a loan-to-value ratio of less than 70 percent and the minimum coverage of other residential loans shall be 10 percent for those having a loan-to-value ratio greater than 70 percent but less than 90 percent and 20 percent for those having a loan-to-value ratio of 90 percent;

(12) conventional residential mortgages if the originating financial institution retains at least 25 percent of the mortgage for a minimum of two years;

(13) notes secured by mortgages of commercial buildings if the originating financial institution retains at least 25 percent of the mortgage until maturity;

(14) FHA guaranteed portion of business and industrial loans made under the Rural Development Act of 1972;

(15) Repealed by § 15 ch 122 SLA 1980.

(16) Repealed by § 15 ch 122 SLA 1980.

(17) bankers' acceptances which are eligible for discount at the Federal Reserve Bank and certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation if a generally recognized secondary market exists for the certificates of deposit;

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

(19) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(20) corporate debt securities with a minimum rating of "A" or an equivalent rating by a nationally recognized rating organization;

(21) preferred and common stock of companies which have paid dividends in each of the three years immediately preceding the investment;

(22) commercial paper bearing the highest rating of a nationally recognized rating organization;

(23) securities of foreign governments, foreign governmental agencies, and foreign corporations the principal, interest or dividends on which are payable in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 10 percent of the total investments of the pension fund;

(24) foreign time deposits of both United States-owned and foreign-owned banks and trust companies denominated in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 20 percent of the total investments of the pension fund;

(25) gold bullion certified as to fineness of at least 9½ percent; however, investments under this paragraph may not exceed 10 percent of the total investments of the pension fund; the commissioner of revenue shall purchase gold bullion produced in Alaska to the extent

T39 Alaska TO-4-32-1239

that Alaska gold bullion is available if it can be obtained at a price comparable to out-of-state sources.

(b) Repealed by § 15 ch 122 SLA 1980.

(c) In making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. However, no more than 50 percent of the pension fund may be invested at a given time in corporate stocks and debt securities, nor may more than five percent of the voting stock of one corporation be owned. Stocks eligible for purchase are restricted to stocks which, except for bank stocks and insurance stocks, are listed upon an exchange registered with the Federal Securities and Exchange Commission.

(d) Except as provided in this section, the commissioner of revenue may

(1) invest and reinvest the principal and income of the pension fund without distinction between principal and income;

(2) sell, exchange, convey, transfer, or otherwise dispose of an investment of the pension fund held in the name of the system by private contract or at public auction;

(3) vote upon a stock, bond, or other security; give a general or special proxy or power of attorney with or without power of substitution; exercise a conversion privilege, subscription right, or other option and make payments incidental to it; consent to or participate in a corporate reorganization or other change affecting corporate securities, delegate discretionary power, pay an assessment or charge in connection with the delegation; and generally exercise any of the powers of an owner with respect to stocks, bonds, securities, or other investments held in the pension fund;

(4) make, execute, acknowledge, and deliver documents of transfer and conveyance and instruments necessary or appropriate to carry out the powers granted;

(5) register investments held in the pension fund in the name of the system;

(6) do all acts whether or not expressly authorized which are considered necessary or proper for the protection of the investments held in the pension fund.

(e) To qualify as a mortgage which may be purchased under (a)(11), (12), or (1. of this section,

(1) the originating financial institution must certify that the mortgage being sold has been made in compliar e with law and that liens supporting the mortgage have been perfected;

(2) the mortgage may not have been held by the originating financial institution for a period greater than 90 days.

(f) When more than one-half of one per cent of the aggregate of all loans purchased from a financial institution becomes delinquent for 60 days, the pension fund shall discontinue purchasing loans from that financial institution until the delinquency is reduced to less than one-half of one per cent.

(g) Repealed by § 15 ch 122 SLA 1980.

(h) The commissioner of revenue may enter into futures contracts for the sale of investments purchased under (a) of this section only for the purpose of hedging an existing equivalent ownership position in the investments.

(i) The commissioner of revenue may transfer at any time a portion of the assets of the pension fund to a trust which is qualified under sec. 401(a) of the Internal Revenue Code (26 U.S.C. sec. 401(a)) and exempt from taxation under sec. 501(a) of the Internal Revenue Code (26 U.S.C. sec. 501(a)) and which is maintained as a medium for pooling a portion of the funds of pension and profit-sharing trusts for diversifying investments in real estate and interests in real estate.

(j) The commissioner of revenue may enter into a contract or trust agreement necessary to effectuate the transfer of assets of the pension fund or to maintain the assets of the pension fund to be transferred to a trust under (i) of this section. (§ 37 ch 143 SLA 1960; am § 1 ch 129 SLA 1961; am § 1 ch 150 SLA 1962; am § 2 ch 4 SLA 1964; am §§ 1 — 3 ch 80 SLA 1964; am § 1 ch 111 SLA 1964; am § 1 ch 56 SLA 1967; am § 4 ch 73 SLA 1969; am §§ 3, 4 ch 17 SLA 1970; am § 2 ch 112 SLA 1972; am §§ 3, 4 ch 25 SLA 1974; am §§ 3, 4 ch 59 SLA 1977; am §§ 7 — 10, 15 ch 122 SLA 1980)

Cross references. — As to custody and investment of the teachers retirement fund, see AS 14.25.180. As to investment of surplus funds of the state, see AS 37.10.070.

Effect of amendments. — The 1977 amendment, in subsection (a), inserted "private mortgage insurance" in paragraph (11), added the language beginning "however, (A) no mortgage insurance is necessary" to the end of that paragraph, and added paragraphs (16) and (17).

The 1980 amendment, in subsection (a), inserted "at competitive national market rates" near the end of the introductory paragraph, repealed former paragraphs (1) — (4), (8), and (15) and (16), substituted "the" for "such" preceding "investment" in paragraphs (5) and (6), substituted "of the federal government" for "thereof" at the end of paragraphs (5) and (6), substituted "buildings" for "real estate or other security" near the beginning of the introductory paragraph of paragraph (11), substituted "buildings" for "real estate" and added "until maturity" in paragraph (13), and "negotiable time" preceding "certificates of deposit" in paragraph (17), substituted "United States domestic" for "commercial" near the middle of paragraph (17), added the material at the end of paragraph (17), which begins: "which are members of" and ends: "certificates of deposit," and added paragraphs (18) — (25). The amendment, in subsection (c), substituted "an institutional investor" for "a man," and "large investments entrusted to it" for "his own affairs" near the beginning of the subsection, deleted "his" following "permanent disposition of" and "the" preceding "probable safety of capital" near the middle of the subsection, inserted "safety of capital as well as probable" preceding "income" and deleted "from

them as well as the probable safety of his capital" at the end of the first sentence, deleted "mutual funds and" preceding "corporate stocks" near the beginning of the second sentence, substituted "debt securities" for "bonds," and "may" for "any" near the middle of the second sentence, substituted "and" for a comma following "bank stocks," and deleted "and shares in mutual funds" following "insurance stocks" near the middle of the third sentence; rewrote subsection (e); added subsections (h) — (j); and repealed subsections (b) and (g).

Article 2. Membership.

Section
120. Commencement of participation
125. Participation of elected officials
130. [Repealed]
140. [Repealed]
150. Reemployment of retired employees
153. Army and air national guard employees
154. North Pacific Fishery Management Council employees
155. [Obsolete]
157. [Obsolete]
158. Administrative director of courts

Sec. 39.35.120. Commencement of participation. (a) An employee of the state shall be included in this system upon commencement of his employment with the state, or on January 1, 1961, whichever is later. An employee of a political subdivision or public organization which becomes an employer shall be included in the system on the effective date of the employer's participation or the date of the employee's commencement of employment with the employer, whichever is later.

(b) **[Effective until January 1, 1981]** Inclusion in the system is a condition of employment for an employee except an elected official.

[Effective January 1, 1981] Inclusion in the system is a condition of employment for an employee except as otherwise provided for an elected official. (§ 4 ch 143 SLA 1960; am § 1 ch 155 SLA 1966; am § 28 ch 13 SLA 1980; am § 27 ch 146 SLA 1980)

Effect of amendments. — The first 1980 amendment deleted "or quasi-public" preceding "organization" near the beginning of the second sentence in subsection (a).

The second 1980 amendment, effective January 1, 1981, inserted "as otherwise provided for" preceding "an elected official" near the end of subsection (b).

Negotiability of retirement system benefits. — Given subsection (b) of this section and AS 39.35.170, which make inclusion in the public employees retirement system (AS 39.35) a condition of employment for state employees and contributions to it mandatory, the conclusion is that the legislature intended the statutory provisions of the public employees retirement system to apply to all state employees, and benefits under the public employees retirement system may not be negotiated under the Public Employment Relations Act (AS 23.40.070 — 23.40.260). January 23, 1978, Op. Att'y Gen.

Sec. 39.35.125. Participation of elected officials. [Effective until January 1, 1981] (a) An elected official, other than a state legislator who is an active member of the teachers' retirement system, may be included in the system if, within 60 days after taking the oath of his office or within 60 days after May 12, 1966

Exhibit B

TEACHERS RETIREMENT SYSTEM

(d) The board may impose conditions on granting a waiver which it considers equitable. These conditions may include requiring the member or beneficiary to make additional contributions to the system.

(e) The board may reconsider a ruling under this section upon request of the member or beneficiary or the administrator if the request is received within 30 days after the initial ruling. Any modification of the initial ruling must be made within 30 days after receipt of a request for reconsideration.

(f) Rulings and modifications of rulings under this section must be by a majority of a quorum of the board.

(g) Rulings on appeals and requests for reconsideration under this section may be appealed by an aggrieved member or beneficiary to the superior court for abuse of discretion. (§ 1 ch 81 SLA 1979)

Sec. 14.25.177. Effect of amendments. (a) An amendment to this chapter is not retroactive unless its retroactivity is expressly stated in the amendment.

(b) The monthly amount of a benefit payable under this chapter shall be determined in accordance with the provisions of this chapter in effect on the date of termination of the member's last segment of employment. (§ 4 ch 169 SLA 1976; am § 21 ch 13 SLA 1980)

Effect of amendment. — The 1980 amendment, effective July 1, 1980, [illegible]

Sec. 14.25.180. Custody and investment.

(b) When, in the opinion of the commissioner of administration, there is on hand in the retirement fund a surplus over and above a reasonably safe amount to take care of current demands upon the fund, the surplus or so much of it as in the judgment of the commissioner of administration is considered proper may be invested at competitive national market rates by the commissioner of revenue in

(1) (repealed);

(2) (repealed);

(3) (repealed);

(4) shares of federally chartered savings and loan associations in Alaska, to the extent that the investment is insured by the federal government or by an agency of the federal government;

(5) deposits with mutual savings banks in Alaska, to the extent that the investment is insured by the federal government or an agency of the federal government;

(6) deposits with state and national banks in Alaska to the extent that the investment is insured by the federal government or an agency of the federal government;

(7) (repealed);

(8) (deleted);

(9) the guaranteed portion of Small Business Administration loans;

(10) first lien real estate mortgages guaranteed by the federal Veterans Administration;

(11) notes secured by mortgages of commercial or residential buildings if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least $20,000,000; however,

(A) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the minimum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50-60 percent and 15 percent for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent, and

(B) no mortgage insurance is necessary for residential loans having a loan-to-value ratio of less than 70 percent and the minimum coverage of other residential loans shall be 10 percent for those having a loan-to-value ratio greater than 70 percent but less than 90 percent and 20 percent for those having a loan-to-value ratio of 90 percent;

(12) conventional residential mortgages if the originating financial institution retains at least 25 percent of the mortgage for a minimum of two years;

(13) notes secured by mortgages of commercial buildings if the originating financial institution retains at least 25 percent of the mortgage until maturity;

(14) FHA guaranteed portion of business and industrial loans made under the Rural Development Act of 1972;

(15) (repealed);

(16) (repealed);

(17) bankers' acceptances which are eligible for discount at the Federal Reserve Bank and certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation if a generally recognized secondary market exists for the certificates of deposit;

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

(19) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(20) corporate debt securities with a minimum rating of "A" or an equivalent rating by a nationally recognized rating organization;

(21) preferred and common stock of companies which have paid dividends in each of the three years immediately preceding the investment;

(22) commercial paper bearing the highest rating of a nationally recognized rating organization;

(23) securities of foreign governments, foreign governmental agencies, and foreign corporations the principal, interest or dividends on which are payable in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 10 percent of the total investments of the retirement fund;

(24) foreign time deposits of both United States-owned and foreign-owned banks and trust companies denominated in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 20 percent of the total investments of the retirement fund;

(25) gold bullion certified as to fineness of at least 99-½ percent; however, investments under this paragraph may not exceed 10 percent of the total investments of the retirement fund; the commissioner of revenue shall purchase gold bullion produced in Alaska to the extent that Alaska gold bullion is available if it can be obtained at a price comparable to out-of-state sources.

(c) In making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. However, no more than 50 percent of the retirement fund may be invested at any given time in corporate stocks and debt securities, nor may more than five percent of the voting stock of a corporation be owned. Stocks eligible for purchase are restricted to stocks which, except for bank stocks and insurance stocks, are listed upon an exchange registered with the Federal Securities and Exchange Commission.

(d) Except as provided above, the commissioner of revenue may:

(1) invest and reinvest the principal and income of the retirement fund without distinction between principal and income;

(2) sell, exchange, convey, transfer or otherwise dispose of any investment of the retirement fund held in the name of the system by private contract or at public auction;

(3) vote stocks, bonds or other securities; give general or special proxies or powers of attorney with or without power of substitution; exercise conversion privileges, subscription rights or other options and make payments incidental thereto; consent to or otherwise participate in corporate reorganizations or other changes affecting corporate securities and delegate discretionary powers and pay assessments or charges in connection therewith; and generally exercise the powers of an owner with respect to stocks, bonds, securities or other investments held in the retirement fund;

(4) make, execute, acknowledge and deliver documents of transfer and conveyance and other instruments necessary or appropriate to carry out the powers granted by this subsection;

(5) register investments held in the retirement fund in the name of the system;

(6) do all acts whether or not expressly authorized which he considers necessary or proper for the protection of the investments held in the retirement fund.

(e) To qualify as a mortgage which may be purchased under (b)(11), (12) or (13) of this section,

(1) the originating financial institution must certify that the mortgage has been made in compliance with law and that liens supporting the mortgage have been perfected;

(2) the mortgage may not have been held by the originating financial institution for a period greater than 90 days.

(g) The commissioner of revenue may enter into futures contracts for the sale of investments purchased under (b) of this section only for the purpose of hedging an existing equivalent ownership position in the investments.

(h) The commissioner of revenue may transfer at any time a portion of the assets of the retirement fund to a trust which is qualified under sec. 401(a) of the Internal Revenue Code (26 U.S.C. sec. 401(a)) and exempt from taxation under sec. 501(a) of the Internal Revenue Code (26 U.S.C. sec. 501(a)) and which is maintained as a medium for pooling a portion of the funds of pension and profit-sharing trusts for diversifying investments in real estate and interests in real estate.

(i) The commissioner of revenue may enter into a contract or trust agreement necessary to effectuate the transfer of assets of the retirement fund or to maintain the assets of the retirement fund to be transferred to a trust under (h) of this section.

(am §§ 1, 2 ch 59 SLA 1977; am §§ 1 — 5 ch 122 SLA 1980)

Cross references. — As to investment of surplus funds, see AS 37.10.070. As to investments, see AS 39.35.110.

Effect of amendments.

The 1977 amendment, in subsection (b), inserted "private mortgage insurance" in paragraph (11), added the language beginning "however, (A) no mortgage insurance is necessary" to the end of that paragraph, and added paragraphs (16) and (17).

The 1980 amendment, effective July 1, 1980, in subsection (b), inserted "at competitive national market rates" in the introductory language; deleted paragraphs (1) — (3), (7), and (15) and (16), relating to certain governmental bonds or other interest-bearing obligations and securities, certain first lien real estate mortgage securities, corporation bonds and preferred and common stocks, loans guaranteed by the division of veteran's affairs, guaranteed portion of loans made under the Federal Ship Financing Act of 1972, and certain Canadian bonds, debentures, notes or other obligations, respectively; substituted "buildings" for "real estate or other security" in the introductory language of paragraph (11); substituted "buildings" for "real estate" and inserted "until maturity" in paragraph (13); deleted "negotiable time" preceding "certificates" and substituted the language beginning "United States domestic banks" for "commercial banks" in paragraph (17); and added paragraphs (18) — (25). In subsection (c), the amendment substituted "an institutional

investor" for "men," "exercises" for "exercise," "large investments entrusted to it" for "their own affairs" and "probable safety of capital as well as probable income" for "the probable income therefrom as well as the probable safety of their capital" in the first sentence, deleted "their" preceding "funds" in the first sentence, and substituted "debt securities" for "bonds" and "a corporation" for "any corporation" in the second sentence. In addition, the amendment inserted "held in the retirement fund" in paragraph (5) of subsection (d), rewrote subsection (e), and added subsections (g) — (i).

Sec. 14.25.200. Exemption from taxation and process. Benefits and other amounts held in the retirement fund on behalf of the members are exempt from Alaska state and municipal taxes and are not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary before they are received by the person entitled to the amount under the terms of the system, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, or otherwise dispose of any right to amounts accrued in the retirement fund is void. (§ 22 ch 145 SLA 1955; am § 17 ch 89 SLA 1960; am § 13 ch 84 SLA 1969; am § 22 ch 13 SLA 1980)

Effect of amendment. — The 1980 amendment, effective July 1, 1980, substituted "Benefits" for "Teachers' retirement salaries" at the beginning of the section, substituted "members" for "teachers" following "on behalf of the" near the beginning of the section, inserted "Alaska" preceding "state and municipal taxes" near the beginning of the section, and substituted "is void" for "shall be void" at the end of the section.

As the rest of the section was not affected by the amendment, it is not set out.

Cited in Gutterman v. First Nat'l Bank, Sup. Ct. Op. No. 1876 (File No. 3996), 597 P.2d 969 (1979).

Sec. 14.25.205. Time limit for application. If no application for benefits or for refund has been filed with the administrator by July 1 following the date on which an inactive member (except a member on leave of absence without pay) would attain age 75, or if no application for benefits or for refund has been filed with the administrator within the 50 years following the most recent date on which the person was an active member, no benefits or refunds may be paid under this chapter and the member's records may be destroyed. (§ 14 ch 84 SLA 1969; am § 23 ch 13 SLA 1980)

Effect of amendment. — The 1980 amendment, effective July 1, 1980, rewrote the section.

Sec. 14.25.220. Definitions. In this chapter, unless the context requires otherwise,

(1) "active member" means a member who is employed by an employer, is receiving compensation on a full-time or part-time basis and is making contributions to the system, or a member making contributions under AS 14.20.330 or 14.20.345;

STATE OF ALASKA

SALES AND SERVICING AGREEMENT ADDENDUM

In conjunction with and as an addendum to the Agreement between Alaska Mutual Bank, (employer identification number 92-00283-15) herein called "Seller-servicer", and the State of Alaska Department of Revenue, herein called "Buyer", and dated June 2, 1983, the following uniform guidelines regarding the submission, purchase, and servicing of mortgages are hereby established and made part of said Agreement. Because it addresses specific procedures and the format of reports, this addendum should be distributed to all sections of the Seller-servicer mortgage department. All correspondence and inquiries should be directed to the attention of the Mortgage Section at:

Alaska Department of Revenue
Treasury Division
Pouch SB
Juneau, Alaska 99811
907/465-2354 - 907/465-2353

All correspondence to Buyer must bear the loan name, fund name (PERS-TRS-SPFM-MOP-BLIP), loan type (FHA-VA-SBA-CONV), interest rate, percent of participation, brief legal description of property, if available, and all previous owners (if applicable).

GENERAL REQUIREMENTS

All loans submitted for purchase must have private mortgage insurance, 25% bank participation, FHA insurance, VA guarantee or SBA guarantee, if required. No take-out refinances will be purchased. Loan to value ratios will be established by investment program in a separate requirement letter. All loans will be purchased at par unless advised otherwise. Usury rate applies on loans under $100,000. Specific conditions to purchase will be detailed in a "Commitment Requirement" attachment sent out at the time of each general commitment. Standard industry underwriting criteria will apply as detailed by FNMA or FHLMC.

REQUIREMENTS FOR COMMITMENT TO PURCHASE

Commitment fee requirements will be established by investment program and when applicable must accompany the original loan submission package. This fee is non-refundable, except as noted below, and no loan substitutions may be made. Deposit of commitment check does not mean the loan is approved. Official notification will be sent regarding commitment. Commitment fee will only be returned or credit given on loans refused. Buyer will not commit to purchase and/or honor existing commitments to purchase mortgages from any Seller-servicer when they exceed the delinquency ratio established by individual Alaska statutes. Buyer will commit to purchase and/or honor existing commitments to purchase mortgages when the delinquency is reduced to these requirements.

Requests for commitments and/or purchase must include, but is not necessarily limited to, copies of the following documents:

RESIDENTIAL

1. Loan application (including gross interest rate and service rate) (Must be a standard industry form such as FNMA #1003)
2. Copy of Private Mortgage Insurance application (if applicable)
3. Original appraisal (with plat layout and original pictures)
4. Credit report and credit letters
5. Earnest money agreement
6. Verification of all bank accounts
7. Employment verification
8. Tax returns (if self-employed)
9. Financial statements (if applicable)
10. Other pertinent information

COMMERCIAL

1. Offering sheet - containing but not necessarily limited to the following information:
   a. Borrower(s)
   b. Loan amount
   c. Purpose of loan
   d. Gross interest rate and service rate

e. Fee

f. Terms

g. Account relationship with Bank

h. Financial data (Assets - Liabilities - Net Worth)

i. Security (Land - Improvements)

j. Income statement - projected

k. Analysis:

- Loan to value ratio
- Debt service
- Debt service coverage
- Default ratio
- Loan per square foot
- Gross rent multiple
- Mortgage multiple
- Other ratios if applicable

l. Participants

m. Recommendations

n. Other pertinent information

2. Loan application

3. Maps/plats

4. Original photos

5. Plans and specifications

6. Appraisal

7. Financial statement for 3 years - Balance Sheets, Profit and Loss Statements

8. Credit report and credit letters

9. Bank balance verifications

10. Federal tax returns for 3 years if applicable

11. Private Mortgage Insurance application if applicable

12. Earnest Money Agreement if applicable

REQUIREMENTS FOR PURCHASE

The following documents must be delivered to Buyer by the 10th of the month for purchase by the end of that month.

In the event questions arise as to settlement date Buyer must be contacted before the delivery schedule is prepared.

DELIVERY SCHEDULE

The Delivery Schedule must be completed by the Seller-servicer for each mortgage sale to Buyer using the form supplied by Buyer (sample A & B). The Delivery Schedule will be audited by the Buyer before purchased, and in the event it is not prepared timely purchase will be delayed until the following month. All requested information must be supplied. Numbered columns are explained as follows:

1. Price column is used to indicate the percentage of participation.
2. Service rate will be established by each investment program.
3. Per diem interest rate is computed on a 360 or 365 day basis. Please indicate which when the delivery schedule is prepared.
4. The amount in column (3) times the days in the next column equal the amount in this column. Accrued or prepaid interest must be computed in order to eliminate adjustments to the first payment.
5. Service fees are computed according to the information in column (2). Each interest group (ie. 9.625% @ 100% @ 3/8 of 1%) must be totaled with a grand total at the end of the schedule to verify the amount of the total sale.
6. Columns (A), (B), (C), and (D) must foot and cross foot.

FINAL LOAN DOCUMENTS

Final loan documents must be delivered to Buyer at time of purchase or within 60 days of closing and endorsed when applicable:

1. Note

   (a) Endorsed as follows:

   Pay to the order of the State of Alaska
   Department of Revenue _____
   _____
   without recourse this _____day of
   _____, 19___.
   Bank_____
   Name_____
   Title_____

2. Deed of Trust -recorded
3. Assignment of Deed of Trust - recorded (one for each mortgage)

4. Title Insurance (conformed copy) ALTA policy whenever possible.

5. Certificate of Hazard Insurance Coverage

6. Mortgage Insurance or Guarantee Certificate (if required)

   a. Private Mortgage Insurance

   b. FHA or VA certificate

7. When applicable original completion certificate from the appraiser with pictures

8. Participation Certificate (one for each participation loan)

Original documents are required on items 1 through 7 for all 100% loans. Copies of all documents of items 1 through 7 are required for participation loans plus original pictures and Participation Certificate.

REQUIREMENTS FOR SERVICING

All mortgages will be serviced by Seller-servicer from one office, unless special arrangements are made at the time of purchase or commitment.

REPORTING

A. SETTLEMENT REMITTANCE SUMMARY:

The Settlement Remittance Summary is required with each remittance and must include the following information that pertains to the % of Buyer participation:

1. Loan type
2. Percent of participation
3. Interest rate
4. Service rate
5. Interest collected
6. Service fee withheld
7. Net interest
8. Principal collected
9. Net principal and interest (sum of 7 and 8, above)
10. All columns must foot and crossfoot.

Normal monthly remittance must be received by the Buyer within five working days of cutoff using the Settlement Remittance Summary form designed by Buyer (sample C). List all 100% participation loan groups

first with lowest rate on top. Then list participation percentages in declining order. Columns must foot and crossfoot and must balance with the Principal Trial Balance report attached. All "adjustments" must be explained giving at least the same amount of detail listed in the upper part of the form. (Use space provided)

B. PRINCIPAL TRIAL BALANCE

A monthly Principal Trial Balance report is required that includes the following information that pertains only to the % of Buyer participation:

1. Loan type
2. Gross Interest Rate
3. Service Rate (eg. 3/8 of 1% or .375)
4. Loan number
5. Names of borrowers
6. Beginning principal balances on manual reports
7. Ending principal balances
8. Interest paid through or to date
9. Amount of interest collected
10. Amount of principal collected

The Principal Trial Balance form designed by the Buyer (sample D) or an appropriate computerized report with at least the same type of information provided may be used at the option of the Seller-servicer.

The Principal Trial Balance report must include a balance on all mortgages with the last interest paid to date whether or not a payment has been made that month. These trial balances must be prepared on an individual group basis. (see definition of group page 9) The percentage of participation must be listed (across from the words "State Participation only" on manual reports). The interest rate shown must be the gross paid before deduction of service charge; the service rate must also be noted. Columns must foot and crossfoot and page totals must agree with the figures brought forward to the Settlement Remittance Summary which serves as the cover page to the remittance package.

The information required in the Principal Trial Balance can be provided by computerized reports with such titles as "Serviced Loan

Report", "Monthly Remittance Report", and "Investor Remittance Report" in conjunction with a simple Principal Trial Balance. However, all information listed above must be provided. Loan names must appear on one of these reports. Loan numbers alone are not acceptable. The loan names may be added by hand or typed in.

C. DELINQUENCY REPORTS

The Seller-servicer must submit monthly a separate Delinquency Report for each Loan Type and Fund which contains at a minimum certain standard information (sample E). Other formats are acceptable provided that the information described below is included.

In the event that no loans are delinquent at the end of any reporting period, the Seller-servicer must submit a Delinquency Report indicating "-0- loans delinquent."

Each report must be self contained and show the following type of information:

1. Fund name (PERS, TRS, SPFM, BLIP, MOP)
2. Type of loan (FHA-VA, SBA, CONV)
3. Loan number
4. Loan name
5. Gross interest rate
6. % of participation
7. Service fee rate
8. Interest date: (one or the other, never both)
   a. Paid to date
   b. Paid through date
9. Principal balance outstanding (NOT the amount of P & I delinquent) on % of Buyer participation only.
10. Total number of days delinquent - list number of days delinquent in their respective columns
    a. 30 - 60 days
    b. 61 - 90 days
    c. Over 90 days

11. Collection efforts and comments - if any loan exceeds 60 days delinquent then a separate explanation is required detailing why the loan is delinquent and the method your institution is using to bring the loan current. On those loans over 90 days delinquent a separate letter must also be sent to the Mortgage Investment Officer stating cause to proceed or not to proceed with foreclosure.

D. PAYOFFS AND PARTIAL PAYOFFS

All payoffs must be received by the Buyer within five working days of the date of the payoff and must be remitted <u>separate</u> from the normal monthly remittances. The information required on each payoff is as follows: (See Sample G)

1. Current loan name
2. All previous owners
3. Bank loan number
4. SBA, VA or FHA loan number
5. Fund (PERS, TRS, SPFM, BLIP, MOP)
6. Type (CONV, FHA-VA, SBA)
7. Gross interest rate
8. Service fee rate
9. Percentage of participation
10. Short legal description (when available)
11. Interest paid from and to dates
12. Total principal paid on % of Buyer participation
13. Total interest paid on % of Buyer participation
14. Service fee charged
15. A detailed name and address to return the paid off loan file along with signed request for full reconveyance when applicable.

If those payoffs and partial payoffs are not received by the Buyer within five working days a late charge at the "interest rate of the loan times the balance" will be charged the Seller-servicer for the excess days it took to remit the money to Buyer.

Payoffs in the form of Seller-servicer repurchases or buy-backs require prior written authorization from Buyer.

E. NOTICE OF ASSUMPTION

Notice of assumptions must be sent timely for all loans the Buyer owns. This notice must detail old owner, new owner, type of liability, new mailing address, fund and type of loan. If original mortgagor has a release of liability a credit package for the new mortgagor must be furnished Buyer. The Buyer reserves the right to increase the interest rate. Each investment program will designate when the Buyer must give prior written approval for each assumption.

F. HAZARD INSURANCE

A Certificate of Hazard Insurance Coverage (Sample F) must be sent to Buyer at closing and in the event of a reduction in coverage that is not at least equal to the unpaid principal balance of the mortgage.

G. LOAN MODIFICATIONS

All loan modifications must have prior written approval from the Buyer. A loan modification, recast, reamortization or extention requires a change in one or more of the provisions of the mortgage. These changes may require a new document to be executed and recorded and an updated title policy. Delinquent interest will be capitalized and considered as collected. All recast worksheets and, when applicable, financial statements must be provided to the Buyer along with a written justification from a bank officer. Modifications must not extend beyond the life of the original mortgage. A reamortization of monthly payments and/or a balloon payment at maturity will be required

Loan modifications due to substantial curtailments will be reviewed on an individual basis and must be approved by the Buyer.

Modifications effecting FHA, VA and SBA loans must also meet the minimum requirements of that agency.

H. FORECLOSURES AND FORECLOSED LOANS

All loans over 90 days delinquent are subject to foreclosure proceedings with the prior written approval of the Buyer. Justification to proceed or not to proceed with the foreclosure along with detailed alternate collections methods must be in writing to the Buyer monthly. These requests will be reviewed by the Buyer and the Seller-servicer will be notified in writing of the results.

Foreclosure proceedings and interpretation of legal requirements are the responsibility of the Seller-servicer as well as notifying the Buyer of all their legal obligations for satisfaction of tax and other liens against the property.

Bankruptcy filing must be brought to the attention of the Buyer immediately. Filing to have property set aside from the bankruptcy will be an automatic process by the Seller-servicer.

Buyers title policy will be required at the end of litigation if the Buyer is the successful bidder in the foreclosure proceedings.

An accounting statement for expenses incurred during and immediately after the foreclosure (ie. attorney, property taxes, insurance, reserve balances, lock-up and other security precautions, etc.) is required by the Buyer within thirty (30) days. A copy of the private mortgage insurance claim is also required by the Buyer from the Seller-servicer within sixty (60) days of the date of the foreclosure. Filing extentions for private mortgage insurance claims must have written approval of the insurance company.

Management of foreclosed property is the responsibility of the Seller-servicer. The property must be secured from strip and waste and hazard insurance must be maintained. If the private mortgage insurance company pays the claim, the property must be listed for sale and a diligent effort made to sell the property as soon as possible. Monthly status reports wil' be required on all foreclosed loans.

DEFINITIONS

FUNDS:	PERS - Public Employees Retirement System
	TRS - Teachers Retirements System
TYPE:	CONV - Conventional Loans
	FHA-VA - Federal Housing Administration - Veterans Administration
	SBA - Small Business Administration
% of PARTICIPATION:	That portion of the mortgage that the State of Alaska owns for one of the above funds, e.g., 100%; 90%; 75%; etc.
GROUP:	A loan group is a Fund, Type, Interest Rate, @ Service Rate and % of Participation, e.g., PERS-CONV-9.50% @ 3/8 of 1%, 100 Part.

From the effective date of this agreement all other agreements and its addendums are superseded by this agreement. All State of Alaska statutes and amendments to statutes effecting mortgage investments will automatically be an integral part of this Agreement and will, when applicable, replace any phraseology in this Agreement. Outstanding commitments to purchase effected by amendments will be honored. (State of Alaska Statutes, Exhibit A--PERS, Exhibit B--TRS)

IN WITNESS WHEREOF, each party has caused its seal to be affixed hereto and this instrument to be signed in its name on its behalf by its proper officials duly authorized.

Effective this 2nd day of June, 19 83.

SELLER-SERVICER:

Alaska Mutual Bank

By Wesley W. Clubb

Wesley W. Clubb

Title Vice President

(SEAL)

Date June 2, 1983

BUYER:

State of Alaska, Department of Revenue

By Walton B. Parker

Title Deputy Commissioner

Date 6-8-83

Sample

DELIVERY SCHEDULE - LOANS PURCHASED BY STATE OF ALASKA, COMMISSIONER OF REVENUE, FOR:

Date Submitted 1-5-80 (possibility of four funds) FUND

Page 1 of 2 YOUR BANK NAME (Bank Name) 1-25-80 (Purchase Date)

Loan Number Mortgagor and Property Address	Int. Rate	Original Loan Amount	Present Loan Balance	1 Price	Premium (Discount)	2 Service Rate	(A) NET BALANCE	Interest Paid To Date	3 Per Diem Int. 360	Add'l # of Days Int.	4 (B) Amount of Accrued → (Pre Paid) → Interest	5 (C) Service Fee (00.00) → 00.00	(=D) TOTAL PRICE PAID
SMITH, Juno #1898 402 Main Stree Juneau	9.625	100,000.00	99,876.49	100	-0-	3/8 of 1	99,876.49	12-10-79	26.70	46	1,228.20	(47.85)	101,056.84
HANDS, Hank #1908 102 Seward St. Juneau	9.625	75,000.00	75,000.00	100	-0-	3/8 of 1	75,000.00	1-1-80	20.05	24	492.00	(19.17)	75,472.83
TOTAL							174,876.49				1,720.20	(67.02)	176,529.67
ALEX, Dick #1977 Douglas Hwy Anchorage	9.625	125,000.00	125,000.00	100	-0-	1/4 of 1	125,000.00	1-1-80	33.42	24	802.08	(31.25)	125,770.83
DiVINCI, Leo #1965 Tulip Drive Fairbanks	10.50	285,000.00	285,000.00	75	-0-	1/4 of 1	213,750.00	2-1-80	62.34	(7)	(436.38)	10.39	213,324.01
HOMEMAKER, Suz #1060 1 Home Street Nome	10.50	325,000.00	325,000.00	75	-0-	1/4 of 1	243,750.00	1-1-80	71.09	24	1,706.16	(40.62)	245,415.54
TOTAL							457,500.00				1,269.78	(30.23)	458,739.55

DELIVERY SCHEDULE - LOANS PURCHASED BY STATE OF ALASKA, COMMISSIONER OF REVENUE, FOR:

Date Submitted 1-5-80 — (possibility of four funds) — FUND

YOUR BANK NAME (Bank Name) — 1-25-80 (Purchase Date)

Loan Number Mortgagor and Property Address	Int. Rate	Original Loan Amount	Present Loan Balance	Price	Premium (Discount)	Service Rate	NET BALANCE	Interest Paid To Date	Per Diem Int.	Add'l # of Days Int.	Amount of Accrued (Pre Paid) Interest	Service Fee (00.00) 00.00	TOTAL PRICE PAID
Weight Reduction Clinic #1206 Turnagain Arm Anchorage	10.75	325,000.00	325,000.00	100	-0-	1/8 of 1	325,000.00	1-1-80	97.05	24	2,329.20	(27.08)	327,302.12
TOTAL LOAN SALE							1,082,376.49				6,121.26	(155.58)	1,088,342.17

Sample B

Submission Prepared By 907-276-0000

SETTLEMENT REMITTANCE SUMMARY

TO: ALASKA DEPARTMENT OF REVENUE
TREASURY DIVISION, MORTGAGE LOAN SECTION
POUCH S B
JUNEAU, ALASKA 99811

Settlement Date 1-00-80

We are enclosing check # 010101 in the amount of $ 43,283.18 covering collections due as detailed below for:

_____ ALASKA HOUSING FINANCE CORP (SPFM)
_____ BANK LOAN INCENTIVE PROGRAM (BLIP)
XXX MORTGAGE OPTION PROGRAM (MOP)
_____ PUBLIC EMPLOYEES RETIREMENT SYSTEM (P
_____ TEACHERS RETIREMENT SYSTEM (TRS)

Recapitulation of Principal and Interest collected (exclusive of mortgages paid in full).

SERVICER Bank Name

ADDRESS _____

_____, Alaska 99_____

BY Jan Smith

TITLE Supervisor Loan Servicing

Type	% Part	Int. Rate	Service Fee Rate	Interest Collected	Service Fee Withheld	NET Interest	Principal Collected	NET P & I
CONV	100	9.50	3/8 of 1%	11,506.56	454.21	11,052.35	1,074.84	12,127.1
CONV	100	9.875	3/8 of 1%	10,115.51	384.13	9,731.38	1,321.20	11,052.5
CONV	100	10.00	3/8 of 1%	7,090.20	265.88	6,824.32	482.64	7,306.9
CONV	75	10.25	3/8 of 1%	482.64	11.77	470.87	35.11	505.9
CONV	75	10.25	1/4 of 1%	8,323.19	203.00	8,120.19	593.94	8,714.1
CONV	50	9.75	3/8 of 1%	1,414.55	54.41	1,360.14	177.77	1,537.9
CONV	25	10.00	1/4 of 1%	1,936.80	48.42	1,888.38	150.05	2,038.4
			TOTAL	40,869.45	1,421.82	39,447.63	3,835.55	43,283.1

This is an example of possible reporting technique and not necessarily a factual representation. Some institutions with large volumns of groups may have separate reports for whole loans and participations.

Total Principal	$ 3,835.55
Total Interest	40,869.45
LESS SERVICE FEE	(1,421.82
Net P & I	$ 43,283.18
←Detail ADJUSTMENTS	-0-
BALANCE HEREWITH	$ 43,283.18

Sample C

PRINCIPAL TRIAL BALANCE

ON MORTGAGE LOANS
Serviced for State of Alaska
Department of Revenue, Treasury Division
Mortgage Loan Section, Pouch SB, Juneau, Alaska 99811

SERVICED BY YOUR BANK NAME DATE 1-00-80

Mailing Address

TYPE MOP-CONV INTEREST RATE 10.00% SERVICING RATE 3/8 of 1

STATE PARTICIPATION ONLY: 100 %

LOAN NO.	LOAN NAME	MORTGAGE BALANCE BEFORE PAYMENT	INT. PAID TO DATE	INTEREST PAID	PRINCIPAL PAYMENT	MORTGAGE BALA AFTER PAYMEN
0101	Al Calley	78,096.35	1-1-80	650.80	42.18	78,054.17
0106	Joe Smith	76,251.69	12-1-79	-0-	-0-	76,251.69
1109	Ivy Green	123,605.10	1-1-80	1,030.04	69.93	123,535.17
1216	Al Jonese	179,425.89 curtailment	1-1-80	1,495.22	69.72 100.00	179,256.17
1333	Wm Crabtree	65,360.80	2-1-80	544.67	35.28	65,325.52
1875	June Washboard	154,632.78	1-1-80	1,288.61	71.39	154,561.39
2063	Ole Olsen	83,265.44	11-1-79 12-1-79 1-1-80	693.88 693.62 693.36	31.12 31.38 31.64	83,171.30
TOTALS		760,638.05	Sample D	7,090.20	482.64	760,153.

State of Alaska, Department of Revenue
Mortgage Loan Section, Pouch SB, Juneau
FUND: _____ PERS XXXX TRS
_____ AHFC-SPFM _____ BLIP
_____ MOP

DELINQUENCY REPORT

_____
Bank Name

TYPE: ____ FHA-VA ____ SBA XXXX Conv.

PERIOD ENDED March 19,1980 Page 1 of 1

Loan Number	Loan Name	Interest Rate	Service Rate	Percent Part.	Last Interest Date Paid To	Last Interest Date Paid Thru	Principal Balance Outstanding	Total Days Delinq. 30-60	61-90	* CUTOFF Over 90	Collection Efforts & Comments on 61 days & over
301	Tom Foolery	12.00	3/8 of 1	100	1-1-80		85,575.34		79		Payments being brought current tru forebearance
212	Dick James	11.375	3/8 of 1	75	11-1-79		74,360.12			139	Foreclosure in Process, sale set for June 4, 1980
415	Harry Travel Trailers	10.00	1/4 of 1	37.5	2-1-80		175,451.01	49			

* Some banks do not report delinquencies to the day of cut-off or settlement but rather to the date of the last scheduled payment due. Please indiciate above which policy your bank is using.

When this form is prepared and there are any questions please contact the Mortgage Accountant for information.

Sample E

CERTIFICATE OF HAZARD INSURANCE COVERAGE

Anchorage, ALASKA

January 1, 1980

TO: STATE OF ALASKA-COMMISSIONER OF REVENUE FOR THE
Teachers Retirement System

This is to certify that the insurance policy described below is on file with
Y O U R B A N K N A M E, Anchorage, Alaska
and is in full force and effect on this date persuant to the terms of our servicing contract and addendum.

INSURED Leo & Mona Lisa DiVinci

PROPERTY ADDRESS Tulip Drive

LEGAL DESCRIPTION Lot 1 of Block D, Florentine West Subdivision

AMOUNT ON BUILDINGS $ 300,000.00 EXTENDED COVERAGE yes

OTHER $ Earthquake - Flood 380,000.00

DATE OF POLICY January 1, 1980 EXPIRATION DATE Auto renewal January 1st

INSURANCE COMPANY Firemans Fund

POLICY NUMBER AG-136-974

MORTGAGE CLAUSE TO State of Alaska, Department of Revenue, Teachers Retirement System

AND: Y O U R B A N K N A M E

INSURANCE AGENCY Sistine Chapter, Great Italian Insurance Company

THIS POLICY REPLACES: new policy

Insurance coverage, at least equal to the unpaid principal balance of the mortgage will be kept in force during the life of the loan, either by renewals or replacement policies.

Bank Name

BY: _____

(Title)

Dep. Rev. 3-4-80

Sample 7

PAYOFF REMITTANCE

Date Prepared: 2/4/80

TO: Alaska Department of Revenue
Treasury Division, Mortgage Loan Section
Pouch SB
Juneau, AK 99811

SERVICER: First National Bank of Alaska

Pouch Z

Anchorage, Alaska 99501

Original mortgagors name and/or name/names of assumers in order: Mudd, Johnny & Frankie

Spade, Sam S. (original Mortgagor)

Fund: PERS-CONV

Legal Description: Lot 3 Block 5 Boothill Estates

Loan Number: 543-1900

Interest Rate: 10.50%

Service Fee Rate: 3/8 of 1%

Participation Amount: 75%

Last Interest Paid to Date: 1/1/80

Payoff Date: 2/3/80

Interest, Number of Days: 33

Factor 360/365: 360

Principal Amount	52,473.12
Interest Amount	505.05
Service Fee	(18.04)
Total Remittance	52,960.13

By: Sally Short

Title: Note Clerk

04-803 (NEW 11/80)

Sample G

DELIVERY SCHEDULE - LOANS PURCHASED BY STATE OF ALASKA, COMMISSIONER OF REVENUE, FOR:

Date Submitted_____ _____ FUND

Page ____ of ____ _____ _____

(Bank Name) (Purchase Date)

Loan Number Mortgagor and Property Address	Int. Rate	Original Loan Amount	Present Loan Balance	Price	Premium (Discount)	Service Rate	NET BALANCE	Interest Paid To Date	Per Diem Int.	Add'l # of Days Int.	Amount of Accrued ——→ (Pre Paid)——→ Interest	Service Fee (00.00) 00.00	TOTAL PRICE PAID

7/76 04-792

SETTLEMENT REMITTANCE SUMMARY

TO: ALASKA DEPARTMENT OF REVENUE
TREASURY DIVISION, MORTGAGE LOAN SECTION
POUCH S B
JUNEAU, ALASKA 99811

Settlement Date _____

We are enclosing check # _____ in the amount of $ _____ covering collections due as detailed below for:

_____ ALASKA HOUSING FINANCE CORP (SPFM)
_____ BANK LOAN INCENTIVE PROGRAM (BLIP)
_____ MORTGAGE OPTION PROGRAM (MOP)
_____ PUBLIC EMPLOYEES RETIREMENT SYSTEM (PE
_____ TEACHERS RETIREMENT SYSTEM (TRS)

Recapitulation of Principal and Interest collected (exclusive of mortgages paid in full).

SERVICER _____ BY _____

ADDRESS _____ TITLE _____

_____, Alaska 99_____

Type	% Part	Int. Rate	Service Fee Rate	Interest Collected	Service Fee Withheld	NET Interest	Principal Collected	NET P & I
			TOTAL					

Total Principal $ _____

Total Interest _____

LESS SERVICE FEE (_____

Net P & I $ _____
←Detail
ADJUSTMENTS _____

BALANCE HEREWITH $ _____

PRINCIPAL TRIAL BALANCE

ON MORTGAGE LOANS
Serviced for State of Alaska
Department of Revenue, Treasury Division
Mortgage Loan Section, Pouch S8, Juneau, Alaska 99811

SERVICED BY _____ DATE _____

_____

TYPE _____ INTEREST RATE _____ SERVICING RATE _____

STATE PARTICIPATION ONLY: _____% Page _____ of _____

LOAN NO.	LOAN NAME	MORTGAGE BALANCE BEFORE PAYMENT	INT. PAID TO DATE	INTEREST PAID	PRINCIPAL PAYMENT	MORTGAGE BALA AFTER PAYMEN
TOTALS						

tate of Alaska, Department of Revenue
ortgage Loan Section, Pouch SB, Juneau

DELINQUENCY REPORT

TYPE: ____FHA-VA ____SBA ____Conv.

FUND: _____PERS _____TRS

_____MOP _____BLIP _____ Bank Name

PERIOD ENDED _____ Page __of__

_____APFC

Loan Number	Loan Name	Interest Rate	Service Rate	Percent Part.	Last Interest Date Paid To	Last Interest Date Paid Thru	Principal Balance Outstanding	Total Days Delinq. 30-60	61-90	Over 90	Collection Efforts & Comments on 61 days & over

CERTIFICATE OF HAZARD INSURANCE COVERAGE

_____, ALASKA

_____, 19____

TO: STATE OF ALASKA-COMMISSIONER OF REVENUE FOR THE _____

_____

This is to certify that the insurance policy described below is on file with

_____, _____, Alaska

and is in full force and effect on this date persuant to the terms of our servicing contract and addendum.

INSURED _____

PROPERTY ADDRESS _____

LEGAL DESCRIPTION _____

_____

AMOUNT ON BUILDINGS $_____ EXTENDED COVERAGE_____

OTHER $_____

DATE OF POLICY_____ EXPIRATION DATE_____

INSURANCE COMPANY_____

POLICY NUMBER_____

MORTGAGE CLAUSE TO_____

AND: _____

INSURANCE AGENCY_____

THIS POLICY REPLACES:_____

Insurance coverage, at least equal to the unpaid principal balance of the mortgage will be kept in force during the life of the loan, either by renewals or replacement policies.

_____
Bank Name

BY:_____

_____
(Title)

Dep. Rev. 3-4-80

PAYOFF REMITTANCE

Date Prepared: _____

TO: Alaska Department of Revenue
Treasury Division, Mortgage Loan Section
Pouch SB
Juneau, AK 99811

SERVICER: _____

_____

_____, _____

Original mortgagors name and/or
name/names of assumers in order: _____

_____

_____

Fund: _____

Legal Description: _____

Loan Number: _____

Interest Rate: _____

Service Fee Rate: _____

Participation Amount: _____

Last Interest Paid to Date: _____

Payoff Date: _____

Interest, Number of Days: _____

Factor 360/365: _____

Principal Amount	_____
Interest Amount	_____
Service Fee	(_____)
Total Remittance	_____

By: _____

Title: _____

04-803 (NEW 11/80)

Exhibit A

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Effect of amendments. — The 1977 amendment in subsection (b), substituted "record" for "[illegible]" in the first sentences of paragraphs (1) and (2), deleted "shall be credited as of the date of deduction or payment, as the case may be" from the end of the first sentences of paragraphs (1) and (2), substituted "retirement" for "granting a pension" near the beginning of the third sentence of paragraph (1), deleted "an employee's" preceding "retirement, the amount," in the fourth sentence of paragraph (2), substituted "savings account" for "contribution account" in two places in the fourth sentence of paragraph (2), and deleted an exception from the end of the second sentence of paragraph (3). The amendment also, in paragraph (4) of subsection (b), deleted "credited with all contributions of employers for the purposes of meeting their respective proportion of the total administrative expenses of the system during each fiscal year, and it shall be" following "This account shall be" near the beginning of the second sentence and rewrote the third sentence.

Sec. 39.35.110. Investments. (a) When, in the opinion of the commissioner of administration, there is on hand in the pension fund a surplus over and above a reasonably safe amount to take care of current demands upon the fund, the surplus, or so much of it as in the judgment of the commissioner of administration is considered proper, may be invested at competitive national market rates by the commissioner of revenue in

(1) Repealed by § 15 ch 122 SLA 1980.

(2) Repealed by § 15 ch 122 SLA 1980.

(3) Repealed by § 15 ch 122 SLA 1980.

(4) Repealed by § 15 ch 122 SLA 1980.

(5) shares of federally chartered savings and loan associations in Alaska, to the extent that the investment is insured by the federal government or an agency of the federal government;

(6) deposits with mutual savings banks in Alaska, to the extent that the investment is insured by the federal government or an agency of the federal government;

(7) deposits with state and national banks in Alaska to the extent that the investment is insured by the federal government or an agency of the federal government;

(8) Repealed by § 15 ch 122 SLA 1980.

(9) the guaranteed portion of Small Business Administration loans;

(10) first lien real estate mortgages guaranteed by the federal Veterans Administration;

(11) notes secured by mortgages of commercial or residential buildings if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least $20,000,000; however,

(A) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the minimum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50-60 percent and 15 percent for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent, and

(B) no mortgage insurance is necessary for residential loans having a loan-to-value ratio of less than 70 percent and the minimum coverage of other residential loans shall be 10 percent for those having a loan-to-value ratio greater than 70 percent but less than 90 percent and 20 percent for those having a loan-to-value ratio of 90 percent;

(12) conventional residential mortgages if the originating financial institution retains at least 25 percent of the mortgage for a minimum of two years;

(13) notes secured by mortgages of commercial buildings if the originating financial institution retains at least 25 percent of the mortgage until maturity;

(14) FHA guaranteed portion of business and industrial loans made under the Rural Development Act of 1972;

(15) Repealed by § 15 ch 122 SLA 1980.

(16) Repealed by § 15 ch 122 SLA 1980.

(17) bankers' acceptances which are eligible for discount at the Federal Reserve Bank and certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation if a generally recognized secondary market exists for the certificates of deposit;

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

(19) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(20) corporate debt securities with a minimum rating of "A" or an equivalent rating by a nationally recognized rating organization;

(21) preferred and common stock of companies which have paid dividends in each of the three years immediately preceding the investment;

(22) commercial paper bearing the highest rating of a nationally recognized rating organization;

(23) securities of foreign governments, foreign governmental agencies, and foreign corporations the principal, interest or dividends on which are payable in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 10 percent of the total investments of the pension fund;

(24) foreign time deposits of both United States-owned and foreign-owned banks and trust companies denominated in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 20 percent of the total investments of the pension fund;

(25) gold bullion certified as to fineness of at least 9½ percent; however, investments under this paragraph may not exceed 10 percent of the total investments of the pension fund; the commissioner of revenue shall purchase gold bullion produced in Alaska to the extent

T39 Alaska, TO-4-32-1239

that Alaska gold bullion is available if it can be obtained at a price comparable to out-of-state sources.

(b) Repealed by § 15 ch 122 SLA 1980.

(c) In making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. However, no more than 50 percent of the pension fund may be invested at a given time in corporate stocks and debt securities, nor may more than five percent of the voting stock of one corporation be owned. Stocks eligible for purchase are restricted to stocks which, except for bank stocks and insurance stocks, are listed upon an exchange registered with the Federal Securities and Exchange Commission.

(d) Except as provided in this section, the commissioner of revenue may

(1) invest and reinvest the principal and income of the pension fund without distinction between principal and income;

(2) sell, exchange, convey, transfer, or otherwise dispose of an investment of the pension fund held in the name of the system by private contract or at public auction;

(3) vote upon a stock, bond, or other security; give a general or special proxy or power of attorney with or without power of substitution; exercise a conversion privilege, subscription right, or other option and make payments incidental to it; consent to or participate in a corporate reorganization or other change affecting corporate securities, delegate discretionary power, pay an assessment or charge in connection with the delegation; and generally exercise any of the powers of an owner with respect to stocks, bonds, securities, or other investments held in the pension fund;

(4) make, execute, acknowledge, and deliver documents of transfer and conveyance and instruments necessary or appropriate to carry out the powers granted;

(5) register investments held in the pension fund in the name of the system;

(6) do all acts whether or not expressly authorized which are considered necessary or proper for the protection of the investments held in the pension fund.

(e) To qualify as a mortgage which may be purchased under (a)(11), (12), or (13) of this section,

(1) the originating financial institution must certify that the mortgage being sold has been made in compliance with law and that liens supporting the mortgage have been perfected;

(2) the mortgage may not have been held by the originating financial institution for a period greater than 90 days.

(f) When more than one-half of one per cent of the aggregate of all loans purchased from a financial institution becomes delinquent for 60 days, the pension fund shall discontinue purchasing loans from that financial institution until the delinquency is reduced to less than one-half of one per cent.

(g) Repealed by § 15 ch 122 SLA 1980.

(h) The commissioner of revenue may enter into futures contracts for the sale of investments purchased under (a) of this section only for the purpose of hedging an existing equivalent ownership position in the investments.

(i) The commissioner of revenue may transfer at any time a portion of the assets of the pension fund to a trust which is qualified under sec. 401(a) of the Internal Revenue Code (26 U.S.C. sec. 401(a)) and exempt from taxation under sec. 501(a) of the Internal Revenue Code (26 U.S.C. sec. 501(a)) and which is maintained as a medium for pooling a portion of the funds of pension and profit-sharing trusts for diversifying investments in real estate and interests in real estate.

(j) The commissioner of revenue may enter into a contract or trust agreement necessary to effectuate the transfer of assets of the pension fund or to maintain the assets of the pension fund to be transferred to a trust under (i) of this section. (§ 37 ch 143 SLA 1960; am § 1 ch 129 SLA 1961; am § 1 ch 150 SLA 1962; am § 2 ch 4 SLA 1964; am §§ 1 — 3 ch 80 SLA 1964; am § 1 ch 111 SLA 1964; am § 1 ch 56 SLA 1967; am § 4 ch 73 SLA 1969; am §§ 3, 4 ch 17 SLA 1970; am § 2 ch 112 SLA 1972; am §§ 3, 4 ch 25 SLA 1974; am §§ 3, 4 ch 59 SLA 1977; am §§ 7 — 10, 15 ch 122 SLA 1980)

Cross references. — As to custody and investment of the teachers retirement fund, see AS 14.25.180. As to investment of surplus funds of the state, see AS 37.10.070.

Effect of amendments. — The 1977 amendment, in subsection (a), inserted "private mortgage insurance" in paragraph (11), added the language beginning "however, (A) no mortgage insurance is necessary" to the end of that paragraph, and added paragraphs (16) and (17).

The 1980 amendment, in subsection (a), inserted "at competitive national market rates" near the end of the introductory paragraph, repealed former paragraphs (1) — (4), (8), and (15) and (16), substituted "the" for "such" preceding "investment" in paragraphs (5) and (6), substituted "of the federal government" for "thereof" at the end of paragraphs (5) and (6), substituted "buildings" for "real estate or other security" near the beginning of the introductory paragraph of paragraph (11), substituted "buildings" for "real estate" and added "until maturity" in paragraph (13), and "negotiable time" preceding "certificates of deposit" in paragraph (17), substituted "United States domestic" for "commercial" near the middle of paragraph (17), added the material at the end of paragraph (17), which begins: "which are members of" and ends: "certificates of deposit," and added paragraphs (18) — (25). The amendment, in subsection (c), substituted "an institutional investor" for "a man," and "large investments entrusted to it" for "his own affairs" near the beginning of the subsection, deleted "his" following "permanent disposition of" and "the" preceding "probable safety of capital" near the middle of the subsection, inserted "safety of capital as well as probable" preceding "income" and deleted "from

them as well as the probable safety of his capital" at the end of the first senten... deleted "mutual funds and" preceding "corporate stocks" near the beginning of the second sentence, substituted "debt securities" for "bonds," and "may" for "any" near the middle of the second sentence, substituted "and" for a comma following "bank stocks," and deleted "and shares in mutual funds" following "insurance stocks" near the middle of the third sentence; rewrote subsection (e); added subsections (h) — (j); and repealed subsections (b) and (g).

Article 2. Membership.

Section
120. Commencement of participation
125. Participation of elected officials
[Repealed]
[Repealed]
150. ...e-employment of retired employees
153. A...y and air national guard em...oyees
154. North Pacific Fishery Management Council employees
155. [Obsolete]
157. [Obsolete]
158. Administrative director of courts

Sec. 39.3...120. Commencement of participation. (a) An employee of ...e state shall be included in this system upon commencement ...f his employment with the state, or on January 1, 1961, whichever is later. An employee of a political subdivision or public organization ...hich becomes an employer shall be included in the system on the effe...e date of the employer's participation or the date of the employee's ...ommencement of employment with the employer, whichever is late...

(b) **[Effective until Janua... 1, 1981]** Inclusion in the system is a condition of employment for an ...ployee except an elected official.

[Effective January 1, 1981] I...lusion in the system is a condition of employment for an employee exce...t as otherwise provided for an elected official. (§ 4 ch 143 SLA 1960; ...m § 1 ch 155 SLA 1966; am § 28 ch 13 SLA 1980; am § 27 ch 146 SL... 1980)

Effect of amendments. — The first 1980 amendment deleted "or quasi-public" preceding "organization" near the beginning of the second sentence in subsection (a).

The second 1980 amendment, effective January 1, 1981, inserted "as otherwise provided for" preceding "an elected official" near the end of subsection (b).

Negotiability of retirement system benefits. — Given subsection (b) of this section and AS 39.35.170, which make inclusion in the public employees retirement s...tem (AS 39.35) a condition of employment for state employees and contributions t... it mandatory, the conclusion is that t... legislature intended the statutory provi...ns of the public employees retirement s...tem to apply to all state employees, and b...efits under the public employees retiremen...system may not be negotiated under ...e Public Employment Relations Act (AS ...40.070 — 23.40.260). January 23, 1978, ... Att'y Gen.

Sec. 39.35.125. Participation of elected officials. [Effective until January 1, 1981] (a) An elected official, other than a state legislator who is an active member of the teachers' retirement system, may be included in the system if, within 60 days after taking the oath of his office or within 60 days after May 12, 1966

Exhibit B

TEACHERS RETIREMENT SYSTEM

(d) The board may impose conditions on granting a waiver which it considers equitable. These conditions may include requiring the member or beneficiary to make additional contributions to the system.

(e) The board may reconsider a ruling under this section upon request of the member or beneficiary or the administrator if the request is received within 30 days after the initial ruling. Any modification of the initial ruling must be made within 30 days after receipt of a request for reconsideration.

(f) Rulings and modifications of rulings under this section must be by a majority of a quorum of the board.

(g) Rulings on appeals and requests for reconsideration under this section may be appealed by an aggrieved member or beneficiary to the superior court for abuse of discretion. (§ 1 ch 81 SLA 1979)

Sec. 14.25.177. Effect of amendments. (a) An amendment to this chapter is not retroactive unless its retroactivity is expressly stated in the amendment.

(b) The monthly amount of a benefit payable under this chapter shall be determined in accordance with the provisions of this chapter in effect on the date of termination of the member's last segment of employment. (§ 4 ch 169 SLA 1976; am § 21 ch 13 SLA 1980)

Effect of amendment. — The 1980 amendment, effective July 1, 1980, rewrote the section.

Sec. 14.25.180. Custody and investment.

(b) When, in the opinion of the commissioner of administration, there is on hand in the retirement fund a surplus over and above a reasonably safe amount to take care of current demands upon the fund, the surplus or so much of it as in the judgment of the commissioner of administration is considered proper may be invested at competitive national market rates by the commissioner of revenue in

(1) (repealed);

(2) (repealed);

(3) (repealed);

(4) shares of federally chartered savings and loan associations in Alaska, to the extent that the investment is insured by the federal government or by an agency of the federal government;

(5) deposits with mutual savings banks in Alaska, to the extent that the investment is insured by the federal government or an agency of the federal government;

(6) deposits with state and national banks in Alaska to the extent that the investment is insured by the federal government or an agency of the federal government;

(7) (repealed);

(8) (deleted);

(9) the guaranteed portion of Small Business Administration loans;

(10) first lien real estate mortgages guaranteed by the federal Veterans Administration;

(11) notes secured by mortgages of commercial or residential buildings if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least $20,000,000; however,

(A) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the minimum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50-60 percent and 15 percent for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent, and

(B) no mortgage insurance is necessary for residential loans having a loan-to-value ratio of less than 70 percent and the minimum coverage of other residential loans shall be 10 percent for those having a loan-to-value ratio greater than 70 percent but less than 90 percent and 20 percent for those having a loan-to-value ratio of 90 percent;

(12) conventional residential mortgages if the originating financial institution retains at least 25 percent of the mortgage for a minimum of two years;

(13) notes secured by mortgages of commercial buildings if the originating financial institution retains at least 25 percent of the mortgage until maturity;

(14) FHA guaranteed portion of business and industrial loans made under the Rural Development Act of 1972;

(15) (repealed);

(16) (repealed);

(17) bankers' acceptances which are eligible for discount at the Federal Reserve Bank and certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation if a generally recognized secondary market exists for the certificates of deposit;

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

(19) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(20) corporate debt securities with a minimum rating of "A" or an equivalent rating by a nationally recognized rating organization;

(21) preferred and common stock of companies which have paid dividends in each of the three years immediately preceding the investment;

(22) commercial paper bearing the highest rating of a nationally recognized rating organization;

(23) securities of foreign governments, foreign governmental agencies, and foreign corporations the principal, interest or dividends on which are payable in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 10 percent of the total investments of the retirement fund;

(24) foreign time deposits of both United States-owned and foreign-owned banks and trust companies denominated in either United States dollars or foreign currencies; however, investments under this paragraph may not exceed 20 percent of the total investments of the retirement fund;

(25) gold bullion certified as to fineness of at least 99-½ percent; however, investments under this paragraph may not exceed 10 percent of the total investments of the retirement fund; the commissioner of revenue shall purchase gold bullion produced in Alaska to the extent that Alaska gold bullion is available if it can be obtained at a price comparable to out-of-state sources.

(c) In making investments the commissioner of revenue shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. However, no more than 50 percent of the retirement fund may be invested at any given time in corporate stocks and debt securities, nor may more than five percent of the voting stock of a corporation be owned. Stocks eligible for purchase are restricted to stocks which, except for bank stocks and insurance stocks, are listed upon an exchange registered with the Federal Securities and Exchange Commission.

(d) Except as provided above, the commissioner of revenue may:

(1) invest and reinvest the principal and income of the retirement fund without distinction between principal and income;

(2) sell, exchange, convey, transfer or otherwise dispose of any investment of the retirement fund held in the name of the system by private contract or at public auction;

(3) vote stocks, bonds or other securities; give general or special proxies or powers of attorney with or without power of substitution; exercise conversion privileges, subscription rights or other options and make payments incidental thereto; consent to or otherwise participate in corporate reorganizations or other changes affecting corporate securities and delegate discretionary powers and pay assessments or charges in connection therewith; and generally exercise the powers of an owner with respect to stocks, bonds, securities or other investments held in the retirement fund;

(4) make, execute, acknowledge and deliver documents of transfer and conveyance and other instruments necessary or appropriate to carry out the powers granted by this subsection;

(5) register investments held in the retirement fund in the name of the system;

(6) do all acts whether or not expressly authorized which he considers necessary or proper for the protection of the investments held in the retirement fund.

(e) To qualify as a mortgage which may be purchased under (b)(11), (12) or (13) of this section,

(1) the originating financial institution must certify that the mortgage has been made in compliance with law and that liens supporting the mortgage have been perfected;

(2) the mortgage may not have been held by the originating financial institution for a period greater than 90 days.

(g) The commissioner of revenue may enter into futures contracts for the sale of investments purchased under (b) of this section only for the purpose of hedging an existing equivalent ownership position in the investments.

(h) The commissioner of revenue may transfer at any time a portion of the assets of the retirement fund to a trust which is qualified under sec. 401(a) of the Internal Revenue Code (26 U.S.C. sec. 401(a)) and exempt from taxation under sec. 501(a) of the Internal Revenue Code (26 U.S.C. sec. 501(a)) and which is maintained as a medium for pooling a portion of the funds of pension and profit-sharing trusts for diversifying investments in real estate and interests in real estate.

(i) The commissioner of revenue may enter into a contract or trust agreement necessary to effectuate the transfer of assets of the retirement fund or to maintain the assets of the retirement fund to be transferred to a trust under (h) of this section.

(am §§ 1, 2 ch 59 SLA 1977; am §§ 1 — 5 ch 122 SLA 1980)

Cross references. — As to investment of surplus funds, see AS 37.10.070. As to investments, see AS 39.35.110.

Effect of amendments.

The 1977 amendment, in subsection (b), inserted "private mortgage insurance" in paragraph (11), added the language beginning "however, (A) no mortgage insurance is necessary" to the end of that paragraph, and added paragraphs (16) and (17).

The 1980 amendment, effective July 1, 1980, in subsection (b), inserted "at competitive national market rates" in the introductory language; deleted paragraphs (1) — (3), (7), and (15) and (16), relating to certain governmental bonds or other interest-bearing obligations and securities, certain first lien real estate mortgage securities, corporation bonds and preferred and common stocks, loans guaranteed by the division of veterans affairs, guaranteed portion of loans made under the Federal Ship Financing Act of 1972, and certain Canadian bonds, debentures, notes or other obligations, respectively; substituted "buildings" for "real estate or other security" in the introductory language of paragraph (11); substituted "buildings" for "real estate" and inserted "until maturity" in paragraph (13); deleted "negotiable time" preceding "certificates" and substituted the language beginning "United States domestic banks" for "commercial banks" in paragraph (17); and added paragraphs (18) — (25). In subsection (c), the amendment substituted "an institutional

investor" for "men," "exercises" for "exercise," "large investments entrusted to it" for "their own affairs" and "probable safety of capital as well as probable income" for "the probable income therefrom as well as the probable safety of their capital" in the first sentence, deleted "their" preceding "funds" in the first sentence, and substituted "debt securities" for "bonds" and "a corporation" for "any corporation" in the second sentence. In addition, the amendment inserted "held in the retirement fund" in paragraph (5) of subsection (d), rewrote subsection (e), and added subsections (g) — (i).

Sec. 14.25.200. Exemption from taxation and process. Benefits and other amounts held in the retirement fund on behalf of the members are exempt from Alaska state and municipal taxes and are not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary before they are received by the person entitled to the amount under the terms of the system, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, or otherwise dispose of any right to amounts accrued in the retirement fund is void. (§ 22 ch 145 SLA 1955; am § 17 ch 89 SLA 1960; am § 13 ch 84 SLA 1969; am § 22 ch 13 SLA 1980)

Effect of amendment. — The 1980 amendment, effective July 1, 1980, substituted "Benefits" for "Teachers' retirement salaries" at the beginning of the section, substituted "members" for "teachers" following "on behalf of the" near the beginning of the section, inserted "Alaska" preceding "state and municipal taxes" near the beginning of the section, and substituted "is void" for "shall be void" at the end of the section.

As the rest of the section was not affected by the amendment, it is not set out.

Cited in Gutterman v. First Nat'l Bank, Sup. Ct. Op. No. 1873 (File No. 3996), 597 P.2d 969 (1979).

Sec. 14.25.205. Time limit for application. If no application for benefits or for refund has been filed with the administrator by July 1 following the date on which an inactive member (except a member on leave of absence without pay) would attain age 75, or if no application for benefits or for refund has been filed with the administrator within the 50 years following the most recent date on which the person was an active member, no benefits or refunds may be paid under this chapter and the member's records may be destroyed. (§ 14 ch 84 SLA 1969; am § 23 ch 13 SLA 1980)

Effect of amendment. — The 1980 amendment, effective July 1, 1980, rewrote the section.

Sec. 14.25.220. Definitions. In this chapter, unless the context requires otherwise,

(1) "active member" means a member who is employed by an employer, is receiving compensation on a full-time or part-time basis, and is making contributions to the system, or a member making contributions under AS 14.20.330 or 14.20.345;

ALASKA PERMANENT FUND CORPORATION

SALES AND SERVICING AGREEMENT ADDENDUM

In conjunction with and as an addendum to the Agreement between ALASKA MUTUAL BANK, (employer identification number 92 00283-15) herein called "Seller-servicer", and the Alaska Permanent Fund Corporation, herein called "Buyer", and dated OCTOBER 29, 1982, the following uniform guidelines regarding the submission, purchase, and servicing of mortgages are hereby established and made part of said Agreement. Because it addresses specific procedures and the format of reports, this addendum should be distributed to all sections of the Seller-servicer mortgage department. All correspondence and inquiries should be directed to the attention of the Mortgage Section at:

Alaska Department of Revenue
Treasury Division
Pouch SB
Juneau, Alaska 99811
(907) 465-2354 - (907) 465-2353

All correspondence to Buyer must bear the loan name, fund name (Alaska Permanent Fund Corporation), loan type (FHA-VA, SBA, FmHA, CONV, CONV-ARM), interest rate, anniversary group, percent of participation, brief legal description of property, if available, and all previous owners, if applicable.

GENERAL REQUIREMENTS

All loans submitted for purchase must have private mortgage insurance, 25% bank participation, FHA insurance, FmHA insurance, VA guarantee or SBA guarantee, if required. No take-out refinances will be purchased. Loan to value ratios will be established by investment program in a separate requirement letter or regulations. All loans will be purchased at par unless advised otherwise. Usury rate applies on loans under $25,000. Specific conditions to purchase will be detailed in a "Commitment Requirement" or "Regulations" sent out at the time of each general commitment. Standard industry underwriting criteria for each type of loan will apply as detailed by FNMA or FHLMC.

REQUIREMENTS FOR COMMITMENT TO PURCHASE

Commitment fee requirements will be established by investment program and when applicable must accompany the original loan submission package.

This fee is non-refundable, except as noted below, and no loan substitutions may be made. Deposit of commitment check does not mean the loan is approved. Official notification will be sent regarding commitment. Commitment fee will only be returned or credit given on loans refused. Buyer will not commit to purchase and/or honor existing commitments to purchase mortgages from any Seller-servicer when they exceed the delinquency ratio established by Alaska Statutes §37.13.120 (Exhibit A) and Buyer Regulations (Exhibit B) Buyer will commit to purchase and/or honor existing commitments to purchase mortgages when the delinquency is reduced to these requirements.

LOAN SUBMISSION FOR COMMITMENT

Requests for commitments and/or purchase must include, but is not necessarily limited to, copies of the following documents:

A. RESIDENTIAL

1. Loan application (including gross interest rate and service rate) (Must be a standard industry form such as FNMA #1003)
2. Conventional Mortgage type must be indicated at time of submission depending on investment program available:

   CONV - fixed rate mortgages

   CONV-ARM - Adjustable Rate Mortgages or Variable Rate Mortgages
3. Copy of Private Mortgage Insurance application (if applicable)
4. Original appraisal (with plat layout, original pictures and signature)
5. Credit report and credit letters
6. Earnest money agreement
7. Verification of all bank accounts
8. Employment verification
9. Tax returns (if self-employed)
10. Financial statements (if applicable)
11. Other pertinent information

B. COMMERCIAL

1. Offering sheet - containing but not necessarily limited to the following information:
   a. Borrower(s)
   b. Loan amount

c. Purpose of loan

d. Gross interest rate and service rate

e. Fee

f. Terms

g. Account relationship with Bank

h. Financial data (Assets - Liabilities - Net Worth)

i. Security (Land - Improvements)

j. Income statement - projected

k. Analysis:

- Loan to value ratio
- Debt service
- Debt service coverage
- Default ratio
- Loan per square foot
- Gross rent multiple
- Mortgage multiple
- Other ratios if applicable

l. Participants

m. Recommendations

n. Other pertinent information

2. Loan application

3. Maps/plats

4. Original photos

5. Plans and specifications

6. Appraisal

7. Financial statement for 3 years - Balance Sheets, Profit and Loss Statements

8. Credit report and credit letters

9. Bank balance verifications

10. Federal tax returns for 3 years (if applicable)

11. Private Mortgage Insurance application (if applicable)

12. Earnest Money Agreement (if applicable)

REQUIREMENTS FOR PURCHASE

The following documents must be delivered to Buyer by the 10th of the month for purchase on the last working day of the month.

In the event questions arise as to settlement date Buyer must be contacted before the delivery schedule is prepared.

SUBMISSION FOR PURCHASE

A. DELIVERY SCHEDULE

The Delivery Schedule must be completed by the Seller-servicer for each mortgage sale to Buyer using the form supplied by Buyer (Exhibit C & D). The Delivery Schedule will be audited by the Buyer before purchased, and in the event it is not prepared timely purchase will be delayed until the following month. The Seller-servicer will provide a name and phone number of a contact in the lower left hand corner on the TOTAL page of the Delivery Schedule in case of questions arising during the audit of the Delivery Schedule. All requested information must be supplied. Do not put CONV-ARM and regular CONV mortgages on the same Delivery Schedule.

Numbered columns are explained as follows:

1. Price column is used to indicate the percentage of participation.
2. Service rate will be established by each investment program.
3. Per diem interest rate is computed on a 360 or 365 day basis. Please indicate which when the delivery schedule is prepared.
4. The amount in column (3) times the days in the next column equal the amount in column (4). Accrued or prepaid interest must be computed in order to eliminate adjustments to the first payment.
5. Service fees are computed according to the information in column (2). Each interest group (ie. 9.625% @ 100% @ 3/8 of 1%) must be totaled with a grand total at the end of the schedule to verify the amount of the total sale.
6. Columns (A), (B), (C), and (D) must foot and cross foot.
7. In the case of Adjustable Rate Mortgages the Anniversary Group "A" or "B" must be indicated along with the interest rate.

B. FINAL LOAN DOCUMENTS

Final loan documents must be delivered to Buyer at time of purchase or within 60 days of closing and endorsed to the "Alaska Permanent Fund Corporation":

1. Note

(a) Endorsed as follows:

Pay to the order of the Alaska Permanent Fund Corporation without recourse this _____ day of _____, 19__.
Bank _____
Name _____
Title _____

2. Deed of Trust - recorded

3. Assignment of Deed of Trust - assigned (one for each mortgage) to the Alaska Permanent Fund Corporation and recorded

4. Title Insurance (conformed copy) ALTA policy whenever possible (endorsed)

5. Certificate of Hazard Insurance Coverage (endorsed) (Exhibit E)

6. Mortgage Insurance or Guarantee Certificate (if required) (endorsed)

   a. Private Mortgage Insurance

   b. FHA, VA, or FmHA certificate

   c. SBA guarantee

7. When applicable original completion certificate from the appraiser with pictures and signature

8. Participation Certificate (one for each participation loan) (Exhibit F)

Original documents are required on items 1 through 7 for all 100% loans. Copies of all documents of items 1 through 7 are required for participation loans plus original pictures and Participation Certificate.

REQUIREMENTS FOR SERVICING

All mortgages will be serviced by Seller-servicer from one office, unless special arrangements are made at the time of purchase or commitment.

REPORTING

A. SETTLEMENT REMITTANCE SUMMARY:

The Settlement Remittance Summary is required with each remittance and must include the followng information that pertains to the percent of the Buyer participation:

1. Loan type

2. Percent of participation

3. Interest rate and Anniversary Group "A" or "B" on ARM loans

4. Service rate

5. Interest collected

6. Service fee withheld

7. Net interest

8. Principal collected

9. Net principal and interest (sum of 7 and 8, above)

10. All columns must foot and crossfoot.

The normal monthly cutoff will be @ close of business 18th of each month and remittance must be received by Buyer within five working days of cutoff using the Settlement Remittance Summary form designed by Buyer (Exhibit G). A penalty will be assessed on late remittances by taking "the amount of the remittance times the average interest rate available for that remittance." Holidays, weekends, weather delays and postmark's will be taken into consideration. List all 100% participation loan groups first with lowest rate on top. Then list participation percentages in declining order. Columns must foot and crossfoot and must balance with the Principal Trial Balance report attached. All "adjustments" must be explained giving at least the same amount of detailed information listed in the upper part of the form. (Use space provided)

B. PRINCIPAL TRIAL BALANCE

A monthly Principal Trial Balance report is required that includes the following information that pertains only to the percent of Buyer participation:

1. Loan type and fund
2. Gross Interest Rate and Anniversary Group "A" or "B" on ARM loans
3. Service Rate (eg. 3/8 of 1% or .375)
4. Participation percent (other than 100% on computerized reports)
5. Loan number
6. Names of borrowers
7. Beginning principal balances (on manual reports)
8. Ending principal balances
9. Interest paid through or to date
10. Amount of interest collected
11. Amount of principal collected
12. Seller-servicer name and report date

The Principal Trial Balance form is required (Exhibit H) designed by the Buyer or an appropriate computerized report, with at least the same type of information provided, may be used at the option of the Seller-servicer.

The Principal Trial Balance report must include a balance on all

mortgages with the last interest paid to date whether or not a payment has been made that month. These trial balances must be prepared on an individual group basis. (see definition of group page 14) The percentage of participation must be listed (across from the words "Participation only" on manual reports). The interest rate shown must be the gross paid before deduction of service charge; the service rate must also be noted. Columns must foot and crossfoot and page totals must agree with the figures brought forward to the Settlement Remittance Summary which serves as the cover page to the remittance package.

The information required on the Principal Trial Balance can be provided by a computerized report or group of reports with such titles as "Serviced Loan Report", "Monthly Remittance Report", "Investor Trial Balance", "Investor Group Reconciliation", "Payment Journals", "Monthly Statement of Mortgage Accounts", and "Investor Remittance Report" in conjunction with a simple Principal Trial Balance. However, all information listed above must be provided. Loan names must appear on one of these reports. Loan numbers alone are not acceptable. The loan names must be added by hand or typed in if not on computerized reports.

C. DELINQUENCY REPORTS

The Seller-servicer must submit monthly a separate Delinquency Report for each loan Type and Fund which contains at a minimum certain standard information (Exhibit I). Other computerized formats such as "Investor Delinquency Service Loan Report", and "Investor Statement of Arrears" are acceptable provided that the information described below is included.

In the event that no loans are delinquent at the end of any reporting period, the Seller-servicer must submit a Delinquency Report indicating "-0- loans delinquent."

Each report must be self contained and show the following type of information:

1. Fund name (Alaska Permanent Fund Corporation)
2. Type of loan (FHA-VA, FmHA, SBA, CONV, CONV-ARM)
3. Loan number
4. Loan name
5. Gross interest rate and Anniversary Group "A" or "B" on ARM loans (ie 16.00% B)
6. Percent of participation

7. Service fee rate

8. Last interest paid to date

   a. 30 - 60 days

   b. 61 - 90 days

   c. Over 90 days

9. Principal balance outstanding (NOT the amount of P & I delinquent) on percent of Buyer participation only.

10. Total number of days delinquent - list number of days delinquent in their respective columns

   a. 30 - 60 days

   b. 61 - 90 days

   c. Over 90 days

11. Collection efforts and comments - if any loan exceeds 60 days delinquent then a separate explanation is required detailing why the loan is delinquent and the method, as Seller-servicer, you are using to bring the loan current. On those loans over 90 days delinquent a separate letter must also be sent to the Buyer stating cause to proceed or not to proceed with foreclosure. If computerized report are utilized then these comments must be added by hand. A separate report to the Buyer with this information is required if hand edits are not made.

D. PAYOFFS

All payoffs must be received by the Buyer within five working days of the date of the payoff and must be remitted separate from the normal monthly remittances. The information required on each payoff is as follows: (Exhibit J)

1. Current loan name

2. All previous owners

3. Bank loan number

4. SBA, FmHA, VA or FHA loan number

5. Fund (Alaska Permanent Fund Corporation)

6. Type (CONV, CONV-ARM, FHA-VA, FmHA, SBA)

7. Gross interest rate and Anniversary Group "A" or "B" if ARM loans

8. Service fee rate

9. Percentage of participation

10. Short legal description (when available)

11. Interest paid from and to dates

12. Total principal paid on percent of Buyer participation

13. Total interest paid on percent of Buyer participation

14. Service fee charged

15. A detailed name and address to return the paid off loan file along with signed request for full reconveyance when applicable.

If these payoffs are not received by the Buyer within five working days of the date of the payoff a late charge at the "interest rate of the loan times the balance" will be charged the Seller-servicer for the excess days it took to remit the money to Buyer.

Payoffs in the form of Seller-servicer repurchase, subsitution or buy-backs require prior written authorization from Buyer. (See Section J FORECLOSURE for details)

E. CURTAILMENTS AND PARTIAL PAYOFFS

Curtailments and Partial Payoffs of $5,000 or more must be received by the Buyer within five working days of the date of the curtailment and remitted separate from the normal monthly remittances. The information required on each curtailment is the same as for payoffs.

Requests for partial release of collateral must have prior written approval of Buyer and must contain pertinent documentation that establishes the value of the remaining collateral that meets loan to value ratio and PMI and other insurance requirements of each program.

When applicable documentation to perfect proper title in the collateral must accompany transmittal of funds to Buyer. A penalty will be assesed on late remittances in the same manner as payoffs.

F. NOTICE OF ASSUMPTION

Notice of Assumptions must be sent timely for all loans the Buyer owns. This notice must detail old owner, new owner, degree of liability, new mailing address, fund, type of loan, when applicable interest rate change (from and to) and effective date. Assumptions of FHA, VA and SBA loans and mortgages must follow federal regulations when in contradiction to the following requirements. All other assumptions will require credit work ups held by the Seller-servicer. The original mortgagor will not be released from liability. Owner occupied loans are only assumable on an owner occupied basis. The Buyer reserves the right to increase the

interest rate or deny assumptions per the "Due on Sale Clause" (CONV and CONV-ARM). In addition, regulations will govern policy for each program.

G. HAZARD INSURANCE

A Certificate of Hazard Insurance Coverage (Exhibit E) must be sent to Buyer at closing and in the event of a reduction in coverage. Coverage must be at least equal to the unpaid principal balance of the mortgage. The Buyer must be notified in writing of all damage claims for $10,000 or more.

H. LOAN MODIFICATION

All loan modifications must have prior written approval from the Buyer. A loan modification, recast, reamortization or extension requires a change in one or more of the provisions of the mortgage. These changes may require a new document to be executed and recorded and an updated title policy. Delinquent interest may be capitalized and considered as collected. All recast worksheets and, when applicable, financial statements must be provided to the Buyer along with a written justification from a bank officer. Modifications must not extend beyond the life of the original mortgage. A reamortization of monthly payments and/or a balloon payment at maturity will be required.

Loan modifications due to substantial curtailments will be reviewed on an individual basis and must be approved by the Buyer.

Modifications effecting FHA, VA, FmHA and SBA loans must also meet the minimum requirements of that agency. Modifications of loans with private mortgage insurance coverage must also have the approval of the private mortgage insurance company.

I. MANAGEMENT OF DELINQUENT LOANS

Seller-servicer will be held accountable for management of delinquent loans within Alaska Statute and adopted Regulation limits in order to continue to sell loans to Buyer. (See Alaska Statute §37.13.120 and Buyer Regulations for ratio details) (Exhibits A & B)

Seller-servicer may utilize with prior approval of Buyer, these management options to rectify delinquency problems inorder to continue to sell loans to Buyer:

1. Repurchase of delinquent principal, interest and expenses paid by Buyer on a given date each month
2. Substitution or Swap of loans with equal or greater interest rate within $10,000 of total of delinquent loan(s)

3. Deed in Lieu of Foreclosure may facilitate foreclosure time but will only be acceptable to the Buyer after extensive title search

4. Loan modification (See Section H MODIFICATIONS for details)

J. FORECLOSURES AND FORECLOSED LOANS

All loans over 90 days delinquent are subject to foreclosure proceedings with the prior written approval of the Buyer. Justification to proceed or not to proceed with the foreclosure along with detailed alternate collections methods and forebearance recommendations must be in writing to the Buyer monthly. (See Section C DELINQUENCY for details) These requests will be reviewed by the Buyer and the Seller-servicer will be notified in writing of the Buyers opinion and concurrence with recommendations.

Foreclosure proceedings and interpretation of legal requirements are the responsibility of the Seller-servicer as well as notifying the Buyer of all their legal obligations for satisfaction of tax and other liens against the property.

Bankruptcy filing must be brought to the attention of the Buyer immediately. Filing to have property set aside from the bankruptcy will be an automatic process of the Seller-servicer, unless Seller-servicer recommends another course of action that is acceptable to the Buyer. Buyer must be notified by Seller-servicer of Bankruptcy hearings and result of hearing.

Buyers title policy will be required at the end of litigation if the Buyer is the successful bidder in the foreclosure proceedings.

An accounting statement with receipts for expenses incurred during and immediately after the foreclosure (ie. attorney, property taxes, insurance, reserve balances, lock-up and other security precautions, etc.) is required by the Buyer within thirty (30) days. A copy of the private mortgage insurance claim is also required by the Buyer from the Seller-servicer within sixty (60) days of the date of the foreclosure. Filing extensions for private mortgage insurance claims must have written approval of the insurance company.

Management of foreclosed property is the responsibility of the Seller-servicer. The property must be secured from strip and waste and hazard insurance must be maintained. If the private mortgage insurance company pays the claim, then the property must be appraised and listed

for sale by Seller-servicer or listing agent, with the approval of Buyer and a diligent effort made to sell the property as soon as possible. Monthly status reports will be required on all foreclosed loans. The Buyer will be available to consult with the Seller-servicer on management of the foreclosed property and has the final authority for disposition of the property. Buyer will sign all property management contracts, listing agreements, earnest money agreements, counter offers, agreement to occupy and loan closing papers on 100% participation loans. Documents for Participation Loans will be singed by Seller-servicer with concurrence of Buyer.

SPECIAL REQUIREMENTS SERVICING

CONVENTIONAL ADJUSTABLE RATE MORTGAGES

The Seller-servicer will service Adjustable Rate Mortgages (ARM) or Variable Rate Mortgages (VRM), from Federal Savings and Loan Associations, for the Buyer by utilizing regulations issued by the Office of the Comptroller of the Currency (OCC) and rulings by Federal Home Loan Bank Board (FHLBB), when applicable, if those regulations are not in conflict with the Sales and Service Agreement, Addendum or Regulations issued by the Buyer.

DISCLOSURES

Applicants for ARM mortgages must be given an information sheet on characteristics of ARM mortgages, potential interest rate changes, index used and its history, maximum yearly increases and decreases, carryover, frequency of rate change and due-on-sale clause. The Seller-servicer is held responsible for meeting disclosure requirements per Federal and State regulations.

ANNIVERSARY DATE AND GROUP

Initial adjustment period must be for a minimum of twelve months and for those mortgages closed during the months of March thru August must be scheduled to adjust on the first day of September (Group B) of the following year, and mortgages closed during the months of September thru February must be scheduled to adjust on the first day of March (Group A) of the following year.

RATE AND PAYMENT CHANGE NOTIFICATION

Seller-servicer must send Notice of regular interest rate change, and effective rate change either increase or decrease, to the borrower at

least 30 days but not more than 45 days before the change is to take effect. All areas of disclosure as addressed by FNMA or FHLMA guidelines must be included in this notice. The Seller-servicer must also notify the Buyer of interest rate changes and effective gross interest rate changes so that the Buyer can also make necessary adjustment to its individual loan files and accounting records.

NEGATIVE AMORTIZATION - LOAN TERM

The Buyer will not allow negative amortization or extension of loan term for this ARM program.

DEFINITIONS

FUND:	APFC	- Alaska Permanent Fund Corporation
TYPE:	CONV	- Conventional Loan
	CONV-ARM	- Conventional - Adjustable Rate Mortgage includes Variable Rate Mortgage - VRM program with Federal Savings and Loan Associations
	FHA	- Federal Housing Administration
	VA	- Veterans Administration
	SBA	- Small Business Administration
	FmHA	- Farmers' Home Administration
ANNIVERSARY GROUP:	"A" - April	- Loans closed October - March of previous year
	"B" - October	- Loans closed April - September of previous year
PERCENT of PARTICIPATION:	That portion of the mortgage that the Alaska Permanent Fund Corporation owns for one of the above types, e.g., 100%, 90%; 75%, etc.	
GROUP:	A loan group is a Fund, Type, Interest Rate, @ Service Rate and % of Participation, e.g., APFC-CONV-9.50% @ 3/8 of 1%, 100 Part.	

From the effective date of this addendum all other addendums are superseded. All State of Alaska statutes and amendments to statutes (Exhibit A) effecting mortgage investments and all Regulations and adopted changes to regulations effecting mortgage investment and policy (Exhibit B) for the Buyer (Alaska Permanent Fund Corporation) will automatically be an integral part of this Agreement and will, when applicable, replace any phraseology in this Agreement. Outstanding commitments to purchase effected by amendments will be honored.

IN WITNESS WHEREOF, each party has caused its seal to be affixed hereto and this instrument to be signed in its name on its behalf by its proper officials duly authorized.

Effective this 29th day of OCTOBER, 1982.

SELLER-SERVICER:

ALASKA MUTUAL BANK

By _____
WESLEY W CHILES

Title VICE PRESIDENT

Date OCTOBER 29 1982

(SEAL)

BUYER.

State of Alaska, Department of Revenue
for Alaska Permanent Fund Corporation

By Peter A. Brushre

Title Acting Executive Director

Date November 15, 1982

made with money lent to the Commercial Fishing and Agriculture Bank under this subsection may not be guaranteed under (a)(4) of this section.

(e) In this section, "commercial bank" means a bank chartered by the United States or by a state of the United States."

Section 3, ch. 32, SLA 1980, effective May 14, 1980, provides: "The legislature finds that the Alaska Renewable Resources Corporation has complied with all requirements for an investment of $3,500,000 in Ball Brothers, Inc., an Alaska corporation, except for the requirement in AS 37.12.080(b) that no financial assistance of more than $1,500,000 may be provided to a single project or applicant unless the legislature has approved the investment by concurrent resolution. The legislature further finds that approval of the investment is in the public interest. Notwithstanding the provisions of AS 37.12.080(b) requiring approval by concurrent resolution, the investment in the amount of $3,500,000 is approved and the corporation is authorized to make the proposed investment in Ball Brothers, Inc., an Alaska corporation."

Chapter 13. Alaska Permanent Fund.

Section

10. Alaska permanent fund
20. Findings
30. Purpose
40. Alaska Permanent Fund Corporation
50. Composition and qualifications of board of trustees
60. Term of office
70. Removal and vacancies
80. Quorum
90. Compensation of board members
100. Corporation staff
110. Conflicts of interest
120. Investment responsibilities of the board
130. Gains and losses
140. Income
150. Board budget
160. Audits
170. Reports and publications
180. Tax exemption
190. Political activities
200. Public access to information
210. Definitions

Effective date of chapter. — Section 11, ch. 18, SLA 1980, makes this chapter effective April 9, 1980, in accordance with AS 01.10.070(c).

Sec. 37.13.010. Alaska permanent fund. (a) Under art. IX, § 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued on or before December 1, 1979, and 25 percent of all bonuses received by the state from mineral leases issued on or before February 15, 1980;

(2) 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued after December 1, 1979, and 50 percent of all bonuses received by the state from mineral leases issued after February 15, 1980;

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

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

(c) The Alaska permanent fund shall be managed by the Alaska Permanent Fund Corporation established in this chapter. (§ 5 ch 18 SLA 1980)

Legislative history report. — For the Free Conference Committee Report on ch. 18, SLA 1980 (FCCSSB 161), see 1980 House Journal, Supplement No. 7, April 2, 1980.

Sec. 37.13.020. Findings. The people of the state, by constitutional amendment, have required the placement of at least 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses received by the state into a permanent fund. The legislature finds with respect to the Alaska Permanent Fund Corporation that

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

(2) the corporation's goal should be to maintain safety of principal while maximizing total return;

(3) the corporation should be used as a savings device managed to allow the maximum use of disposable income from the corporation for purposes designated by law. (§ 5 ch 18 SLA 1980)

Sec. 37.13.030. Purpose. It is the purpose of this chapter to provide a mechanism for the management and investment of those permanent fund assets allocated to the Alaska Permanent Fund Corporation in a manner consistent with the findings in AS 37.13.020. (§ 5 ch 13 SLA 1980)

Sec. 37.13.040. Alaska Permanent Fund Corporation. There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue managed by the board of trustees. The purpose of the board is to manage and invest the assets of the corporation in accordance with this chapter. (§ 5 ch 18 SLA 1980)

Sec. 37.13.050. Composition and qualifications of board of trustees. (a) The Board of Trustees of the Alaska Permanent Fund Corporation consists of six members appointed by the governor. Three of the members shall be heads of principal departments of state government, one of whom shall be the commissioner of revenue. Three members shall be appointed by the governor from the public and may not hold any other state or federal office, position or employment, either elective or appointive, except as a member of the armed forces

of either the United States or of this state. Members other than the commissioner of revenue shall be separately confirmed by a majority of the members of the legislature in joint session.

(b) The three public members of the board shall have recognized competence and wide experience in finance, investments, or other business management-related fields.

(c) The board shall annually elect a chairman from among its members. (§ 5 ch 18 SLA 1980)

Sec. 37.13.060. Term of office. The members of the board shall be appointed for terms of three years, and they may be reappointed subject to confirmation by a majority of the members of the legislature in joint session. Terms shall be staggered. Initial terms for members other than the commissioner of revenue shall be two members serving for one year, two members serving for two years, and one member serving for three years. (§ 5 ch 18 SLA 1980)

Sec. 37.13.070. Removal and vacancies. (a) The governor may remove a member of the board from office. However, the removal of a member of the board is subject to disapproval by a vote of a majority of the members of the legislature at the first joint session held 10 or more days after the legislature receives notice of the removal from the governor. A removal by the governor shall be in writing and shall state the reason for the removal. A member who is removed by the governor may not participate in board business and may not be counted for purposes of establishing a quorum between the time he receives written notice of his removal from the governor and the time that the legislature's power to disapprove the removal under this subsection expires. If the legislature disapproves the removal of a board member, the board member shall be reinstated.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of the members of the legislature in joint session. An appointee to a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member who shall exercise the powers of a board member until the legislature fails to confirm the appointment of the interim board member.

(c) A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board. (§ 5 ch 18 SLA 1980)

Sec. 37.13.080. Quorum. Four members of the board constitute a quorum for the transaction of business and the exercise of the powers and duties of the board. (§ 5 ch 18 SLA 1980)

Sec. 37.13.090. Compensation of board members. Public members of the board receive an honorarium of $400 for each meeting

day if they attend the meeting. All members of the board are entitled to per diem and travel allowances as provided by law for members of state boards and commissions. (§ 5 ch 18 SLA 1980)

Sec. 37.13.100. Corporation staff. The board may employ and determine the salary of an executive director. The executive director may, with the approval of the board, select and employ additional staff as necessary. No employee of the corporation, including the executive director, may be a member of the board. The executive director and the other employees of the board are in the exempt service under AS 39.25. (§ 5 ch 18 SLA 1980)

Sec. 37.13.110. Conflicts of interest. (a) Members of the board and the executive director are subject to the provisions of AS 39.50.

(b) If a member of the board or an employee of the corporation acquires, owns or controls an interest, direct or indirect, in an entity or project in which corporation assets are invested, he shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the board meeting next following the disclosure. (§ 5 ch 18 SLA 1980)

Sec. 37.13.120. Investment responsibilities of the board. (a) The prudent-man rule shall be applied by the board in the management and investment of Alaska permanent fund assets. The prudent-man rule as applied to investments of the corporation means that in making investments the board shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

(b) The corporation assets shall only be used for income-producing investments.

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

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

(e) The corporation may not borrow funds or guarantee from principal of the Alaska permanent fund the obligations of others.

(f) The board may enter into and enforce all contracts necessary, convenient or desirable for purposes of the corporation.

(g) Subject to the limitations in (h) and (i) of this section, the board may invest corporation assets in

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

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of

less than 90 percent, and the minimum coverage shall be 20 percent for loans having a loan-to-value ratio of 90 percent or more.

(h) The board may enter into future contracts for the sale of investments purchased under (g) of this section only for the purpose of hedging an existing equivalent ownership position in these securities.

(i) Investments under (g)(8) of this section may not exceed 25 percent of the total investments of the Alaska permanent fund. Investments under (g)(16) of this section may not exceed in the aggregate 15 percent of the total investments of the Alaska permanent fund.

(j) The assets of the Alaska permanent fund may not be used for the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

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

(l) The board shall invest the assets of the corporation in in-state investments to the extent in-state investments are available if the in-state investments

(1) have a risk level and expected yield comparable to alternate investment opportunities; and

(2) are included in the list of permissible investments in (g) of this section. (§ 5 ch 18 SLA 1980)

Editor's note. — Section 9, ch. 18, SLA 1980, effective April 9, 1980, provides: "TRANSITION. The commissioner of revenue shall transfer the Alaska permanent fund to the Alaska Permanent Fund Corporation established by this act after request for transfer is made by the board of trustees of the corporation. Notwithstanding AS 37.10.065(a), the commissioner of revenue may invest the money in the Alaska permanent fund in the investments described in AS 37.13.120(g) subject to the limitations of AS 37.13.120(h) and (i)."

Sec. 37.13.130. Gains and losses. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the income and the resulting amount of income added to the principal of the Alaska permanent fund. Losses taken on the sales of securities shall be accumulated over a period equal to the average remaining life of the securities sold, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the Alaska permanent fund. (§ 5 ch 18 SLA 1980)

corporations in which the United States is a shareholder or member;

(3) certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation for which a generally recognized secondary market exists or which are fully secured at all times as to payment of principal and interest by investments described in (1), (2), (8) or (12) — (16) of this subsection; the security pledged under this paragraph shall be at least equal to the face value of the deposit and the board may require substitution of collateral;

(4) shares of federally chartered savings and loans associations in Alaska which are fully secured at all times as to payments of principal and interest by investments described in (1), (2) of this subsection;

(5) savings certificates issued by state chartered savings and loan associations in Alaska which are fully secured at all times as to payments of principal and interest by investments described in (1), (2) of this subsection;

(6) deposits with mutual savings banks in Alaska which are fully secured at all times as to payments of principal and interest by investments described in (1), (2) of this subsection;

(7) fixed-term certificates of indebtedness of federally insured credit unions which are fully secured at all times as to payments of principal and interest by investments described in (1), (2) of this subsection;

(8) corporate debt securities which are rated AA or better by a nationally recognized rating service;

(9) short-term corporate promissory notes of the highest ratings assigned by a nationally recognized rating service;

(10) bankers' acceptances drawn on and accepted by United States banks each of which have a combined capital and surplus aggregating at least $200,000,000;

(11) repurchase agreements, the securities underlying the agreements being any of the items in (1) — (3) and (8) — (10) of this subsection;

(12) the guaranteed portion of Federal Small Business Administration loans;

(13) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Association;

(14) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmer's Home Administration;

(15) the guaranteed portion of Farmer's Home Administration loans;

(16) notes secured by mortgages of residential real estate if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least $20,000,000; the minimum coverage shall be 10 percent for loans having a loan-to-value ratio of

Sec. 37.13.140. Income. The interest received in a year is the income of the corporation for that year. The income available for disbursement shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for disbursement will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the Alaska permanent fund at cost, and after adjustment for capital losses charged to that fiscal year. (§ 5 ch 18 SLA 1980)

Sec. 37.13.150. Board budget. The operating budget of the board is from the general fund and is subject to the Executive Budget Act (AS 37.07). (§ 5 ch 18 SLA 1980)

Sec. 37.13.160. Audits. The Legislative Budget and Audit Committee shall provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment programs. (§ 5 ch 18 SLA 1980)

Cross reference. — For the responsibilities of the Legislative Budget and Audit Committee, see AS 24.20.206.

Sec. 37.13.170. Reports and publications. By September 30 of each year, the board shall publish a report of the corporation for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by independent outside auditors, a statement of the amount of money received by the Alaska permanent fund from each investment during the period covered, a statement of investments of the corporation including an appraisal at market value, a description of corporation investment activity during the period covered by the report, a comparison of the corporation performance with the intended goals contained in AS 37.13.020, an examination of the impact of the investment criteria of this chapter on the corporation portfolio with recommendations of any needed changes, and any other information the board believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet of the corporation shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.58 shall be included in that pamphlet. (§ 5 ch 18 SLA 1980)

Sec. 37.13.180. Tax exemption. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by the corporation, their transfer, and their income are exempt from all taxes and assessments in the state. (§ 5 ch 18 SLA 1980)

Sec. 37.13.190. Political activities. The resources of the corporation may not be used to finance or influence political activities. (§ 5 ch 18 SLA 1980)

Sec. 37.13.200. Public access to information. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises. (§ 5 ch 18 SLA 1980)

Sec. 37.13.210. Definitions. In this chapter,

(1) "board" means the Board of Trustees of the Alaska Permanent Fund Corporation;

(2) "corporation" means the Alaska Permanent Fund Corporation. (§ 5 ch 18 SLA 1980)

Chapter 15. State Bonding Act.

Article 1. General Obligation Bonds.

Section

30. Interest rate and maturity
210. Refunding bonds

Sec. 37.15.010. Full faith and credit for general obligation bonds.

Revisor's note.

The following laws relate to issuance of general obligation bonds under the provisions of this chapter.

Chapter 95, SLA 1978 provides for the issuance of bonds in the amount of $33,290,000 for erosion and flood control, port facilities development, and small boat landing and harbor projects.

Chapter 122, SLA 1978 provides for the issuance of bonds in the amount of $25,000,000 for health facilities, senior citizens centers and pioneers homes.

Chapter 137, SLA 1978 provides for the issuance of bonds in the amount of $33,666,000 for educational facilities, vocational education and the University of Alaska.

Chapter 138, SLA 1978 provides for the issuance of bonds in the amount of $88,450,000 for highways, ferries, airports, local service roads and trails construction, transportation project planning and construction of maintenance facilities.

Chapter 139, SLA 1978 provides for the issuance of bonds in the amount of $30,504,000 for correctional and public safety facilities.

Chapter 140, SLA 1978 provides for the issuance of bonds in the amount of $26,965,000 for fisheries management and development facilities.

Chapter 145, SLA 1978 provides for the issuance of bonds in the amount of $27,640,000 for water supply and sewerage systems.

Chapter 91, SLA 1980 provides for the issuance of bonds in the amount of $7,718,800 for fisheries facilities.

Chapter 97, SLA 1980 provides for the issuance of bonds in the amount of

LAWS OF ALASKA

1982

Source

CSSSSB 684(Fin) am

Chapter No.

81

AN ACT

Relating to the investment and management of the Alaska permanent fund and to the computation of the income of the fund available for distribution; and providing for an effective date.

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

THE ACT FOLLOWS ON PAGE 1, LINE 11

UNDERLINED MATERIAL INDICATES TEXT THAT IS BEING ADDED TO THE LAW AND BRACKETED MATERIAL IN CAPITAL LETTERS INDICATES DELETIONS FROM THE LAW; COMPLETELY NEW TEXT OR MATERIAL REPEALED AND RE-ENACTED IS IDENTIFIED IN THE INTRODUCTORY LINE OF EACH BILL SECTION.

Approved by the Governor: June 3, 1982
Actual Effective Date: July 1, 1982

Chapter 81

AN ACT

Relating to the investment and management of the Alaska permanent fund and to the computation of the income of the fund available for distribution; and providing for an effective date.

---

* Section 1. AS 37.13.050 is amended to read:

Sec. 37.13.050. COMPOSITION AND QUALIFICATIONS OF BOARD OF TRUSTEES. (a) The Board of Trustees of the Alaska Permanent Fund Corporation consists of six members appointed by the governor. Two [THREE] of the members shall be heads of principal departments of state government, one of whom shall be the commissioner of revenue. Four [THREE] members shall be appointed by the governor from the public and may not hold any other state or federal office, position or employment, either elective or appointive, except as a member of the armed forces of either the United States or of this state. [MEMBERS OTHER THAN THE COMMISSIONER OF REVENUE SHALL BE SEPARATELY CONFIRMED BY A MAJORITY OF THE MEMBERS OF THE LEGISLATURE IN JOINT SESSION.]

(b) The four [THREE] public members of the board shall have recognized competence and wide experience in finance, investments, or other business management-related fields.

(c) The board shall annually elect a chairman from among its members.

* Sec. 2. AS 37.13.060 is amended to read:

Sec. 37.13.060. TERM OF OFFICE. The public members of the

board shall be appointed for terms of four [THREE] years, and they may be reappointed [SUBJECT TO CONFIRMATION BY A MAJORITY OF THE MEMBERS OF THE LEGISLATURE IN JOINT SESSION]. The terms of the public members [TERMS] shall be staggered so that no more than one term of a public member expires each year. [INITIAL TERMS FOR MEMBERS OTHER THAN THE COMMISSIONER OF REVENUE SHALL BE TWO MEMBERS SERVING FOR ONE YEAR, TWO MEMBERS SERVING FOR TWO YEARS, AND ONE MEMBER SERVING FOR THREE YEARS.]

* Sec. 3. AS 37.13.070 is amended to read:

Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may remove a member of the board from office. [HOWEVER, THE REMOVAL OF A MEMBER OF THE BOARD IS SUBJECT TO DISAPPROVAL BY A VOTE OF A MAJORITY OF THE MEMBERS OF THE LEGISLATURE AT THE FIRST JOINT SESSION HELD 10 OR MORE DAYS AFTER THE LEGISLATURE RECEIVES NOTICE OF THE REMOVAL FROM THE GOVERNOR.] A removal by the governor shall be in writing and shall state the reason for the removal. A member who is removed by the governor may not participate in board business and may not be counted for purposes of establishing a quorum after [BETWEEN THE TIME] he receives written notice of his removal from the governor [AND THE TIME THAT THE LEGISLATURE'S POWER TO DISAPPROVE THE REMOVAL UNDER THIS SUBSECTION EXPIRES. IF THE LEGISLATURE DISAPPROVES THE REMOVAL OF A BOARD MEMBER, THE BOARD MEMBER SHALL BE REINSTATED].

(b) A vacancy on the board shall be promptly filled by appointment by the governor [AND CONFIRMATION BY A MAJORITY OF THE MEMBERS OF THE LEGISLATURE IN JOINT SESSION]. An appointee to a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. [IF A VACANCY ARISES ON THE BOARD WHILE THE LEGISLATURE IS NOT IN SESSION, THE GOVERNOR MAY APPOINT AN INTERIM BOARD MEMBER WHO SHALL EXERCISE THE POWERS OF A BOARD MEMBER UNTIL THE LEGISLATURE FAILS TO CONFIRM THE APPOINTMENT OF THE INTERIM BOARD MEMBER.]

(c) A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

* Sec. 4. AS 37.13.090 is amended to read:

Sec. 37.13.090. COMPENSATION OF BOARD MEMBERS. Public members of the board receive an honorarium of $400 for each day spent at a meeting of the board or at a meeting of a subcommittee of the board or at a public meeting as a representative of the board. Members [MEETING DAY IF THEY ATTEND THE MEETING. ALL MEMBERS] of the board are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

* Sec. 5. AS 37.13.120(g) is amended to read:

(g) Subject to the limitations contained in [(h) AND (i) OF] this section, the board may invest corporation assets at such competitive national market rates or prices as are applicable to each investment only in

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

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposit and term deposits of [ISSUED BY] United States domestic banks which are members of the Federal Deposit Insurance Corporation and [FOR] which may be readily sold in a [GENERALLY RECOGNIZED] secondary market at prices reflecting fair value [EXISTS] or which are fully secured at all times as to payment of principal and interest as [BY INVESTMENTS] described in (m) [(1), (2), (8) OR (10) -

(16)] of this section [SUBSECTION; THE SECURITY PLEDGED UNDER THIS PARAGRAPH SHALL BE AT LEAST EQUAL TO THE FACE VALUE OF THE DEPOSIT AND THE BOARD MAY REQUIRE SUBSTITUTION OF COLLATERAL];

(4) certificates of deposit and term deposits [SHARES] of federally chartered savings and loan [LOANS] associations in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)] of this section [SUBSECTION];

(5) [SAVINGS] certificates of deposit and term deposits of [ISSUED BY] state chartered savings and loan associations in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)] of this section [SUBSECTION];

(6) certificates of deposit and term deposits of [DEPOSITS WITH] mutual savings banks in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)] of this section [SUBSECTION];

(7) fixed-term certificates of indebtedness of federally insured credit unions in Alaska which may be readily sold in a secondary market at prices reflecting fair value or which are fully secured at all times as to payments of principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)] of this section [SUBSECTION];

(8) corporate debt securities which are rated AA or better by a nationally recognized rating service;

(9) short-term corporate promissory notes of the highest ratings assigned by a nationally recognized rating service;

(10) bankers' acceptances drawn on and accepted by United States banks each of which have a combined capital and surplus aggregating at least $200,000,000;

(11) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (3) and (8) - (10) of this subsection;

(12) the guaranteed portion of Federal Small Business Administration loans;

(13) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Administration [ASSOCIATION];

(14) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmers Home Administration;

(15) the guaranteed portion of Farmers Home Administration loans;

(16) notes secured by mortgages granting a first lien on commercial or [OF] residential real estate improved by completed buildings if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital and [,] surplus [AND RESERVES] aggregating at least $20,000,000, and if loan-to-value ratios do not exceed 75 percent for commercial mortgages and 90 percent for residential mortgages; however, [THE MINIMUM COVERAGE SHALL BE 10 PERCENT FOR LOANS HAVING A LOAN-TO-VALUE RATIO OF LESS THAN 90 PERCENT, AND THE MINIMUM COVERAGE SHALL BE 20 PERCENT FOR LOANS HAVING A LOAN-TO-VALUE RATIO OF 90 PERCENT OR MORE.]

(A) no mortgage insurance is necessary for commercial loans having loan-to-value ratios of less than 50 percent and the minimum coverage of other commercial loans shall be 10 percent for those having a loan-to-value ratio of 50 - 60 percent and 15 percent

for those having a loan-to-value ratio greater than 60 percent but no more than 75 percent, and

(B) no mortgage insurance is necessary for residential loans having a loan-to-value ratio of less than 70 percent and the minimum coverage of other residential loans shall be 10 percent for those having a loan-to-value ratio greater than 70 percent but less than 90 percent and 20 percent for those having a loan-to-value ratio of 90 percent;

(17) notes secured by mortgages granting a first lien on commercial real estate improved by completed buildings if the originating financial institution retains at least 25 percent of the mortgage until maturity;

(18) preferred and common stock of corporations incorporated in the United States;

(19) certificates of deposit, term deposits, or bankers' acceptances, which are issued by a United States bank or trust company located in a foreign country and are denominated in United States currency, if either (A) they may be readily sold in a secondary market at prices reflecting fair value, or (B) the issuing bank or trust company has capital and surplus at the date of issue equaling at least $500,000,000; investments made under this paragraph are not subject to the collateral requirements for domestic certificates under (m) of this section;

(20) equity interests in, and debt obligations secured by mortgages granting a first lien on, real estate improved by completed and substantially rented buildings and located in the United States, if these investments are made

(A) in a corporation, partnership, trust, or other entity in which, at the conclusion of each investment transaction,

at least 60 percent of the beneficial ownership interests are held by other institutional investors, and which is organized and operated for the purpose of making real estate investments by a bank, insurance company, or other manager of institutional funds which has had at least five years of experience in the management of real estate investments of institutional investors; or

(B) in conjunction with and on substantially the same terms as an entity described in (A) of this paragraph.

* Sec. 6. AS 37.13.120(1) is repealed and reenacted to read:

(1) At the time of each investment, the aggregate investment of the Alaska permanent fund in each stated category of investment may not exceed the following stated percentage of the total investments of the fund: mortgages under (g)(16) of this section, 15 percent; real estate investments under (g)(20) of this section, 15 percent; foreign certificates of deposit or the equivalent under (g)(19) of this section, 20 percent; corporate stocks and debt securities under (g)(8), (9), and (18) of this section, 50 percent. The Alaska permanent fund may at no time own more than five percent of the voting stock of a corporation. Domestic stocks, except for bank and insurance company stocks, must be listed at the date of purchase on an exchange registered with the Securities and Exchange Commission.

* Sec. 7. AS 37.13.120 is amended by adding a new subsection to read:

(m) Certificates of deposit or the equivalent instruments which are not of a quality that may be readily sold in a secondary market at prices reflecting fair value must be secured by a pledge as collateral of investments authorized for the Alaska permanent fund under (g)(1), (2), (8), or (12) - (17) of this section, which investments have value at least equal to the face value of the certificate of deposit. The board may require substitution of collateral in order to ensure continued

satisfaction of the requirements set out in this subsection.

* Sec. 8. AS 37.13.140 is repealed and reenacted to read:

Sec. 37.13.140. INCOME. Net income of the corporation must be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses. Income available for distribution equals the average net income of the corporation for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the corporation for the fiscal year just ended plus the balance in the undistributed income account described in AS 37.13.145.

* Sec. 9. AS 37.13 is amended by adding a new section to read:

Sec. 37.13.145. DISPOSITION OF INCOME. At the end of each fiscal year, an amount sufficient to offset the effect of inflation on principal of the Alaska permanent fund during that year, as measured by a nationally recognized index, shall be transferred from net income as defined in AS 37.13.140, excluding income on the undistributed income account in the Alaska permanent fund, to the principal of the Alaska permanent fund for reinvestment. The balance of the net income as defined in AS 37.13.140 shall be transferred to the undistributed income account in the Alaska permanent fund. Money in the undistributed income account shall be invested in investments authorized under AS 37.13.120. Income from the investment of the undistributed income account shall be treated as an addition to that account.

* Sec. 10. AS 37.13.150 is amended to read:

Sec. 37.13.150. CORPORATION [BOARD] BUDGET. The revenues generated by the corporation's investments must be identified as the source of the operating budget of the corporation in the state's operating budget under [BOARD IS FROM THE GENERAL FUND AND IS SUBJECT TO] the Executive Budget Act (AS 37.07). The unexpended balance of the corpora-

tion's annual operating budget does not lapse at the end of the fiscal year but shall be treated as income under AS 37.13.140.

* Sec. 11. AS 37.13.160 is amended to read:

Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Committee may [SHALL] provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment programs.

* Sec. 12. AS 37.13 is amended by adding a new section to read:

Sec. 37.13.205. REGULATIONS. The board may adopt regulations under the Administrative Procedure Act (AS 44.62) to interpret and implement this chapter.

* Sec. 13. AS 37.13.130 is repealed.

* Sec. 14. Transition to four-year terms for members of the board of trustees of the Alaska Permanent Fund Corporation as provided in AS 37.13.060 as amended in sec. 2 of this Act shall be implemented as follows: at the expiration of the present term of each public member, the governor shall appoint a replacement, or reappoint the present member, for a term of four years. Within 90 days after the effective date of this Act, the governor shall appoint a public member to replace one of the two present heads of principal departments other than the commissioner of revenue, to serve for a term of four years or less, which term expires in a year when no other public member's term expires. The head of a principal department who is to be replaced shall continue to serve on the board until the appointment of a replacement.

* Sec. 15. TRANSITION. (a) All income earned by the Alaska permanent fund before the effective date of this Act that is not income available for disbursement shall be transferred to the undistributed income account established in AS 37.13.145 added by sec. 9 of this Act. However, the amount transferred under this section shall be reduced by an amount equal to one-

half of the income available for disbursement for fiscal year 1983.

(b) The amount equal to the reduction in income under (a) of this section shall be transferred to the general fund.

(c) In this section "income available for disbursement" shall be determined as set out in AS 37.13.140 before amendment by this Act.

* Sec. 16. This Act takes effect July 1, 1982.

RESOLUTION OF THE BOARD OF TRUSTEES OF
THE ALASKA PERMANENT FUND CORPORATION
TO ADOPT AN EMERGENCY REGULATION

Resolution No. 82-3

WHEREAS, the terms of adjustable rate mortgages authorized to be purchased by the corporation and set out in 15 AAC 137.030 do not match the terms provided under any existing program for making adjustable rate mortgage loans; and

WHEREAS, many mortgage lenders are regulated by federal agencies or officials, including the Comptroller of Currency and the Federal Home Loan Bank Board, and these federal agencies must review and approve the form of deeds of trust, promissory notes, and other documents related to a mortgage loan before regulated mortgage lenders can make a mortgage loan; and

WHEREAS, the corporation has committed to purchase the mortgage loans to be made to several specific prospective borrowers, and the deeds of trust, promissory notes, and other documents conforming to the terms of 15 AAC 137.030 are not available; and

WHEREAS, there are several existing programs for adjustable rate mortgages for which the necessary forms are available and have been reviewed and approved by the appropriate regulatory agencies; and

WHEREAS, the purchase of the adjustable rate mortgages as to which the corporation has made a commitment may be completed using existing forms if the regulations adopted by the Board of Trustees are amended; and

WHEREAS, the Board of Trustees has discussed this issue and approved a proposed draft regulation; and

WHEREAS, the adoption of this regulation will avoid a lengthy delay in the purchase of mortgages as to which the corporation has made a commitment and is therefore necessary for the immediate preservation of the general welfare;

BE IT RESOLVED that the Acting Executive Director is authorized and directed to adopt the draft regulations as emergency regulations in accordance with the Administrative Procedure Act (AS 44.62), and to take any steps necessary for their adoption as permanent regulations.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation this 5th day of August, 1982.

By: Thomas K. Williams

Thomas K. Williams
Vice-Chairman

Attest: Peter A. Bushre

Peter A. Bushre
Acting Executive Director

PROPOSED AMENDMENT TO CURRENT REGULATIONS
TO PERMIT PURCHASE OF CONVENTIONAL ARM'S
(UNDER FNMA PROGRAM 8).

Register , 1982 REVENUE 15 AAC 137.010
15 AAC 137.040

TITLE 15. REVENUE

CHAPTER 137. RECEIPT, CUSTODY, INVESTMENT AND MANAGEMENT OF STATE FUNDS

ARTICLE 1. ALASKA PERMANENT FUND CORPORATION

Section
010. Scope of 15 AAC 137.010 - 15 AAC 137.200
020. Repealed
030. Conventional Residential mortgages
040. General terms and conditions for loans and mortgages
200. Definitions

15 AAC 137.010. SCOPE OF 15 AAC 137.010 - 15 AAC 137.200. 15 AAC 137.010 - 15 AAC 137.200 apply to investments of the corporation in federally guaranteed and insured loans and mortgages and conventional residential mortgages and in certificates of deposit. (Eff. 02/05/81, Reg. 77; am. / / , Reg.)

Authority: AS 37.13.120

15 AAC 137.020. FEDERALLY GUARANTEED LOANS & MORTGAGES. Repealed / /

15 AAC 137.030. CONVENTIONAL RESIDENTIAL MORTGAGES. Under AS 37.13.120 (g) (16) and (17) the corporation may purchase adjustable rate conventional residential mortgages which meet the following requirements:

(1) a mortgage must be for an owner-occupied one-to-four unit dwelling;

(2) a loan-to value ratio must be no more than 90 percent for a single-family dwelling up to $150,000, 80 percent for single-family dwelling over $150,000, and 80 percent for a two-to-four unit dwelling; and

(3) a mortgage must be covered by insurance which meets the requirements of AS 37.13.120 (g) and which the corporation finds to be adequate to assure marketability of the mortgage. (Eff. 02/05/81, Register 77; am. / / , Reg. ; am. / / , Register)

Authority: AS 37.13.120

15 AAC 137.040. GENERAL TERMS AND CONDITIONS FOR LOANS AND MORTGAGES.

(a) The selection of any loan or mortgage will be made on the basis of its individual merits and its overall suitability as part of the investment portfolio.

(b) The net interest rate received by the corporation on a loan or mortgage must satisfy the applicable requirement among the following:

(1) on a loan or mortgage which is guaranteed or insured by the Fm.H.A., F.H.A., S.B.A., or V.A., and is authorized for purchase by the corporation under AS 37.13.120 (g) (12) - (15), the minimum interest rate is the rate set by Fm.H.A., F.H.A., S.B.A., or V.A., respectively, and in effect at the time the corporation makes a final commitment to purchase the loan or mortgage; and

(2) on an adjustable rate conventional residential mortgage the minimum initial interest rate is the rate of the FHLBB Series of Loans Recently Closed on Existing Homes prevailing at the time the corporation makes a final commitment to purchase the mortgage.

(c) The interest rate on a conventional adjustable rate mortgage purchased by the corporation must be adjusted once each year as of March 1 or September 1, whichever is nearer the anniversary of the loan closing date, on the basis of annual change of the FHLBB Series for Loans Recentaly Closed on Existing Homes; however, no change may increase or decrease the interest rate by more than 2.00%. When the annual change in the FHLBB index would result in a change of more than 2.00% in the interest rate, the excess change in the index will be carried over and used as a basis for a subsequent adjustment during any year when the adjustment to that interest rate would otherwise be less than 2.00%.

(d) A commitment by the corporation to purchase a loan or mortgage is contingent on payment to the corporation of a commitment fee of not less than 1.0 percent of the par value of the loan or mortgage proposed for purchase within six months, plus an additional fee of not less than .1667 percent for each additional month of commitment up to a maximum total commitment period of one year. Payment of a commitment fee guarantees that

the initial interest rate on a loan or mortgage if purchased by the corporation will be the rate quoted by the corporation on the date of commitment, and that money will be available to purchase the loan on a regular loan purchase date during the period of commitment.

(e) All loans or mortgages purchased by the corporation from a single seller must be serviced by the seller from one office. The seller's service fees may not exceed the following:

(1) for federally insured or guaranteed loans or mortgages:

(A) under $300,000: .375 percent;

(B) $300,000 and above: .25 percent;

(2) for adjustable rate conventional residential mortgages:

Any loan amount: .50 percent.

(f) A conventional residential mortgage purchased by the corporation must be payable in full immediately upon transfer of ownership of the property securing the mortgage.

(g) Loans or mortgages will be pruchased no more often than once a month at a time set by the corporation.

(h) The seller of a loan or mortgage offered to the corporation must provide the following:

(1) the original loan application;

(2) original appraisal with photographs;

(3) credit report;

(4) deposit verfications;

(5) employment verifications;
(6) earnest money agreement;

(7) credit verifications;

(8) tax returns (three years), if self-employed;

(9) financial statement, if self-employed;

(10) a copy of any audited financial statement if one was required by the S.B.A. or any other public or private entity to make, insure, or guarantee the loan or mortgage; and

(11) any other documents requested by the corporation.

(i) Except for construction loan take-outs, no refinancing loans or mortgages will be purchased by the corporation.

(j) No loans or mortgages will be purchased from an institution which has a current, over 60-day delinquency status for more than .5 percent of all loans purchased from it by the corporation until that delinquency status is reduced to .5 percent or less.

(k) Any loan or mortgage which was an authorized investment under this chapter as it existed at the date of final commitment to purchase the loan or mortgage may be held by the corporation for the full term of the loan or mortgage. (Eff. 02/05/81, Register 77; am. / / , Reg. ; am. / / , Reg.)

Authority: AS 37.13.120

15 AAC 137.200 DEFINITIONS. In 15 AAC 137.010 - 15 AAC 137.200,

(1) "certificate of deposit" includes:

(A) certificates of deposit;

(B) shares of federally-chartered savings and loan associations in the form of time certificates;

(C) savings certificates issued by state-chartered savings and loan associations;

(D) deposits with mutual savings banks in Alaska in the form of time certificates;

(E) fixed-term certificates of indebtedness,

as those terms are used in AS 37.13.120 (g) (3) - (7);

(2) "corporation" means the Alaska Permanent Fund Corporation;

(3) "Fm.H.A." means the federal Farmers' Home Administration;

(4) "F.H.A." means the Federal Housing Administration;

(5) "loan" means lending of money secured by collateral;

(6) "mortgage" means a loan secured by a first lien security interest in real property improved by one or more completed buildings;

(7) "FHLBB" means the Federal Home Loan Bank Board;

(8) "S.B.A." means the federal Small Business Administration;

(9) "V.A." means the federal Veterans Administration;

(10) "average remaining life" means the figure obtained as follows: for each investment sold at a loss during the fiscal year, the loss is multiplied by the remaining life; the sum of these products is divided by the total loss for that fiscal year;

(11) "gain" means the amount by which the principal proceeds of the sale of an investment exceed the cost of the investment;

(12) "investment" means any transfer or expenditure of money or other assets made for the purpose of obtaining an income or profit;

(13) "loss" means the amount by which the cost of an investment exceeds the principal proceeds of the sale of the investment; and

(14) "remaining life" means the number of years remaining until the maturity date of an investment.

(Eff. 02/05/81, Register 77; am. 05/31/81, Reg. 78;
am. / / , Reg. ; am. / / , Reg.)

Authority: AS 37.13.120
AS 37.13.130
AS 37.13.140

Mortgage Loan Section, Pouch SB, Juneau
October 5, 1982
(Date Submitted)

Page 1 of 2

ALASKA PERMANENT FUND CORP
(F U N D)
Y O U R B A N K N A M E
(Bank Name)

Conv-ARM-
(Loan Type)
October 29, 1982
(Purchase Date)

Loan Number Mortgagor Property Address Date Loan Closed	Int. Rate & ARM Aniv. Group	Original Loan Amount	Present Loan Balance	Price	Premium (Discount)	SERVICE RATE	NET BALANCE	Interest Paid To Date	Per Diem Int.	Add'l # of Days Int.	Amount of Accrued (Pre Paid) Interest	Service (00.00) 00.00 Fee	TOTAL PRICE PAID
#1898 Smith, Juno 402 Main St Juneau, Ak 8-1-82	15.75% group B	100,000.00	99,876.49	100	-0-	1/2 of 1%	99,876.49	9-01-82	43.70	58	2,534.37	(80.46)	102,330.40
#1908 Hands, Hank 102 Seward St Juneau, Ak 8-15-82	15.75% group B	75,000.00	75,000.00	100	-0-	1/2 of 1%	75,000.00	10-01-82	32.81	28	918.75	(29.17)	75,889.58
TOTAL							174,876.49				3,453.12	(109.63)	178,219.98
#1977 Bell, Alex G. Douglas Hwy Anchorage, Ak 8-1-82	16.00% group B	125,000.00	125,000.00	100	-0-	1/2 of 1%	125,000.00	9-01-82	55.56	58	3,222.22	(100.69)	128,121.53
#1965 DiVinci, Leo Slip River Dr Fairbanks, Ak 8-15-82	16.125% group B	285,000.00	285,000.00	100	-0-	1/2 of 1%	285,000.00	10-01-82	127.66	28	3,574.38	(110.83)	288,463.55
#1060 Homemaker, Suze 10 Douning St Nome, Ak 8-21-82	16.125% group B	125,000.00	125,000.00	100	-0-	1/2 of 1%	125,000.00	10-01-82	55.99	28	1,567.71	(48.61)	126,519.10
TOTAL							410,000.00				5,142.09	(159.44)	414,982.65
	(#7)			(#1)		(#2)	(A)		(#3)		(#4) & (B)	(#5) & (C)	(=D)

Mortgage Loan Section, Pouch SB, Juneau

October 5, 1982
(Date Submitted)

Page 2 of 2

ALASKA PERMANENT FUND CORP
(F U N D)
Y O U R B A N K N A M E
(Bank Name)

Conv-ARM
(Loan Type)
October 29, 1982
(Purchase Date)

Loan Number Mortgagor Property Address Date Loan Closed	Int. Rate & ARM Aniv. Group	Original Loan Amount	Present Loan Balance	Price	Premium (Discount)	SERVICE RATE	NET BALANCE	Interest Paid To Date	Per Diem Int.	Add'l # of Days Int.	Amount of Accrued (Pre Paid) Interest	Service (00.00) 00.00 Fee	TOTAL PRICE PAID
#1206 Living, High & So Lo Turnaround Dr Anchorage, Ak 10-5-82	16.00 group A	325,000.00	325,000.00	100	-0-	1/2 of 1%	325,000.00	11-01-82	144.44	(3)	(433.33)	13.54	324,580.21
TOTAL LOAN SALE							1,034,876.49				11,384.10	(356.22)	1,045,904.37

Ms. Real Jonesey, Supervisor Loan Servicing
Submission Prepared By
PHONE NUMBER (907) 465-2354

D O N O T put Conv-ARM and regular CONV mortgages on the same Delivery Schedules. Separate FUNDS and loan TYPES require separate Delivery Schedules.

CERTIFICATE OF HAZARD INSURANCE COVERAGE

Anchorage (City), Alaska (State)

January 1, 1982

TO: Alaska Permanent Fund Corporation

This is to certify that the insurance policy described below is on file with

Y O U R B A N K N A M E, Anchorage (City), Alaska (State)

and is in full force and effect on this date persuant to the terms of our servicing contract and addendum.

INSURED Leo and Mona Lisa DiVinci

PROPERTY ADDRESS Tulip Drive

LEGAL DESCRIPTION Lot 1 of Block D, Florentine West Subdivision

AMOUNT ON BUILDING $ 300,000.00 EXTENDED COVERAGE yes

OTHER $ 380,000.00 Earthquake - Flood

DATE OF POLICY January 1, 1982 EXPIRATION DATE Auto renewal January 1st

INSURANCE COMPANY Firemans Fund

POLICY NUMBER AG-136-974

MORTGAGE CLAUSE TO Alaska Permanent Fund Corporation

AND: Y O U R B A N K N A M E

INSURANCE AGENCY Sistine Chapter, Great Italian Insurance Company

THIS POLICY REPLACES: new policy

Insurance coverage, at least equal to the unpaid principal balance of the mortgage will be kept in force during the life of the loan, either by renewals or replacement policies.

(Bank Name)

BY: _____

(Title)

Dep. Rev. 7-13-82

LOAN PARTICIPATION AND SERVICING AGREEMENT

THIS AGREEMENT is made and entered into as of _____, 1981 by and between _____, (hereinafter called "Lender") and the Alaska Industrial Development Authority (hereinafter called "Purchaser").

W I T N E S S E T H:

WHEREAS, the Alaska Industrial Development Authority is a public corporation and a public body corporate and politic constituting an instrumentality of the State of Alaska within the Department of Commerce and Economic Development, but with a separate and independent legal existence created under and pursuant to Chapter 88, Title 44 of the Alaska Statutes, as amended (the "Act"); and

WHEREAS, Purchaser is authorized pursuant to the Act to enter into this Agreement; and

WHEREAS, _____ ("Lender") is a _____ duly organized and existing under the laws of the _____ with its principal office at _____; and

WHEREAS, Lender has offered to Purchaser an opportunity to participate in certain loans secured by liens on real property and/or liens on tangible personal property and the Purchaser has evidenced an interest in acquiring a participating interest in these loans and the collateral securing said loans; and

WHEREAS, the Lender has provided to the Purchaser evidence of bonding required pursuant to 3 AAC 99.300 (b) and that such a bond is in full force and effect;

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and conditions contained herein and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
General

Section 101. General. This Agreement shall govern the sale and transfer by Lender to Purchaser of an undivided participating interest and an undivided participation ownership in each and every loan, as to which such participating interest is offered for sale by Lender and accepted by Purchaser, except insofar as the terms hereof shall be modified, amplified or amended by the terms of any written amendment hereto or by the terms of a written offer and acceptance signed by both parties in connection with any particular loan, such written offer and acceptance to be in the form of a Commitment or a Participation Certificate, the form of which is attached hereto, marked Exhibit "A", and incorporated herein by this reference, and that Purchaser has not, nor shall in any event take part, be active in, or be responsible for the negotiations and preliminary steps leading to the consummation of loans which now or may hereafter become the subject of participation purchases by Purchaser hereunder. In addition, this Agreement governs the servicing by Lender of the loans described above.

ARTICLE II
Definitions

Section 201. Definitions. The following terms as used herein shall be construed in accordance with and controlled by the following definitions:

ARTICLE VII
Interests of the Parties

Section 701. Payment of Interest to Purchaser. Purchaser's share of interest to be remitted by Lender shall be originally computed from the date of receipt by Lender from Purchaser of the purchase price for such participation interest, and Purchaser's share of interest shall thereafter be computed by Lender as of the first day of each calendar month and be remitted by Lender to Purchaser, together with the Participation Report, not later than the twentieth (20th) of each calendar month. All interest shall be computed on a 365 day factor basis. In the event of default in the payment of principal or interest to Lender on any participation loan, then as to such loan Lender shall not be required to remit principal or interest until collected from the loan debtor.

Section 702. Payment of Principal. Purchaser shall receive its proportionate share of all payments made by mortgagor as principal payments. Said payments shall not be included in determinng Purchaser's net return as set forth on the Participation Certificate and shall be paid to Purchaser in addition thereto.

In the event of default on any mortgage loan covered by this Agreement, Purchaser and Lender shall share ratably on a Participation Basis any expenditures necessary to maintain and preserve the position of the parties hereto with regard to such loan, including, without limitation, expenditures for taxes, insurance premiums, prevention of waste, repairs, maintenance, and attorney's fees. Reimbursement of such expenditures from the Purchaser will not be due until final liquidation of the loan, except where such liquidation takes more than 6 months, Purchaser will make payment of its prorata share of costs to Lender on a semiannual basis.

ARTICLE VIII
Compensation for Lender

Section 801. Fees. As compensation for its administration of loans under this Agreement, Lender shall retain a servicing fee of three eights of one percent (.375%) of the unpaid balance, from the interest collected.

Fees for changes of ownership, late charges, modifications, or other supplemental services rendered and any other fees and charges received by Lender in connection with loans under this Agreement not specifically reserved to the Purchaser hereunder or committed to be paid to Purchaser by the terms of the Participation Certificate negotiated with reference to the particular loan involved shall be retained by Lender. Prepayment penalties shall be shared pro rata by the parties.

Section 802. Retention of Reserves. All funds received from the borrower or from any other source, or retained as part of the loan proceeds for the purpose of paying taxes, insurance premiums to maintain the insurance coverage as set forth above, installments on bonds and other improvement assessments or for the purpose of guaranteeing their repair or completion of improvements to the subject real property, shall be retained by Lender and disbursed by Lender at such time, and from time to time, as Lender in its discretion shall deem necessary.

ARTICLE IX
Insurance/Taxes

Section 901. General. Unless waived in writing by the Purchaser, the Lender shall require that the Mortgaged Premises (excluding land) are, at all times relevant herein, adequately and properly insured and all taxes and assessments are paid promptly. Such insurance shall be evidenced by an insurance policy:

(b) Certificate of Completion: Prior to disbursement of loan proceeds, Lender shall provide certification from the appraiser that the project was substantially completed according to the plans and specifications relied on by the appraiser and a certification from a registered architect or professional engineer that the property offered as security for the loan is structurally sound, if local construction inspections and an occupancy certificate are not available.

(c) Cost of Construction and Use of Proceeds: Prior to disbursement, Lender will make proper showing satisfactory to Authority that all costs of construction have been paid in full and that the amount of bond proceeds does not exceed costs of construction as determined by the Authority after examination of relevant documentation (certification of costs as a specific dollar amount).

(d) Insurance: Prior to closing, Borrower shall deliver to the Lender at Borrower's expense and in a form and issued by a company satisfactory to the Authority, with premiums thereof fully prepaid, the following insurance which will be maintained throughout the term of the loan as applicable:

1) An ALTA Title Insurance policy insuring that the Lender has a valid first lien on the real property described, free of encumbrances or other exceptions to title, other than those approved and accepted in writing by the Authority. In the event that the secured property described herein is located in special flood hazard areas, Borrower shall provide the Lender with a flood insurance policy as required by the Flood Protection Act.

2) A physical hazard insurance policy covering the perils of fire, extended coverage, vandalism and optional perils.

3) A public liability insurance policy covering Borrower and the property taken as security herein.

4) A full Marine and/or Aircraft insurance policy including breach of warranty.

The amount of insurance shall be in an amount equal to ninety percent (90%) of the full replacement value of all buildings, building improvements, contents, aircraft, vessels or equipment. Lender shall be named a loss payee with a loss payable endorsement. Such an endorsement shall be issued to the Lender and provide thirty (30) days written notice to be sent to Lender of any cancellation or material change in policy.

(e) Survey: Prior to the closing of this loan, Lender shall be provided a survey prepared by a registered surveyor delineating lot lines, locating improvements including water, gas, electric and sewer lines, easements and parking areas and showing other physical matters affecting the title and use of the premises, including the existence of any encroachments and recorded or visible easements. The survey should also contain a certificate setting forth the building number of square feet within said description. The legal description in the survey shall be indentical with the description in the security instruments and title policy.

(f) Laws: The Borrower will construct improvements of a first class quality in compliance with all applicable ordinances, building codes and zoning, environmental, ecological and any other applicable laws and regulations and provide Lender with a certificate of occupancy upon completion.

Initial:

Lender

Borrower

Borrower

[AIDA Multi-Family Conventional]
8-28-82

DEED OF TRUST NOTE

Anchorage, Alaska

$_____ _____, 19___

_____ (the "Maker"), a _____ duly organized under the laws of the State of _____, FOR VALUE RECEIVED, hereby PROMISES TO PAY TO THE ORDER OF _____ (the "Holder"), a lending institution duly organized and existing under the laws of _____ and having offices in the State of Alaska, the principal sum of _____ DOLLARS, or so much as may be advanced hereunder, together with interest on the unpaid principal balance owing hereunder at the rate provided for herein. All payments shall be in lawful money of the United States and shall be paid at the office of the Holder in _____, Alaska, or at such other place as the Holder hereof may designate in writing.

The indebtedness evidenced hereby, together with interest thereon at the rate set forth herein, shall be paid as follows:

Rate and Payment of Interest

General Terms and Conditions

This Note is subject to mandatory prepayment without any premium but with accrued interest on the amount prepaid to the date of prepayment in whole or in part with insurance or condemnation proceeds as provided in the Deed of Trust, hereinafter mentioned, and in whole, at any time, upon the acceleration hereof pursuant to the Deed of Trust.

If default is made in the payment of any installment of the principal of or interest on this Note and the same is placed in the hands of an attorney for collection, or if suit is filed hereon, or proceedings are had in bankruptcy, probate, receivership, reorganization, arrangement or other judicial proceedings for the establishment or collection of any amount called for hereunder, or any amount payable or to be payable hereunder is collected through any such proceedings, the Maker agrees to pay to the Holder hereof all reasonable costs of collection, including attorney's fees.

In the event that any payment of principal and/or interest or portion thereof is not paid within fifteen (15) days of the date it is due, the Holder hereof may collect, and the Maker agrees to pay with such payment, a "late charge" of 4 cents ($0.4) for each dollar so overdue as liquidated damages for the additional expense of handling such delinquent payments.

The Maker and all endorsers or guarantors hereof expressly waive demand and presentation for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, bringing of suit, and diligence in taking any action to collect any amounts called for hereunder and in the handling of properties, rights or collateral at any time existing in connection herewith.

Default in payment of any installment of principal or interest or in the performance of any of the covenants or conditions of the hereinafter described Deed of Trust or any other agreements securing this Note shall, at the option of the Holder of this Note, without notice or demand, render the whole amount of principal and interest then unpaid immediately due and payable. Failure to exercise this option shall not constitute a waiver of the right to exercise the same at any other time. A prepayment fee shall also be payable in the event of a default hereunder, or under the Deed of Trust or other documents securing this Note occurring on or after the Purchase Date, which default results in a foreclosure and sale of the property secured by such Deed of Trust in the same manner as if the Maker had elected to prepay this Note. In the event that such foreclosure and sale occur prior to the date upon which prepayment has been reserved as otherwise provided in this Note, the Maker agrees to pay a prepayment fee equal to seven percent (7%).

In the event the payee consults an attorney regarding the enforcement of any of its rights under this Note or the Deed of Trust or if this Note is placed in the hands of an attorney for collection or if suit be brought to enforce this Note or the Deed of Trust, the Maker promises to pay all costs thereof, including attorney's fees. Said cost and attorney's fees shall include, without limitation, costs and attorney's fees incurred in any appeal or in any proceedings under any present or future federal Bankruptcy Act or state receivership. The Maker and endorser severally waive presentment, protest and demand, notice of protest, demand of dishonor, and nonpayment of this Note, and expressly agree that this Note, or any payment thereunder, may be extended from time to time without in any way affecting the liability of the Maker and endorser thereof.

The Deed of Trust contains certain provisions restricting the conveyance, transfer or further encumbrance of the property encumbered by the Deed of Trust without the prior written consent of the Holder hereof.

This Note is to be governed by and construed in accordance with the laws of the State of Alaska. In the event of any action hereon or for the enforcement hereof or in event of the referring of this Note for collecton, the Maker promises to pay all costs pertaining to the security herefor and all sums required to be paid under any security instrument securing indebtedness hereunder.

FEDERAL GUARANTY UNDERWRITING

If the prescribed date of payment of any of the principal of or interest hereon is a Saturday or Sunday or legal holiday at the location of the principal office of Holder or place of payment of this Note, such payment shall be due on the next succeeding business day.

This Note has been issued, executed and delivered in connection with the financing of a multi-family rental residential project located on the real property described in that certain Deed of Trust, as of the date hereof made from the Maker to the Trustee thereunder, for the benefit of the _____ _____, and is entitled to the benefit and security of said Deed of Trust, which is a lien upon the property therein described.

Reference is hereby made to the Deed of Trust and the Tax Exempt Compliance Agreement, dated as of the date hereof by and among _____, the Trustee and the Maker for the provisions relating to the acceleration of the indebtedness evidenced hereby upon the occurrence of certain events stated therein, and for all other relevant purposes.

If for any reason whatsoever the interest contracted for, paid or received on this Note shall exceed the maximum nonusurious amount (if any) prescribed by law, the Holder hereof shall refund to the Maker, or, at the Holder's option, credit against the principal hereof, such portion of said interest as shall be necessary to cause the interest contracted for, paid and received hereon to equal the maximum nonusurious amount permitted by law. All sums paid or agreed to be paid to the Holder hereof for the use, forbearance or detention of the indebtedness evidenced hereby, to the extent permitted by law, shall be amortized, prorated, allocated and spread throughout the full term hereof.

This Note has been issued, executed and delivered in the State of Alaska and shall be governed by and construed in accordance with the laws of the State of Alaska.

_____
Name of Maker

By _____
Title _____

If the prescribed date of payment of any of the principal of or interest hereon is a Saturday or Sunday or legal holiday at the location of the principal office of Holder or place of payment of this Note, such payment shall be due on the next succeeding business day.

This Note has been issued, executed and delivered in connection with the financing of a multi-family rental residential project located on the real property described in that certain Deed of Trust, as of the date hereof made from the Maker to the Trustee thereunder, for the benefit of the _____ _____, and is entitled to the benefit and security of said Deed of Trust, which is a lien upon the property therein described.

Reference is hereby made to the Deed of Trust and the Tax Exempt Compliance Agreement, dated as of the date hereof by and among _____, the Trustee and the Maker for the provisions relating to the acceleration of the indebtedness evidenced hereby upon the occurrence of certain events stated therein, and for all other relevant purposes.

If for any reason whatsoever the interest contracted for, paid or received on this Note shall exceed the maximum nonusurious amount (if any) prescribed by law, the Holder hereof shall refund to the Maker, or, at the Holder's option, credit against the principal hereof, such portion of said interest as shall be necessary to cause the interest contracted for, paid and received hereon to equal the maximum nonusurious amount permitted by law. All sums paid or agreed to be paid to the Holder hereof for the use, forbearance or detention of the indebtedness evidenced hereby, to the extent permitted by law, shall be amortized, prorated, allocated and spread throughout the full term hereof.

This Note has been issued, executed and delivered in the State of Alaska and shall be governed by and construed in accordance with the laws of the State of Alaska.

_____
Name of Maker

By _____
Title _____

ADVANCES OF PRINCIPAL

Amount	Date	Notation Made By

[AIDA Multi-Family Conventional]
9-14-82

DEED OF TRUST
SECURITY AGREEMENT
AND ASSIGNMENT OF LEASES AND RENTS

THIS DEED OF TRUST, SECURITY AGREEMENT AND ASSIGNMENT OF LEASES AND RENTS (hereinafter called "Deed of Trust") is made this ___ day of _____, 19___, between _____ _____ whose address is _____ (the "Grantor"); _____ whose address is _____ (the "Trustee") and _____(the "Beneficiary"). whose address is _____ _____.

NOW, THEREFORE, in order to secure the repayment of all amounts due and payable by the Grantor under the Deed of Trust Note, described herein as the same shall become due and payable according to its tenor, and to secure the performance and observance of all the provisions therein and herein contained, and for and in consideration of the indebtedness herein recited, the Grantor by these presents does irrevocably grant, bargain, sell, and convey to the Trustee in trust, with power of sale, all of the following contained in Granting Clauses I to VI inclusive (all of which are hereinafter sometimes collectively called the "Premises"):

GRANTING CLAUSE I

Land. The *[leasehold estate pursuant to a lease (herein "ground lease") dated _____, between _____ and _____ recorded in _____] following described real property and all right, title and interest now owned or hereafter acquired by the Grantor in and on the same, located in the _____ Recording District: _____ Judicial District, State of Alaska:

GRANTING CLAUSE II

Additional Bargained Property. All and singular the lands, tenements, privileges, water rights, hereditaments and appurtenances thereto belonging or in anywise appertaining, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, and all the estate, right, title, claim, interest and demand whatsoever of the Grantor, either in law or equity, of, in and to the bargained property; TO HAVE AND TO HOLD said property bargained and described, together with all and singular the lands, tenements, privileges, water rights, hereditaments and appurtenances thereto belonging or in anywise appertaining, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, and all of the estate, right, title, claim and demands whatsoever of the Gran-

*For ground lease only

tor, either in law or in equity, of, in and to the above bargained property, forever as security for the faithful performance of the promissory note secured hereby and as security for the faithful performance of each and all of the covenants, agreements, terms and conditions of this Deed of Trust, SUBJECT, HOWEVER, to the right, power, and authority hereinafter given to and conferred upon Beneficiary to collect and apply such rents, issues and profits; and

GRANTING CLAUSE III

Access Rights. All the estate and rights of Grantor in and to said property and in and to land lying in streets and roads adjoining said property, and all access rights and easements appertaining thereto; and

GRANTING CLAUSE IV

Fixtures. All buildings, structures, improvements, fixtures and articles of property now or hereafter attached to, or used or adapted for use in the operation of, the said property, including but without being limited to, all heating and incinerating apparatus and equipment, piping and plumbing fixtures, and ~~shrubbery~~ and plants; and including also all interest of any owner of the said property in any of such items hereafter at any time acquired under conditional sale contract, chattel mortgage or other title retaining or security instrument, all of which property mentioned in this paragraph shall be deemed part of the realty and not severable wholly or in part without material injury to the freehold; and

GRANTING CLAUSE V

Encumbrances. All of Grantor's rights further to encumber said property for debt except with the prior written consent of Beneficiary; Grantor hereby (i) representing as a special inducement to the Beneficiary to make this loan that as of the date hereof there are no encumbrances to secure debt junior to this Deed of Trust and (ii) covenanting that there are to be none as of the date when this Deed of Trust becomes of record, except in either case encumbrances having the prior written approval of Beneficiary.

GRANTING CLAUSE VI

Assignment of Rents and Other Rights and Interests of Trustor in or Appurtenant to the Land and the Fixtures and Properties. All right, title and interest of Grantor now owned or hereafter acquired, in and to all the singular and tenements, hereditaments, privileges, easements, franchises, leases and subleases, licenses, and appurtenances belonging or in any way appertaining to the property described in the preceding Granting Clauses, and the reversions, remainders, rents, issues and profits thereof, including all interest of the Grantor as landlord in and to all present and future licenses, leases, tenancies and occupancies of space in the Improvements and in each and every sublease of the entire or any part of the Land, and all the estate, right, title and interest, claim and demand whatsoever in law or in equity, which the Grantor now has or may hereafter acquire in and to such property, including, without limiting the generality of the foregoing, any award in condemnation and the proceeds of any policy of insurance relating to the Premises.

All of the above-described property and interest therein are hereinafter referred to as the "Premises."

THIS DEED IS GIVEN FOR THE PURPOSE OF SECURING PERFORMANCE of each agreement of Grantor incorporated by reference or contained herein and payment *[of the sum of _____ DOLLARS with interest thereon] according to the terms of a Deed of Trust Note (hereinafter called "Note") of even date herewith, payable to Beneficiary or order and made by Grantor; all renewals, modifications or extensions thereof; and also such further sums as may be advanced or loaned by Beneficiary to Grantor, or any of their successors or assigns, together with interest thereon at such rate as shall be agreed upon; and also any amounts outstanding under any other securing instruments now or hereafter executed by the Grantor in favor of the Beneficiary.

THIS CONVEYANCE is made in trust, and these presents are upon this express condition, that if the Grantor, or its successors or assigns, pays the sum of money and the interest thereon stated in the Note and secured by this Deed of Trust, and otherwise performs all of its obligations as provided hereunder, and under the Security Documents and other documents evidencing or securing the Note, then this Deed of Trust and the estate hereby granted shall cease, determine and be void, and the Trustee shall reconvey without warranty the property then held hereunder. The grantee in such reconveyance may be described as "the person or persons legally entitled thereto." Neither the Beneficiary nor the Trustee shall be required to bear any expense or cost in connection with such reconveyance or the recording thereof.

THE GRANTOR WARRANTS that (i) it is lawfully possessed and is the lawful owner of the Land; (ii) the real property is free and clear of any deed of trust, mortgage, lien, charge or encumbrance thereon or affecting the title thereto prior to this Deed of Trust (other than as are specifically set forth in this Deed of Trust and Permitted Encumbrances); (iii) it is well and truly seized of the property described in Granting Clauses I, II, III, IV, V and VI hereof, free and clear of any liens and encumbrances except as expressly set forth in this Deed of Trust; (iv) except for the assignment contained herein, there is no present assignment of the rents and payments described under Granting Clause VI hereof; (v) it will maintain and preserve the lien of this Deed of Trust until the indebtedness secured hereby has been paid in full; (vi) it has good right and lawful authority to mortgage and pledge the Mortgaged Property, as provided in and by this Deed of Trust and the execution, delivery and performance of the Deed of Trust will not violate, conflict with, breach or constitute a default under any Legal Requirement; and (vii) that it will forever warrant and defend the same against any and all claims and demands whatsoever, except as are specifically set forth in this Deed of Trust.

DEFINITIONS. In addition to all other words defined herein, and unless a different meaning or intent clearly appears from the context, the following terms have the following defined meanings:

Beneficiary means the above defined Beneficiary, and the subsequent holder or holders, from time to time, of the Note.

Buildings means any and all buildings, open parking areas and other improvements, and any and all additions, alterations or appurtenances thereto, now or at any time hereafter situated, placed or constructed upon the above described real estate or any part thereof.

*For 1st Deed of Trust only

Deed Restrictions means that certain deed and Deed Restrictions of even date herewith by and between the Owner, pertaining to the site of the Project and the Project.

Event of Default means any happening or occurrence described in paragraph 26.

Fixtures means all materials, supplies, equipment, apparatus and other items now or hereafter attached to, installed in or used, whether temporarily or permanently, in connection with any of the Improvements, as hereinafter defined, or the Land, as hereafter defined, and all renewals, replacements, substitutions thereof and additions thereto, including, but not limited to, any and all partitions, ducts, shafts, pipes, radiators, conduit, wiring, window screens and shades, drapes, carpeting and other floor coverings, awnings, motors, engines, boilers, pumps, transformers, generators, fans, blowers, vents, switchboards, elevators, escalators, compressors, furnaces, cleaning, alarm and sprinkler systems, fire extinguishing apparatus, water tanks, swimming pools, heating, ventilating, pumping, laundry, incinerating, air conditioning and other cooling systems, water, gas and electrical equipment, disposals, dishwashers, refrigerators and ranges, cafeteria equipment, recreational equipment and facilities of all kinds, all of which property and things, to the extent permitted by law, are hereby declared to be permitted accessions to the Land.

Governmental Authority means any and all governmental or quasi-governmental entities of any nature whatsoever, whether federal, state, county, district, city or otherwise, and whether now or hereafter in existence.

Guaranty (individually and/or collectively, as the context may require) means that or those instructions of Guaranty of even date herewith, if any from the Guarantor to the Beneficiary guaranteeing the repaying of the indebtedness and the satisfaction of, or continued compliance with, the Obligations.

Impositions means all rates, charges and penalties, including deposits, insurance, taxes and fines, including regular and special assessments, both as to realty and as to personalty, water, gas, sewer, garbage, electricity, telephone and other utilities, any easement, license or agreement payments maintained for the benefit of the Premises, and all other charges or taxes and any interest, costs or penalties with respect thereto of any nature whatsoever which may now or hereafter be assessed, levied or imposed upon the Premises or the ownership, use, occupancy and enjoyment thereof.

Improvements means any and all buildings, structures, sidewalks, parking areas, ~~fixtures~~, and other improvements, and any and all additions, alterations or appurtenances thereto, and any and all plans, specifications, feasibility studies, cost estimates, permits, licenses and certificates now or at any time hereafter placed or constructed upon the Land or any part thereof.

Indebtedness means the principal of, interest on and all other amounts, payments, penalties and premiums due under or secured by the Note and the other Security Documents.

Land means the real estate and all improvements and fixtures and all rights, titles and interests appurtenant thereto, any and all surveys, engineering studies, appraisal reports, permits, licenses and certificates now or hereafter acquired, situated as more particularly described in Granting Clause I hereof, hereditaments, prescriptions, profits and advantages thereto in any way belonging.

Leases means all leases, including oil, gas and other mineral leases, subleases, licenses, concessions, contracts or other agreements, whether written or oral, now or hereafter in effect, which grant a possessory interest in and to or the rights to use any portion of the Premises or which relate to the use or construction of the Improvements.

Legal Requirements means any and all of the following that may now or hereafter be applicable to the Trustor or the Premises:

(1) Judicial decisions, statutes, rulings, rules, regulations, permits, certificates or ordinances of any Governmental Authority;

(2) Grantor's Articles of Incorporation, Bylaws and any other agreements pertaining to the form of the Grantor's business entity;

(3) Leases;

(4) Easements, privileges, restrictions and any other incorporeal rights of record; and

(5) Other written agreement or promises of any nature.

Note means the promissory note of even date herewith executed by the Grantor and payable to the order of the Beneficiary as provided therein.

Obligations means any and all of the covenants, warranties, representations and other obligations (other than to repay the Indebtedness) made or undertaken by the Grantor, a Guarantor or others to the Beneficiary, the Trustee or others as set forth in the Security Documents, the Deed Restrictions and the Tax-Exempt Compliance Agreement or any lease, sublease or other agreement pursuant to which, Grantor is granted a possessory interest in the Land.

Obligated Party means any maker, co-maker, guarantor, surety, endorser, or other party, other than the Trustor, directly or indirectly obligated or primarily or secondarily liable for any part of the Indebtedness or the performance of any of the Obligations.

Permitted Encumbrances means the outstanding liens, easements, building lines, restrictions, security interest and other matters (if any) as may be reflected on any Exhibit attached hereto and the lien and security interest created by the Security Documents.

Personalty means all of the right, title and interest of Grantor in and to all furniture, furnishings, equipment, machinery, goods, general intangibles, money, accounts, contract rights, inventory and all other personal property (other than the Fixtures) of any kind or character as defined in and subject to the provisions of [AS 45.09.101 et. seq.], now or hereafter located upon, within or about the Land and the Buildings, together with all accessories, replacements and substitutions thereto or therefor and the proceeds thereof.

Premises means the Land, Improvements, Fixtures, Leases and Rents, as herein defined, together with all or any part of and any interest in the following:

(1) Rights, privileges, tenemants, hereditaments, rights-of-way, easements, appendages and appurtenances in any way pertaining thereto, and rights, titles and interests of the Grantor in and to any streets, alleys, driveways and strips of land adjoining the Land or any part thereof;

(2) Additions, substitutions, replacements and revisions thereof and thereto and all remainders therein; and

(3) All of the Grantor's right, title and interest in and to any award, remuneration, settlement or compensation heretofore made or hereafter to be made by any Governmental Authority to the present or any subsequent owner of the Land, Buildings, Fixtures or Personalty, including those for any vacation of, or change of grade in, any streets affecting the Land or Buildings; and

(4) Other security and collateral of any nature whatsoever, now or hereafter given for the repayment of the Indebtedness or the performance and discharge of the Obligations.

As used in this Deed of Trust, the term Premises shall be expressly defined as meaning all, or where the context permits or requires, any portion of the above and all or, where the context permits or requires, any interest therein.

Tax-Exempt Compliance Agreement means that certain Agreement so-entitled of even date herewith by and among the Grantor, the Beneficiary and Alaska Industrial Development Authority, relating to the Land and the Buildings.

Rents means all of the rents, revenues, income, proceeds, profits and other benefits paid or payable by parties to the Leases other than the Grantor for using, leasing, licensing, possessing, operating from, residing in, or otherwise enjoying the Property.

Security Documents means any construction loan agreement and any permanent loan takeout agreement, by and between the Grantor and the Beneficiary, relating to the Land and the Buildings; the Note; this Deed of Trust; any other Security Agreement and any other Financing Statement; the Guaranty; and any and all other documents now or hereafter executed by the Grantor, a Guarantor or any other person or party to evidence or secure the payment of the Indebtedness or the performance and discharge of the Obligations.

The Grantor represents, warrants, covenants and agrees as follows:

1. Validity of Loan Instruments. The execution, delivery and performance by the Grantor of the Security Documents (other than the Guaranty), and the borrowing evidenced by the Note, (a) are within the Grantor's powers and have been duly authorized by the Grantor, (b) have received all (if any) requisite prior governmental approval in order to be legally binding and enforceable in accordance with the terms thereof, (c) will not violate, be in conflict with, result in a breach of or constitute (with due notice or lapse of time, or both) a default under, any Legal Requirement or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the Grantor's or the Guarantor's property or assets,

except as contemplated by the provisions of the Security Documents. The Security Documents constitute the legal, valid and binding obligations of the Grantor, any Guarantor and others obligated under the terms of the Security Documents, in accordance with their respective terms.

2. Deed of Trust/Security Agreement. When and if a Grantor and Beneficiary shall respectively become the debtor and secured party in any Uniform Commercial Code Financing Statement affecting property either referred to or described herein, or in any way connected with the use and enjoyment of these Premises, this Deed of Trust shall be deemed a Security Agreement as defined in said Uniform Commercial Code and the remedies for any violation of the covenants, terms and conditions of the agreements herein contained shall be (i) as prescribed herein, or (ii) by general law, or (iii) as to such part of the security which is also reflected in said Financing Statement by the specific statutory consequences now or hereafter enacted and specified in the Uniform Commercial Code, all at Beneficiary's sole election. Grantor and Beneficiary agree that the filing of such a Financing Statement in the records normally having to do with personal property shall never be construed as in anywise derogating from or impairing this declaration and hereby stated intention of the parties hereto, that everything used in connection with the production of income from the Premises and/or adapted for use therein and/or which is described or reflected in this Deed of Trust is, and at all times and for all purposes and in all proceedings both legal or equitable shall be, regarded as part of the real estate irrespective of whether (i) any such item is physically attached to the improvements, (ii) serial numbers are used for the better identification of certain equipment items capable of being thus identified in a recital contained in this Deed of Trust or in any list filed with the Beneficiary, or (iii) any such item is referred to or reflected in any such Financing Statement so filed at any time.

3. Payment of Debts, Secured Assessments and Liens. The Grantor shall pay all debts and money secured hereby, when from any cause the same shall become due to keep the Premises free from statutory and governmental liens of any kind, except those liens which are payable in installments as provided in paragraph 5. There are no liens or encumbrances against or upon the premises and none superior to this Deed of Trust will be created or suffered to be created by the Grantor during the life of this Deed of Trust. The Grantor has good right to make this Deed of Trust and will forever warrant and defend said Premises unto the Beneficiary, its successors and assigns, against every person whomsoever lawfully claiming or to claim the same or any part thereof. The Grantor upon request by mail will furnish a written statement duly acknowledged of the amount due on this Deed of Trust and whether any offsets or defenses exist against the debt secured hereby.

4. Tax-Exempt Compliance Agreement. The Grantor will comply fully with and perform each and all of its covenants, obligations and agreements set forth in the Tax-Exempt Compliance Agreement after its execution and delivery.

5. Reserves for Taxes, Insurance and Special Assessments. The Grantor shall pay together with and in addition to the monthly payments of principal and interest payable under the terms of the said Note, on the date set forth therein for the making of monthly payments each month, until said Note is fully paid, a sum, as estimated by the Beneficiary, equal to one-twelfth (1/12th) of the yearly ground rents, taxes, special assessments, and insurance premiums affecting the Premises,

Grantor agreeing to deliver promptly to Beneficiary all bills and notices thereof, such sums to be held by the Beneficiary to pay said ground rents, premiums, taxes and special assessments. All payments mentioned in this paragraph and all payments to be made under said Note shall be added together and the aggregate amount thereof shall be paid by the Grantor each month in a single payment to be applied by Beneficiary to the following items in the order set forth: (a) ground rents, if any, taxes, special assessments, fire and other hazard insurance premiums; (b) interest on the Note secured hereby; and, (c) amortization of the principal of said Note. Upon demand of Beneficiary, Grantor shall promptly pay such additional sums as are necessary to make up deficiency in the amount necessary to pay such ground rents, taxes, assessments, insurance premiums, and other similar charges in a timely manner, and any deficiency in such amounts shall constitute an event of default under this Deed of Trust. The arrangement provided for in this paragraph 5 is solely for the added protection of the Beneficiary and entails no responsibility on the Beneficiary's part beyond the allowing of due credit, without payment of interest or income to the Grantor, for the sums actually received by it. Those sums received, but not immediately required for payment of the items set forth above, may be invested or otherwise used by the Beneficiary without payment to the Grantor until such time as payment of the items set forth above is required. Upon assignment of this Deed of Trust by the Beneficiary, any funds on hand shall be turned over to the assignee and any responsibility of the assignor with respect thereto shall terminate. Each transfer of the Premises shall automatically transfer to the grantee all rights of the Grantor with respect to any funds accumulated hereunder.

6. Excess or Insufficient Reserves for Taxes, Insurance and Special Assessments. If the total of the payments (herein called "Reserves") made under paragraph 5 hereof relating to reserves for ground rents, taxes, special assessments, and premiums on insurance policies, shall exceed the amount of payments actually made by Beneficiary for the purposes set forth in paragraph 5, plus such amounts as have been reasonably accumulated in such Reserves toward payments therefrom next to become due, such excess may, provided no default then exists under the terms of this instrument nor under the terms of the Note hereby secured, but not otherwise, be credited by Beneficiary in payment of subsequent aggregate, but not partial, payments required to be made under paragraph 5 hereof, or, at the option of the Beneficiary, refunded to the Grantor or his successor in interest as may appear upon the records of the Beneficiary. If, however, at any time in Beneficiary's judgment, the amount of the reserves shall be insufficient to pay at least 30 days before due all ground rents, insurance premiums, taxes and assessments, then the Grantor shall pay to Beneficiary any amount necessary to make up the deficiency within thirty (30) days after written notice to Grantor stating the amount of the deficiency. In the event there is a default under any of the provisions of the Note or this Deed of Trust and thereafter a sale of the Premises in accordance with the provisions hereof, or if the Beneficiary at his option acquires the Premises otherwise after default, the Beneficiary may, at its option, at the time of acceleration of the indebtedness or at the time of commencement of such proceedings or at the time the Premises are otherwise acquired, apply the balance then remaining in the funds accumulated under paragraph 5, less such sums as will become due and payable during the pendency of the proceedings, as a credit against the amounts secured hereby.

7. Reserves for Repair and Replacement. Grantor shall pay each month at the same time as, but in addition to, the required payments of interest and principal, one-twelfth of one

percent (1/12 of 1%) of original cost of all improvements as a reserve for replacement and maintenance of said amounts. Disbursements, withdrawals, investments and termination of the requirement shall be as fixed in an agreement between Grantor and Beneficiary.

8. Direct Payment of Taxes. At the Beneficiary's option, the Grantor shall pay all ground rents, insurance premiums, taxes, assessments and other charges, fines and impositions attributable to the Premises in the manner provided in paragraph 5 hereof, or by the Grantor making payment, when, due, directly to the party entitled thereto. The Grantor shall furnish promptly to the Beneficiary all notices of amounts due under this paragraph, and in the event the Grantor shall make payment directly, the Grantor shall promptly (but in no event less than fifteen (15) days prior to delinquency) furnish to the Beneficiary receipts evidencing such payments.

9. Late Charges. In the event that any payment or portion thereof is not paid within fifteen (15 days commencing with the date it is due, the Beneficiary may collect, and the Grantor agrees to pay with such payment, a "late charge" of four cents ($.04) for each dollar so overdue as liquidated damages for the additional expenses of handling such delinquent payments.

10. Maintenance and Preservation of Premises. The Grantor agrees to maintain the buildings and other improvements on the Premises in a rentable and tenantable condition and state of repair, to neither commit nor suffer any waste, to promptly comply with all Legal Requirements and covenants, conditions and restrictions respecting said Premises or the use thereof, and to pay all fees or charges of any kind in connection therewith. The Beneficiary may recover as damages for any breach of this covenant the amount it would cost to put the Premises in the condition called for herein. In the event of breach of any requirement of this paragraph, the Beneficiary may, in addition to any other rights or remedies, at any time thereafter declare the whole of said principal sum immediately due and payable. Proof of impairment of security shall be unnecessary in any suit or proceeding under this paragraph. Grantor shall permit Beneficiary or its agents the opportunity to inspect the Premises, including the interior of any structures, at reasonable times and after reasonable notice.

11. Restoration. The Grantor shall restore promptly and in good workmanlike manner any building or improvement which may be damaged or destroyed thereon, and pay when due all costs incurred therefor.

12. Alteration or Removal of Property. No building or other improvement on the Premises shall be structurally altered, removed or demolished, without the Beneficiary's prior written consent, nor shall any fixture or chattel covered by this Deed of Trust and adapted to the proper use and enjoyment of the Premises be removed at any time without like consent unless actually replaced by an article of equal suitability, owned by the Grantor, free and clear of any lien or security interest except such as may be approved in writing by the Beneficiary.

13. Insurance. Grantor will at all times provide, maintain and keep in force:

(a) Policies of insurance insuring the Premises against loss or damage by fire and lightning; against loss or damage by other risks embraced by coverage of the type now known as the broad form of extended coverage, including, but not limited to,

riot and civil commotion, vandalism and malicious mischief; and against such other risks or hazards as Beneficiary from time to time reasonably may designate in an amount sufficient to prevent Beneficiary or Grantor from becoming a co-insurer under the terms of the applicable policies, but in any event in an amount not less than 100% of the then full replacement costs of the Improvements (exclusive of the cost of excavations, foundations and footings below the lowest basement floor) without deduction for physical depreciation, and each such policy shall contain a Replacement Cost Endorsement, if ava able;

(b) Flood insurance upon the Premises in the event that such insurance is available pursuant to the provisions of the Flood Disaster Protection Act of 1973 or other applicable legislation. Beneficiary shall reserve the right to require that Grantor secure flood insurance in excess of the amount provided by the Flood Disaster Protection Act of 1973 if such insurance is commercially available up to the amount provided in paragraph (a) hereof;

(c) Boiler and pressure vessel insurance, including air ta..., pressure piping and major air conditioning equipment, provided the building which constitutes a part of the Property contains equipment of the nature ordinarily covered by such insurance, in such an amount as Beneficiary may require;

(d) War risk insurance upon the Premises as and when such insurance is obtainable from the United States of America or any agency or instrumentality thereof at a reasonable premium, in an amount not less than 100% of the then full replacement cost of the Improvements (exclusive of the cost of excavations, foundations and footings below the lowest basement floor) without deduction for physical depreciation, to the extent obtainable, and if not so obtainable, in the maximum amount obtainable; and

(e) Such other insurance (including earthquake insurance) in such amounts as may from time to time be reasonably required by Beneficiary against the same or other insurable hazards which at the time are commonly insured against in the case of premises similarly situated, due regard being given to the height and type of buildings thereon and their construction, use and occupancy.

All policies for such insurance shall be issued by companies approved by Beneficiary, shall be subject to the approval of Beneficiary as to amount, content and forms of policies and expiration dates, shall contain a Non-Contributory Standard Mortgagee Clause and the Loss Payment Endorsement or their equivalents, in favor of Beneficiary, and and shall provide that the proceeds thereof shall be payable to Beneficiary (to the extent of its interest). Grantor hereby assigns to Beneficiary all insurance proceeds which it may be entitled to receive, and such proceeds shall be delivered to and held by Beneficiary to be applied, at the sole discretion and option of Beneficiary, (i) to the reduction of the unpaid principal of the indebtedness secured by this Deed of Trust; or (ii) so long as Grantor is not in default hereunder (except as set forth in paragraph 18 hereof) to the restoration of the Premises or any portion of the Premises that has been damaged or destroyed to the same condition, character and value as nearly as may be to that as existed prior to such damage or destruction. In the event that Beneficiary has elected to allow the proceeds to be used for restoration and, in Beneficiary's sole judgment, the insurance proceeds are not sufficient to fully accomplish such restoration (unless Grantor promptly on demand deposits with Beneficiary the additional amounts necessary to accomplish such restoration), Beneficiary

shall apply the insurance proceeds upon any indebtedness secured hereby. Such application or release shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice. If Beneficiary agrees to utilize the proceeds for the restoration of the Premises, and if the Premises is restored at a cost less than the available insurance proceeds, then such excess proceeds shall, if Grantor is not then in default hereunder, be paid over to Grantor. In the event of the foreclosure of this Deed of Trust or other transfer of the title to the Premises in extinguishment, in whole or in part, of the indebtedness secured hereby, all right, title and interest of Grantor in and to any insurance policy or premiums or payment in satisfaction of claims or any other rights thereunder then in force shall pass to the purchaser or grantee notwithstanding the amount of any bid at such foreclosure sale.

Nothing contained herein shall prevent accrual of interest as provided in the Note and on any portion of the proceeds to be applied to the principal balance due under the Note until such proceeds are actually received and applied.

After the happening of any casualty, whether or not required to be insured against under the policies to be provided by Grantor hereunder, Grantor shall give prompt written notice thereof to Beneficiary.

At least thirty (30) days prior to expiration of any policy required to be provided by Grantor hereunder, Grantor shall furnish Beneficiary with appropriate proof of issuance of a policy continuing in force the insurance covered with the original of each policy required to be provided by Grantor hereunder, which policy shall provide that it shall not be modified or canceled without thirty (30) days' written receipt for the payment of premiums on such insurance policies or other evidence of such payment reasonably satisfactory to Beneficiary in the event that such premiums have not been paid to Beneficiary or Beneficiary's agent pursuant to paragraph 6 hereof. In the event that Grantor does not deposit with Beneficiary a new policy of insurance with evidence of payment of premium thereon at least thirty (30) days prior to the expiration of any expiring policy, then Beneficiary may, but shall not be obligated to, procure such insurance and pay the premium therefor, and Grantor agrees to repay to Beneficiary the premiums thereon promptly on demand.

14. Defense of Actions and Indemnification and Attorney's Fees and Costs. Should Beneficiary or Trustee elect to appear in or defend any suit, action or proceeding that might affect the value of this security instrument or the security itself or the rights and powers of Beneficiary or Trustee; or be made a party to such by reason of this Deed of Trust, or elect to prosecute such action as appears necessary to preserve said value, the Grantor will, at all times, indemnify from, and, or reimburse Beneficiary or Trustee for any and all loss, damage, expense or cost, including cost of evidence of title and attorney's fees, arising out of or incurred in connection with any such suit, action or proceeding, and the sum of such expenditures shall be secured hereby and shall be due and payable on demand to pay costs of suit, cost of evidence of title and a reasonable attorney's fee in any proceeding or suit brought by Beneficiary to enforce this Deed of Trust or any portion hereof.

15. Payment of Taxes, Assessments, Liens and Encumbrances. The Grantor shall pay in full at least thirty (30) days before delinquent all rents, taxes, assessments and encumbrances, charges or liens with interest, that may now or hereafter be levied, assessed or claimed upon the Premises or any part there-

of, which at any time appear to be prior or superior thereto for which provision has not been made heretofore, and upon request will exhibit to Beneficiary official receipts therefor, and to pay all taxes imposed upon, reasonable costs, fees and expenses of this Deed of Trust. On default under this paragraph Beneficiary may, at its option, pay, or pay out of Reserves accumulated under paragraph 5, any such sums, without waiver of any other right of Beneficiary by reason of such default of Grantor, and Beneficiary shall not be liable to Grantor for a failure to exercise any such option.

16. Repayment of Advances. The Grantor shall repay immediately on written notice to Grantor all sums expended or advanced hereunder by or on behalf of Beneficiary or Trustee, with interest from the date of such advance or expenditure at the rate of twelve percent (12%) per annum until paid, and the repayment thereof shall be secured hereby. Failure to repay such expenditure or advance and interest thereon within ten (10) days of the mailing of such notice will, at Beneficiary's option, constitute an event of default hereunder; or, Beneficiary may, at its option, commence an action against Grantor for the recovery of such expenditure or advance and interest thereon, and in such event Grantor agrees to pay, in addition to the amount of such expenditure or advance, all costs and expenses incurred in such action together with a reasonable attorney's fee.

17. Beneficiary's Right to Defend Action and Cure of Certain Defaults. The Beneficiary may appear in and defend any action or proceeding at law or in equity or in bankruptcy purporting to affect the Premises or the security hereof and in such event (except where the purported defect affecting the security hereof arises or results from any act or omission of the Beneficiary), the Beneficiary shall be allowed and paid all the Beneficiary's costs, charges and expenses, including cost of evidence of title and attorney's fees in a reasonable amount, incurred in such action or proceeding in which the Beneficiary may appear.

Should Grantor fail to make any payment or to do any act as herein provided, then Beneficiary or Trustee, but without obligation so to do and without notice to or demand upon Grantor and without releasing Grantor from any obligation hereof, may: make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof, Beneficiary or Trustee being authorized to enter upon the Premises for such purposes; commence, appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; pay, purchase, contest, or compromise any encumbrance, charge or lien which in the judgment of either appears to be prior or superior hereto; and in exercising any such power, incur any liability, expend whatever amounts in its absolute discretion it may deem necessary therefor including cost of evidence of title, comply counsel, and pay his reasonable fees.

The Grantor hereby agrees to pay on demand all of the Beneficiary's costs, charges, expenses and amounts referred to above in this paragraph, including cost of evidence of title and attorney's fees in a reasonable amount incurred in such action or which the Beneficiary may appear. All costs, charges and expenses so incurred, together with interest thereon as aforesaid, shall be secured by the lien of this Deed of Trust.

18. Leases.

(a) The Grantor shall fully comply with all of the terms, conditions and provisions of all leases on said Premises

WHEN RECORDED MAIL TO

SPACE ABOVE THIS LINE FOR RECORDER'S USE

MULTIFAMILY DEED OF TRUST,
ASSIGNMENT OF RENTS AND SECURITY AGREEMENT
(Security for Construction Loan Agreement)

THIS DEED OF TRUST (herein "Instrument") is made this ..... day of ....., 19....., among the Trustor/Grantor, ...
.....,
whose address is .....
(herein "Borrower"), ...
..... (herein "Trustee"), and
the Beneficiary, ...
.....,
a ..... organized and existing under the laws of .....,
whose address is .....
..... (herein "Lender").

BORROWER, in consideration of the indebtedness herein recited and the trust herein created, irrevocably grants, conveys and assigns to Trustee, in trust, with power of sale, [the leasehold estate pursuant to a lease (herein "ground lease") dated ....., between .....
.....and .....,
recorded in .....
..... in and to*] the following described property located in the
..... Recording District, ...
Judicial District, State of Alaska:

** Delete bracketed material if not completed.*

TOGETHER with all buildings, improvements and tenements now or hereafter erected on the property, and all heretofore or hereafter vacated alleys and streets abutting the property, and all easements, rights, appurtenances, rents (subject however to the assignment of rents to Lender herein), royalties, mineral, oil and gas rights and profits, water, water rights, and water stock appurtenant to the property, and all fixtures, machinery, equipment, engines, boilers, incinerators, building materials, appliances and goods of every nature whatsoever now or hereafter located in, or on, or used, or intended to be used in connection with the property, including, but not limited to, those for the purposes of supplying or distributing heating, cooling, electricity, gas, water, air and light; and all elevators, and related machinery and equipment, fire prevention and extinguishing apparatus, security and access control apparatus, plumbing, bath tubs, water heaters, water closets, sinks, ranges, stoves, refrigerators, dishwashers, disposals, washers, dryers, awnings, storm windows, storm doors, screens, blinds, shades, curtains and curtain rods, mirrors, cabinets, panelling, rugs, attached floor coverings, furniture, pictures, antennas, trees and plants, and .....
.....
.....; all of which, including replacements and additions thereto, shall be deemed to be and remain a part of the real property covered by this Instrument; and all of the foregoing, together with said property (or the leasehold estate in the event this Instrument is on a leasehold) are herein referred to as the "Property".

TO SECURE TO LENDER (a) the repayment of the indebtedness evidenced by Borrower's note dated ..... (herein "Note") in the principal sum of .....
..... Dollars, with interest thereon, with the balance of the indebtedness, if not sooner paid, due and payable on ....., and all renewals, extensions and modifications thereof; (b) the repayment of any future advances, with interest thereon, made by Lender to Borrower pursuant to paragraph 30 hereof (herein "Future Advances"); (c) the performance of the covenants and agreements of Borrower contained in a Construction Loan Agreement between Lender and Borrower dated ....., 19....., if any, as provided in paragraph 25 hereof; (d) the payment of all other sums, with interest thereon, advanced in accordance herewith to protect the security of this Instrument; and (e) the performance of the covenants and agreements of Borrower herein contained.

Borrower covenants that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant, convey and assign the Property (and, if this Instrument is on a leasehold, that the ground lease is in full force and effect without modification except as noted above and without default on the part of either lessor or lessee thereunder), that the Property is unencumbered, and that Borrower will warrant and defend generally the title to the Property against all claims and demands, subject to any easements and restrictions listed in a schedule of exceptions to coverage in any title insurance policy insuring Lender's interest in the Property.

Uniform Covenants. Borrower and Lender covenant and agree as follows:

1. PAYMENT OF PRINCIPAL AND INTEREST. Borrower shall promptly pay when due the principal of and interest on the indebtedness evidenced by the Note, any prepayment and late charges provided in the Note and all other sums secured by this Instrument.

2. FUNDS FOR TAXES, INSURANCE AND OTHER CHARGES. Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly installments of principal or interest are payable under the Note (or on another day designated in writing by Lender), until the Note is paid in full, a sum (herein "Funds") equal to one-twelfth of (a) the yearly water and sewer rates and taxes and assessments which may be levied on the Property, (b) the yearly ground rents, if any, (c) the yearly premium installments for fire and other hazard insurance, rent loss insurance and such other insurance covering the Property as Lender may require pursuant to paragraph 5 hereof, (d) the yearly premium installments for mortgage insurance, if any, and (e) if this Instrument is on a leasehold, the yearly fixed rents, if any, under the ground lease, all as reasonably estimated initially and from time to time by Lender on the basis of assessments and bills and reasonable estimates thereof. Any waiver by Lender of a requirement that Borrower pay such Funds may be revoked by Lender, in Lender's sole discretion, at any time upon notice in writing to Borrower. Lender may require Borrower to pay to Lender, in advance, such other Funds for other taxes, charges, premiums, assessments and impositions in connection with Borrower or the Property which Lender shall reasonably deem necessary to protect Lender's interests (herein "Other Impositions"). Unless otherwise provided by applicable law, Lender may require Funds for Other Impositions to be paid by Borrower in a lump sum or in periodic installments, at Lender's option.

The Funds shall be held in an institution(s) the deposits or accounts of which are insured or guaranteed by a Federal or state agency (including Lender if Lender is such an institution). Lender shall apply the Funds to pay said rates, rents, taxes, assessments, insurance premiums and Other Impositions so long as Borrower is not in breach of any covenant or agreement of Borrower in this Instrument. Lender shall make no charge for so holding and applying the Funds, analyzing said account or for verifying and compiling said assessments and bills, unless Lender pays Borrower interest, earnings or profits on the Funds and applicable law permits Lender to make such a charge. Borrower and Lender may agree in writing at the time of execution of this Instrument that interest on the Funds shall be paid to Borrower, and unless such agreement is made or applicable law requires interest, earnings or profits to be paid, Lender shall not be required to pay Borrower any interest, earnings or profits on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds in Lender's normal format showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for the sums secured by this Instrument.

If the amount of the Funds held by Lender at the time of the annual accounting thereof shall exceed the amount deemed necessary by Lender to provide for the payment of water and sewer rates, taxes, assessments, insurance premiums, rents and Other Impositions, as they fall due, such excess shall be credited to Borrower on the next monthly installment or installments of Funds due. If at any time the amount of the Funds held by Lender shall be less than the amount deemed necessary by Lender to pay water and sewer rates, taxes, assessments, insurance premiums, rents and Other Impositions, as they fall due, Borrower shall pay to Lender any amount necessary to make up the deficiency within thirty days after notice from Lender to Borrower requesting payment thereof.

Upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, Lender may apply, in any amount and in any order as Lender shall determine in Lender's sole discretion, any Funds held by Lender at the time of application (i) to pay rates, rents, taxes, assessments, insurance premiums and Other Impositions which are now or will hereafter become due, or (ii) as a credit against sums secured by this Instrument. Upon payment in full of all sums secured by this Instrument, Lender shall promptly refund to Borrower any Funds held by Lender.

3. APPLICATION OF PAYMENTS. Unless applicable law provides otherwise, all payments received by Lender from Borrower under the Note or this Instrument shall be applied by Lender in the following order of priority: (i) amounts payable to Lender by Borrower under paragraph 2 hereof; (ii) interest payable on the Note; (iii) principal of the Note; (iv) interest payable on advances made pursuant to paragraph 8 hereof; (v) principal of advances made pursuant to paragraph 8 hereof; (vi) interest payable on any Future Advance, provided that if more than one Future Advance is outstanding, Lender may apply payments received among the amounts of interest payable on the Future Advances in such order as Lender, in Lender's sole discretion, may determine; (vii) principal of any Future Advance, provided that if more than one Future Advance is outstanding, Lender may apply payments received among the principal balances of the Future Advances in such order as Lender, in Lender's sole discretion, may determine; and (viii) any other sums secured by this Instrument in such order as Lender, at Lender's option, may determine; provided, however, that Lender may, at Lender's option, apply any sums payable pursuant to paragraph 8 hereof prior to interest on and principal of the Note, but such application shall not otherwise affect the order of priority of application specified in this paragraph 3.

4. CHARGES; LIENS. Borrower shall pay all water and sewer rates, rents, taxes, assessments, premiums, and Other Impositions attributable to the Property at Lender's option in the manner provided under paragraph 2 hereof or, if not paid in such manner, by Borrower making payment, when due, directly to the payee thereof, or in such other manner as Lender may designate in writing. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph 4, and in the event Borrower shall make payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Borrower shall promptly discharge any lien which has, or may have, priority over or equality with, the lien of this Instrument, and Borrower shall pay, when due, the claims of all persons supplying labor or materials to or in connection with the Property. Without Lender's prior written permission, Borrower shall not allow any lien inferior to this Instrument to be perfected against the Property.

5. HAZARD INSURANCE. Borrower shall keep the improvements now existing or hereafter erected on the Property insured by carriers at all times satisfactory to Lender against loss by fire, hazards included within the term "extended coverage", rent loss and such other hazards, casualties, liabilities and contingencies as Lender (and, if this Instrument is on a leasehold, the ground lease) shall require and in such amounts and for such periods as Lender shall require. All premiums on insurance policies shall be paid, at Lender's option, in the manner provided under paragraph 2 hereof, or by Borrower making payment, when due, directly to the carrier, or in such other manner as Lender may designate in writing.

All insurance policies and renewals thereof shall be in a form acceptable to Lender and shall include a standard mortgage clause in favor of and in form acceptable to Lender. Lender shall have the right to hold the policies, and Borrower shall promptly furnish to Lender all renewal notices and all receipts of paid premiums. At least thirty days prior to the expiration date of a policy, Borrower shall deliver to Lender a renewal policy in form satisfactory to Lender. If this Instrument is on a leasehold, Borrower shall furnish Lender a duplicate of all policies, renewal notices, renewal policies and receipts of paid premiums if, by virtue of the ground lease, the originals thereof may not be supplied by Borrower to Lender.

In the event of loss, Borrower shall give immediate written notice to the insurance carrier and to Lender. Borrower hereby authorizes and empowers Lender as attorney-in-fact for Borrower to make proof of loss, to adjust and compromise any claim under insurance policies, to appear in and prosecute any action arising from such insurance policies, to collect and receive insurance proceeds, and to deduct therefrom Lender's expenses incurred in the collection of such proceeds; provided however, that nothing contained in this paragraph 5 shall require Lender to incur any expense or take any action hereunder. Borrower further authorizes Lender, at Lender's option, (a) to hold the balance of such proceeds to be used to reimburse Borrower for the cost of reconstruction or repair of the Property or (b) to apply the balance of such proceeds to the payment of the sums secured by this Instrument, whether or not then due, in the order of application set forth in paragraph 3 hereof (subject, however, to the rights of the lessor under the ground lease if this Instrument is on a leasehold).

If the insurance proceeds are held by Lender to reimburse Borrower for the cost of restoration and repair of the Property, the Property shall be restored to the equivalent of its original condition or such other condition as Lender may approve in writing. Lender may, at Lender's option, condition disbursement of said proceeds on Lender's approval of such plans and specifications of an architect satisfactory to Lender, contractor's cost estimates, architect's certificates, waivers of liens, sworn statements of mechanics and materialmen and such other evidence of costs, percentage completion of construction, application of payments, and satisfaction of liens as Lender may reasonably require. If the insurance proceeds are applied to the payment of the sums secured by this Instrument, any such application of proceeds to principal shall not extend or postpone the due dates of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amounts of such installments. If the Property is sold pursuant to paragraph 27 hereof or if Lender acquires title to the Property, Lender shall have all of the right, title and interest of Borrower in and to any insurance policies and unearned premiums thereon and in and to the proceeds resulting from any damage to the Property prior to such sale or acquisition.

6. PRESERVATION AND MAINTENANCE OF PROPERTY; LEASEHOLDS. Borrower (a) shall not commit waste or permit impairment or deterioration of the Property, (b) shall not abandon the Property, (c) shall restore or repair promptly and in a good and workmanlike manner all

or any part of the Property to the equivalent of its original condition, or such other condition as Lender may approve in writing, in the event of any damage, injury or loss thereto, whether or not insurance proceeds are available to cover in whole or in part the costs of such restoration or repair, (d) shall keep the Property, including improvements, fixtures, equipment, machinery and appliances thereon in good repair and shall replace fixtures, equipment, machinery and appliances on the Property when necessary to keep such items in good repair, (e) shall comply with all laws, ordinances, regulations and requirements of any governmental body applicable to the Property, (f) shall provide for professional management of the Property by a residential rental property manager satisfactory to Lender pursuant to a contract approved by Lender in writing, unless such requirement shall be waived by Lender in writing, (g) shall generally operate and maintain the Property in a manner to ensure maximum rentals, and (h) shall give notice in writing to Lender of and, unless otherwise directed in writing by Lender, appear in and defend any action or proceeding purporting to affect the Property, the security of this Instrument or the rights or powers of Lender. Neither Borrower nor any tenant or other person shall remove, demolish or alter any improvement now existing or hereafter erected on the Property or any fixture, equipment, machinery or appliance in or on the Property except when incident to the replacement of fixtures, equipment, machinery and appliances with items of like kind.

If this Instrument is on a leasehold, Borrower (i) shall comply with the provisions of the ground lease, (ii) shall give immediate written notice to Lender of any default by lessor under the ground lease or of any notice received by Borrower from such lessor of any default under the ground lease by Borrower, (iii) shall exercise any option to renew or extend the ground lease and give written confirmation thereof to Lender within thirty days after such option becomes exercisable, (iv) shall give immediate written notice to Lender of the commencement of any remedial proceedings under the ground lease by any party thereto and, if required by Lender, shall permit Lender as Borrower's attorney-in-fact to control and act for Borrower in any such remedial proceedings and (v) shall within thirty days after request by Lender obtain from the lessor under the ground lease and deliver to Lender the lessor's estoppel certificate required thereunder, if any. Borrower hereby expressly transfers and assigns to Lender the benefit of all covenants contained in the ground lease, whether or not such covenants run with the land, but Lender shall have no liability with respect to such covenants nor any other covenants contained in the ground lease.

Borrower shall not surrender the leasehold estate and interests herein conveyed nor terminate or cancel the ground lease creating said estate and interests, and Borrower shall not, without the express written consent of Lender, alter or amend said ground lease. Borrower covenants and agrees that there shall not be a merger of the ground lease, or of the leasehold estate created thereby, with the fee estate covered by the ground lease by reason of said leasehold estate or said fee estate, or any part of either, coming into common ownership, unless Lender shall consent in writing to such merger; if Borrower shall acquire such fee estate, then this Instrument shall simultaneously and without further action be spread so as to become a lien on such fee estate.

7. USE OF PROPERTY. Unless required by applicable law or unless Lender has otherwise agreed in writing, Borrower shall not allow changes in the use for which all or any part of the Property was intended at the time this Instrument was executed. Borrower shall not initiate or acquiesce in a change in the zoning classification of the Property without Lender's prior written consent.

8. PROTECTION OF LENDER'S SECURITY. If Borrower fails to perform the covenants and agreements contained in this Instrument, or if any action or proceeding is commenced which affects the Property or title thereto or the interest of Lender therein, including, but not limited to, eminent domain, insolvency, code enforcement, or arrangements or proceedings involving a bankrupt or decedent, then Lender at Lender's option may make such appearances, disburse such sums and take such action as Lender deems necessary, in its sole discretion, to protect Lender's interest, including, but not limited to, (i) disbursement of attorney's fees, (ii) entry upon the Property to make repairs, (iii) procurement of satisfactory insurance as provided in paragraph 5 hereof, and (iv) if this Instrument is on a leasehold, exercise of any option to renew or extend the ground lease on behalf of Borrower and the curing of any default of Borrower in the terms and conditions of the ground lease.

Any amounts disbursed by Lender pursuant to this paragraph 8, with interest thereon, shall become additional indebtedness of Borrower secured by this Instrument. Unless Borrower and Lender agree to other terms of payment, such amounts shall be immediately due and payable and shall bear interest from the date of disbursement at the rate stated in the Note unless collection from Borrower of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate which may be collected from Borrower under applicable law. Borrower hereby covenants and agrees that Lender shall be subrogated to the lien of any mortgage or other lien discharged, in whole or in part, by the indebtedness secured hereby. Nothing contained in this paragraph 8 shall require Lender to incur any expense or take any action hereunder.

9. INSPECTION. Lender may make or cause to be made reasonable entries upon and inspections of the Property.

10. BOOKS AND RECORDS. Borrower shall keep and maintain at all times at Borrower's address stated below, or such other place as Lender may approve in writing, complete and accurate books of accounts and records adequate to reflect correctly the results of the operation of the Property and copies of all written contracts, leases and other instruments which affect the Property. Such books, records, contracts, leases and other instruments shall be subject to examination and inspection at any reasonable time by Lender. Upon Lender's request, Borrower shall furnish to Lender, within one hundred and twenty days after the end of each fiscal year of Borrower, a balance sheet, a statement of income and expenses of the Property and a statement of changes in financial position, each in reasonable detail and certified by Borrower and, if Lender shall require, by an independent certified public accountant. Borrower shall furnish, together with the foregoing financial statements and at any other time upon Lender's request, a rent schedule for the Property, certified by Borrower, showing the name of each tenant, and for each tenant, the space occupied, the lease expiration date, the rent payable and the rent paid.

11. CONDEMNATION. Borrower shall promptly notify Lender of any action or proceeding relating to any condemnation or other taking, whether direct or indirect, of the Property, or part thereof, and Borrower shall appear in and prosecute any such action or proceeding unless otherwise directed by Lender in writing. Borrower authorizes Lender, at Lender's option, as attorney-in-fact for Borrower, to commence, appear in and prosecute, in Lender's or Borrower's name, any action or proceeding relating to any condemnation or other taking of the Property, whether direct or indirect, and to settle or compromise any claim in connection with such condemnation or other taking. The proceeds of any award, payment or claim for damages, direct or consequential, in connection with any condemnation or other taking, whether direct or indirect, of the Property, or part thereof, or for conveyances in lieu of condemnation, are hereby assigned to and shall be paid to Lender subject, if this Instrument is on a leasehold, to the rights of lessor under the ground lease.

Borrower authorizes Lender to apply such awards, payments, proceeds or damages, after the deduction of Lender's expenses incurred in the collection of such amounts, at Lender's option, to restoration or repair of the Property or to payment of the sums secured by this Instrument, whether or not then due, in the order of application set forth in paragraph 3 hereof, with the balance, if any, to Borrower. Unless Borrower and Lender otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly installments referred to in paragraphs 1 and 2 hereof or change the amount of such installments. Borrower agrees to execute such further evidence of assignment of any awards, proceeds, damages or claims arising in connection with such condemnation or taking as Lender may require.

12. BORROWER AND LIEN NOT RELEASED. From time to time, Lender may, at Lender's option, without giving notice to or obtaining the consent of Borrower, Borrower's successors or assigns or of any junior lienholder or guarantors, without liability on Lender's part and notwithstanding Borrower's breach of any covenant or agreement of Borrower in this Instrument, extend the time for payment of said indebtedness or any part thereof, reduce the payments thereon, release anyone liable on any of said indebtedness, accept a renewal note or notes therefor, modify the terms and time of payment of said indebtedness, release from the lien of this Instrument any part of the Property, take or release other or additional security, reconvey any part of the Property, consent to any map or plan of the Property, consent to the granting of any easement, join in any extension or subordination agreement, and agree in writing with Borrower to modify the rate of interest or period of amortization of the Note or change the amount of the monthly installments payable thereunder. Any actions taken by Lender pursuant to the terms of this paragraph 12 shall not affect the obligation of Borrower or Borrower's successors or assigns to pay the sums secured by this Instrument and to observe the covenants of Borrower contained herein, shall not affect the guaranty of any person, corporation, partnership or other entity for payment of the indebtedness secured hereby, and shall not affect the lien or priority of lien hereof on the Property. Borrower shall pay Lender a reasonable service charge, together with such title insurance premiums and attorney's fees as may be incurred at Lender's option, for any such action if taken at Borrower's request.

13. FORBEARANCE BY LENDER NOT A WAIVER. Any forbearance by Lender in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any right or remedy. The acceptance by Lender of payment of any sum secured by this Instrument after the due date of such payment shall not be a waiver of Lender's right to either require prompt payment when due of all other sums so secured or to declare a default for failure to make prompt payment. The procurement of insurance or the payment of taxes or other liens or charges by Lender shall not be a waiver of Lender's right to accelerate the maturity of the indebtedess secured by this Instrument, nor shall Lender's receipt of any awards, proceeds or damages under paragraphs 5 and 11 hereof operate to cure or waive Borrower's default in payment of sums secured by this Instrument.

14. ESTOPPEL CERTIFICATE. Borrower shall within ten days of a written request from Lender furnish Lender with a written statement, duly acknowledged, setting forth the sums secured by this Instrument and any right of set-off, counterclaim or other defense which exists against such sums and the obligations of this Instrument.

15. UNIFORM COMMERCIAL CODE SECURITY AGREEMENT. This Instrument is intended to be a security agreement pursuant to the Uniform Commercial Code for any of the items specified above as part of the Property which, under applicable law, may be subject to a security interest pursuant to the Uniform Commercial Code, and Borrower hereby grants Lender a security interest in said items. Borrower agrees that Lender may file this Instrument, or a reproduction thereof, in the real estate records or other appropriate index, as a financing statement for any of the items specified above as part of the Property. Any reproduction of this Instrument or of any other security agreement or financing statement shall be sufficient as a financing statement. In addition, Borrower agrees to execute and deliver to Lender, upon Lender's request, any financing statements, as well as extensions, renewals and amendments thereof, and reproductions of this Instrument in such form as Lender may require to perfect a security interest with respect to said items. Borrower shall pay all costs of filing such financing statements and any extensions, renewals, amendments and releases thereof, and shall pay all reasonable costs and expenses of any record searches for financing statements Lender may reasonably require. Without the prior written consent of Lender, Borrower shall not create or suffer to be created pursuant to the Uniform Commercial Code any other security interest in said items, including replacements and additions thereto. Upon Borrower's breach of any covenant or agreement of Borrower contained in this Instrument, including the covenants to pay when due all sums secured by this Instrument, Lender shall have the remedies of a secured party under the Uniform Commercial Code and, at Lender's option, may also invoke the remedies provided in paragraph 27 of this Instrument as to such items. In exercising any of said remedies, Lender may proceed against the items of real property and any items of personal property specified above as part of the Property separately or together and in any order whatsoever, without in any way affecting the availability of Lender's remedies under the Uniform Commercial Code or of the remedies provided in paragraph 27 of this Instrument.

16. LEASES OF THE PROPERTY. As used in this paragraph 16, the word "lease" shall mean "sublease" if this Instrument is on a leasehold. Borrower shall comply with and observe Borrower's obligations as landlord under all leases of the Property or any part thereof. Borrower will not lease any portion of the Property for non-residential use except with the prior written approval of Lender. Borrower, at Lender's request, shall furnish Lender with executed copies of all leases now existing or hereafter made of all or any part of the Property, and all leases now or hereafter entered into will be in form and substance subject to the approval of Lender. All leases of the Property shall specifically provide that such leases are subordinate to this Instrument; that the tenant attorns to Lender, such attornment to be effective upon Lender's acquisition of title to the Property; that the tenant agrees to execute such further evidences of attornment as Lender may from time to time request; that the attornment of the tenant shall not be terminated by foreclosure; and that Lender may, at Lender's option, accept or reject such attornments. Borrower shall not, without Lender's written consent, execute, modify, surrender or terminate, either orally or in writing, any lease now existing or hereafter made of all or any part of the Property providing for a term of three years or more, permit an assignment or sublease of such a lease without Lender's written consent, or request or consent to the subordination of any lease of all or any part of the Property to any lien subordinate to this Instrument. If Borrower becomes aware that any tenant proposes to do, or is doing, any act or thing which may give rise to any right of set-off against rent, Borrower shall (i) take such steps as shall be reasonably calculated to prevent the accrual of any right to a set-off against rent, (ii) notify Lender thereof and of the amount of said set-offs, and (iii) within ten days after such accrual, reimburse the tenant who shall have acquired such right to set-off or take such other steps as shall effectively discharge such set-off and as shall assure that rents thereafter due shall continue to be payable without set-off or deduction.

Upon Lender's request, Borrower shall assign to Lender, by written instrument satisfactory to Lender, all leases now existing or hereafter made of all or any part of the Property and all security deposits made by tenants in connection with such leases of the Property. Upon assignment by Borrower to Lender of any leases of the Property, Lender shall have all of the rights and powers possessed by Borrower prior to such assignment and Lender shall have the right to modify, extend or terminate such existing leases and to execute new leases, in Lender's sole discretion.

17. REMEDIES CUMULATIVE. Each remedy provided in this Instrument is distinct and cumulative to all other rights or remedies under this Instrument or afforded by law or equity, and may be exercised concurrently, independently, or successively, in any order whatsoever.

18. ACCELERATION IN CASE OF BORROWER'S INSOLVENCY. If Borrower shall voluntarily file a petition under the Federal Bankruptcy Act, as such Act may from time to time be amended, or under any similar or successor Federal statute relating to bankruptcy, insolvency, arrangements or reorganizations, or under any state bankruptcy or insolvency act, or file an answer in an involuntary proceeding admitting insolvency or inability to pay debts, or if Borrower shall fail to obtain a vacation or stay of involuntary proceedings brought for the reorganization, dissolution or liquidation of Borrower, or if Borrower shall be adjudged a bankrupt, or if a trustee or receiver shall be appointed for Borrower or Borrower's property, or if the Property shall become subject to the jurisdiction of a Federal bankruptcy court or similar state court, or if Borrower shall make an assignment for the benefit of Borrower's creditors, or if there is an attachment, execution or other judicial seizure of any portion of Borrower's assets and such seizure is not discharged within ten days, then Lender may, at Lender's option, declare all of the sums secured by this Instrument to be immediately due and payable without prior notice to Borrower, and Lender may invoke any remedies permitted by paragraph 27 of this Instrument. Any attorney's fees and other expenses incurred by Lender in connection with Borrower's bankruptcy or any of the other aforesaid events shall be additional indebtedness of Borrower secured by this Instrument pursuant to paragraph 8 hereof.

19. TRANSFERS OF THE PROPERTY OR BENEFICIAL INTERESTS IN BORROWER; ASSUMPTION. On sale or transfer of (i) all or any part of the Property, or any interest therein, or (ii) beneficial interests in Borrower (if Borrower is not a natural person or persons but is a corporation, partnership, trust or other legal entity), Lender may, at Lender's option, declare all of the sums secured by this Instrument to be immediately due and payable, and Lender may invoke any remedies permitted by paragraph 27 of this Instrument. This option shall not apply in case of

(a) transfers by devise or descent or by operation of law upon the death of a joint tenant or a partner;

(b) sales or transfers when the transferee's creditworthiness and management ability are satisfactory to Lender and the transferee has executed, prior to the sale or transfer, a written assumption agreement containing such terms as Lender may require, including, if required by Lender, an increase in the rate of interest payable under the Note;

(c) the grant of a leasehold interest in a part of the Property of three years or less (or such longer lease term as Lender may permit by prior written approval) not containing an option to purchase (except any interest in the ground lease, if this Instrument is on a leasehold);

(d) sales or transfers of beneficial interests in Borrower provided that such sales or transfers, together with any prior sales or transfers of beneficial interests in Borrower, but excluding sales or transfers under subparagraphs (a) and (b) above, do not result in more than 49% of the beneficial interests in Borrower having been sold or transferred since commencement of amortization of the Note; and

(e) sales or transfers of fixtures or any personal property pursuant to the first paragraph of paragraph 6 hereof.

20. NOTICE. Except for any notice required under applicable law to be given in another manner, (a) any notice to Borrower provided for in this Instrument or in the Note shall be given by mailing such notice by certified mail addressed to Borrower at Borrower's address stated below or at such other address as Borrower may designate by notice to Lender as provided herein, and (b) any notice to Lender shall be given by certified mail, return receipt requested, to Lender's address stated herein or to such other address as Lender may designate by notice to Borrower as provided herein. Any notice provided for in this Instrument or in the Note shall be deemed to have been given to Borrower or Lender when given in the manner designated herein.

21. SUCCESSORS AND ASSIGNS BOUND; JOINT AND SEVERAL LIABILITY; AGENTS; CAPTIONS. The covenants and agreements herein contained shall bind, and the rights hereunder shall inure to, the respective successors and assigns of Lender and Borrower, subject to the provisions of paragraph 19 hereof. All covenants and agreements of Borrower shall be joint and several. In exercising any rights hereunder or taking any actions provided for herein, Lender may act through its employees, agents or independent contractors as authorized by Lender. The captions and headings of the paragraphs of this Instrument are for convenience only and are not to be used to interpret or define the provisions hereof.

22. UNIFORM MULTIFAMILY INSTRUMENT; GOVERNING LAW; SEVERABILITY. This form of multifamily instrument combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property and related fixtures and personal property. This Instrument shall be governed by the law of the jurisdiction in which the Property is located. In the event that any provision of this Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Instrument or the Note which can be given effect without the conflicting provisions, and to this end the provisions of this

Instrument and the Note are declared to be severable. In the event that any applicable law limiting the amount of interest or other charges permitted to be collected from Borrower is interpreted so that any charge provided for in this Instrument or in the Note, whether considered separately or together with other charges levied in connection with this Instrument and the Note, violates such law, and Borrower is entitled to the benefit of such law, such charge is hereby reduced to the extent necessary to eliminate such violation. The amounts, if any, previously paid to Lender in excess of the amounts payable to Lender pursuant to such charges as reduced shall be applied by Lender to reduce the principal of the indebtedness evidenced by the Note. For the purpose of determining whether any applicable law limiting the amount of interest or other charges permitted to be collected from Borrower has been violated, all indebtedness which is secured by this Instrument or evidenced by the Note and which constitutes interest, as well as all other charges levied in connection with such indebtedness which constitute interest, shall be deemed to be allocated and spread over the stated term of the Note. Unless otherwise required by applicable law, such allocation and spreading shall be effected in such a manner that the rate of interest computed thereby is uniform throughout the stated term of the Note.

23. WAIVER OF STATUTE OF LIMITATIONS. Borrower hereby waives the right to assert any statute of limitations as a bar to the enforcement of the lien of this Instrument or to any action brought to enforce the Note or any other obligation secured by this Instrument.

24. WAIVER OF MARSHALLING. Notwithstanding the existence of any other security interests in the Property held by Lender or by any other party, Lender shall have the right to determine the order in which any or all of the Property shall be subjected to the remedies provided herein. Lender shall have the right to determine the order in which any or all portions of the indebtedness secured hereby are satisfied from the proceeds realized upon the exercise of the remedies provided herein. Borrower, any party who consents to this Instrument and any party who now or hereafter acquires a security interest in the Property and who has actual or constructive notice hereof hereby waives any and all right to require the marshalling of assets in connection with the exercise of any of the remedies permitted by applicable law or provided herein.

25. CONSTRUCTION LOAN PROVISIONS. Borrower agrees to comply with the covenants and conditions of the Construction Loan Agreement, if any, which is hereby incorporated by reference in and made a part of this Instrument. All advances made by Lender pursuant to the Construction Loan Agreement shall be indebtedness of Borrower secured by this Instrument, and such advances may be obligatory as provided in the Construction Loan Agreement. All sums disbursed by Lender prior to completion of the improvements to protect the security of this Instrument up to the principal amount of the Note shall be treated as disbursements pursuant to the Construction Loan Agreement. All such sums shall bear interest from the date of disbursement at the rate stated in the Note, unless collection from Borrower of interest at such rate would be contrary to applicable law in which event such amounts shall bear interest at the highest rate which may be collected from Borrower under applicable law and shall be payable upon notice from Lender to Borrower requesting payment therefor.

From time to time as Lender deems necessary to protect Lender's interests, Borrower shall, upon request of Lender, execute and deliver to Lender, in such form as Lender shall direct, assignments of any and all rights or claims which relate to the construction of the Property and which Borrower may have against any party supplying or who has supplied labor, materials or services in connection with construction of the Property. In case of breach by Borrower of the covenants and conditions of the Construction Loan Agreement, Lender, at Lender's option, with or without entry upon the Property, (i) may invoke any of the rights or remedies provided in the Construction Loan Agreement, (ii) may accelerate the sums secured by this Instrument and invoke those remedies provided in paragraph 27 hereof, or (iii) may do both. If, after the commencement of amortization of the Note, the Note and this Instrument are sold by Lender, from and after such sale the Construction Loan Agreement shall cease to be a part of this Instrument and Borrower shall not assert any right of set-off, counterclaim or other claim or defense arising out of or in connection with the Construction Loan Agreement against the obligations of the Note and this Instrument.

26. ASSIGNMENT OF RENTS; APPOINTMENT OF RECEIVER; LENDER IN POSSESSION. As part of the consideration for the indebtedness evidenced by the Note, Borrower hereby absolutely and unconditionally assigns and transfers to Lender all the rents and revenues of the Property, including those now due, past due, or to become due by virtue of any lease or other agreement for the occupancy or use of all or any part of the Property, regardless of to whom the rents and revenues of the Property are payable. Borrower hereby authorizes Lender or Lender's agents to collect the aforesaid rents and revenues and hereby directs each tenant of the Property to pay such rents to Lender or Lender's agents; provided, however, that prior to written notice given by Lender to Borrower of the breach by Borrower of any covenant or agreement of Borrower in this Instrument, Borrower shall collect and receive all rents and revenues of the Property as trustee for the benefit of Lender and Borrower, to apply the rents and revenues so collected to the sums secured by this Instrument in the order provided in paragraph 3 hereof with the balance, so long as no such breach has occurred, to the account of Borrower, it being intended by Borrower and Lender that this assignment of rents constitutes an absolute assignment and not an assignment for additional security only. Upon delivery of written notice by Lender to Borrower of the breach by Borrower of any covenant or agreement of Borrower in this Instrument, and without the necessity of Lender entering upon and taking and maintaining full control of the Property in person, by agent or by a court-appointed receiver, Lender shall immediately be entitled to possession of all rents and revenues of the Property as specified in this paragraph 26 as the same become due and payable, including but not limited to rents then due and unpaid, and all such rents shall immediately upon delivery of such notice be held by Borrower as trustee for the benefit of Lender only; provided, however, that the written notice by Lender to Borrower of the breach by Borrower shall contain a statement that Lender exercises its rights to such rents. Borrower agrees that commencing upon delivery of such written notice of Borrower's breach by Lender to Borrower, each tenant of the Property shall make such rents payable to and pay such rents to Lender or Lender's agents on Lender's written demand to each tenant therefor, delivered to each tenant personally, by mail or by delivering such demand to each rental unit, without any liability on the part of said tenant to inquire further as to the existence of a default by Borrower.

Borrower hereby covenants that Borrower has not executed any prior assignment of said rents, that Borrower has not performed, and will not perform, any acts or has not executed, and will not execute, any instrument which would prevent Lender from exercising its rights under this paragraph 26, and that at the time of execution of this Instrument there has been no anticipation or prepayment of any of the rents of the Property for more than two months prior to the due dates of such rents. Borrower covenants that Borrower will not hereafter collect or accept payment of any rents of the Property more than two months prior to the due dates of such rents. Borrower further covenants that Borrower will execute and deliver to Lender such further assignments of rents and revenues of the Property as Lender may from time to time request.

Upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, Lender may in person, by agent or by a court-appointed receiver, regardless of the adequacy of Lender's security, enter upon and take and maintain full control of the Property in order to perform all acts necessary and appropriate for the operation and maintenance thereof including, but not limited to, the execution, cancellation or modification of leases, the collection of all rents and revenues of the Property, the making of repairs to the Property and the execution or termination of contracts providing for the management or maintenance of the Property, all on such terms as are deemed best to protect the security of this Instrument. In the event Lender elects to seek the appointment of a receiver for the Property upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, Borrower hereby expressly consents to the appointment of such receiver. Lender or the receiver shall be entitled to receive a reasonable fee for so managing the Property.

All rents and revenues collected subsequent to delivery of written notice by Lender to Borrower of the breach by Borrower of any covenant or agreement of Borrower in this Instrument shall be applied first to the costs, if any, of taking control of and managing the Property and collecting the rents, including, but not limited to, attorney's fees, receiver's fees, premiums on receiver's bonds, costs of repairs to the Property, premiums on insurance policies, taxes, assessments and other charges on the Property, and the costs of discharging any obligation or liability of Borrower as lessor or landlord of the Property and then to the sums secured by this Instrument. Lender or the receiver shall have access to the books and records used in the operation and maintenance of the Property and shall be liable to account only for those rents actually received. Lender shall not be liable to Borrower, anyone claiming under or through Borrower or anyone having an interest in the Property by reason of anything done or left undone by Lender under this paragraph 26.

If the rents of the Property are not sufficient to meet the costs, if any, of taking control of and managing the Property and collecting the rents, any funds expended by Lender for such purposes shall become indebtedness of Borrower to Lender secured by this Instrument pursuant to paragraph 8 hereof. Unless Lender and Borrower agree in writing to other terms of payment, such amounts shall be payable upon notice from Lender to Borrower requesting payment thereof and shall bear interest from the date of disbursement at the rate stated in the Note unless payment of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate which may be collected from Borrower under applicable law.

Any entering upon and taking and maintaining of control of the Property by Lender or the receiver and any application of rents as provided herein shall not cure or waive any default hereunder or invalidate any other right or remedy of Lender under applicable law or provided herein. This assignment of rents of the Property shall terminate at such time as this Instrument ceases to secure indebtedness held by Lender.

Non-Uniform Covenants. Borrower and Lender further covenant and agree as follows:

27. ACCELERATION; REMEDIES. Upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, including, but not limited to, the covenants to pay when due any sums secured by this Instrument, Lender at Lender's option may declare all of the sums secured by this Instrument to be immediately due and payable without further demand, and may invoke the power of sale and any other remedies permitted by applicable law or provided herein. Borrower acknowledges that the power of sale herein granted may be exercised by Lender without prior judicial hearing. Borrower has the right to bring an action to assert the non-existence of a breach or any other defense of Borrower to acceleration and sale. Lender shall be entitled to collect all costs and expenses incurred in pursuing such remedies, including, but not limited to, attorney's fees and costs of documentary evidence, abstracts and title reports.

If the power of sale is invoked, Trustee shall execute a written notice of the occurrence of an event of default and of the election to cause the Property to be sold and shall record such notice in each Recording District in which the Property or some part thereof is located. Trustee shall mail copies of such notice in the manner provided by the laws of Alaska to Borrower and to such other persons as the laws of Alaska prescribe. Trustee shall give notice of sale and shall sell the Property according to the laws of Alaska. Trustee may sell the Property at the time and place and under the terms designated in the notice of sale in one or more parcels and in such order as Trustee may determine. Trustee may postpone sale of all or any parcel of the Property by public announcement at the time and place of any previously scheduled sale. Lender or Lender's designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser Trustee's deed conveying the Property so sold without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements made therein. Trustee shall apply the proceeds of the sale in the following order: (a) to all costs and expenses of the sale, including, but not limited to, Trustee's and attorney's fees and costs of title evidence; (b) to all sums secured by this Instrument in such order as Lender, in Lender's sole discretion, directs; and (c) the excess, if any, to the person or persons legally entitled thereto.

28. RECONVEYANCE. Upon payment of all sums secured by this Instrument, Lender shall request Trustee to reconvey the Property and shall surrender this Instrument and all notes evidencing indebtedness secured by this Instrument to Trustee. Trustee shall reconvey the Property without warranty to the person or persons legally entitled thereto. Such person or persons shall pay Trustee's reasonable costs incurred in so reconveying the Property.

29. SUBSTITUTE TRUSTEE. Lender at Lender's option may from time to time remove Trustee and appoint a successor trustee to any Trustee appointed hereunder. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee herein and by applicable law.

30. FUTURE ADVANCES. Upon request of Borrower, Lender, at Lender's option so long as this Instrument secures indebtedness held by Lender, may make Future Advances to Borrower. Such Future Advances, with interest thereon, shall be secured by this Instrument when evidenced by promissory notes stating that said notes are secured hereby. At no time shall the principal amount of the indebtedness secured by this Instrument, not including sums advanced in accordance herewith to protect the security of this Instrument, exceed the original amount of the Note (US $.....) plus the additional sum of US $.....

IN WITNESS WHEREOF, Borrower has executed this Instrument or has caused the same to be executed by its representatives thereunto duly authorized.

.....

.....

.....

.....

.....

.....

Borrower's Address:

.....

.....

CORPORATE ACKNOWLEDGMENT

STATE OF ALASKA, ... Judicial District ss:

On this ..... day of ....., 19....., before me, the undersigned, a Notary Public in and for the State of Alaska, personally appeared ....., to me known and known to me to be ..... of ....., a corporation named as Trustor in the foregoing deed, and acknowledged to me that ....he.... executed the same on behalf of said corporation freely and voluntarily for the uses and purposes therein mentioned.

Witness my hand and official seal the day and year in this certificate first above written.

My Commission expires:

.....

Notary Public for Alaska

INDIVIDUAL ACKNOWLEDGMENT

STATE OF ALASKA, ... Judicial District ss:

On this ..... day of ....., 19....., before me, the undersigned, a Notary Public in and for the State of Alaska, personally appeared ....., to me known and known to me to be the person(s) named as Trustor(s) in the foregoing deed, and acknowledged to me that ....he .... executed the same freely and voluntarily for the uses and purposes therein mentioned.

Witness my hand and official seal the day and year in this certificate first above written.

My Commission expires:

.....

Notary Public for Alaska

INDIVIDUAL LIMITED PARTNERSHIP ACKNOWLEDGMENT

STATE OF ALASKA, ... Judicial District ss:

On this ..... day of ....., 19....., before me, the undersigned, a Notary Public in and for the State of Alaska, personally appeared ....., to me known and known to me to be the general partner(s) of ....., a limited partnership named as Trustor in the foregoing deed, and acknowledged to me that ....he .... executed the same on behalf of said limited partnership freely and voluntarily for the uses and purposes therein mentioned.

Witness my hand and official seal the day and year in this certificate first above written.

My Commission expires:

.....

Notary Public for Alaska

CORPORATE LIMITED PARTNERSHIP ACKNOWLEDGMENT

STATE OF ALASKA, ... Judicial District ss:

On this ..... day of ....., 19....., before me, the undersigned, a Notary Public in and for the State of Alaska, personally appeared ....., to me known and known to me to be the ..... of ....., a corporation, general partner of ....., the limited partnership named as Trustor in the foregoing deed, and acknowledged to me that ....he .... executed the same on behalf of said limited partnership freely and voluntarily for the uses and purposes therein mentioned.

Witness my hand and official seal the day and year in this certificat\ first above written.

My Commission expires:

.....

Notary Public for Alaska

REQUEST FOR RECONVEYANCE

TO TRUSTEE:

The undersigned is the holder of the note or notes secured by this Instrument. Said note or notes, together with all other indebtedness secured by this Instrument, have been paid in full. You are hereby directed to cancel said note or notes and this Instrument, which are delivered hereby, and to reconvey, without warranty, all the estate now held by you under this Instrument to the person or persons legally entitled thereto.

Dated: .....

Ak Perm Fund

ADJUSTABLE RATE NOTE
(WITH LIMIT ON INTEREST RATE CHANGES)

This Document Contains Provisions Allowing for Changes in the Interest Rate. Increases in the Interest Rate will Result in Higher Payments. Decreases in the Interest Rate will Result in Lower Payments.

....., Alaska

....., 19.....

.....

(Property Address)
[Add Borrower's Post Office Address, if Different]

1. BORROWER'S PROMISE TO PAY

In return for a loan that I have received, I promise to pay U.S. $..... (this amount is called "principal"), plus interest, to the order of the Lender. The Lender is .....
..... I understand that the Lender may transfer this Note. The Lender or anyone who takes this Note by transfer and who is entitled to receive payments under this Note is called the "Note Holder."

2. INTEREST

Interest will be charged on that part of principal which has not been paid. Interest will be charged beginning on the date of this Note and continuing until the full amount of principal has been paid.

Beginning on the date of this Note, I will pay interest at a yearly rate of .....%. This rate is called the "Initial Rate of Interest." The rate of interest I will pay will change in accordance with Section 4 of this Note.

The rate of interest required by this Section and Section 4 of this Note is the rate I will pay both before and after any default described in Section 7(B) of this Note.

3. PAYMENTS

(A) Time and Place of Payments

I will pay principal and interest by making payments every month.

I will make my monthly payments on the ..... day of each month beginning on ....., 19..... I will make these payments every month until I have paid all of the principal and interest and any other charges described below that I may owe under this Note. If, on ....., 20....., I still owe amounts under this Note, I will pay those amounts in full on that date, which is called the "maturity date."

I will make my monthly payments at .....
..... or at a different place if required by the Note Holder.

(B) Amount of Monthly Payments

My monthly payment will be in the amount of U.S. $..... This amount will change if the rate of interest that I must pay changes. The Note Holder will determine my new rate of interest and the changed amount of my monthly payment in accordance with Section 4 of this Note.

4. INTEREST RATE AND MONTHLY PAYMENT CHANGES

(A) Change Dates

Beginning in 19....., the rate of interest I will pay may change on the ..... day of the month of ..... and on that day every ☐ **12th** ☐ **30th** *[Check only one box]* month thereafter. Each date on which the rate of interest could change is called a "Change Date."

(B) The Index

Any changes in the rate of interest will be based on changes in the Index. The "Index" is ☐ the "Contract Interest Rate, Purchase of Previously Occupied Homes, National Average for all Major Types of Lenders" as made available by the Federal Home Loan Bank Board, or ☐ the monthly average yield on United States Treasury securities adjusted to a constant maturity of 3 years as made available by the Federal Reserve Board.

[Check only one box]

If the Index is no longer available, the Note Holder will choose a new index which is based upon comparable information. The Note Holder will give me notice of this choice.

The first Index figure for this Note is .....%. It is called the "Original Index."

The most recently available Index figure as of the date ..... days before each Change Date is called the "Current Index."

(C) Calculation of Changes

Before each Change Date, the Note Holder will determine any change in my rate of interest. The Note Holder will calculate the amount of the difference, if any, between the Current Index and the Original Index. If the Current Index is higher than the Original Index, the Note Holder will add the difference to the Initial Rate of Interest. If the Current Index is lower than the Original Index, the Note Holder will subtract the difference from the Initial Rate of Interest. The Note Holder will then round the result of this addition or subtraction to the nearest one-eighth of one percentage point (0.125%). Subject to the limit stated in Section 4(D) below, this rounded amount will be the new rate of interest I am required to pay.

The Note Holder will then determine the new amount of my monthly payment that would be sufficient to repay the outstanding principal balance in full on the maturity date at my new rate of interest in substantially equal payments. The result of this calculation will be the new amount of my monthly payment.

(D) Limit on Interest Rate Changes

The rate of interest I am required to pay shall never be increased or decreased on any single Change Date by more than ☐ two percentage points (2.0%) ☐ five percentage points (5.0%) ***[Check only one box]*** from the rate of interest I have been paying.

(E) Effective Date of Changes

The new rate of interest will become effective on each Change Date. I will pay the new amount of my monthly payment each month beginning on the first monthly payment date after the Change Date until the amount of my monthly payment is again changed or I have fully repaid the loan.

(F) Notice of Changes

The Note Holder will mail or deliver to me a notice of any changes in the amount of my monthly payment before the effective date of any change. The notice will include information required by law to be given me and also the title and telephone number of a person who will answer any question I may have regarding the notice.

5. BORROWER'S RIGHT TO PREPAY

I have the right to make payments of principal at any time before they are due. A payment of principal only is known as a "prepayment." When I make a prepayment, I will tell the Note Holder in a letter that I am doing so.

I may make a full prepayment or a partial prepayment without paying any penalty. The Note Holder will use all of my prepayments to reduce the amount of principal that I owe under this Note. If I make a partial prepayment, there will be no delays in the due dates of my monthly payments unless the Note Holder agrees in writing to those delays. My partial prepayment will reduce the amount of my monthly payments only after the first Change Date following my partial prepayment. However, any reduction due to my partial prepayment may be offset by an interest rate increase.

6. LOAN CHARGES

If a law, which applies to this loan and which sets maximum loan charges, is finally interpreted so that the interest or other loan charges collected or to be collected in connection with this loan exceed the permitted limits, then: (i) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (ii) any sums already collected from me which exceeded permitted limits will be refunded to me. The Note Holder may choose to make this refund by reducing the principal I owe under this Note or by making a direct payment to me. If a refund reduces principal, the reduction will be treated as a partial prepayment.

7. BORROWER'S FAILURE TO PAY AS REQUIRED

(A) Late Charge for Overdue Payments

If the Note Holder has not received the full amount of any of my monthly payments by the end of ..... calendar days after the date it is due, I will pay a late charge to the Note Holder. The amount of the charge will be .....% of my overdue payment of principal and interest. I will pay this late charge only once on any late payment.

(B) Default

If I do not pay the full amount of each monthly payment on time, I will be in default.

(C) Notice of Default

If I am in default, the Note Holder may send me a written notice telling me that if I do not pay the overdue amount by a certain date, the Note Holder may require me to pay immediately the full amount of principal which has not been paid and all the interest that I owe on that amount. That date must be at least 30 days after the date on which the notice is mailed to me or if it is not mailed, 30 days after the date on which it is delivered to me.

(D) Payment of Note Holder's Costs and Expenses

If the Note Holder has required me to pay immediately in full as described above, the Note Holder will have the right to be paid back for all of its costs and expenses in enforcing this Note to the extent not prohibited by applicable law. Those expenses include, for example, reasonable attorneys' fees.

8. GIVING OF NOTICES

Unless applicable law requires a different method of giving notice, any notice that must be given to me under this Note will be given by delivering it or by mailing it by first class mail addressed to me at the Property Address above or at a different address if I give the Note Holder a notice of my different address.

Any notice that must be given to the Note Holder under this Note will be given by mailing it by first class mail to the Note Holder at the address stated in Section 3(A) above or at a different address if I am given a notice of that different address.

9. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully and personally obligated to keep all of the promises made in this Note, including the promise to pay the full amount owed. Any person who is a guarantor, surety, or endorser of this Note is also obligated to do these things. Any person who takes over the obligations under this Note or any person who takes over the obligations of a guarantor, surety, or endorser of this Note is also obligated to keep all of the promises made in this Note. The Note Holder may enforce its rights under this Note against each person individually or against all of us together. This means that any one of us may be required to pay all of the amounts owed under this Note.

10. WAIVERS

I and any other person who has obligations under this Note waive the rights of presentment and notice of dishonor. "Presentment" means the right to require the Note Holder to demand payment of amounts due. "Notice of dishonor" means the right to require the Note Holder to give notice that amounts due have not been paid.

11. THIS NOTE SECURED BY A DEED OF TRUST

In addition to the protections given to the Note Holder under this Note, a Deed of Trust, dated the same as this Note, protects the Note Holder from possible losses which might result if I do not keep the promises which I make in this Note. That Deed of Trust describes how and under what conditions I may be required to make immediate payment in full of all amounts I owe under this Note. Some of those conditions are described in Uniform Covenant 17 of that Deed of Trust, which provides as follows:

> **"Transfer of the Property; Assumption.** If all or any part of the Property or an interest therein is sold or transferred by Borrower without Lender's prior written consent, excluding (a) the creation of a lien or encumbrance subordinate to this Deed of Trust, (b) the creation of a purchase money security interest for household appliances, (c) a transfer by devise, descent or by operation of law upon the death of a joint tenant or (d) the grant of any leasehold interest of three years or less not containing an option to purchase, Lender may, at Lender's option, declare all the sums secured by this Deed of Trust to be immediately due and payable. Lender shall have waived such option to accelerate if, prior to the sale or transfer, Lender and the person to whom the Property is to be sold or transferred reach agreement in writing that the credit of such person is satisfactory to Lender and that the interest payable on the sums secured by this Deed of Trust shall be at such rate as Lender shall request. If Lender has waived the option to accelerate provided in this paragraph 17, and if Borrower's successor in interest has executed a written assumption agreement accepted in writing by Lender, Lender shall release Borrower from all obligations under this Deed of Trust and the Note. If Lender exercises such option to accelerate, Lender shall mail Borrower notice of acceleration in accordance with paragraph 14 hereof. Such notice shall provide a period of not less than 30 days from the date the notice is mailed within which Borrower may pay the sums declared due. If Borrower fails to pay such sums prior to the expiration of such period, Lender may, without further notice or demand on Borrower, invoke any remedies permitted by paragraph 18 hereof."

.....(Seal)
-Borrower

.....(Seal)
-Borrower

.....(Seal)
-Borrower

(Sign Original Only)

ADJUSTABLE RATE RIDER

(LIMIT ON INTEREST RATE CHANGES)

THIS ADJUSTABLE RATE RIDER is made this ..... day of ..... 19..... and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust, or Deed to Secure Debt (the "Security Instrument") of the same date given by the undersigned (the "Borrower") to secure Borrower's Adjustable Rate Note to ..... (the "Lender") of the same date (the "Note") and covering the property described in the Security Instrument and located at:

.....

(Property Address)

The Note Contains Provisions Allowing for Changes in the Interest Rate. Increases in the Interest Rate will Result in Higher Payments. Decreases in the Interest Rate will Result in Lower Payments.

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

A. INTEREST RATE AND MONTHLY PAYMENT CHANGES

The Note provides for an Initial Rate of Interest of .....%. Section 4 of the Note provides for changes in the interest rate and the monthly payments, as follows:

"(A) **Change Dates**

Beginning in 19....., the rate of interest I will pay may change on the ..... day of the month of ..... and on that day every ☐ **12th** ☐ **30th** *[Check only one box]* month thereafter. Each date on which the rate of interest could change is called a "Change Date."

(B) **The Index**

Any changes in the rate of interest will be based on changes in the Index. The "Index" is ☐ the "Contract Interest Rate, Purchase of Previously Occupied Homes, National Average for all Major Types of Lenders" as made available by the Federal Home Loan Bank Board, or ☐ the monthly average yield on United States Treasury securities adjusted to a constant maturity of 3 years as made available by the Federal Reserve Board.

[Check only one box]

If the Index is no longer available, the Note Holder will choose a new index which is based upon comparable information. The Note Holder will give me notice of this choice.

The first Index figure for this Note is .....%. It is called the "Original Index."

The most recently available Index figure as of the date ..... days before each Change Date is called the "Current Index."

(C) **Calculation of Changes**

Before each Change Date, the Note Holder will determine any change in my rate of interest. The Note Holder will calculate the amount of the difference, if any, between the Current Index and the Original Index. If the Current Index is higher than the Original Index, the Note Holder will add the difference to the Initial Rate of Interest. If the Current Index is lower than the Original Index, the Note Holder will subtract the difference from the Initial Rate of Interest. The Note Holder will then round the result of this addition or subtraction to the nearest one-eighth of one percentage point (0.125%). Subject to the limit stated in Section 4(D) below, this rounded amount will be the new rate of interest I am required to pay.

The Note Holder will then determine the new amount of my monthly payment that would be sufficient to repay the outstanding principal balance in full on the maturity date at my new rate of interest in substantially equal payments. The result of this calculation will be the new amount of my monthly payment.

(D) **Limit on Interest Rate Changes**

The rate of interest I am required to pay shall never be increased or decreased on any single Change Date by more than ☐ two percentage points (2.0%) ☐ five percentage points (5.0%) *[Check only one box]* from the rate of interest I have been paying.

(E) **Effective Date of Changes**

The new rate of interest will become effective on each Change Date. I will pay the new amount of my monthly payment each month beginning on the first monthly payment date after the Change Date until the amount of my monthly payment is again changed or I have fully repaid the loan.

(F) **Notice of Changes**

The Note Holder will mail or deliver to me a notice of any changes in the amount of my monthly payment before the effective date of any change. The notice will include information required by law to be given me and also the title and telephone number of a person who will answer any question I may have regarding the notice."

B. CHARGES; LIENS

Uniform Covenant 4 of the Security Instrument is amended to read as follows:

4. Charges; Liens. Borrower shall pay all taxes, assessments, and other charges, fines and impositions attributable to the Property which may attain a priority over this Security Instrument, and leasehold payments or ground rents, if any, in the manner provided under paragraph 2 hereof or, if not paid in such manner, by Borrower making payment, when due, directly to the payee thereof. Borrower shall promptly furnish to Lender all notices of amounts due under this paragraph, and in the event Borrower shall make payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Borrower shall promptly discharge any lien which has priority over this Security Instrument; provided, that Borrower shall not be required to discharge any such lien so long as Borrower: (a) shall agree in writing to the payment of the obligation secured by such lien in a manner acceptable to Lender; (b) shall in good faith contest such lien

SCOMM
#50:15

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

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

AGENDA

TUESDAY, 2/12/85, 3:30 p.m.
Room 124 (House Judiciary)

* HB 51 "An Act requiring banks to pay interest on money in reserve accounts held in connection with mortgage loans."

* HB 59 "An Act making a special appropriation to the Department of Natural Resources, division of parks, for the youth hostel loan fund; and providing for an effective date."

* HB 61 "An Act relating to loans for youth hostels"

For more information, contact John Hartle, room 411, 465-4919.

* Indicates first public hearing

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

February 12, 1985

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

Dear Representative Sund:

The Department of Natural Resources supports the concept of offering loans for youth hostel development, as described in Section 1 of House Bill 61. The addition of loans to the current grant program administered by the Division of Parks and Outdoor Recreation would allow for repayment of funds to the state, increase the flexibility of the program, and continue the development of hostels in Alaska.

The youth hostel program in Alaska is a largely volunteer program that receives minimal funding and staff support from the department. Hostels are established by local groups to foster opportunities for inexpensive educational travel and recreation. They provide safe and inexpensive overnight accomodations that are supervised by houseparents.

The department is unable to support the loan terms and conditions described in Section 2 of this bill because of the current fiscal forecast for declining state revenues. Loan terms and conditions should be compatible with those of other state loan funds, and should provide for equitable payments of loan interest to the state.

The department is also unable to support the appropriation to the youth hostel loan fund authorized by House Bill 59.

If we may provide additional information about the youth hostel program or our comments on these bills, please let me know.

Sincerely,

Esther C. Wunnicke
Commissioner

cc: Neil Johannsen
House Bill 61 File

10-J9LH

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 61

Title: Loans for Youth Hostels

Sponsor: M.M.Miller

Requestor: Housw Special Comm. Loans

Date of Request: 2/12/85

FISCAL DETAIL

Agency Affected: Division of Parks & Out. Rec

Program Category Affected: NRMC

BRU, Program or Subprogram(s) Affected:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: Carol J. Wilson

Phone: 465-2400

Division: Commissioners Office

Date: 2/12/85

Approved by Commissioner: [signature]

Date:

Agency: Natural Resources

Distribution (by Agency preparing fiscal note):

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

7/1/84

Alaska Council
American
Youth
Hostels
Inc.

Member of
International Youth Hostel
Federation

A non-profit association
organized as a community service
to provide year round opportunities for
outdoor recreation and inexpensive
educational travel through hosteling

P.O. BOX 4-1461, ANCHORAGE, ALASKA 99509 • 32ND AND MINNESOTA DRIVE (907) 266-4624 (info:)

MINUTES OF THE ANNUAL MEETING

ALASKA COUNCIL, AMERICAN YOUTH HOSTELS

OCTOBER 19 - 21, 1984
Homer, Alaska

The meeting was called to order by President Brian Bennett at 8:20 a.m. on October 20, 1984. Board members present included Pat McGee (Anchorage), Robert Butts (Juneau), Ray Girves (Soldotna), Denton Pearson (Sitka), Dave Thomson (Juneau), Sandra Ensley (Ketchikan), Walt Morgan (Alyeska), Amythe Strobell (Fairbanks), Margaret Synan (Anchorage), Wayne Stout (Tok), and John Shaffer (Anchorage). Other participants included Michael Lee and Shirley Howe of Alaska State Parks and Outdoor Recreation, Barbara Shaffer (Accountant), Michelle McDowell (Tok Alternate) and guests Mary Dillion, Michael Zens and Bill Sullivan.

It was MOVED and SECONDED that the minutes of the previous two meetings be approved. The motion PASSED.

A discussion was then held on the agenda and meeting format. Several additions were made and the agenda was MOVED, SECONDED and PASSED.

A Nominating Committee was then appointed that was charged with preparing a slate of new officers. Walt was selected as Chairperson. Other members included Denton, Margaret, and Sandra.

PRESIDENT'S REPORT

Brian noted that the Council's Charter from the National Council was approved in February 1984 and will be valid through December 1986. He also pointed out the benefits of the National Extended Trips Program. A general discussion of a number of items then followed, including the upcoming National Meeting in Seattle, a need to organize a grass roots movement to increase membership, a need to revise the operations manual, the possibility of using the Learn Alaska Network for teleconferences, the grant application to the Alaska Seafood Marketing Institute for seafood at the National Meeting, what a fine job had been done with the two Hostel Posters, and a request to the Council from National to be paid $1000 to fund a Field Representative.

VICE-PRESIDENT'S REPORT

Pat discussed the problems she had encountered in getting the Newsletters out over the previous year, her travels to the Aleutian Chain, her efforts to get the President of AYH on the Anchorage Chamber of Commerce's agenda, and her many discussions with people asking questions about AYH.

TREASURER'S REPORT

A summary was presented of the expenses, revenues, and assets of the Council for Fiscal Year 1984. They were:

Net Income	$ 16,337.09
Expenses	4,791.95
Total Assets	33,122.94

The Council's Balance Sheet and Statement of Income and Expenses for 1984 is attached.

The balance in the State Park account is approximately $17,000.

CORRESPONDING SECRETARY'S REPORT

Ray read a letter form Cliff Mettler explaining why he was not able to attend the meeting and a letter from Gene Rehfield announcing his resignation from the Board because of other commitments and the apparent lack of activity of the Council over the last year. Ray also stated that there was a need for a brochure or other type of information packet that would explain what activities and sights are available near the Hostels.

RECORDING SECRETARY'S REPORT

Bob reported that he had faithfully done the minutes and has been active in the Juneau Committee's efforts to develop a year-round Hostel.

BUSINESS ITEMS

A. NEWSLETTERS

A brief discussion was held on why the newsletters were not produced the previous year and what steps were necessary to ensure that they would be completed next year. Deadlines for the submission of articles and press dates were agreed to, which are:

Submission Date	Press Dates
Nov. 15	Nov. 30
Feb. 1	Feb. 15
May 1	May 15
Sep. 1	Sep. 15

B. STAFF PERSON

A lengthy discussion was held regarding the advantages of hiring a staff person, how he or she would be funded, and what the person would do. It was decided that the topic should be referred to the Organizational Committee.

C. NATIONAL MEETING

The meeting was discussed and Barbara handed out an agenda. It was MOVED, SECONDED, and PASSED to have the representatives attending the meeting select Alaska's delegate. Final decisions on who should go would be determined after the election of new officers, however, it was MOVED, SECONDED and PASSED to have the Council pay Amythe's registration since she will be in the Seattle area.

D. PASS SALES

Barbara passed out a summary of pass sales during Fiscal Year 84 and a brief discussion on Pass Sales ensued. The information is attached.

E. BOARD MEETINGS

A lengthy discussion was then held concerning when Board Meetings should be held during the coming year. After considerable chaos, it was MOVED, SECONDED and PASSED that there will be four board meeting teleconferences, which will occur on January 15, May 14, July 9, and September 10. The motion was then amended to have the teleconference on January 15 be for Executive Committee members only. See the attached calendar.

The meeting was then recessed for LUNCH.

The group reconvened after lunch and the meeting continued.

F. EXTENDED TRIPS

The Extended Trips Program, which is sponsored by National, was discussed and it was generally agreed that it would be a good idea for the Council to sponsor one this year. However, staffing was seen as a problem. The issue was referred to committee for further analyses.

G. GRANTS TO HOSTELS

The Council's grant program was then discussed and the fact that few grants have been made recently. It was MOVED, SECONDED, and PASSED that the Fund Raising Committee explore the idea of making large grants (greater than

$2000) to Hostels in Juneau, Anchorage and Fairbanks. A discussion of the $2000 and $400 grants was referred to the Finance Committee.

H. PROMOTIONS

Denny suggested that a central reservation system be made available for use throughout the State. A general discussion of reservations then ensued and it was MOVED and SECONDED to require all Hostels in the State to accept reservations. After a discussion of the motion, it was withdrawn from consideration. It was then MOVED, SECONDED, and PASSED to have Denny explore the potential of a statewide reservation system.

Ray then suggested that a event be held quarterly for all AYH members in Alaska. He also showed the group the Christmas card he is planning to send to Hostelers who had visited his Hostel and suggested that the Council also send out a Christmas Card with a membership renewal form. Both ideas were referred to the Promotion Committee.

Pat then suggested that the Council develop short (30 second or so) spots for television. No action was taken on the proposal.

Margaret then volunteered to update and improve the Council's brochure.

I. COMMENT CARDS

Brian received about 100 comment cards. The response to the Anchorage Hostel was "leaning toward the positive," Homer's was a bit better, Haines was good, and Soldotna was very good. Brian will ensure that comment cards are available at all the Hostels and will do what he can to ensure that they are used.

J. INTRODUCTORY PASSES

A discussion was then conducted on recent National initiatives concerning the use of Introductory Passes, which will likely be a hot topic at the National meeting. After a protracted debate on the subject, it was MOVED, SECONDED, and PASSED that all the Hostels in Alaska charge $3.00 per night for the pass and that after three nights the person will be required to purchase a regular membership.

K. RESOLUTIONS AT THE NATIONAL MEETING

It was MOVED and SECONDED that the Alaska go on record in supporting a move to have National increase the duration of the Charters that it provides to State Councils from the current two years to ten years, or thereabouts. If it was found that standards were not being met or fees not being paid, then the Charter could be revoked. The motion was PASSED.

It was then MOVED and SECONDED that the name of the organization be changed from American Youth Hostels, Inc. to American Hosteling Association. The motion was then AMENDED to have the name be American International Hostels,

Inc. After further debate, the amended motion was PASSED with the caveat that the resolution would be introduced only if no one else introduced a similar motion.

A motion was then MOVED and SECONDED that the Alaska Council go on record as being opposed to changes that are currently being discussed in the relationship between National and Hostels. The motion was then amended to have the delegates explore the issue and report back to the Council. The amended motion was then PASSED.

Amythe proposed that the Alaska Council request funds for Hostel Development in Alaska. It was decided to have Margaret explore the process for applying for the funds.

It was then MOVED, SECONDED and apparently PASSED (my notes are not clear) that National be mandated to work with Federal outdoor recreational agencies in the development of Cooperative Agreements regarding the development of Hostels.

L. GRANTWRITING

Brian reported that the Seafood Grant from the Alaska Seafood Marketing Institute had not been approved, but pointed out that there is money out there for people who put together well supported grant proposals.

K. TELECONFERENCES

There was a general discussion of the use of teleconferences for Board meetings and the desire of non-Board members to participate. It was then MOVED, SECONDED and PASSED to allow other interested parties to participate in the teleconferences.

M. TO INCORPORATE OR NOT TO INCORPORATE, THAT WAS THE QUESTION

The pros and cons of Hostel Committees incorporating was discussed, including the various ways it could be done. Many questions arose, but after a lengthy discussion, it was decided that the subject was best dealt with elsewhere.

N. BOB TARBUSKOVICH'S PAYMENT

Barbara noted that she had checked her records and found the canceled check for the National Meeting that Bob had attended. Barbara has sent Bob a letter regarding the matter.

O. BUDGET

Ideas for the budget were brought-up and referred to the Finance Committee for its consideration.

The meeting was then recessed for the evening to allow the Committees to meet.

The meeting was called back to order at 8:40 a.m., October 21, at the Kopper Kettle after the participants had gorged themselves on eggs, hash browns, pancakes and bacon. Local reports were first on the agenda.

LOCAL REPORTS

A. Fairbanks
Amythe reported that it was a good summer and that they made a little money. A location for next summer remains uncertain.

B. Sitka
The visitor count was down (about 435), although overall "it was a great, successful summer," according to Denny. There were, however, several problems with houseparents.

C. Homer
Brian reported that he was hopeful that the Homer Committee would get back together. Rent payments remain troublesome. The Hostel had about 650 visitors and will likely close January through March. He also told the group of the very successful "Fun runs" that the Hostel had sponsored.

D. Alyeska Guest House
Walt plans to open in November with six beds, a sauna, wood heat, and propane lights. Water and sewer are on their way. He advised the group to make sure that sleeping areas have adequate ventilation as a room can get mighty rank when you have it full of smelly, sleeping men. No comments were made about smelly women. Cost will be $5.00 night.

E. Juneau
Dave Thomson reported on Juneau's efforts to get a year-round Hostel built in Cope Park and that the summer had gone quite well except for a houseparent who was taken quite ill and had to head south earlier than expected.

F. Soldotna International Youth Hostel
Ray reported that he had used the grant money received from the Council to build new sleeping quarters that will house 24 people. Overall, things are going well.

G. Ketchikan
Sandra reported that they had about 900 people and "the most wonderful houseparents." The Hostel has moved to the basement of the church, which took lots of work, but turned out to be a great improvement. Some cooking was also available and the houseparents were paid $100 a month.

H. Nome
Barbara gave a quick summary of past history of the Hostel in Nome.

I. Anchorage

Margaret reported that the season started earlier this year (April) and that they had more Americans than in previous years (1800 out of 2200). They also raised their rates ($10.75 without a Pass) and have new houseparents and a new business manager. The Hostel has been painted, a storage area is now available, and a load of new plants have been installed. They have also been active with slide shows, movies, and weekend excursions.

J. Haines

According to Brian, the number of Hostelers staying at the Haines Hostel is climbing and that comments have been good. Unfortunately, funds are tight.

K. Susitna

Mike Lee reported that they now have several cabins and a mobile trailer. The Hostel is located at Mile 101 and is "a growing concern."

COMMITTEE REPORTS were then begun.

A. Operations Committee

Two recommendations of the Committee were MOVED and PASSED:

1. That houseparents be given about 1/2 hour of air time after the teleconference in July; and
2. That an Operations Manual be sent to all local Committees for their review and comment.

B. Organization Committee

It was MOVED that a staff person be hired to assist the Council in its work. After some discussion, the motion was TABLED until the Budget discussion.

C. Nominating Committee

Walt presented the recommendations of the Nominating Committee for next year's officers, which were:

President	Brian Bennett
Vice-President	Pat McGee
Recording Secretary	Bob Butts
Corresponding Secretary	Dave Thomson
Treasurer	Denton Pearson

Ray Girves indicated that he was still interested in being the Recording Secretary and threw his hat into the ring. It was then MOVED and SECONDED that all the unopposed candidates be elected. The motion PASSED. An election was then held for Corresponding Secretary, which was won by Ray.

D. Pass Sales

Barbara provided some instruction on how to fill out the AYH Pass and general procedures for pass sales. The attached information was distributed.

E. Promotion Committee

The Committee:

1. recommended that the VP, new staff person, and Mike Lee be in charge of promotional efforts;
2. encouraged the use of posters, brochures, and public service spots;
3. suggested that the November Newsletter contain a Christmas card and a membership renewal form; and
4. agreed to put together a new brochure. Ray will explore the idea further.

F. Finance Committee

The committee MOVED that the T Shirts that are still around be written off as an advertising expense. The motion PASSED. It was also noted that promotional efforts in the future need to be treated in the same manner as pass sales.

The $2000 grant to Homer was discussed. It had been included in the Parks grant when it was transferred to the Council, thus it was paid. It was MOVED and PASSED to correct the books.

It was then MOVED that Hostels be limited to one $2000 grant with the exception of those that are in the highest priority category in the Council's Development Plan. After some discussion, the motion was PASSED.

The proposed budget was then MOVED and discussed. After several amendments were made, it was PASSED. The budget is attached.

Three $2000 grant applications were then MOVED and discussed. They included:

Juneau -- For design work on a new Hostel
Sitka -- For showers
Tok -- For showers

The motion was PASSED.

G. Development Committee

It was MOVED and PASSED that Juneau, Anchorage, and Fairbanks be given the highest priority for developing year-round Hostels and that the Development Plan be amended to reflect the this.

It was also agreed to send letters to all Legislative candidates to inform them of the Youth Hostel Program.

H. Fundraising Committee

It was reported that the fundraising committee discussed several options for obtaining large sums of money, including direct appropriations from the Legislature, a revolving loan program, bonding, and a matching grant program. The Committee will continue to explore these ideas.

I. Organization Committee

A motion was MOVED, SECONDED and PASSED to have Brian hire a staff person to work with the Council.

At 1:25 p.m. on Sunday, October 21, the Annual Meeting was officially ADJOURNED by President Brian Bennett.

Respectfully Submitted:

Robert Butts
Recording Secretary

Jan 5, 1985
Date

Alaska Council American Youth Hostels Inc.

Member of
International Youth Hostel
Federation

A non-profit association
organized as a community service
to provide year round opportunities for
outdoor recreation and inexpensive
educational travel through hosteling.

P.O. BOX 4-1461, ANCHORAGE, ALASKA 99509 • 32ND AND MINNESOTA DRIVE (907) 265-4524 (info.)

Balance Sheet
September 30, 1984

Assets

Cash - Petty cash		150.00
Checking account		1,896.05
Savings account		26,428.37
Inventory		503.67
Accounts receivable		
Pass sales, received in October	1,006.00	
Homer grant, from State, FY83	2,000.00	
Fairbanks charter fee, FY83	10.00	
State grant, final amount	1,128.85	
		4,144.85
Total Assets		33,122.94

Liabilities and Fund Balance

Liabilities		
Accounts payable		
Pass sales, due to National	1,108.70	
Pass sales overpayment	29.00	
Fairbanks overpayment, FY83	25.20	
		1,162.90
Fund Balance		
Beginning balance	20,533.25	
Adjustments from FY83	(118.35)	
Net income, FY84	11,545.14	
Ending fund balance		31,960.04
Total liabilities and fund balance		33,122.94

Notes:

For the 1982 convention (FY83), $1345.86 was receiving from National AYH against costs of $1695.57.

The $2000.00 reimbursement expected from the Division of Parks for the Homer grant was not received. This should be considered in the FY85 budget.

The small amount payable to and receivable from Fairbanks were settled in October, 1984. The original check in FY83 was lost.

Barbara M Shaffer

Statement of Income and Expenses
FY 84

			Budget
INCOME			
Pass Sales			
Receipts - from agencies	13,149.00		
Council sales	435.00		
	13,584.00		
Paid to National AYH			
Paid with the reports	(9,275.20)		
Paid later for 'home' agency	(1,223.70)		
Net	3,085.10		
National credits received	1,324.78		
		4,409.88	4,500
Merchandise sold		-0-	
Trip fees, from National		12.70	
Interest		1,785.66	1,300
State grant		10,128.85	13,000
Other grants			1,000
Total income		16,337.09	19,800
EXPENSES			
Administration			
Publicity			
Copies of 4 TV spots	60.00		
Video tape of slide show	420.00		
Posters for Southeastern	200.71		
Photos for album	9.05		
		689.76	500
Postage		211.44	150
Telephone		30.54	100
Office Supplies		56.50	50
Insurance			800
Professional fees		2,420.00	1,200
Regional dues			100
Charter fee		50.00	
Nonprofit Corporation fee		6.00	
		3,464.24	2,900
Travel and Mileage			
Mileage		140.76	100
Teleconference 7/23/~~86~~ 83		175.00	500
Executive Committee meeting			600
Annual Board meeting			3,000
Regional and national meetings			
Paid	773.16		
Reimbursed by National AYH	(557.16)		
		214.00	750
		529.76	4,950
Special			
Special events			
Pacific Rim Travel Show	347.98		
Prospectors Club	50.00		
		397.98	550
Mini-grants: Sutton and Soldotna		400.00	1,400
Major grants			10,000
		797.98	11,950
Total expenses		4,791.95	19,800
Net Income		11,545.14	

AK COUNCIL CALENDER 1984-85

'84 ↓ '85

NOV. 1 2 3 4 ◇5 6 7 8 9 10 11 12 13 14 ○15 (News Deadline) 16 17 18 19 20 21 22 23 24 25 26 27 28 29 ⊙30 (News)

DEC. 1 2 3 4 ◇5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

JAN. 1 2 3 4 ◇5 6 7 8 9 10 11 12 13 14 □15 (Tel.) 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

FEB. ○1 (News Deadline) 2 3 4 ◇5 6 7 8 9 10 11 12 13 14 ⊙15 (News.) 16 17 18 19 20 21 22 23 24 25 26 △27 (Comm. Report) 28

MAR. 1 2 3 4 ◇5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

APR. 1 2 3 4 ◇5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

MAY ○1 (News. Deadline) 2 3 4 ◇5 6 7 8 9 10 11 12 13 □14 (Tel.) ⊙15 (News.) 16 17 18 19 20 21 22 23 24 25 26 △27 (Comm. Report) 28 29 30 31

JUN. 1 2 3 4 ◇5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

JUL. 1 2 3 4 ◇5 6 7 8 □9 (Tel.) 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

AUG. 1 2 3 4 ◇5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 △27 (Comm. Report) 28 29 30 31

SEP. ○1 2 3 4 ◇5 6 7 8 9 □10 (Tel.) 11 12 13 14 ⊙15 (News) 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

OCT. 1 2 3 □4 ◇5 6 (Annual Meeting) 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

'85 ↓ '86

⊙ - Newsletter goes to printer
○ - Submission deadline for Newsletter
□ - Teleconferences
△ - Committee Reports to President
◇ - Pass Sales Reports due to Barbara

Alaska Council - AYH

Pass Sales during FY 84

Type		Anch	Fair	Homer	Jno	Ketch	Sitka	Sold	Sutton	Council	Total
Senior	$20	418	23	23	16	20	3	8	2	12	524
Junior	10	13		3				2			18
3 year	50	5								2	7
Sen Cit	10	17	1		3		1	2		5	29
Family	30	25		6	2	5	3	1		1	43
Life	200	2	1	1	1						5
Organ		20		4							24
Inter	12	105			5			1			111
Total # Sold		605	25	37	27	25	7	14	2	20	761
Agency Received	100%	11,290.00	670.00	870.00	670.00	550.00	160.00	242.00	40.00		14,492.00
Agency Retained	10%	1,002.00	67.00	87.00	61.00	55.00	16.00	23.00	4.00		1,315.00
Council Received	90%	10,288.00	603.00	783.00	609.00	495.00	144.00	219.00	36.00	435.00	13,612.00
Council Retained	21%	2,314.20	140.70	182.70	138.10	115.50	33.60	50.30	8.40	115.80 (24%)	3,099.30
Paid to National	9%	7,973.80	462.30	600.30	470.90	379.50	110.40	168.70	27.60	319.20 (76%)	10,512.70
National Credits received											1,324.78
Net income from pass sales											4,424.08

Alaska Council American Youth Hostels Inc.

Member of
International Youth Hostel
Federation

A non-profit association
organized as a community service
to provide year round opportunities for
outdoor recreation and inexpensive
educational travel through hosteling.

P.O. BOX 4-1481, ANCHORAGE, ALASKA 99509 • 32ND AND MINNESOTA DRIVE (907) 265-4524 (info.)

Notes about Pass Sales 10/84

Be sure all copies are legible. Rewrite the carbon copies if necessary.

Fill in the birthdate in this sequence: year - month - day

Write the pass type on the pass itself in addition to checking in the right column.

On International passes, type/write in the number from the sticker under the pass type.

Give the entire original copy to the new member, including the biographical data. Keep the three carbon copies.

Remind the member to sign their new card.

Give each member an American Handbook at no additional cost.

The effective dates of the membership are from the date of purchase until December 31 of the year on the sticker.

Life memberships - if both parents have life memberships, children under age 18 traveling with both parents do not have to have memberships.

Organization passes - the deadline for application for the free memberships (50th Anniversary give-away) is extended to 9-30-85.

International passes are for persons from outside the U.S. Use their permanent address to determine. All foreign residents are issued international passes.

U.S. persons expecting to travel internationally are issued regular passes. The regular passes are valid for international travel/usage.

Lost cards - see separate instructions for issuing duplicate cards.

Address changes for members - send to national office, including membership number.

The membership cards are 'generic'. They are used for all type of passes except the introductory pass and the organization pass. They are used in any year.

Void or spoiled cards - return to the Council office, especially if a sticker is affixed.

Reports - submit monthly to the Council, on first of the month. Report even if there were no sales during the month.

Year stickers which are not accounted for will be considered as sold and will be charged for.

Order pass cards, year stickers and U.S. handbooks from the Council office.

Order introductory cards from the national office.
Order International handbooks from the national office. Pay $3.50 each and retail sell for $6.00.

U.S. Handbooks for 1985 will be available in late December, 1984.
International Handbooks for 1985 will be available in late February, 1985.

Accountant for the Council is Barbara M. Shaffer, 333-5605.

Mailing address for the Council is: P. O. Box 4-1461
Anchorage, Alaska 99509

Address for the national office is: American Youth Hostels, Inc.
1332 I Street, N.W., Suite 800
Washington, D.C. 20005

Special rules for International passes:
Prices: $ 5.00 Junior
$ 10.00 Senior
$ 15.00 Family
Junior are for ages 16 and 17 only
Senior are for age 18 and over
Family are for parents and their children under age 16
Age 16 and over need their own separate pass
If both parents have senior passes and children are under age 16, no additional pass is required.
Agency (hostel) selling the pass gets 10% commission on the sale

Alaska Council American Youth Hostels Inc.

Member of
International Youth Hostel
Federation

A non-profit association
organized as a community service
to provide year round opportunities for
outdoor recreation and inexpensive
educational travel through hosteling.

P.O. BOX 4-1461, ANCHORAGE, ALASKA 99509 • 32ND AND MINNESOTA DRIVE (907) 265-4524 (info.)

ORDER FORM FOR PASS CARDS, STICKERS, AND HANDBOOKS

Agency _____ Date _____

Address _____

_____

Membership pass cards

_____ Number ordered

U.S. Handbooks

_____ Number ordered

Year stickers

_____ Junior
_____ Senior
_____ 3 yr Senior
_____ Sr. Citizen
_____ Family
_____ Life
_____ Organization
_____ International Senior
_____ International Junior
_____ International Family

Person ordering _____

Note: order Introductory pass cards directly from the natinal office:
American Youth Hostels, Inc.
1332 I Street, N.W. Suite 800
Washington, D.C. 20005

Alaska Council American Youth Hostels Inc.

Member of
International Youth Hostel
Federation

A non-profit association
organized as a community service
to provide year round opportunities for
outdoor recreation and inexpensive
educational travel through hosteling.

P.O. BOX 4-1461, ANCHORAGE, ALASKA 99509 • 32ND AND MINNESOTA DRIVE (907) 265-4524 (info.)

REPORT OF PASSES SOLD FY85

Agency _____ Date _____

Address _____ Period _____

City, State, Zip _____

Number Sold	Type	Price	Retain	Remit	Total Received	Total Retained	Total Remitted
_____	Junior	$ 10.00	$ 1.00	$ 9.00	$ _____	$ _____	$ _____
_____	Senior	$ 20.00	$ 2.00	$ 18.00	$ _____	$ _____	$ _____
_____	3 yr Senior	$ 50.00	$ 5.00	$ 45.00	$ _____	$ _____	$ _____
_____	Sr. Citizen	$ 10.00	$ 1.00	$ 9.00	$ _____	$ _____	$ _____
_____	Family	$ 30.00	$ 3.00	$ 27.00	$ _____	$ _____	$ _____
_____	Life	$200.00	$20.00	$180.00	$ _____	$ _____	$ _____
_____	Organization	$ ~~50.00~~	$ 0.00	$ 0.00	$ -0-	$ -0-	$ -0-
_____	International Senior	$ 10.00	$ 1.00	$ 9.00	$ _____	$ _____	$ _____
_____	International Junior	$ 5.00	$ .50	$ 4.50	$ _____	$ _____	$ _____
_____	International Family	$ 15.00	$ 1.50	$ 13.50	$ _____	$ _____	$ _____
_____	Introductory	$ 3.00	$ 3.00	$ 0.00	$ _____	$ _____	n/a
			Totals		$ _____	$ _____	$ _____

Check:

_____ On back of report list the pass numbers of passes sold, grouping each type of pass and listing in numerical order.

_____ Yellow and pink copies of passes are included.

_____ One copy of this report is included.

_____ Check or money order is included.

Keep second copy of this report and green copies of the passes.

This form completed by: _____

Alaska State Legislature

House of Representatives

House Judiciary Committee

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-4990

MEMO: Feb. 12, 1985

TO: House Loans Committee
Hon. John Sund, Chairman

FROM: Rep. M. Mike Miller

RE: HB 59, HB 61/re: Youth Hostels

These two bills, one an implementation bill and the other an appropriation bill, would help expand Alaska's network of youth hostels around the state, at very little ultimate cost. The resulting benefits would accrue both to state residents and to out-of-state visitors.

HB 61 amends existing statutes having to do with grants for youth hostels, administered through the state division of parks in the Department of Natural Resources, so that in addition to grants now available, the division could provide loans for creation of youth hostels. Recipients could be non-profit corporations, municipalities and appropriate organizations. The money could be used for construction, purchase or renovation of buildings used for youth hostels. To qualify, organizations must agree to maintain the specific guidelines established by the American Youth Hostel Association. These guidelines may be obtained from the division of parks, and will be made available to the Loans Committee.

Although most of the non-resident use of youth hostel facilities occurs during summer months when more people travel to Alaska on vacation, use by resident Alaskans can be assumed to be year-round. Such uses would be for room and board during interscholastic competition, youth group travel and other appropriate uses which bring Alaskans to travel from one community to another. In fact, it is my expectation that resident Alaskans would make as much or greater use of youth hostel facilities during the year than nonresidents.

Under the proposed loan fund, loan recipients could borrow up to $100,000 with payback at 2.5 percent per year, with a term of 25 years. Payment of interest only would be allowed for the first five years of a loan to allow for time for the hostel to become self-supporting.

HB 59 is an appropriation bill capitalizing the loan fund at a figure of $200,000.

I will testify in behalf of the two bills, and I also expect testimony from the division of parks and youth hostel organizations. I will be happy to try to answer any questions the committee may have regarding the legislation.

604-4th Street, Suite 1
Juneau AK 99801
February 12, 1985

Honorable John Sund
Representative
Alaska State Legislature
Pouch V
Juneau AK 99811

Dear Representative Sund:

I am writing in support of HB 59 and HB 61, which would establish a Youth Hostel Loan fund. I feel this is a very worthwhile cause which could benefit not only travelers to Alaska, but also people in the entire State of Alaska.

As a former Juneau Youth Hostel houseparent, I feel that the loan fund established by these acts would go a long way in bringing the Alaska Youth Hostel system up to par. Due to the nature of the Youth Hostel system, revenues are small and large capital outlays are virtually impossible to obtain from operating expenses only. With this fund it will be possible to buy appropriate facilities and/or renovate current ones.

Currently the cities of Fairbanks and Juneau are desperately looking for facilities for use as year-round hostels. These cities receive large numbers of visitors who can not afford to pay the high cost of motels and hotels.

Anchorage currently operates a year-round hostel with very good results. But there too, the facility could be larger and better suited for the ever growing numbers of travelers in Alaska's largest city.

The Alaska Youth Hostel system is not confined to the three large cities. A total of twelve hostels operate currently in Alaska. They are as follows; Ketchikan, Sitka, Haines, Tok, Sutton, Alyeska, Soldotna, Homer, and Mat-Su. This loan fund will benefit these hostels as well.

I urge you to continue to support this legislation and I thank you for your time and consideration.

Sincerely,

David F. Thomson

David F. Thomson

Original sponsors: M.M.Miller and Duncan

Funding Information	
General Fund	$200,000
Other Funds	-0-
	$200,000

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 59 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Department of Natural Resources, division of parks, for youth hostel grants; and providing for an effective date."

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

* Section 1. The sum of $200,000 is appropriated from the general fund to the Department of Natural Resources, division of parks, for youth hostel grants under AS 41.21.912.

* Sec. 2. The unexpended and unobligated portion of the appropriation made by this Act lapses into the general fund June 30, 1986.

* Sec. 3. This Act takes effect July 1, 1985.

COMMITTEE REPORT

Resources

HOUSE

(5)

FURTHER: Finance

1/16/85

Date: Feb 17 1985

The Committee on House Special Committee on State Loans has had HB 59

"An Act making a special appropriation to the Department of Natural Resources, division of parks, for the youth hostel loan fund; and providing for an effective date."

under consideration and recommends:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

[X] replace with CS for HB 59 [ ] same title [X] new title

and recommends do pass

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

[ ] Zero Fiscal Note Attached

[ ] reports it back without recommendation

[ ] referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

CHAIRMAN

Maier (w) 789-9229
(d) 6-3138

Funding Information
General Fund $200,000
Other Funds -0-
$200,000

IN THE HOUSE BY M.M.MILLER

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Department of Natural Resources, division of parks, for the youth hostel loan fund; and providing for an effective date."

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

* Section 1. The sum of $200,000 is appropriated from the general fund to the Department of Natural Resources, division of parks, for the youth hostel loan fund for purchase, OR construction and renovation of youth hostels.

* Sec. 2. The unexpended and unobligated portion of the appropriation made by this Act lapses into the general fund June 30, 1986.

* Sec. 3. This Act takes effect on the effective date of an Act that establishes a youth hostel loan fund.

IN THE HOUSE BY M.M.MILLER

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to loans for youth hostels."

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

* Section 1. AS 41.21.912 is amended to read:

Sec. 41.21.912. DUTIES OF DIVISION. The division shall

(1) after consultation with community organizations or individuals and after maximum utilization of existing local effort, plan and facilitate the implementation of a statewide system of youth hostel facilities;

(2) administer a program of grants and loans to eligible nonprofit corporations, municipalities, and organizations for construction, maintenance, and operation of youth hostels;

(3) cooperate and consult with national or international organizations established for the purpose of establishing or regulating youth hostel facilities and follow, where appropriate, the specific guidelines established by the American Youth Hostel Association and the International Youth Hostel Association;

(4) adopt, in accordance with the Administrative Procedure Act (AS 44.62), regulations governing the establishment and administration of youth hostel facilities.

* Sec. 2. AS 41.21 is amended by adding a new section to read:

Sec. 41.21.913. YOUTH HOSTEL LOANS. The youth hostel loan fund is established. The director of the division of parks may make loans from the fund to qualified organizations for the purchase, construction or renovation of youth hostels if the organization agrees to maintain the

specific guidelines established by the American Youth Hostel Association. A loan may not exceed $100,000, shall be made at an interest rate of 2.5 percent, and shall be repaid within a period of 25 years. During the first five years of a loan, the director may allow payment of interest only.

Juneau Youth Hostel, Inc.

Post Office Box 1543 Juneau, Alaska 99802 USA

January 6, 1984

Mr. Jerry Miller, Chairman
Board of Finance and Property Management
Northern Light United Church
15795 Glacier Highway
Juneau, Alaska 99801

Dear Jerry:

As a result of the Church Council meeting of December 17 and recent discussions with you, the Board of Directors of the Juneau Youth Hostel, Inc., would like to revise its offer to purchase the Whitehead House of November 25, 1984.

The major elements of the revised offer include:

-- Sale price to be determined by the soon-to-be-completed appraisal, assuming the appraisal does not exceed $200,000.

-- Downpayment of $10,000.

-- Twenty-year mortgage at 10% interest.

-- Mortgage payments through September 1, 1986, shall be $1350 per month. Payments thereafter shall be increased to cover the remaining equity and interest payments (approximately $2100 per month).

-- Payments can be accelerated by the purchaser without penalty.

-- Extraordinary payments shall lead to a corresponding reduction in monthly mortgage payments.

-- The contract may be terminated within the first 24 months with the mortgage payments treated as lease payments and the down payment treated as a loan to the Church. Improvements that increase the value of the building will be credited to Juneau Youth Hostel, Inc.

-- Juneau Youth Hostel, Inc. shall insure the building at a level that will cover the Church's equity interest.

We are confident that this new proposal will allow the Youth Hostel to pay its operating costs and also will enable the Church to receive a fair market price for the building.

We look forward to discussing our proposal with the Church Council on

January 7. If you have any questions, please do not hesitate to call Judith Maier at 789-9229 or me at 465-2400 during working hours or 586-9408 during the evening.

Once again, thank you for your time and consideration.

Sincerely yours,

Bob

Robert Butts
President

cc: Juneau Youth Hostel Board of Directors

DRAFT 1/6/85

PROPOSED BUDGET
JUNEAU YOUTH HOSTEL, INC.

January 1, 1985 - August 31, 1986

CAPITAL INCOME

I.	Funds from Juneau Youth Hostel, Inc.	$15,000
II.	Grant, Alaska Council, American Youth Hostel	15,000
III.	Local Fundraising	30,000
IV.	Contibutions of Labor and material	7,000
V.	Grant from State	50,000
VI.	Loan from Northern Light United Church	78,000
VII.	Loan from American Youth Hostels	25,000
	TOTAL	$220,000

DRAFT 1/6/85

PROPOSED BUDGET
JUNEAU YOUTH HOSTEL, INC.

January 1, 1985 - August 31, 1986

CAPITAL COSTS

I.	Purchase Price	$190,000
II.	Capital Improvements	15,000
	A. Kitchen	
	B. Dining Area	
	C. Living Room	
	D. Sleeping areas	
	E. Bathrooms	
	F. Houseparent quarters	
	G. Fire Alarm	
	H. Other	
III.	Furniture	5,000
	A. 36 beds	
	B. Dining Table	
	C. Dining Chairs	
	D. 2 couches	
	E. 4 chairs	
	F. Small table	
	G. Dresser	
	H. Bed/houseparents	
	I. Desk/chair	
	J. Other	
IV.	Miscellaneous Start-up Costs	3,000
	A. Office Supplies	
	B. 25 blankets	
	C. 50 bed covers	
	D. 25 sleep sacks	
	E. Kitchen Utensils	
	F. Miscellaneous	
V.	Contingencies	7,000
	TOTAL	$220,000

DRAFT 1/6/85

PROPOSED BUDGET
JUNEAU YOUTH HOSTEL, INC.
January 1, 1985 - December 31, 1985

OPERATING COSTS*

I.	Utilities A. Sewer/water B. Telephone C. Oil/heat D. Electricity E. Garbage	$ 5,400
II.	Lease Payment	13,500
III.	Supplies	1,850
IV.	Insurance	1,000
V.	Advertising	625
VI.	Overnight fee Payment to National	877
VII.	Houseparent Stipend	1,500
VIII.	Contingencies	1,800
	TOTAL	$ 26,552

OPERATING INCOME*

I.	Overnight Fees	$26,475
II.	Sheet Rental	500
III.	Miscellaneous Income	500
	TOTAL	$27,475

* Assumes that the Whitehead House will be available on March 1, 19 5, and that renovations will occur during the month of March. Al assumes that the Hostel will be open April 1.

Expense Projections

Juneau Youth Hostel
January 1, 1985 - December 31, 1985

Projection Date - January 6, 1985

Month/ Year	Sew/water Elect., Oil, Gar.	Tele.	Mortgage Payment, Insurance	Supplies	Advertis.	House-parent stipend	Contingency	Overnight Fee to National	MONTHLY TOTAL EXPENSES	YEAR-TO-DATE TOTAL EXPENSES
Jan. 85	0.00	0.00	0.00	0.00	150.00	0.00	150.00	0.00	300.00	300.00
Feb. 85	0.00	0.00	0.00	350.00	100.00	0.00	150.00	0.00	600.00	900.00
Mar. 85	500.00	40.00	1450.00	150.00	100.00	0.00	150.00	0.00	2390.00	3290.00
Apr. 85	500.00	40.00	1450.00	150.00	75.00	150.00	150.00	62.50	2577.50	5867.50
May 85	500.00	40.00	1450.00	150.00	25.00	150.00	150.00	77.50	2542.50	8410.00
Jun. 85	500.00	40.00	1450.00	150.00	25.00	150.00	150.00	131.25	2596.25	11006.25
Jul. 85	500.00	40.00	1450.00	150.00	25.00	150.00	150.00	162.50	2627.50	13633.75
Aug. 85	500.00	40.00	1450.00	150.00	25.00	150.00	150.00	162.50	2627.50	16261.25
Sep. 85	500.00	40.00	1450.00	150.00	25.00	150.00	150.00	125.00	2590.00	18851.25
Oct. 85	500.00	40.00	1450.00	150.00	25.00	150.00	150.00	72.50	2537.50	21388.75
Nov. 85	500.00	40.00	1450.00	150.00	25.00	150.00	150.00	48.75	2513.75	23902.50
Dec. 85	500.00	40.00	1450.00	150.00	25.00	150.00	150.00	35.00	2500.00	26402.50
TOTAL	5000.00	400.00	14500.00	1850.00	625.00	1350.00	1800.00	877.50	26402.50	

Overnight Revenue Projections

Juneau Youth Hostel
January 1, 1985 - December 31, 1986

Projection Date - January 6, 1985

	Average People per Night-AYH Member	$ Rate	Average People per Night-Non-Ayh Mem.	$ Rate	Number of Groups	Average Group Size	$ Rate	Total Overnights Month	Total Income Month-Indiv.	Total Income Month-Group	TOTAL INCOME THIS MONTH	Year-to-Date Overnights	Year-to-Date Income
Jan. 85	0.00	6.50	0.00	8.50	0.00	25.00	6.50	0.00	0.00	0.00	0.00	0.00	0.00
Feb. 85	0.00	6.50	0.00	8.50	0.00	25.00	6.50	0.00	0.00	0.00	0.00	0.00	0.00
Mar. 85	0.00	6.50	0.00	8.50	0.00	25.00	6.50	0.00	0.00	0.00	0.00	0.00	0.00
Apr. 85	2.00	6.50	3.00	8.50	4.00	25.00	6.50	250.00	1155.00	650.00	1805.00	250.00	1805.00
May 85	3.00	6.50	4.00	8.50	4.00	25.00	6.50	310.00	1605.00	650.00	2255.00	560.00	4060.00
Jun. 85	6.00	6.50	9.00	8.50	3.00	25.00	6.50	525.00	3465.00	487.50	3952.50	1085.00	8012.50
Jul. 85	7.00	6.50	13.00	8.50	2.00	25.00	6.50	650.00	4680.00	325.00	5005.00	1735.00	13017.50
Aug. 85	7.00	6.50	13.00	8.50	2.00	25.00	6.50	650.00	4680.00	325.00	5005.00	2385.00	18022.50
Sep. 85	5.00	6.50	10.00	8.50	2.00	25.00	6.50	500.00	3525.00	325.00	3850.00	2885.00	21872.50
Oct. 85	3.00	6.50	5.00	8.50	2.00	25.00	6.50	290.00	1860.00	325.00	2185.00	3175.00	24057.50
Nov. 85	2.00	6.50	2.00	8.50	3.00	25.00	6.50	195.00	900.00	487.50	1387.50	3370.00	25445.00
Dec. 85	1.00	6.50	2.00	8.50	2.00	25.00	6.50	140.00	705.00	325.00	1030.00	3510.00	26475.00
Jan. 86	1.00	6.50	2.00	8.50	7.00	25.00	6.50	265.00	705.00	1137.50	1842.50	265.00	1842.50
Feb. 86	1.00	6.50	2.00	8.50	8.00	25.00	6.50	290.00	705.00	1300.00	2005.00	555.00	3847.50
Mar. 86	2.00	6.50	2.00	8.50	7.00	25.00	6.50	295.00	900.00	1137.50	2037.50	850.00	5885.00
Apr. 86	2.00	6.50	3.00	8.50	7.00	25.00	6.50	325.00	1155.00	1137.50	2292.50	1175.00	8177.50
May 86	3.00	6.50	4.00	8.50	7.00	25.00	6.50	385.00	1605.00	1137.50	2742.50	1560.00	10920.00
Jun. 86	6.00	6.50	9.00	8.50	4.00	25.00	6.50	550.00	3465.00	650.00	4115.00	2110.00	15035.00
Jul. 86	7.00	6.50	13.00	8.50	4.00	25.00	6.50	700.00	4680.00	650.00	5330.00	2810.00	20365.00
Aug. 86	7.00	6.50	13.00	8.50	4.00	25.00	6.50	700.00	4680.00	650.00	5330.00	3510.00	25695.00
Sep. 86	5.00	6.50	10.00	8.50	4.00	25.00	6.50	550.00	3525.00	650.00	4175.00	4060.00	29870.00
Oct. 86	3.00	6.50	5.00	8.50	5.00	25.00	6.50	365.00	1860.00	812.50	2672.50	4425.00	32542.50
Nov. 86	2.00	6.50	2.00	8.50	6.00	25.00	6.50	270.00	900.00	975.00	1875.00	4695.00	34417.50
Dec. 86	1.00	6.50	2.00	8.50	4.00	25.00	6.50	190.00	705.00	650.00	1355.00	4885.00	35772.50

SCOMM

#50:16

Alaska State Legislature

Representative Mike Davis

Pouch V
Juneau, Alaska 99811
(907) 465-4930/4941

Interim Office:
P.O. Box 81435
Fairbanks, Alaska 99708

House Bill 96

February 4, 1985

A student must be enrolled full-time in order to be eligible for a student loan. A student may attend more than one institution and aggregate the credit hours in order to attain full-time status, but under existing law this aggregation of credits can occur only if there is a consortium agreement between the institutions. House Bill 96 would remove this consortium requirement.

The need for such legislation came to my attention two years ago, when I received a letter from a woman who was taking an aggregate of 14 credits at the University of Alaska and Tanana Valley Community College. Although the woman was an Alaskan resident and in good academic standing, she was unable to qualify for a student loan because a consortium agreement did not exist between the two institutions at that time.

Although consortium agreements do presently exist between neighboring universities and colleges throughout Alaska, the passage of HB 96 would preclude students from not being able to aggregate credits in the event that a consortium agreement is rescinded, or a new institution is created which does not wish to sign such an agreement.

HB46

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: SB 17
Title: Re: Scholarship loans to students
Sponsor: Kerttula
Requestor: Senate Hess
Date of Request: 1/16/85

FISCAL DETAIL

Agency Affected: Education
Program Category Affected: Postsecondary Commission
BRU, Program or Subprogram(s) Affected: Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	N.A.	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	N.A.	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	N.A.	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact is associated with this bill

Prepared By: Kerry D. Romesburg Phone: 465-2854
Division: Alaska Commission on Postsecondary Education Date:
Approved by Commissioner: Date:
Agency:

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

7/1/84

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

POSITION STATEMENT ON SB 17

Summary: To qualify for a student loan, a student must enroll full time, that is at least 12 credit hours each term for undergraduate students, and at least nine credit hours each term for graduate students. If a student wishes to enroll in more than one institution and aggregate the credit hours to be full time, the current statute requires that there be a consortium agreement between the institutions.

SB 17 removes the requirement for a formal consortium agreement.

Impact: The result would be negligible. The bill was introduced a year ago in response to problems student loan applicants were incurring when they tried to enroll in both the University of Alaska, Anchorage and Matanuska-Susitna Community College. Since there was no formal consortial agreement, UAA officials would not release loans for these students.

As of January 11, 1985, Matanuska-Susitna Community College and UAA have a consortium agreement. Hence, the problem at which this bill was directed, has been solved.

The bill will not result in students enrolling in a wide variety of institutions and, in effect, getting around program good-standing requirements, because program regulations already exist to address such a situation. (20 AAC 15.040(n) and 20 AAC 15.045(c)). Therefore, the bill successfully removes some unnecessary language in the current statutes and has little program effect.

There is no fiscal impact of the bill.

Position: The Alaska Commission on Postsecondary Education endorses the passage of SB 17.

SB 17

In defining 'fulltime student' for the purposes of student loan eligibility, present statute necessitates that if the required minimum number of credits earned in one semester come from more than one institution, the schools must have a "consortium" agreement. The original intention of this stipulation was to protect the integrity of degree programs.

According to Kerry Romesberg, the consortium requirement has allowed some institutions to deny credit and credit transfers to students, inspite of their legitimacy toward a degree program, and by doing so discourage the use of their institution for those not earning a degree with the school.

The Postsecondary Commission recently adopted the federal "75%" standard, [20 AAC 15.040], which requires that "before a borrower may be enrolled in more than one institution, [he/she] must be enrolled for at least 75% of the full-time student requirement in the degree-granting institution for which the loan is obtained." A minimum of 12 credits per semester must be earned, 75% of which must come from the primary institution. As point of clarification, student loan warrants are made payable to the institution, in the student's name.

With the regulation in effect, the student is guaranteed access to acquiring credits in other institutions without the threat of losing loan eligibility status. Benefits to the institution are in knowing that the integrity of their degree program is protected and in being assured of who is responsible for maintaining the student's academic records.

Since students will know beforehand whether or not credits earned elsewhere will be accepted as part of their degree program, the "consortium" requirement is moot.

Similar legislation was introduced last year, passed the Senate and was incorporated in the House version. It died at the end of session.

The Postsecondary Commission on Education; the University of Alaska; Anchorage, Fairbanks and Juneau; and, the Community Colleges support the legislation.

IN THE SENATE BY KERTTULA

SENATE BILL NO. 17

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the scholarship loan program to students attending more than one postsecondary educational institution; and providing for an effective date."

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

* Section 1. AS 14.43.160(2) is amended to read:

(2) "full-time student" means an undergraduate or career education student who is enrolled and is in regular attendance at classes for at least 12 semester hours of credit or the equivalent during the semester or a graduate student who is enrolled and is in regular attendance at classes for at least nine semester hours of credit or the equivalent; any combination of semester hours of credit, or the equivalent, aggregating to the requisite number of semester hours and undertaken during a semester at two or more public or private institutions of higher education [OPERATING UNDER A CONSORTIUM] constitutes full-time student status;

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

20 AAC 15.040 is amended by adding new subsections to read:

(m) A borrower in a flight school program must hold, as a prerequisite for eligibility, a valid private pilot's certificate.

(n) A borrower may be enrolled in more than one institution, but must be enrolled for at least 75% of the full-time student requirement in the degree-granting institution for which the loan is obtained. The combined total of these multiple enrollments must be equivalent to at least full-time enrollment. (Eff. 2/3/77, Register 61; am 5/10/78, Register 66; am 12/7/80, Register 76; am 7/9/82, Register 83; am 11/19/83, Register 88; am / / , Register).

Authority: AS 14.43.105
AS 14.43.120
AS 14.43.140

20 AAC 15.045 (c) i ided to read:

(c) Before delivering the warrant to the borrower, the financial aid officer shall certify, on a form to be provided by the commission, that the borrower is a full-time student in good standing at the institution. If the full-time status is the result of attendance at more than one institution, the certifying institution must certify full-time and good standing status for the multiple enrollments. (Eff. 2/3/77, Register 61; am 12/7/80, Register 76; am 7/9/82, Register 83; am 11/19/83, Register 88; am / / , Register).

Authority: AS 14.43.105

20 AAC 15.060 (a), (b) (c) and (g) is amended to read:

20 AAC 15.060. STATE FORGIVENESS PAYMENTS. (a) Under AS 14.43.120(j), a recipient of a loan is eligible to have up to 50 percent of the total loan and accrued interest paid by the state if the borrower continues Alaskan residency after the successful completion of the course of study for which the loan was granted, and is awarded an appropriate degree, diploma or certificate, and remains, except for brief periods, in the state during the period for which forgiveness is claimed.

20 AAC 15.040 is amended by adding new subsections to read:

(m) A borrower in a flight school program must hold, as a prerequisite for eligibility, a valid private pilot's certificate.

(n) A borrower may be enrolled in more than one institution, but must be enrolled for at least 75% of the full-time student requirement in the degree-granting institution for which the loan is obtained. The combined total of these multiple enrollments must be equivalent to at least full-time enrollment. (Eff. 2/3/77, Register 61; am 5/10/78, Register 66; am 12/7/80, Register 76; am 7/9/82, Register 83; am 11/19/83, Register 88; am / / , Register).

Authority: AS 14.43.101
AS 14.43.120
AS 14.43.140

20 AAC 15.045 (c) i ided to read:

(c) Before delivering the warrant to the borrower, the financial aid officer shall certify, on a form to be provided by the commission, that the borrower is a full-time student in good standing at the institution. If the full-time status is the result of attendance at more than one institution, the certifying institution must certify full-time and good standing status for the multiple enrollments. (Eff. 2/3/77, Register 61; am 12/7/80, Register 76; am 7/9/82, Register 83; am 11/19/83, Register 88; am / / , Register).

Authority: AS 14.43.105

20 AAC 15.060 (a) (b) (c) and (g) is amended to read:

20 AAC 15.060. STATE FORGIVENESS PAYMENTS. (a) Under AS 14.43.120(j), a recipient of a loan is eligible to have up to 50 percent of the total loan and accrued interest paid by the state if the borrower continues Alaskan residency after the successful completion of the course of study for which the loan was granted, and is awarded an appropriate degree, diploma or certificate, and remains, except for brief periods, in the state during the period for which forgiveness is claimed.

Sec. 14.42.045. Compensation and per diem. Members of the commission serve without compensation but are entitled to per diem and travel expenses as may be authorized by law for boards and commissions. (§ 4 ch 78 SLA 1974; AS 14.40.915)

Sec. 14.42.050. Legal counsel. (a) The attorney general is legal counsel for the commission. The attorney general shall advise the commission in legal matters arising in the discharge of its duties and represent the commission in actions to which it is a party. If, in the opinion of the commission, the public interest is not adequately represented by counsel in a proceeding, the attorney general, upon request of the commission, shall represent the public interest.

(b) The commission may employ temporary legal counsel from time to time in matters in which the commission is involved. (§ 3 ch 25 SLA 1976; AS 14.40.917)

Editor's notes. — This section was redrafted by the revisor of statutes to remove personal pronouns in conformity with AS 01.05.031(c) and § 4, Chapter 58, SLA 1982.

Sec. 14.42.055. Consortia. All parties that are signatory to a consortium agreement between the University of Alaska and a private university or college must abide by a decision rendered by the commission when disagreements arise or exist between the parties. For purposes of this section and AS 14.42.030(b)(6), "consortium" means a cooperative arrangement between two or more public or private institutions of higher education specified in agreements or memoranda of understanding to permit sharing of facilities, instructional opportunities, and other educational services in such a way that the integrity of each institution party to the consortium is preserved while at the same time the institutions cooperatively plan the academic calendar, scheduling, use of personnel and facilities, and educational programs and offerings to the maximum advantage of the students and faculties of the institutions that are parties to a consortium. (§ 8 ch 246 SLA 1976; AS 14.40.919)

Revisor's notes. — AS 14.42.030(b)(6) was substituted for AS 14.40.909(b)(6) to conform to the renumbering of that section by the revisor of statutes under AS 01.05.031.

Chapter 43. Scholarship, Loan, and Grant Programs for Postsecondary Students.

Article

1. University of Alaska Scholarships for High School Graduates (§§ 14.43.010 — 14.43.030)
2. University of Alaska Scholarships for Natives (§§ 14.43.050 — 14.43.075)
3. Free Tuition and Fees for Dependents (§ 14.43.080)
4. Scholarship Loan Program (§§ 14.43.090 — 14.43.160)

student loan program for residents of Alaska to attend colleges and universities in Alaska as compared with colleges and universities outside Alaska;

"(2) the result of this lack of incentives is that 64.9 per cent of all undergraduate student loans and 92.9 percent of graduate student loans go to students attending colleges and universities outside Alaska;

"(3) the amount of the average loan to undergraduate students attending colleges and universities in Alaska is lower than the average of similar loans in all but one of the 10 western states and the amount of the average loan for graduate students is the lowest in the West;

"(4) the funds spent on education in Alaskan colleges and universities go further than when the funds are spent out of state; and

"(5) it would be an aid to the Alaskan economy if the funds in the student loan program were spent for education in Alaskan colleges and universities."

Sec. 14.43.135. Discrimination prohibited. The student loan program shall be carried out without regard to the race, creed, sex, color, ancestry, national origin, or membership in fraternal or political organizations of the student applying for the loan. (§ 1 ch 98 SLA 1971; AS 14.40.769)

Sec. 14.43.140. Enforceability of certain contracts with minors. A written obligation entered into by a minor at least 16 years of age, evidencing a loan or other assistance received by the minor from any person for the purpose of furthering the minor's education in a career education program or an institution of higher learning, is enforceable against the minor with the same effect as if the minor were, at the time of its execution, 19 years of age, if the person making the loan has before making the loan a certification from the institution that the minor is enrolled in the institution or has been accepted for enrollment. (§ 1 ch 98 SLA 1971; AS 14.40.771)

Editor's notes — This section was redrafted by the revisor of statutes to remove personal pronouns in conformity with AS 01.05.031(c) and § 4, ch. 58, SLA 1982.

Sec. 14.43.160. Definitions. In AS 14.43.090 — 14.43.160

(1) "career education" means a course or program in vocational-technical training or education approved by the commission;

(2) "full-time student" means an undergraduate or career education student who is enrolled and is in regular attendance at classes for at least 12 semester hours of credit or the equivalent during the semester or a graduate student who is enrolled and is in regular attendance at classes for at least nine semester hours of credit or the equivalent; any combination of semester hours of credit, or the equivalent, aggregating to the requisite number of semester hours and undertaken during a semester at two or more public or private institutions of higher education operating under a consortium constitutes full-time student status;

SB 17

by Kertulla

For the purpose of student loan eligibility, this bill would redefine " full-time student " to include any student taking at least 12 hours of credit regardless of how many schools they attend.

QUESTIONS:

1) Does each school have to be an approved institution?

20 AAC 15.040 is amended by adding new subsections to read:

(m) A borrower in a flight school program must hold, as a prerequisite for eligibility, a valid private pilot's certificate.

(n) A borrower may be enrolled in more than one institution, but must be enrolled for at least 75% of the full-time student requirement in the degree-granting institution for which the loan is obtained. The combined total of these multiple enrollments must be equivalent to at least full-time enrollment. (Eff. 2/3/77, Register 61; am 5/10/78, Register 66; am 12/7/80, Register 76; am 7/9/82, Register 83; am 11/19/83, Register 88; am / / , Register).

Authority: AS 14.43.105
AS 14.43.120
AS 14.43.140

20 AAC 15.045 (c) i ıded to read:

(c) Before delivering the warrant to the borrower, the financial aid officer shall certify, on a form to be provided by the commission, that the borrower is a full-time student in good standing at the institution. If the full-time status is the result of attendance at more than one institution, the certifying institution must certify full-time and good standing status for the multiple enrollments. (Eff. 2/3/77, Register 61; am 12/7/80, Register 76; am 7/9/82, Register 83; am 11/19/83, Register 88; am / / , Register).

Authority: AS 14.43.105

20 AAC 15.060 (a), (b) (c) and (g) is amended to read:

20 AAC 15.060. STATE FORGIVENESS PAYMENTS. (a) Under AS 14.43.120(j), a recipient of a loan is eligible to have up to 50 percent of the total loan and accrued interest paid by the state if the borrower continues Alaskan residency after the successful completion of the course of study for which the loan was granted, and is awarded an appropriate degree, diploma or certificate, and remains, except for brief periods, in the state during the period for which forgiveness is claimed.

ALASKA STATE LEGISLATURE

INTERIM OFFICE:
P.O. BOX 81435
FAIRBANKS, ALASKA 99708

IN SESSION:
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4930/4941

CHAIRMAN
1983 INTERIOR DELEGATION

MEMBER
TRANSPORTATION
HEALTH, EDUCATION AND SOCIAL SERVICES
LABOR SUBCOMMITTEE
JOINT OIL AND GAS
RURAL EDUCATION ATTENDANCE AREAS

Representative Mike Davis
House District 19

HOUSE BILL 174

The purpose of House Bill 174 is to allow students to combine credits from the postsecondary schools which they are concurrently attending in order to be eligible for student loans.

This bill primarily addresses a problem in Fairbanks, in which students attending either the University of Alaska or Tanana Valley Community College cannot combine their total number of credits in order to reach the number of credits necessary to achieve full-time student status.

The greater purpose of this bill is to allow students more flexibility in determining which courses they will take while attending college. This legislation in effect acknowledges the close interrelationship between community colleges and universities, and the healthy diversity of programs and courses in both of these institutions. In all cases, a student must be enrolled full-time in a degree program from an accredited school in order to be eligible for a student loan.

The provisions of HB 174 are already partially in effect in both Anchorage and Juneau. In Anchorage, a consortium agreement exists between the University of Alaska and Anchorage Community College in which an undergraduate student taking a total of 12 credits between both schools is eligible for a student loan. In Juneau, the relationship between the University of Alaska and Juneau-Douglas Community College is such that there is again no difficulty in a student being able to receive a loan while taking a combined full-time credit load.

No opposition to this dual enrollment was voiced by the administration at UAA, ACC, UAF, or JDCC. Indeed, the feelings from these schools are extremely positive toward such a program. Verification of student grades is facilitated in these university-community college arrangements in that each school is able to directly access the student records of the companion school.

Dean Roger Worsley of ACC suggested that a student take 75 percent of the course load, or nine credits, from the parent institution in order to clarify which school is ultimately responsible for maintaining a student's complete academic records and for issuing student loan checks. According to Dr. Kerry Romesberg, a regulation within the Postsecondary Commission is expected to be enacted soon which will stipulate that this condition be followed. This regulation will also limit the amount of paperwork that financial aid officers will have to deal with for dual enrollment students.

A question has been posed several times as to whether or not credits from correspondence courses could be applied toward student loan eligibility under provisions of this bill. Under present regulations, students are allowed to apply these courses toward loan eligibility requirements at the discretion of the parent institution. These courses must be approved by the parent institution, and they must be administered by an accredited school.

The language of this bill differs slightly from the wording in Senate Bill 197 in that HB 174 refers to applying only credits, not credits or hours, toward student loan eligibility requirements. By accepting only credits, financial aid officers would not be subject to the time-consuming procedure of converting hours to credits.

The purpose of this bill, again, is simply to allow those students who are in financial need the opportunity to take full advantage of the academic programs offered at the schools in their area.

Introduced: 2/8/83
Referred: Health, Education & Social Services, House Special Committee on State Loans and Finance

IN THE HOUSE

BY DAVIS, DUNCAN, KOPONEN, MALONE, SZYMANSKI AND ZHAROFF

HOUSE BILL NO. 174

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to student loan eligibility."

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

* Section 1. AS 14.43.120(c) is amended to read:

(c) To maintain a loan the student must continue to be enrolled as a full-time student in good standing <u>or as a part-time student in good standing in more than one institution for a total number of credits equivalent to a full-time student</u> in a career education program, college or university designated under (b) of this section. The commission shall adopt regulations defining "good standing" for purposes of this subsection.

STATE OF ALASKA
FISCAL NOTE

Revision Date 5-5 , 1983

I. REQUEST

Bill/Resolution No.: HB174
Title: Act: Student Loan Eligibility
Sponsor: Davis, et al
Requestor: House HESS

II. FISCAL DETAIL

Agency Affected: Education
Program Category Affected: Postsecondary Com
BRU, Program of Subprogram(s) Affected:
Student Loan Admin, Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC						
TOTAL OPERATING	N.A.	-0-	-0-	-0-	-0-	-0-
CAPITAL	N.A	-0-	-0-	-0-	-0-	-0-
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

IV. ANALYSIS: Attach a separate page for any Analysis

Prepared By: Kerry D. Gromesburg Phone: 465-2854
Division: Alaska Commission on Postsecondary Education Date: 5-5-83

Approved by Commissioner: Date:
Department:

Distribution:
Original to Legislative Finance
Copy to Office of Management and Budget (for Legislature introduced bills)
Copy to Department (for Governor introduced bills)
Copy to Sponsor
Copy to Preparer (if different from Sponsor)

May 5, 1983

Analysis (HB174):

Allowing multiple enrollments should enable additional people to apply, but we have no way of determining what that number would be. We also have indication that some schools will require such cross-documentation that those students will face weeks and months of delays in receiving funds. Therefore, we have left the fiscal impact at zero.

Alaska State Legislature

House of Representatives

Official Business

Rep. Mike Davis

Pouch V
State Capitol
Juneau, Alaska 99811

January 31, 1983

Kathleen Smoyer
PO Box 2652
Fairbanks, AK 99707

Dear Ms. Smoyer,

Thank you for your recent letter.

I spoke with people at the Commission on Postsecondary Education regarding your application for a student loan, and I also referred to the Alaska statutes specifying those conditions which must be met for a loan. Unfortunately, as the law is presently written, a person must earn 12 credits at a single institution in order to be eligible for a student loan the following semester.

This situation needs to be remedied for cases such as yours, in which you received a total of 14 credits from the University of Alaska, Fairbanks and the Tanana Valley Community College during the Fall, 1982 semester. The university and the community college in Fairbanks not only complement each other in providing education services for the community but, as you note, both institutions are so closely tied that its only necessary to write one check in order to pay tuition for both schools.

I am supportive of allowing a person to be eligible for a student loan by taking a combination of 12 credits at two postsecondary schools. I am presently working with people at Legislative Legal Services in studying possible revisions which might be made to the existing laws.

Sincerely,

Mike

Rep. Mike Davis

Mike Davis Office
Pouch V
Juneau, Alaska 99811
ATTN: Jonathan Sperber

January 20, 1983

Mr. Sperber:

Enclosed is my appeal for the Alaska Student Loan Program to reinstate my student loan which was denied for spring semester, 1983. Also attached are copies of forms that support my appeal. Please look these over and give me any help you can.

Much Appreciation...

Kathleen M. Smoyer

KATHLEEN M. SMOYER
P.O. Box 2652
Fairbanks, Alaska 99707
(907) 456-7250

Alaska Student Loan Program
Pouch FP, 400 Willoughby
Juneau, Alaska 99811
ATTN: Director

January 19, 1983

This is to appeal the loss of my Alaska Student Loan for spring semester, 1983. It was denied on the grounds that I no longer meet the eligibility requirements. Fall semester, 1982 I took 12 credits at the University of Alaska-Fairbanks, earned 10 of those credits, for a semester GPA of 3.0. I also took 4 credits at T.V.C.C., earned those 4 credits, for a semester GPA of 4.0. I therefore, earned a total of 14 credits for the fall semester of 1982, with my total GPA being somewhere between 3.0 and 4.0

When I went to see the UAF Financial Aid officer, the explanation was I did not complete 12 credits to be classified as a full time student and therefore, could not receive my A.S.L.P. loan this semester. They stated UAF and T.V.C.C. are different and the credit I earn at T.V.C.C. does not count. It is true that I registered at two different places and received two seperate grade reports. However, I paid only one tuition (that at UAF). This implies to me they are part of the same system.

With some research, I found that this division between UAF and T.V.C.C. is fairly recent and was told that notices of this were sent to all students, though I never received one. When I called the A.S.L.P. office in Juneau, I was told that they could do nothing unless the UAF Financial Aid office authorized me to receive the check. But when I went to Financial Aid they told me

they (UAF) didn't have the power to change the decision but that A.S.L.P. did. All I have encountered so far is this type of beaurocratic run-around and it is most confusing to me as a student. So I went to see George Winford (advisor and head of UAF Journalism department) who, by the way, supports my appeal. He informed me I could have my T.V.C.C. classes transfered to my UAF transcript, which I have done. It will now show that I have completed 14 credits for the fall semester of 1982.

Under Borrower's Responsibilities on my promissory note it states:

> I must maintain good standing, as defined for this program, in order to receive disbursement of my loan under the Alaska Student Loan Program. Good standing is defined as enrolling and completing at least a full-time student load while maintaining a grade-point-average of at least a "C" for an undergraduate or "B" for a graduate student.

It is my interpretation that I did comply with this regulation as worded in Item #8 of promissory note signed 9/7/82, and as my transcript will show.

I have had to borrow the money to pay my fees for this semester but must pay that person back and have no money on which to live. I am an earnest college student and I need my A.S.L.P. loan to continue my education. Therefore, I request that you reinstate my Alaska Student Loan for the spring semester of 1983 on the grounds that I <u>did</u> meet the requirements: completion of 14 credits at a 3.0+ GPA in fall of 1982.

Please review my appeal and let me know immediately of your decision.

Thank you very much for your consideration...

KATHLEEN M. SMOYER (574-34-9200)

TANANA VALLEY COMMUNITY COLLEGE
Fairbanks, Alaska 99701

February 17, 1983

Representative Mike Davis
P.O. Box 81435
College, Alaska 99708

Dear Mike:

In regards to HB 174, Tanana Valley Community College supports the bill relative to students who "in total" are enrolled in 12 credits or more which makes them a full-time student within the system.

Sincerely,

Rod

Rodney Enos
Campus President

RE/dac

University of Alaska, Juneau
11120 Glacier Highway
Juneau, Alaska 99801 (907) 789-2101

April 19, 1983

Rep. Mike Davis
Pouch V
Juneau, AK 99811

Dear Representative Davis:

Thanks for sending me a copy of House Bill No. 174 (An Act relating to student loan eligibility). I feel that this is a constructive amendment which will allow greater flexibility for students in designating programs that will meet their educational goals.

Sincerely,

Richard S. Lee, Dean
Juneau Douglas Community College

RSL:cs

University of Alaska, Juneau
11120 Glacier Highway
Juneau, Alaska 99801 (907) 789-2101

To: Chancellor Paradise

From: Dianne Schmitt, Financial Aid Officer

Date: February 15, 1983

FEB 15 1983
Chancellor
University of Alaska, Juneau

RE: LEGISLATION REGARDING THE ALASKA STUDENT LOAN PROGRAM

Senate Bill # 118 reduces the time a student must be in the state before applying for a loan, but also limits loans to students who apply before graduation from high school. The one year residency requirement (reduced from two years) will put a stop to litigation in that area. However, the requirement for all loan applicants to apply while still in high school will be a detriment to the spirit of the loan program and establish a new justification for litigation.

As the UAJ Financial Aid Officer, I must oppose this bill for several reasons. 1) It is sometimes difficult for high school students to decide if they want to go to college. I know there will be many young people who will neglect to fill out the application before high school graduation and later decide to go to college. This bill is asking all seventeen year old students in Alaska to decide their life goal without experiencing life beyond the academic setting. 2) Many students do not consciously choose a career path until several years after high school and after many life experiences. This bill would not afford this type of student the same opportunity as that provided for students who begin college shortly after high school. 3) Many students wait several years after graduation from a baccalaureate program before persuing graduate study. This bill does not mention graduate study; therefore, I am assuming that it could also be interpreted to eliminate loans for post-baccalaureate students.

House Bill # 56 asks for the loan interest rate to be raised to 7% and for the loan to be limited to the cost of tuition, room and board. This bill is acceptable.

House Bill # 174 says that a student may attend classes at two institutions to accumulate the 12 credits required for the loan program. This bill is acceptable and also beneficial to many of the students in Southeast Alaska.

Anchorage Community College A Unit of the University of Alaska System

April 13, 1983

Representative Mike Davis
Pouch V
Juneau, Alaska 99811

Dear Representative Davis:

I am writing at the request of Kerry Howard to indicate my support of HB174 in concept. I believe that students should be allowed to count credits from more than one institution toward fulfilling the requirement for eligibility for the state student loan program.

However, I believe that there should be in place a consortium agreement between the two institutions as is now in existence between ACC/UAA. This agreement should require that 75 percent of the credits required for qualification should be taken at the parent institution. The parent institution is the institution which is disbursing the aid.

In the past, we have had problems in federal programs with students receiving aid from more than one institution. This is not the problem with the state loan, as there is only one check in this case. However, there is a lot of paperwork and staff time required in handling the state loan program. If a student were required to take 75 percent or nine credits from the parent institution, there would be an inherent commitment on the part of that student to attend that particular institution.

Another reason for this requirement is the necessity to certify academic eligibility between semesters. If a student is taking credits from more than one institution, a parent institution is required to obtain grade reports from all other institutions prior to certifying eligibility. This is simpler if consortium agreements are in effect. The time between semesters is short and the grade reporting process is lengthy. Reciprocal agreements between institutions for the release of grades is a complicated process covered by the privacy acts.

In summary, consortium agreements between cooperating institutions, with a parent institution requirement of 75 percent of the credits required for eligibility, would be a good addition to your bill in my view. Another desired addition would be for the parent institution to receive some support costs for facilitating the state loan program. Federal aid programs provide a percentage of dollars distributed to be used to administer their funds. The Alaska State Loan Program requires a lot of work on the part of our staff, but no funds are appropriated for this purpose. Our success in acquiring additional staff

2533 Providence Avenue • Anchorage, Alaska 99508-4670 • Telephone 907/~~263-1200~~

Alaska Statewide Student Association
P.O. BOX 548
DOUGLAS, ALASKA 99824
REPRESENTING STUDENTS OF THE UNIVERSITY OF ALASKA STATEWIDE SYSTEM

ASSA requests that the following section be added to SPONSOR SUBSTITUTE FOR HOUSE BILL 56:

AS 14.43.120(c) is amended to read:

(c) To maintain a loan the student must continue to be enrolled as a full-time student in good standing or as a part-time student in good standing in more than one institution for a total number of credits equivalent to a full-time student in a career education program, college, or university designated under (b) of this section. The commission shall adopt regulations defining "good standing" for purposes of this subsection.

At present, students enrolled at both UAF and TVCC, UAA and ACC, or Sitka CC and Sheldon Jackson may not receive scholarship loans unless they have a total of twelve credit hours at one or the other institution. This amendment would allow these perfectly legitimate, full-time students to be eligible for the loans.

Thank you.

KCK

ASSA

FINANCIAL AID OFFICE

UNIVERSITY OF ALASKA, FAIRBANKS
Fairbanks, Alaska 99701

1982-83 ALASKA STUDENT LOAN INFORMATION

As a result of recent action by the Alaska Commission on Postsecondary Education, schools are no longer required to complete Part B of the Alaska Student Loan Application.

You may submit your application (two white copies) directly to the State Loan Office, retaining the yellow student copy, the cover sheets and this letter.

BE SURE THAT YOUR APPLICATION IS COMPLETELY FILLED OUT -- over 50% of the Alaska Student Loan applications are returned to the student because of omissions. When your application is received in Juneau, you will receive a blue post card with the date received indicated. This does not mean your application is complete; only that it has been received. You will next receive a promissory note in triplicate. Sign and date the note, list the dates of disbursement (8-20-82 for Fall 1982 semester and 1-1-83 for Spring 1983 semester), keep the marigold copy, and return the white and pink copies to Juneau.

Normally, the Financial Aid Office receives Alaska Student Loan checks in time to release funds at Registration. Before releasing checks, we must determine academic eligibility for each recipient. If you are currently enrolled at the University of Alaska-Fairbanks, you must be in good standing (2.0 semester and cumulative grade point average for undergraduates and 3.0 semester and cumulative grade point average for graduate students) to be eligible for your Fall 1982 check. Entering and transfer students must be admitted IN GOOD STANDING to a program leading toward a degree or certificate. Recipients must be full-time (12 credits for undergraduate, 9 credits for graduate students) and must complete 12 and 9 respectively each semester they receive a loan to be eligible for the following term.

Courses in the following areas cannot be counted toward the full-time financial aid requirement: Tanana Valley Community College, correspondence, extension, or television.

The eligibility requirements listed above reflect current Alaska State laws and regulations. NO EXCEPTIONS CAN BE MADE BY THE UNIVERSITY OF ALASKA-FAIRBANKS FINANCIAL AID OFFICE.

Any questions regarding the status of your application should be directed to the Alaska Student Loan Office in Juneau, since the Financial Aid Office acts only as a disbursing and certifying agency.

through the University budget process has not been good. A five or ten percent overhead distribution to institutions handling a large volume of state loan checks would certainly be beneficial.

Sincerely,

Roger L. Worsley, Dean
Educational Services 263-1200

RLW:cb

cc: Dr. Ed Biggerstaff, Chancellor
Clay Walker, ACCSA

UNIVERSITY OF ALASKA, FAIRBANKS
Fairbanks, Alaska 99701

March 9, 1983

Representative Mike Davis
Alaska State Office Building
Pouch V
Juneau, AK 99811

Dear Representative Davis:

This letter is in response to your request that I provide information regarding any administrative problems that colleges and universities might encounter should House Bill 174 be enacted.

As you probably know, the loan regulations already permit schools to combine credits provided a consortium or formal transfer agreement exists between the schools involved. This permits schools to voluntarily combine credits for loan recipients. However, it is my impression that HB 174 would require that schools accept concurrent enrollment from other schools in addition to their own for the purposes of establishing academic eligibility for the Alaska Student Loan.

Our primary concern at UAF is that the collection of the information needed to certify good academic standing and satisfactory progress would be so cumbersome and time consuming that our students would experience a considerable delay in actually receiving their state loan checks. I am attaching a sample copy of the "Record of Disbursement and Receipt" form which accompanies each state loan check and which the school's Financial Aid Officer must sign before disbursing the check to the student. Please note that the school must certify that the student is/was enrolled in a degree or diploma or certificate program as a full time student and is maintaining satisfactory progress as determined by school policy. HB 174 would put schools in the position of making this certification only after a lengthy and cumbersome administrative process of 1.) collecting certification of enrollment and fee statements from each school the student is attending, 2.) collecting official transcripts at the end of each term from each school the student is attending, 3.) official evaluation of transfer credits at the end of each term by the home institution's registrar, and 4.) a combining of credits earned together with a revision of the semester and cumulative g.p.a. Even large schools with sophisticated computer capability would have to do most of this work by hand and on a student by student basis. We expect that the enactment of this bill would cause a delay in delivering ASL checks to all students of at least three to four weeks after registration. In addition, all of the certification activity would take place at the time of registration when we are most heavily involved with getting students registered for classes and assisting students with various financial aid problems.

I would also like to mention that under HB 174, our students would not be limited to a TVCC/UAF dual enrollment. We would also be required to include UA correspondence work and any other accredited school's correspondence study. There is even the possibility that an out-of-state school would offer a special extension course in Fairbanks. Chapman College did just that a few years ago when it offered MBA coursework in the Fairbanks area.

A student attending school out of state in a large metropolitan area could easily enroll in a three credit course at each of four schools. It would be very time consuming to combine those credits at one school if all of the schools had a different starting and ending date. There is also the very real possibility that there could be a combination of quarter and semester credits to evaluate. There are some schools outside that have discussed the possibility of withdrawing themselves from eligibility for the Alaska Student Loan because the regulations are so different then accepted financial aid standards for the aid their school offers. I believe there is a real risk that other schools may simply choose to not accept another state's imposition of academic regulation on their institution and opt out of participation in the Alaska Student Loan program. It is extremely difficult to serve student's needs in a timely manner when faced with a variety of conflicting financial aid standards.

Finally, I would like to confirm that UAF Financial Aid applicants for the current academic year were advised well ahead of time that they would be required to carry a minimum of 12 UAF credits per semester (undergraduates) in order to be eligible for the loan at this school. We accomplished this by publishing news releases in the student newspaper, and by attaching an instruction sheet to each Alaska Student Loan application form that was given out from this office. Because ASL regulations require a minimum of 12 credits to maintain eligibility, we suggest to students that they carry those 12 credits with UAF, then take any desired coursework from other schools in addition to that minimum course load. This gives them the flexibility of exploring other schools and subjects while maintaining their eligibility for the loan at UAF.

I hope this information is useful to you. Please call us if you have further questions. Our office phone number is 474-7256. We appreciate this opportunity to express our views and we look forward to working with you.

Sincerely,

Carol M. Thomson
Financial Aid Advisor

/ct
enclosure

cc: Members of the Fairbanks Legislative Delegation

From Carol Thompson and Ida Griener, UAF

Re: House Bill 56

I think this bill would penalize the in-state student who is seeking a college education at the lowest possible cost. If enacted, this bill could encourage students to attend more expensive schools out- of-state. With no ceiling on the loan maximum, the student could conceivably request 10-15,000 dollars for a single academic year. (For example, the tuition plus room and board at Harvard is some 12-14,000 per academic year while similar costs at UAF are only 3200.)

I also note that there is no provision for an allowance for books and supplies as has been allowed before. I do agree that the loan amount should be no greater than the combined costs of tuition and required fees, room and board and books, but I believe that books are an important and necessary cost of education.

Because of declining revenues, I realize that the state must do something to change the scale of the student loan program. My suggestions would be to reduce the maximum of the loan from 6,000 to perhaps, 4500, for undergraduates,* and reduce the maximum for graduates from 7000 to perhaps, 6000; reduce or totally eliminate the generous forgiveness provisions; and to increase the interest rate. (I'm not sure that a student seeking an education has a right to a more attractive rate of interest than, say, a couple seeking to buy their first home or a young businessperson trying to get started in a business.)

*Note: Current GSL maximums are 2500 for undergrads and 5000 for graduates.

Re: House Bill 174

Legislation currently in effect already allows the student to combine credits at more than one school provided a consortium agreement or transfer agreement exists between the schools involved. To mandate that a school be forced to combine credits, collect academic transcripts from all other schools, and to recalculate separate g.p.a.'s into a composite g.p.a would be an administrative nightmare. I doubt that schools outside of Alaska would be willing to participate in the Alaska Student Loan program under such conditions. A student attending college in a Metropolitan area--Seattle, perhaps--could conceivably take four 3-credit classes at four different colleges in the area for a combined total of 12 credits. What school would be willing to call itself the student's home institution and say that the student was in good academic standing and making satisfactory progress toward a degree goal at that institution? From an administrative point of view, this bill, if enacted, would be possible only if an agency of the State of Alaska would serve as a central collection point for enrollment forms and for transcripts in order to determine a student's eligibility before releasing the loan check. If saving money is the object, this bill would certainly not meet that criteria.

Re: Senate Bill no. 118

This bill has two major considerations for schools and/or the State Loan Office. 1.) It's difficult to imagine how this would be handled administratively; it seems to be completely unmanageable, and 2.) Could requiring students to be Alaskan High School graduates in order to be eligible be constitutional? It distresses me to see the state provide more fodder for the likes of the Zobels. It seems to me that this bill is saying that Alaskan High School graduates have more commitment to the State than those persons who grew up elsewhere but moved to Alaska because of choice.

sity, two nominees from Sheldon Jackson College, and two nominees from each campus of the University of Alaska. The nominees shall be selected by the students at Alaska Pacific University, Sheldon Jackson College, and each campus of the University of Alaska. Selections shall be made at elections conducted under rules established by the Office of the Governor. The term of office of the student member of the commission is two years. Membership on the commission is immediately forfeited by a student member who ceases to be a full-time student. Within 60 days after a vacancy occurs, the governor shall appoint a successor from those students appearing on the list of nominees to serve for the unexpired term of the original appointee. The term "campus" used in this subsection means a portion of the University of Alaska designated as a "campus" by the Board of Regents. (§ 4 ch 78 SLA 1974; am §§ 1 — 3 ch 64 SLA 1982; AS 14.40.903; am § 56 ch 6 SLA 1984)

Effect of amendments. — The 1984 amendment, effective February 14, 1984, substituted "Pacific" for "Methodist" in paragraph (2) of subsection (a).

Chapter 43. Scholarship, Loan, and Grant Programs for Postsecondary Students.

Article

4. Scholarship Loan Program (§§ 14.43.090, 14.43.095, 14.43.100, 14.43.120, 14.42.125, 14.43.130, 14.43.160)
7. Teacher Scholarship Loan Program (§§ 14.43.600 — 14.43.700)

Article 4. Scholarship Loan Program.

Section

90. Scholarship revolving loan fund
95. Financial aid committee
100. Applications
120. Conditions of loans
125. Eligibility of students
130. [Repealed]
160. Definitions

Sec. 14.43.090. Scholarship revolving loan fund. (a) There is created a scholarship revolving loan fund. The fund shall be used to make scholarship loans to students selected under AS 14.43.090 — 14.43.160 and to pay the costs of collecting student loans that are in default if those costs are not recovered from the student. All repayments of principal and interest on scholarship loans shall be paid into the scholarship revolving loan fund. If money estimated to be available from scholarship loan repayments is inadequate to fully fund estimated scholarship loans for any fiscal year, additional funding from the general fund may be requested and appropriated for that year.

(b) *[Repealed, § 31 ch 59 SLA 1982.]*

(c) *[Repealed, § 31 ch 59 SLA 1982.]* (§ 1 ch 98 SLA 1971; am § 1 ch 156 SLA 1972; am §§ 1, 2 ch 136 SLA 1974; am § 1 ch 136 SLA 1975; am § 31 ch 59 SLA 1982; AS 14.40.751; am § 1 ch 158 SLA 1984)

Effect of amendments. — The 1984 amendment, effective July 6, 1984, in subsection (a), added 'and to pay the costs of collecting student loans that are in default if those costs are not recovered from the student" at the end of the first sentence and substituted "loan fund" for "fund shall be used to make new scholarship loans" in the second sentence and "money estimated to be" for "funds" and "is" for "are" in the third sentence.

Sec. 14.43.095. Financial aid committee. (a) The student financial aid committee is composed of the members of the Alaska Commission on Postsecondary Education. The commission may delegate its functions under AS 14.43.090 — 14.43.160 to a committee of its members, with augmented membership as the commission considers appropriate. The executive officer of the commission is the executive secretary of the committee. The Alaska Commission on Postsecondary Education shall administer the program established by AS 14.43.090 — 14.43.160.

(b) Members of the committee serve without compensation but are entitled to per diem and travel expenses authorized by law for boards and commissions.

(c) The committee shall make an annual report reviewing the work of the committee to the governor and the legislature.

(d) The committee shall meet at least once a year. The meetings shall be held at the call of the chairman or upon petition by two members. (§ 1 ch 98 SLA 1971; am § 2 ch 156 SLA 1972; am § 5 ch 78 SLA 1974; am § 3 ch 136 SLA 1974; AS 14.40.753; am § 57 ch 6 SLA 1984)

Effect of amendments. — The 1984 amendment, effective February 14, 1984, substituted "and the legislature" for "the legislature and the private colleges and universities where students receiving tuition grants are enrolled" in subsection (c).

Sec. 14.43.100. Applications. (a) Applications shall be submitted to the executive secretary of the committee.

(b) A person whose loan application is not recommended or presented to the committee by the executive secretary may appeal to the committee through the chairman of the committee and the committee shall consider the application. (§ 1 ch 98 SLA 1971; am § 3 ch 156 SLA 1972; am § 4 ch 136 SLA 1974; AS 14.40.755; am § 58 ch 6 SLA 1984)

Effect of amendments. — The 1984 amendment, effective February 14, 1984, deleted "or grant" following "loan" in subsection (b).

Sec. 14.43.120. Conditions of loans. (a) Proceeds from scholarship loans may only be used for books, tuition and required fees, and for room and board.

(b) The loans may only be used to attend a career education program or a college or university approved by the commission, and, if the loans are federally insured, by the United States Commissioner of Education.

(c) To maintain a loan the student must continue to be enrolled as a full-time student in good standing in a career education program, college or university designated under (b) of this section. The commission shall adopt regulations defining "good standing" for purposes of this subsection.

(d) Scholarship loans may not be made to a student

(1) for more than five years of undergraduate study;

(2) for more than five years of graduate study;

(3) for more than a total of eight years of undergraduate and graduate study.

(e) Loans are interest bearing while a student is enrolled under (c) of this section or is receiving a deferment of payments under (k) of this section; however, a student is entitled to have a portion of the interest paid in accordance with (*l*) of this section.

(f) Interest on a loan given under AS 14.43.090 — 14.43.160 is at the rate of five percent a year unless the loan is in default. Interest on a loan that is in default is 10 percent a year for the period the loan is in default.

(g) Repayment of the principal and interest on the loan begins no later than one year after the borrower's studies are terminated. The loan shall provide for repayment of the total amount owed in periodic installments in not more than 10 years from the commencement of repayment, except as provided in (k) and (m) of this section. If the commission and the borrower agree to a different repayment schedule, the borrower shall repay the loan in accordance with the agreement. A borrower may make payments earlier than required by this subsection.

(h) Security may not be required for the loans; however, provision shall be made for payment of attorney fees and costs of court if either or both are incurred in collection of the amount owed on the loan.

(i) If a loan is in default, the commission shall notify the borrower that repayment of the remaining balance is accelerated and due by sending the borrower a notice by registered or certified mail.

(j) A portion of a loan shall be paid on behalf of the borrower by the state if, upon completion of the course of study for which the loan was granted, the borrower is a resident of the state for at least two years. The portion of the loan that shall be paid by the state is the following percentages of the total loan received plus interest up to a total of 50 percent of the total loan:

(1) two — three years residence in the state, 10 percent;

(2) three — four years residence in the state, an additional 10 percent;

(3) four — five years residence in the state, an additional 10 percent;

(4) five — six years residence in the state, an additional 10 percent;

(5) over six years residence in the state, an additional 10 percent.

(k) Periodic installments of principal shall be deferred, but interest shall accrue and be paid unless the student is eligible for interest payment benefits under (*l*) of this section during any of the following:

(1) return to student status as provided in (c) of this section;

(2) serving on active duty as a member of the armed forces of the United States;

(3) serving, for up to three years, as a full-time volunteer under the Peace Corps Act;

(4) serving, for up to three years, as a full-time volunteer under the Domestic Volunteer Service Act of 1973;

(5) for a one-time period up to 12 months in which the borrower is seeking and unable to find employment in the United States; or

(6) if the borrower becomes 50 percent or more disabled as certified by competent medical authority.

(*l*) The state will pay the interest on that portion of a loan that is not federally insured during

(1) the period before the beginning of the repayment period of the loan; and

(2) deferments under (k) of this section.

(m) In case of hardship, the committee may extend repayment of a loan for an additional period of up to five years in increments no longer than 12 months each.

(n) *[Repealed by § 11 ch 89 SLA 1981.]*

(o) The provisions of (j) of this section do not apply to a loan that is in default.

(p) For purposes of this section, a person qualifies as a resident if the person is physically present in the state with the intent to remain permanently in the state or, if not physically present in the state, the person intends to return to the state and is absent due to military service.

(q) For the purposes of this section a loan is in default if a loan payment is 120 or more days past due. (§ 1 ch 98 SLA 1971; am § 4 ch 156 SLA 1972; am § 6 ch 78 SLA 1974; am § 8 ch 136 SLA 1974; am §§ 1 — 4 ch 99 SLA 1977; am §§ 3 — 8 ch 87 SLA 1979; am §§ 3 — 9, 11 ch 89 SLA 1981; am §§ 2 — 4 ch 158 SLA 1984)

Effect of amendments. — The 1984 amendment, effective July 6, 1984, added subsection (q) and, in subsection (f), added the second sentence and added "unless the loan is in default" at the end of the first sentence; and, in subsection (o), substituted "that is in default" for "to a borrower named in a complaint as a defendant in an action by the state or by the commission to secure payment of the unpaid balance of a loan made under AS 14.43.110 or 14.43.115."

Editor's notes. — This section is set out above to correct errors in the main pamphlet.

Sec. 14.43.125. Eligibility of students. (a) A person may apply for and obtain a scholarship loan if the person

(1) is a resident of the state at the time of application for a scholarship loan;

(2) meets the requirements of (b) of this section; and

(3) is

(A) enrolled as a full-time student in a career education or associate or baccalaureate or graduate degree program; or

(B) a graduate of a high school, or scheduled for graduation from a high school within six months, with sufficient credits to be admitted to a career education program or to an accredited college or university.

(b) In addition to the requirements of (a) of this section, to obtain a scholarship loan a person must have been a resident of the state for at least two years at the time of application for the loan. For purposes of this subsection, a person qualifies as a resident of the state if at the time of application for the loan the person

(1) has been present in the state for at least two years unless an absence from the state during any part of the two years was due to military service; or

(2) is a person who is dependent on a parent or guardian for care, the parent or guardian has been present in the state for at least two years, and the person has been present in the state for at least one year of the immediately preceding five years. (§ 1 ch 98 SLA 1971; am § 10 ch 89 SLA 1981; am § 9 ch 67 SLA 1983)

Effect of amendments. — The 1983 amendment, in paragraph (2) of subsection (b) deleted "and" following "guardian for care" and added the language beginning "and the person has been present" at the end of the paragraph.

Editor's notes. — Section 18, ch. 67, SLA 1983 provided: "If the two-year residency requirement for scholarship loans provided by AS 14.43.125 is declared unconstitutional or otherwise invalid by a court of competent jurisdiction, the Commission on Postsecondary Education shall adopt regulations to impose the most stringent residency requirement allowable under the Constitution of the State of Alaska and the United States Constitution on scholarship loan applicants."

Sec. 14.43.130. Selection criteria. [Repealed, § 19 ch 67 SLA 1983.]

Sec. 14.43.160. Definitions. In AS 14.43.090 — 14.43.160

(1) "career education" means a course or program in vocational-technical training or education approved by the commission;

(2) "full-time student" means an undergraduate or career education student who is enrolled and is in regular attendance at classes for at least 12 semester hours of credit or the equivalent during the semester or a graduate student who is enrolled and is in regular attendance at classes for at least nine semester hours of credit or the equivalent; any combination of semester hours of credit, or the equivalent, aggregating to the requisite number of semester hours and undertaken during a semester at two or more public or private institutions of higher education operating under a consortium constitutes full-time student status;

(3) *[Repealed, § 59 ch 6 SLA 1984.]*

(4) *[Repealed, § 11 ch 89 SLA 1981.]*

(5) "school year" means the period from September 1 of one year through August 31 of the following year;

(6) "commission" means the Alaska Commission on Postsecondary Education;

(7) *[Repealed, § 7 ch 246 SLA 1976.]*

(8) "federally insured" means a loan covered by the provisions of the Guaranteed Student Loan Program of Title IV, Part B, of the Higher Education Act of 1965 (P.L. 89-329), as amended. (§ 5 ch 156 SLA 1972; am § 8 ch 78 SLA 1974; am §§ 18 — 20 ch 136 SLA 1974; am § 5 ch 136 SLA 1975; am § 7 ch 246 SLA 1976; am §§ 5 — 7 ch 99 SLA 1977; am § 9 ch 87 SLA 1979; am § 11 ch 89 SLA 1981; am § 59 ch 6 SLA 1984)

Effect of amendments. — The 1984 amendment, effective February 14, 1984, repealed former paragraph (3), which defined "part-time student."

Article 7. Teacher Scholarship Loan Program.

Section	Section
600. Findings and intent	630. Administration
610. Program established	640. Conditions of loans
620. Teacher scholarship revolving loan fund	650. Selection criteria
	700. Definition

Effective date of article. — Section 2, ch. 121, SLA 1984, makes this article effective June 21, 1984, in accordance with AS 01.10.070(c).

Sec. 14.43.600. Findings and intent. (a) The legislature finds that there is a wide and unacceptable disparity between the distribution of Native teachers and Native students in rural elementary and secondary schools in the state. Many rural schools have virtually no Native teachers and no non-Native students. The undesirable effects of this disparity include the following:

(1) there is a serious weakness in the ability of teaching staffs in rural schools to foster a sense of Native traditions and cultures in the Native students;

(2) many rural students are forced to exist in two entirely separate situations: the essentially traditional atmosphere of many Native homes, and the essentially modern atmosphere of the classroom;

(3) almost no Native students return to rural schools to teach, continuing the imbalance and exacerbating its effects; and

(4) there is an annual turnover of 40 percent among teachers in rural educational attendance areas in the state.

(b) The legislature further finds that existing programs have failed to increase the proportion of Natives teaching in rural schools. Therefore, it is the intent of the legislature to establish the teacher scholarship loan program to encourage rural high school graduates to return to rural schools as teachers and relieve the conditions described in this section. (§ 1 ch 121 SLA 1984)

Sec. 14.43.610. Program established. There is established the teacher scholarship loan program to provide an incentive for rural high school graduates to pursue teaching careers in rural elementary and secondary schools in the state. (§ 1 ch 121 SLA 1984)

Sec. 14.43.620. Teacher scholarship revolving loan fund. There is created a teacher scholarship revolving loan fund. The fund shall be used to make scholarship loans to students selected under AS 14.43.600 — 14.43.700. All repayments of principal and interest on teacher scholarship loans shall be paid into the teacher scholarship revolving loan fund and shall be used to make new teacher scholarship loans. If estimated funds available from teacher scholarship loan repayments are inadequate to fully fund estimated teacher scholarship loans for any fiscal year, additional funding from the general fund may be requested and appropriated for that year. (§ 1 ch 121 SLA 1984)

Sec. 14.43.630. Administration. (a) The teacher scholarship loan program shall be administered by the student financial aid committee (AS 14.43.095) in accordance with regulations adopted by the committee. The committee shall

(1) allocate the loan awards available for teacher scholarship loans annually to local school boards giving a preference to rural school districts; and

(2) develop and distribute to the local school boards an application form for teacher scholarship loans; the form shall include a requirement that the applicant supply a high school academic transcript and a statement of intent to enter a teaching career at the elementary or secondary school level in the state.

(b) The local school boards shall select the recipients of the teacher scholarship loans according to the criteria in AS 14.43.650. (§ 1 ch 121 SLA 1984)

Sec. 14.43.640. Conditions of loans. (a) The conditions provided in AS 14.43.120 apply to teacher scholarship loans except as otherwise provided in this section.

(b) If a borrower meets the conditions provided in (a) of this section and is employed as a teacher in a rural elementary or secondary school, the portion of the loan that shall be paid by the state, notwithstanding AS 14.43.120(j), is the following percentages of the total loan received plus interest up to a total of 100 percent of the total loan:

(1) one year employment, 15 percent;
(2) two years employment, an additional 15 percent;
(3) three years employment, an additional 15 percent;
(4) four years employment, an additional 25 percent;
(5) over four years employment, an additional 30 percent.

(c) A loan may not exceed $7,500 in a school year.

(d) Proceeds from a teacher scholarship loan may be used only for undergraduate expenses of books, tuition, required fees, room and board, and the transportation expense for two round trips between the loan recipient's home and school. (§ 1 ch 121 SLA 1984)

Sec. 14.43.650. Selection criteria. (a) To be eligible for a teacher scholarship loan, a student must

(1) be a graduate of a public or private high school in the state, with sufficient credits to be admitted to an accredited college or university;

(2) be enrolled in or show evidence of intent to enroll in a degree program directed at a teaching career at the elementary or secondary school level;

(3) meet the conditions set by the student's local school board with respect to the district's requirements for teachers in particular subject areas; and

(4) submit to the local school board an application provided by the student financial aid committee under AS 14.43.630(a)(3); an application may be submitted six months before graduation from high school.

(b) A local school board shall award teacher scholarship loans giving a preference to applicants from rural schools who meet the qualifications for a loan and taking into account the applicants' academic records.

(c) A student may not be awarded a scholarship loan under AS 14.43.090 — 14.43.160 and a teacher scholarship loan under AS 14.43.600 — 14.43.700 for the same school year. (§ 1 ch 121 SLA 1984)

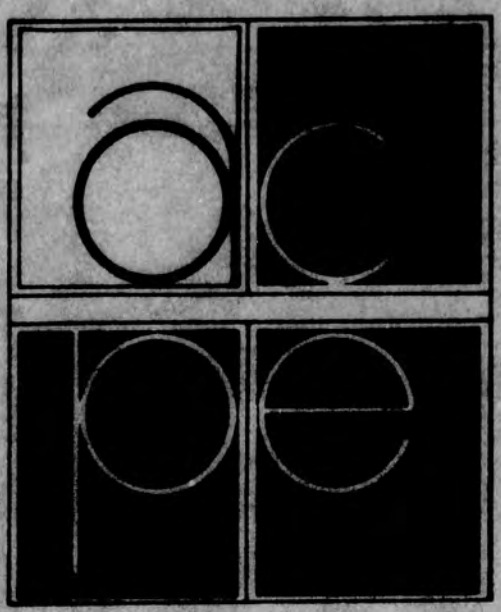
Legislative history reports. — For legislative letter of intent, see 1984 Senate Journal at p. 3117.

Sec. 14.43.700. Definition. In AS 14.43.600 — 14.43.700, "rural" means

(1) a community in the second, third, or fourth judicial district of the state with a population of 4,500 or less that is not connected by road or rail to Anchorage or Fairbanks; or

(2) a community in the first judicial district of the state with a population of 4,500 or less. (§ 1 ch 121 SLA 1984)

[redacted]



Alaska Commission on Postsecondary Education

ALASKA STUDENT LOAN

Background and Discussion Materials

February 1985

PROGRAM DESCRIPTION

PURPOSES

1. To provide Alaskans with access to postsecondary educational resources through low-interest loans to students.
2. To encourage an educated citizenry through initial access to education and training and through inducements to utilize that education and training in Alaska.

TERMS

1. Undergraduates and vocational students may borrow up to $6,000 per year of full-time study.
2. Graduate students may borrow up to $7,000 per year of full-time study.
3. Students may borrow for up to 5 years of undergraduate study, or up to 5 years of graduate study, but for not more than 8 years combined.
4. A student must be a two-year Alaska resident to borrow and must maintain full-time study in good standing to continue borrowing Alaska student loans.
5. Loans may be used for attendance at any approved institution.
6. Proceeds from loans may only be used for the costs of tuition and fees, room and board, and books and supplies.
7. Loan repayment begins one year after the student ceases to be a full-time student (except for approved periods of deferment).
8. Repayment is over a 10-year period with provision for extending to 15 years if necessary.
9. Interest charged on the loans is 5%.

FORGIVENESS

If, upon completion of the program of study for which the loan was granted, the borrower resides in Alaska, a portion of the loan, plus interest, shall be forgiven by the State. That portion, for up to a total of 50%, shall accrue as follows:

1. 2-3 years residence in the state, 10%
2. 3-4 years residence in the state, an additional 10%
3. 4-5 years residence in the state, an additional 10%
4. 5-6 years residence in the state, an additional 10%
5. Over 6 years residence in the state, a final 10%.

This residence must be continuous and must begin within one year of completion of program.

REPAYMENT SCHEDULE

IF YOUR STUDENT LOANS TOTAL:	YOUR MONTHLY PAYMENT FOR 120 MONTHS (10 YRS.) WOULD BE:	TOTAL TO BE REPAID:		
		5% Interest	Principal	Total
$1,000.00	$ 10.61	$ 273.20	$1,000.00	$ 1,273.20
2,000.00	21.21	545.20	2,000.00	2,545.20
3,000.00	31.83	818.40	3,000.00	3,818.40
4,000.00	42.43	1,091.60	4,000.00	5,091.60
5,000.00	53.06	1,363.60	5,000.00	6,363.60
6,000.00	63.64	1,636.80	6,000.00	7,636.80
7,000.00	74.25	1,910.00	7,000.00	8,910.00
8,000.00	84.95	2,182.00	8,000.00	10,182.00
9,000.00	95.46	2,455.20	9,000.00	11,455.20
10,000.00	106.07	2,728.40	10,000.00	12,728.40
15,000.00	159.10	4,092.00	15,000.00	19,092.00
20,000.00	212.13	5,455.60	20,000.00	25,455.60
25,000.00	265.16	6,819.20	25,000.00	31,819.20
30,000.00	318.20	8,184.00	30,000.00	38,184.00
35,000.00	371.23	9,547.60	35,000.00	44,547.60
40,000.00	424.26	10,911.20	40,000.00	50,911.20
45,000.00	477.29	12,274.80	45,000.00	57,274.80
50,000.00	530.33	13,639.60	50,000.00	63,639.60

ALASKA STUDENT LOAN PROGRAM

1984-85 Loans

(a) Funds Available

FY85 General Fund Appropriation		$60,000,000
FY84 Carry-Forward		8,745,359
Federal Funds (GSL)		350,000
	Sub-Total	$69,095,359
Estimated FY85 Receipts		9,927,084
	Total	$79,022,443

(b) Loans as of February 1, 1985

Student	Alaska		Out-of-State		Total	
Level	Number	Amount	Number	Amount	Number	Amount
Freshman	2,964	$11,637,561	2,084	$10,011,284	5,048	$21,648,845
Sophomore	1,519	6,194,443	1,553	7,578,675	3,072	13,773,118
Junior	1,045	4,548,563	1,324	6,613,654	2,369	11,162,217
Senior	1,071	4,536,985	1,163	6,738,671	2,234	11,275,656
Vocational	1,949	10,278,744	793	3,954,328	2,742	14,233,072
Undergraduate	8,548	$37,196,296	6,917	$33,896,662	15,465	$71,092,958
Graduate	301	1,461,275	1,050	6,134,621	1,351	7,595,896
Total	8,849	$38,657,571	7,967	$40,031,283	16,816	$78,688,854

(c) In-State/Out-of-State Attendance by Level (February 1, 1985).

Student Level	Alaska	%	Out-of-State	%
Freshman	2,964	58.7	2,084	41.3
Sophomore	1,519	49.4	1,553	50.6
Junior	1,045	44.1	1,324	55.9
Senior	1,071	47.9	1,163	52.1
Vocational	1,949	71.1	793	28.9
Undergraduate	8,548	55.3	6,917	44.7
Graduate	301	22.3	1,050	77.7
Total	8,849	52.6	7,967	47.4

(d) Percent In-State Previous Years

Year	Undergraduate	Graduate	All Loans
1978-79	35.1	12.0	32.3
1979-80	36.1	12.3	33.3
1980-81	45.3	17.9	42.3
1981-82	47.3	23.8	45.0
1982-83	53.1	23.4	50.4
1983-84 (To date)	55.6	22.3	52.6

DISTRIBUTION OF ALASKA STATE LOANS
FOR STUDENTS ATTENDING IN ALASKA
(1984-85 Loans)
(As of December 31, 1984)

Institution	1984-85 No.	1984-85 Amount
University of Alaska, Fairbanks	2,101	$ 8,130,700
University of Alaska, Anchorage	1,443	6,111,600
Anchorage Community College	1,366	5,879,150
Kenai Peninsula Community College	352	1,586,200
University of Alaska, Juneau	231	1,194,950
Alaska Pacific University	246	1,182,900
Alaska Vocational-Technical Center	180	500,800
Matanuska-Susitna Community College	168	722,300
Tanana Valley Community College	155	741,600
Testing Institute of Alaska	152	831,600
Bookkeeping Concepts	151	777,900
Alaska Masonry School	150	886,300
Sheldon Jackson College	141	732,900
New Anchorage Beauty School	111	587,200
Alaska Business College	77	443,100
Alaska Computer Institute of Technology	75	426,850
Clerical Skills Training	69	403,450
Ketchikan Community College	58	243,250
Hutchison Career Center	55	225,800
Alaska Vocational School	53	271,300
Gordon Aviation, Inc.	52	234,000
Scruples II, Action School of Broadcasting	52	227,000
North Pacific Business Institute	50	276,600
Trend Setters School of Beauty	49	283,650
Prince William Sound Community College	48	213,350
People Count, Inc.	45	220,400
Wilburs Flight Operation	41	220,900
Satellite Technicians Applied Research and Development	38	228,000
Aviation Network	31	170,700
Academy of Hair Design	30	138,200
Islands Community College	30	121,800
Aero Tech Flight School	29	166,000
Kuskokwim Community College	29	88,650
Kodiak Community College	27	120,200
Anchorage Alaska School of Barbering	26	135,800
Kotzebue Technical Center	25	115,000
Fort Richardson Flying Club	24	136,500
Elmendorf Aero Club	24	133,500
Headquarters Barber & Beauty Academy	21	110,600
Aviation North	18	94,450
Larry's Flying Service	16	95,450
Vern Air	16	93,000

(Continued)

Institution	1984-85 No.	1984-85 Amount
Peninsula Hair Styling Academy	16	74,250
St. Herman's Theological Seminary	15	57,450
A.I.R. Center	14	78,500
New Concepts Beauty School	14	53,900
Delta Greely Rural Educational Center	13	59,500
World Security Police Academy	11	34,300
University of LaVerne	8	41,000
Alaska Bible College	7	26,100
Fairbanks Beauty School	6	25,700
Alaska Air Academy	5	29,000
Chapman College	5	18,250
American Pacific Aviation	4	24,000
Peninsula Institute of Welding Technology	4	23,200
Air Cushion Technologies	4	14,750
Arctic Bible Institute	4	9,100
Action Helicopter	3	18,000
Northwest Community College	3	11,350
High Tech Helicopter	2	12,000
Alaska Aviation School	1	6,000
Alaska Native Training Institute	1	6,000
University of Alaska, Rural Education	1	6,000
Flight Training Devices	1	5,700
Victorian Academy of Cosmotology and Barbering	1	5,200
Far North Bible College	1	4,550
TOTAL	8,250	$36,147,350

INSTITUTIONS AT WHICH AT LEAST FIFTY ALASKA
STUDENT LOAN BORROWERS ATTENDED
(1984-85 Loans)
(As of December 31, 1984)

Institution	1984-85 No.	1984-85 Amount
*University of Alaska, Fairbanks	2,101	$8,130,700
*University of Alaska, Anchorage	1,443	6,111,600
*Anchorage Community College	1,366	5,879,150
*Kenai Peninsula Community College	352	1,586,200
*University of Alaska, Juneau	281	1,194,950
University of Washington	255	1,379,700
*Alaska Pacific University	24[illegible]	1,182,900
Oregon State University	25[illegible]	1,218,300
University of Oregon	212	1,088,750
*Alaska Vocational-Technical Center	180	500,800
*Matanuska-Susitna Community College	168	722,300
Arizona State University	166	863,100
Western Washington University	162	821,150
Brigham Young University (UT)	157	585,150
*Tanana Valley Community College	155	741,600
*Testing Institute of Alaska	152	831,600
*Alaska Masonry School	150	886,300
*Sheldon Jackson College	141	732,900
Washington State University	132	716,750
International Air Academy (WA)	128	521,300
University of Puget Sound (WA)	112	625,900
*New Anchorage Beauty School	111	587,200
Northern Arizona University	110	532,150
Central Washington University	96	528,500
University of Arizona	94	490,940
Gonzaga University (WA)	93	543,950
Willamette University (OR)	90	522,500
University of Hawaii, Manoa	82	411,100
Montana State University	82	399,900
University of Colorado	78	419,750
*Alaska Business College	77	443,100
*Alaska Computer Institute of Technology	75	426,850
Seattle University (WA)	73	376,050
Pacific Lutheran University (WA)	71	397,350
University of Idaho	70	362,300
Seattle Pacific University (WA)	70	360,950
*Clerical Skills Training	69	403,450
University of Montana	65	287,450
Lewis and Clark College (OR)	62	320,000
Colorado State University	59	330,450
Stanford University (CA)	58	323,550
*Ketchikan Community College	58	243,250

*Alaskan Schools

(Continued)

Institution	1984-85 No.	1984-85 Amount
West Coast Training Service	58	219,600
Eastern Washington University	57	302,850
Linfield College (OR)	57	291,050
University of Colorado, Boulder	56	291,000
*Hutchison Career Center	55	225,800
Southern Oregon State College	54	274,950
*Alaska Vocational Schools	53	271,300
*Gordon Aviation, Inc.	52	234,000
*Scruples II, Action School of Broadcasting	52	227,000
Denver Automotive and Diesel College (CO)	51	293,350
DeVry Institute of Technology (AZ)	51	265,300
*North Pacific Business Institute	50	276,600

*Alaskan School

ALASKA STUDENT LOAN PROGRAM
REPAYMENT AND COLLECTIONS REPORT

1. Repayments

Year	Interest	Principal	Total	Average Monthly
1974-75	$ 73,432	$ 162,044	$ 235,476	$ 19,623
1975-76	162,354	303,176	465,530	38,794
1976-77	320,971	820,490	1,141,461	95,122
1977-78	223,739	968,112	1,191,851	99,321
1978-79	172,249	1,219,394	1,391,643	115,970
1979-80	243,347	1,360,089	1,603,436	133,620
1980-81	416,779	1,808,609	2,225,388	185,449
1981-82	517,939	2,261,961	2,779,900	231,658
1982-83	730,150	3,877,901	4,609,051	384,088
1983-84	1,100,111	5,310,013	6,410,124	534,177
1984-85	N.A.	N.A.	9,927,084	827,257 (est.)
1985-86	N.A.	N.A.	11,879,790	989,983 (est.)

Total repaid through 1983-84: $22,053,860

2. Number of loan accounts in repayment

June 30	Number
1981	7,196
1982	10,683
1983	15,669
1984	21,771
1985	29,326 (est.)

3. Forgiveness (through December 1984)

First	Second	Third	Fourth	Fifth
627	627	627	627	627
524	524	524	524	-0-
568	568	568	-0-	-0-
833	833	-0-	-0-	-0-
1,447	-0-	-0-	-0-	-0-
3,999	2,552	1,719	1,151	627

4. Forgiveness Benefits Received (1974-75 through 1983-84)

Year	Principal	Interest	Total
1974-75	$ 304	$ 399	$ 703
1975-76	42,733	1,500	44,233
1976-77	61,202	3,544	64,746
1977-78	274,210	40,096	314,306
1978-79	367,590	78,395	445,985
1979-80	334,491	75,010	409,501
1980-81	446,077	109,417	555,494
1981-82	617,986	167,783	785,769
1982-83	665,016	181,012	846,028
1983-84	960,738	210,501	1,171,239
TOTAL	$3,770,347	$867,657	$4,638,004

5. Default (Compiled on June 30)

Year	Rate
1971-72	N.A.
1972-73	N.A.
1973-74	N.A.
1974-75	80.0%
1975-76	44.6%
1976-77	24.9%
1977-78	22.3%
1978-79	19.3%
1979-80	14.5%
1980-81	11.5%
1981-82	9.2%
1982-83	9.1%
1983-84	13.5%

Monthly (1984-85)

Month	Rate
July	14.2%
August	14.6%
September*	17.0%
October *	17.4%
November *	17.7%
December *	16.9%

*Accounts tranferred to Patterson and Van Abel.

6. Number of defaulted accounts transferred to Patterson and Van Abel.

Month	Accounts
October	3,190
November	108
December	125
TOTAL	3,423

TABLE I
STUDENT FINANCIAL AIDS ADMINISTRATION
STATE STUDENT LOAN ACTIVITY
Projected to 1989-90

Year	Loan Awards	Loan Volume	Cumulative Total	Average Loan	Loan Collections	Federal Funds	Loan Forgiveness	General Fund
1971-72	1,081	$ 1,603,158	$ 1,603,158	$1,483	$ -0-	$ -0-	$ -0-	$ 1,603,158
1972-73	1,748	2,870,384	4,473,542	1,642	-0-	-0-	-0-	2,870,384
1973-74	1,665	2,986,176	7,459,718	1,793	-0-	-0-	-0-	2,986,176
1974-75	1,457	2,659,807	10,119,525	1,826	235,476	-0-	703	2,424,331
1975-76	1,719	3,382,997	13,502,522	1,968	465,530	-0-	44,233	2,977,467
1976-77	1,921	3,850,507	17,353,029	2,004	1,141,461	-0-	64,746	2,709,046
1977-78	2,265	4,604,167	21,957,196	2,033	1,191,851	-0-	314,306	3,412,316
1978-79	2,795	6,416,402	28,373,598	2,296	1,391,643	-0-	445,985	5,024,758
1979-80	3,918	9,373,949	37,747,547	2,393	1,603,436	-0-	409,501	7,770,513
1980-81	6,460	15,957,717	53,705,264	2,475	2,225,388	-0-	555,494	13,732,329
1981-82	9,898	40,559,499	94,264,763	4,098	2,779,900	1,000,000	785,769	36,819,599
1982-83	13,058	55,007,395	149,272,158	4,213	4,609,051	1,200,000	(846,028)	49,198,344
1983-84	14,785	62,912,316	212,184,474	4,255	6,410,124	522,481	1,171,239	56,162,552
1984-85	16,404	73,818,000	286,002,474	4,500	9,927,084	350,000	1,950,101	63,540,916
1985-86	17,693	84,484,075	370,486,549	4,775	11,879,790	225,000	2,325,078	72,379,285
1986-87	17,894	90,364,700	460,851,249	5,050	15,103,702	150,000	2,944,162	75,110,998
1987-88	17,178	92,761,200	553,612,449	5,400	18,421,086	65,000	3,581,196	74,275,114
1988-89	15,212	87,088,700	640,701,149	5,725	21,667,004	25,000	4,204,507	65,396,696
1989-90	15,465	92,016,750	732,717,899	5,950	24,475,215	N.A.	4,743,765	67,541,535

*1984-85 through 1989-90 are projections

Revised 9/84

SAMPLE STUDENT BUDGETS
(1984-85)*

Budget Item	UAF On-Campus	UAF Off-Campus	UAA	UAJ	ACC	Kenai Penn. C.C.	APU On-Campus	SJC On-Campus
Tuition & Fees	$ 940	$ 940	$ 720	$ 744	$ 720	$ 636	$3,550	$3,246
Room & Board	2,400	4,800	5,148	4,650	5,148	4,913	3,350	3,400
Books & Supplies	400	400	270	300	290	270	270	300
Subtotal	$3,740	$6,140	$6,138	$5,694	$6,158	$5,819	$7,170	$6,946
Transportation	1,000	1,000	801	700	774	1,152	800	900
Personal	800	800	963	900	927	918	910	900
Total	$5,540	$7,940	$7,902	$7,294	$7,859	$7,889	$8,880	$8,746

Budget Item	Oregon State U On-Campus	U of Oregon On-Campus	Willamette U On-Campus	Linfield College On-Campus	Lewis & Clark College On-Campus	U of Washington On-Campus	Western Washington U On-Campus
Tuition & Fees	$4,050	$4,080	$6,410	$ 6,080	$7,569	$3,618	$3,486
Room & Board	2,200	2,340	2,700	2,210	3,037	2,805	2,325
Books & Supplies	330	300	250	250	250	399	350
Subtotal	$6,580	$6,720	$9,360	$ 8,540	$10,856	$6,822	$6,161
Transportation	1,400	1,300	2,000	2,000	1,600	1,600	1,600
Personal	1,050	1,000	550	650	600	1,158	700
Total	$9,030	$9,020	$11,910	$11,190	$13,056	$9,580	$8,461

Budget Item	Washington State U On-Campus	Pacific Lutheran U On-Campus	U Puget Sound On-Campus	Gonzaga U On-Campus	Seattle U On-Campus	Arizona State U On-Campus	Northern Arizona U On-Campus
Tuition & Fees	$3,624	$ 5,950	$ 6,330	$ 5,900	$ 5,625	$3,700	$3,200
Room & Board	2,400	2,800	2,900	2,700	2,955	2,700	1,960
Books & Supplies	350	400	400	400	400	420	350
Subtotal	$6,374	$ 9,150	$ 9,630	$ 9,000	$ 8,980	$6,820	$5,510
Transportation	1,700	1,750	1,300	1,700	1,800	1,700	1,400
Personal	1,000	1,200	400	1,000	1,020	1,000	800
Total	$9,074	$12,100	$11,330	$11,700	$11,800	$9,520	$7,710

*All budgets are for single full-time undergraduate students for a full academic year.

SAMPLE STUDENT BUDGETS
(1984-85)*

Budget Item	U of Hawaii On-Campus	U of Idaho On-Campus	U of Montana On-Campus	Colorado State U On-Campus	U of Colorado On-Campus	U of Denver On-Campus	Stanford U On-Campus
Tuition & Fees	$3,126	$2,816	$2,241	$4,805	$ 5,055	$ 6,696	$ 9,750
Room & Board	2,275	2,580	2,081	2,740	2,468	2,955	4,000
Books & Supplies	368	400	200	320	325	375	400
Subtotal	$5,769	$5,796	$4,522	$7,865	$ 7,848	$10,026	$14,150
Transportation	1,400	1,500	1,100	1,550	1,800	1,615	2,000
Personal	686	600	500	260	1,417	690	800
Total	$7,855	$8,414	$6,122	$9,675	$10,733	$12,331	$16,950

Budget Item	Boston U On-Campus	Purdue U On-Campus	Northwestern U On-Campus	Dartmouth College On-Campus	Brigham Young U On-Campus
Tuition & Fees	$ 9,116	$4,260	$ 9,615	$ 9,090	$1,400
Room & Board	3,900	3,110	3,540	3,490	2,100
Books & Supplies	350	300	405	inc. personal 1,080	370
Subtotal	$13,366	$7,670	$13,560	$13,660	$3,870
Transportation	1,700	2,000	2,080	2,000	1,200
Personal	700	800	730	1,600	680
Total	$15,766	$10,470	$16,370	$16,260	$5,750

*All budgets are for single full-time undergraduate students for a full academic year.

SURVEY OF 1983-84 ALASKA STUDENT LOAN RECIPIENTS

Alaska Commission on Postsecondary Education
March, 1984

INTRODUCTION

The Alaska Student Loan program, established in 1971, is the most generous loan program in the nation, and has provided student financial aid, in the form of low interest loans, to over 50,000 Alaskan residents. For a number of years the vast majority of borrowers used their Alaska loans to attend postsecondary educational institutions outside the State of Alaska, but from 1975 to 1982 there was a steadily increasing trend toward in-state attendance, culminating in over fifty percent of the 1982-83 borrowers attending school in Alaska. Then, in 1983-84, the trend broke. As of November 1, 1983, 53.4 percent of the student loan borrowers were attending school out-of-state.

In an effort to better understand this break in an eight-year pattern, all 1983-84 loan recipients were surveyed. This was the first attempt to survey current borrowers in the thirteen-year history of the loan program, so the opportunity was taken to solicit opinions on a number of issues related to Alaska student loans.

PROCEDURE

During the last week of October 1983, questionnaires (see Appendix A) were mailed to all (13,026) 1983-84 student loan recipients. The questionnaires were mailed to the permanent home address of each borrower in the hope that it would be forwarded to school addresses when necessary. No follow-up was conducted, since not all files contain accurate current address data.

FINDINGS

Of the 13,026 loan recipients surveyed, 7,476 (57.4%) returned completed questionnaires. For a census-type survey with no follow-up, this is an acceptable response rate as long as the respondents seem to be distributed in a pattern similar to the borrowing population. As can be seen in Table 1, the response rate by student level was quite evenly spread, when compared to the borrowing population, and therefore should serve as a good indicator for inference to the population. Similarly, the in-state/out-of-state mix is not disproportionate.

The only group which may be over-represented is graduate students attending in Alaska, since the response rate was a very high 94.4%. However, since this class of borrowers is relatively small, it should not lessen the reliability of the findings.

TABLE 1

Distribution Of Respondents By
Student Level

Student Level	Alaska Attendance			Out-of-State			Total		
	No.	%	% of Borrowers	No.	%	% of Borrowers	No.	%	% of Borrowers
Freshman	856	25.6	43.7	974	23.6	51.5	1,830	24.5	47.5
Sophomore	743	22.2	57.6	829	20.1	58.4	1,572	21.0	58.1
Junior	596	17.8	64.4	745	18.0	64.4	1,341	17.9	64.4
Senior	516	15.4	64.2	648	15.7	63.8	1,164	15.6	64.0
Graduate	255	7.6	94.4	695	16.8	71.1	950	12.7	76.2
Vocational	378	11.4	46.4	241	5.8	47.9	619	8.3	47.0
Total	3,344	100.0	55.1	4,132	100.0	59.4	7,476	100.0	57.4

Type of Institution Attended. The loan borrowers were asked to indicate what type of school they were attending and whether it is located in Alaska or out-of-state. Over three-fourths (78.0%) of the respondents indicated they were attending a four-year college or university, either public or private, with out-of-state enrollees more heavily represented in this type of school, than Alaska enrollees. (See Table 2.) Not surprisingly, community college and vocational students tend to attend in Alaska, rather than traveling outside for schooling.

TABLE 2

Distribution Of Respondents By
Type Of Institution

Type of Institution	Alaska		Out-of-State		Total	
	Number	%	Number	%	Number	%
Vocational	445	13.3	287	6.9	732	9.8
Community Colleges	766	22.9	231	5.6	997	13.3
Private Coll/Univ.	182	5.4	1,628	39.4	1,810	24.2
Public Coll/Univ.	1,951	58.4	1,986	48.1	3,937	52.7
Total	3,344	100.0	4,132	100.0	7,476	100.0
% of Respondents	44.7		55.3		100.0	
% of Borrowers	55.1		59.4		57.4	

Student Loan Interest Rate. The current interest rate on Alaska student loans is 5%. This is the lowest student loan interest for any state comprehensive student loan program in the nation, and there is nearly always debate over the level during each legislative session. When the borrowers were asked, they strongly endorsed retaining the 5% loan rate. Nearly three-fourths (74.9%) of the borrowers felt that 5% is the appropriate interest rate for these loans. Only 18.6% of the borrowers felt the rate should be increased, and even then, most felt only a small increase was in order. (See Table 3.)

TABLE 3

What Rate Of Interest Should Be
Set For Student Loans?

Interest Rate	Number	Percentage
5%	5,603	74.9
6%	640	8.6
7%	441	5.9
8%	164	2.2
9%	145	1.9
No Opinion	483	6.5
Total	7,476	100.0

Student Loan Borrowing Maximums. The Alaska Student Loan program permits students to borrow up to $6,000 per year for undergraduate study and up to $7,000 per year for graduate study. Once again, Alaska's program is distinguished from other state-level comprehensive student loan programs in the nation. There is no other comparable loan program with borrowing maximums as high as Alaska's. Current borrowers were asked what maximums they believed to be appropriate for Alaska Student Loans. As indicated in Table 4, the majority (78.4%) by more than three-to-one, believed the current maximums are appropriate. Few, less than 5%, felt the maximums should be lowered, and 16.1% felt the maximums should be raised.

TABLE 4

Should The Loan Borrowing
Maximum Be Changed?

Response	Number	Percent
Retains Current Level	5,863	78.4
Reduce Maximum	306	4.1
Revise Maximum Upward	1,201	16.1
No Opinion	106	1.4
Total	7,476	100.0

An interesting pattern develops when one looks at which students believe higher maximums are appropriate. These data are presented in Table 5, and indicate that freshman borrowers, both in-state and out-of-state, and graduate borrowers attending out-of-state are disproportionately represented in the 1,201 persons desiring higher borrowing limits. One might guess that the out-of-state graduate borrowers are reacting to actual costs incurred by such attendance when they want limits raised, but the fact that freshman, when compared to sophomores, juniors, and seniors, are disproportionately represented in those wishing higher limits, may simply mean that they do not know the true costs of attendance in this--their first semester of school.

TABLE 5

Distribution Of Respondents Favoring
Raising The Loan Maximum

Type of Institution	Alaska		Out-of-State		Total	
	Number	%	Number	%	Number	%
Freshman	144	28.7	141	20.2	285	23.7
Sophomore	95	18.9	134	19.2	229	19.1
Junior	83	16.5	97	13.9	180	15.0
Senior	44	8.7	94	13.5	138	11.5
Graduate	42	8.3	184	26.4	226	18.8
Vocational	95	18.9	48	6.8	143	11.9
Total	503	100.0	698	100.0	1,201	100.0

Student Loan Forgiveness Benefits. One of the more controversial aspects of the Alaska Student Loan program is the provision of forgiveness benefits. This too, distinguishes Alaska's program as the most generous in the country. If Alaska borrowers complete the program of study for which they borrow and then live in Alaska, they can have up to 50% of their total indebtedness, including interest, forgiven by the State. Periodic discussion in Alaska's Legislature centers on whether this forgiveness provision should be retained. When asked, the current borrowers overwhelmingly indicated their belief that forgiveness should be retained at the current level. (See Table 6.)

TABLE 6

Should The Loan Forgiveness
Benefits Be Changed?

Response	Number	Percent
Retain Current Level	6,864	91.8
Reduce Forgiveness	358	4.8
Discontinue Forgiveness	166	2.2
No Opinion	88	1.2
Total	7,476	100.0

This rather straightforward result was not unexpected, but does not get at the heart of the debate on forgiveness. In order to better understand the effects of forgiveness, borrowers were asked if forgiveness influenced their decisions regarding how much they borrowed and where they would live after schooling. The results, found in Table 7, are somewhat mixed. For students attending in Alaska, forgiveness influenced borrowing in nearly as many cases as it did not, but for out-of-state attendees, forgiveness was said not to be a factor by nearly two-to-one. In terms of residence after schooling, forgiveness did not seem to be a big factor one way or the other for those attending in-state, but was said to influence the decisions of out-of-state attendees, again by nearly two-to-one.

TABLE 7

Influence Of Loan Forgiveness
Benefits On Student Decisions

Do Loan Forgiveness Benefits Influence Decisions Regarding:	Alaska Attendance		Out-of-State	
	Yes	No	Yes	No
How much you borrow?	1,516	1,789	1,812	2,255
Where you live after schooling?	1,538	1,780	2,684	1,396

Change From In-State to Out-of-State Attendance. Borrowers were asked if they had attended a postsecondary school last year, and if so, where. The pattern toward continued attendance was evident for both Alaska attendees and out-of-state attendees. Of the 2,117 respondents currently attending school in Alaska who also attended a postsecondary school last year, 90.4% had attended school in Alaska last year too; and of the 2,942 respondents currently attending school out-of-state who also attended a postsecondary school last year, 78.8% had attended school out-of-state last year, too. Looking only at those students who switched from Alaska to out-of-state attendance, or the reverse, one finds that only 9.6% of the students currently attending in Alaska, attended out-of-state last year; and 21.2% of the students currently attending out-of-state, attended in Alaska last year. (See Table 8.)

TABLE 8

Attendance In-State Versus Out-Of-State This Year
Versus Last, By Type Of Institution

Type Of Institution	Current Attendance in Alaska					Current Attendance Out-of-State				
	Alaska Last Year		Out-of-State Last Year		Total	Alaska Last Year		Out-of-State Last Year		Total
	No.	%	No.	%	No.	No.	%	No.	%	No.
Vocational	39	90.7	4	9.3	43	-0-	0.0	77	100.0	77
Community Coll.	478	87.2	70	12.8	548	44	19.7	179	80.3	223
Private Coll/Univ.	97	85.1	17	14.9	114	204	16.7	1,018	83.3	1,222
Public Coll/Univ.	1,300	92.1	112	7.9	1,412	376	26.5	1,044	73.5	1,420
Total	1,914	90.4	203	9.6	2,117	624	21.2	2,318	78.8	2,942

In order to try to determine why a person would switch from attending in Alaska to attending out-of-state, the 624 respondents who did so were asked to list the top factors (up to four) influencing that decision. The results (based upon a weighted average giving more value to each person's primary reason for switching and correspondingly less for other reasons) are listed in Table 9. Program Availability was the most influential factor in the decision to switch to out-of-state attendance, followed by Closeness to Home and Low Tuition and Expenses. The high ranking of Closeness to Home is difficult to understand, unless persons were trying to indicate they were attending out-of-state so as not to be close to home.

TABLE 9

Reasons For Attending Out-Of-State After Attending In Alaska Last Year

Reason (Descending Order)	Weighted Average
Availability of Program	442.3
Closeness to Home	333.7
Low Tuition and Expenses	321.0
Availability of Financial Aid	239.2
Geographic Location/Weather/Climate	176.5
School Reputation/Prestige	159.0
Ability to Work While Attending	137.3
Encouragement of Parents/Friend	83.1
Availability of Campus Housing	57.0
Encouragement of Teachers/Counselors	41.3
Friends Are There	36.3
Athletics/Recreational Activities	32.4
Religious Atmosphere	26.2
Sororities/Fraternities/Organizations	5.4

Next, those 624 persons switching from Alaska attendance to out-of-state were asked what factor could have encouraged them to continue their Alaska attendance rather than switching. The top factor was again Program Availability, and it was the top factor regardless of what type of institution was being attended out-of-state. The other factors which seemed to have a strong influence on the decision to switch to out-of-state attendance were: Quality, Campus Housing, Lower Costs, and Better Weather. (See Table 10.)

TABLE 10

For Those Attending Out-Of-State After Attending In Alaska Last Year, What Would Have Kept Them In Alaska? By Type Of Institution

Vocational School	Community College	Private Coll/Univ.	Public Coll/Univ.
Program Availability	Program Availability	Program Availability	Program Availability
Better Quality	Campus Housing	Better Quality	Better Quality
Lower Costs	Better Quality	Campus Housing	Campus Housing
	Better Weather	Religious Atomosphere	Better Weather
	Lower Costs	Lower Costs	Lower Costs

Reasons For Selecting Current Institution. All respondents were asked why they chose their particular institution for pursuing their education, and as can be seen in Table 11, Program Availability was a very important factor for all students regardless of whether they were attending in Alaska or out-of-state and regardless of the type of school attended. The top three factors for each classification are presented in Table 11, and there is a difference between the responses of those attending in Alaska compared to those attending out-of-state. While the most important factor for out-of-state attendance at community colleges and public colleges or universities is Program Availability, the most important factor for Alaskan attendance at community colleges and public colleges and universities is Closeness to Home. It should also be noted that School Reputation, while an important factor for persons attending out-of-state, was not one of the top three factors for those attending in Alaska.

TABLE 11

Top Three Reasons For Selecting Current
Institution Of Attendance,
By Type Of Institution

Type of Institution	Most Important Factor	Second Factor	Third Factor
Vocational			
(Alaska)	Program Availability	Ability to Work	Financial Aid
(Out-of-State)	Program Availability	School Reputation	Finanical Aid
Community College			
(Alaska)	Closeness to Home	Program Availability	Low Cost
(Out-of-State)	Program Availability	Low Cost	School Reputation
Private College/University			
(Alaska)	Program Availability	Ability to Work	Financial Aid
(Out-of-State)	Program Availability	School Reputation	Religious Atmosphere
Public College/University			
(Alaska)	Closeness to Home	Program Availability	Low Cost
(Out-of-State)	Program Availability	School Reputation	Climate/Weather

For Those Attending Out-of-State, What Could Have Encouraged Alaska Attendance? The 4,132 respondents attending school out-of-state were asked what factor could have encouraged them to attend in Alaska. As with those students who switched attendance from in-state to out-of-state, the single most important factor which could have encouraged Alaska attendance was Program Availability. When the respondents were classified by type of institution (Table 12), the results were surprisingly homogenous. Program Availability and Better Quality were the two top factors for all students, regardless of institutional type. For collegiate students, Campus Housing was also an important factor.

TABLE 12

For Those Attending Out-Of-State, What Could Have Encouraged Alaska Attendance? (By Type Of Institution)

Vocational School	Community College	Private Coll/Univ.	Public Coll/Univ.
Program Availability	Program Availability	Program Availability	Program Availability
Better Quality	Better Quality	Better Quality	Better Quality
Nothing	Campus Housing	Campus Housing	Campus Housing
Lower Costs	Nothing	Nothing	Better Weather
Better Weather	Better Weather	Religious Atmosphere	Nothing

Similarly, when the respondents were classified by student level, the same pattern emerged (Table 13). The top five factors for all undergraduate out-of-state borrowers were Program Availability, Better Quality, Campus Housing, Better Reputation, and Nothing (meaning nothing could have encouraged them to attend in Alaska).

TABLE 13

For Those Attending Out-Of-State, What Could Have Encouraged Alaska Attendance? (By Student Level)

Freshman	Sophomore	Junior	Senior	Graduate
Program Avail.	Program Avail.	Program Avail.	Program Avail.	Program Avail.
Better Quality	Better Quality	Better Quality	Better Quality	Better Quality
Campus Housing	Campus Housing	Campus Housing	Campus Housing	Nothing
Nothing	Better Reputation	Better Reputation	Better Reputation	Better Reputation
Better Reputation	Nothing	Nothing	Nothing	Lower Costs

Major Course of Study of Borrowers. All loan recipients were asked to indicate the degree being sought and their major course of study. The top ten majors are summarized by degree level and by in-state or out-of-state attendance in Table 14. Once again, one sees a surprising similarity in responses, particularly at the bachelor's and master's levels, regardless of whether the student is attending in Alaska or out-of-state. Out-of-state doctoral students are largely representative of persons pursuing degrees unavailable in Alaska.

TABLE 14

Top Ten Majors By Degree Level

Associate		Bachelors	
Alaska	Out-of-State	Alaska	Out-of-State
Business	Business	Business	Business
Health Care	Computer Science	Education	Education
Electronics	Arts	Engineering	Engineering
Computer Science	Engineering	Health Care	Biology
Oil Tech	Education	Social Science	Arts
Engineering	Electronics	Biology	Computer Science
Social Science	Health Care	Communications	Health Care
Office Skills	Aviation	Arts	Social Science
Education	Auto/Diesel	Computer Science	Communications
Arts	Travel	Pre-Law	Physical Science

Masters		Doctorate	
Alaska	Out-of-State	Alaska	Out-of-State
Education	Education	Education	Law
Business	Business	Physical Science	Education
Engineering	Engineering	Biology	Medicine
Biology	Health Care	Engineering	Psychology
Psychology	Social Science		Business
Social Science	Arts		Chiropractic
Physical Science	Biology		Social Science
Arts	Communications		Engineering
Communications	Computer Science		Vet. Medicine
Health Care	Theology		Biology

Vocational	
Alaska	Out-of-State
Aviation	Aviation
Cosmetology	Auto/Diesel
Office Skills	Travel
Welding	Health Care
Auto/Diesel	Office Skills
Hairdressing	Electronics
Building Maint.	Marine Technology
Culinary Arts	Welding
Travel	Heating/Air Conditioning
Carpentry	Culinary Arts

Residency Plans After Graduation. Once these Alaskan students complete their programs of study, where do they plan to live? The vast majority (97.0%) say Alaska. Regardless of whether or not they are attending school in-state, nearly all respondents indicate plans of residing in Alaska after schooling. (See Table 15.)

TABLE 15

Location Plans After Completion
Of Program Of Study

Plans After Program Completion	Attending in Alaska		Attending Out-of-State		Total	
	Number	Percent	Number	Percent	Number	Percent
Reside in Alaska	3,274	97.9	3,976	96.2	7,250	97.0
Reside Out-of-State	70	2.1	156	3.8	226	3.0
Total	3,344	100.0	4,132	100.0	7,476	100.0

Why these students plan to return to Alaska is another question asked of the respondents. As can be seen in Table 16, the top reason for those students planning to live in Alaska after degree completion, regardless of whether or not they are currently attending in Alaska or out-of-state, is "Alaska is my home." The second most important reason for those planning Alaska residence is the top reason for those planning out-of-state residence, and that is "Job Availability." Other factors influencing location decisions include loan forgiveness, geographic location/weather/climate, availability of continuing education, and location of friends.

TABLE 16

Top Five Reasons For Location Plans After
Completion Of Program Of Study

Attending in Alaska		Attending Out-of-State	
Alaska Residency	Out-of-State	Alaska Residency	Out-of-State
Alaska is Home	Job Availability	Alaska is Home	Job Availability
Job Availability	Geog/Weather/Climate	Job Availability	Geog/Weather/Climate
Loan Forgiveness	Cont. Educ. Avail.	Loan Forgiveness	Cont. Educ. Avail.
Friends	Friends	Friends	Friends
Geog/Weather/Clim.	Parents/Relatives	Geog/Weath./Clim.	Recreation Avail.

SUMMARY/CONCLUSIONS

1. One of the principal reasons for conducting this survey was to discover if there was an explanation for the reversal of the eight-year trend toward in-state attendance. From the data collected it is a little difficult to single out exactly what caused this phenomena. However, when coupled with knowledge of the Alaska system a hypothesis may be offered.

   Three factors probably have impacted the in-state/out-of-state attendance pattern. First, the state loan program imposed new "good standing" requirements. These were enforced for the first time in 1982-83 and resulted in a large number of students becoming ineligible for continued borrowing. The majority of these ineligible students were students attending in-state, so the pool of in-state students for the current year, 1983-84, was reduced.

   Second, the only public university in the state with campus housing is the University of Alaska, Fairbanks (UAF). Over six months before the current school year began, UAF had filled all its campus housing. More than 300 students who wished campus housing for the 1984-84 year had to be denied.

   Third, the University of Alaska, Anchorage (UAA) has been heavily over-subscribed in a number of classes both this year and last. Many students have indicated that they simply could not get into all the UAA classes they wished for pursuit of their programs.

2. Students believe 5% is an appropriate interest rate for the student loan program.

3. Students believe the $6,000 and $7,000 borrowing maximums are appropriate for the student loan program. However, there is some evidence that graduate students, particularly those attending out-of-state, may be requesting a higher maximum in the near future.

4. Students believe loan forgiveness should be retained at 50%. When asked directly if loan forgiveness influences their decision on where to reside after graduation, only 5.1% indicate that it is. Also, when asked which factors are most important in this determination of where to live after graduation, loan forgiveness falls far behind "Alaska is My Home" and "Job Availability." The argument that forgiveness seems to reward students for what they would do anyway seems to be supported by this survey.

APPENDIX A

Student Loan Questionnaire

ALASKA STUDENT LOAN QUESTIONNAIRE

The Alaska Commission on Postsecondary Education has not surveyed loan recipients in the past, but due to the increased level of proposed program changes, we feel some information from you, the recipients of this program, would be most useful as we enter a new Legislative Session. Please complete this brief questionnaire and return it to us in the envelope provided. All responses are completely anonymous.

1. Check those school years in which you received an Alaska Student Loan

1975-76 _____	1978-79 _____	1981-82 _____
1976-77 _____	1979-80 _____	1982-83 _____
1977-78 _____	1980-81 _____	1983-84 _____

2. Current student level (please check)

Freshman _____	Junior _____	Graduate _____
Sophomore _____	Senior _____	Vocational _____

3. Current attendance (please check)

	In Alaska	Out-of-State
Vocational School	_____	_____
Community College	_____	_____
Private College/University	_____	_____
Public College/University	_____	_____

4. What interest level do you feel is appropriate for these loans?

5% _____	7% _____	9% _____
6% _____	8% _____	Other _____ (indicate)

5. What loan level do you feel is appropriate for these loans?

$6,000 and $7,000 loan levels should be retained	_____
Loan levels should be reduced	_____
Loan levels should be raised	_____

6. Why did you decide to attend your current institution? (Please number your reasons, with "1" being most important, and limit your choices to no more than four.)

Athletics/recreational activities	____	Availability of program	____
Sororities/fraternities/campus organization	____	Availability of financial aid	____
Geographic location/weather/climate	____	Closeness to home	____
Encouragement of parents/relatives	____	Religious atmosphere	____
Encouragement of teachers/counselors	____	Friends are there	____
Ability to work while attending school	____	School reputation/prestige	____
Availability of campus housing	____	Low tuition/expenses	____

7. If you are attending out-of-state, what single factor could encourage you to attend in-state (what could be changed, if anything)?_____

_____

(Please continue on reverse side)

8. Did you attend a postsecondary education institution in Alaska last year (1982-83)?

Yes _____ No _____

9. What degree or certificate are you seeking and what is your major program of study?

Associate Degree (Major?) _____
Bachelors Degree (Major?) _____
Masters Degree (Major?) _____
Specialist Degree (Major?) _____
Doctorate Degree (Major?) _____
Diploma (Course of Study?) _____
Certificate (Course of Study?) _____

10. Do you plan to live in Alaska when your education is finished?

Yes _____ No _____

11. What factors influenced your response in question 10? (Please number your reasons with "1" being most important, and limit your choices to no more than four.)

Availability of jobs	_____	Encouragement of parents/relatives	_____
Alaska is my home	_____	Availability of continuing education	_____
Friends are there	_____	Recreational activity availability	_____
Student loan forgiveness	_____	Geographic location/weather/climate	_____

12. Does the student loan forgiveness feature influence your decisions on:

a. Whether or not you live in Alaska after schooling? Yes _____ No _____

b. How much you borrow? Yes _____ No _____

13. Should the student loan forgiveness feature be:

a. Discontinued? Yes _____ No _____
b. Reduced? Yes _____ No _____
c. Retained as is? Yes _____ No _____

14. If there were no Alaska State Student Loan Program, would you (check as many as applicable)?

a. Delay your education _____

b. Not attend school at all _____

c. Borrow under a federal loan program _____

d. None of the above _____

Please return to: Alaska Commission on Postsecondary Education
Pouch FP
Juneau, Alaska 99811

COMMITTEE REPORT

HOUSE

HEALTH, EDUCATION
AND SOCIAL SERVICES

(5)

FURTHER:

1/23/85

Date: 2/5/85

The Committee on HOUSE SPECIAL COMMITTEE ON STATE LOANS has had HB 96

"An Act relating to the applicability of the scholarship loan program to students attending more than one postsecondary educational institution; and providing for an effective date."

under consideration and recommends:

[X] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

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

and recommends _____

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

[+] Zero Fiscal Note Attached

[ ] reports it back without recommendation

[X] referred to the finance Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

CHAIRMAN

4396

```
**********************************************************
*                                                        *
* DELIVER TO: JPOM                                       *
*                                                        *
*                                                        *
* ORIGINAL                                               *
* SENT:          01/24/85  TIME: 16:53                   *
* FROM:          MARY KVALHEIM                           *
* SUBJECT:       POMK102                                 *
* PRINT DATE:    01/24/85  TIME: 16:53                   *
*                                                        *
**********************************************************
```

TO: ALL LEGISLATORS

FR: SUZANNE ALLEN
P O BOX 874416
WASILLA 99687

376-3189

RE: SB 17 - SCHOLARSHIP LOAN PROGRAM

I SUPPORT THE PASSAGE OF THIS BILL. I AM A COLLEGE STUDENT AND FEEL THIS IS MUCH NEEDED LEGISLATION. PLEASE, ALSO, LOOK INTO UNIFYING CREDIT TRANSFER FROM THE COMMUNITY COLLEGE SYSTEM TO THE U OF A FOR CREDITS TOWARD GRADUATION. THIS IS VERY BADLY NEEDED. THANK YOU.

FROM: GARETH ALLEN, P.O. BOX 874416, WASILLA, 99687, 376-3189(HM), 862-5283(WK), RE: SB17

I WANT TO SUPPORT SB 17 TO UNIFY THE CREDIT TRANSFER SYSTEM.

FROM: CHARLOTTE RENAUD
EAGLE 805 W 23RD, #1,
ANCHORAGE, AK, 99503

RE: HB 70

PLEASE PASS HB 70 ASAP. WE HAVE SEVERAL STATE EMPLOYEES WITH TERMINAL CONDITIONS WHICH IT WOULD BENIFIT IMMEDIATELY. PLEASE KEEP ME POSTED ON THE PROGRESS OF THE BILL.

THANK YOU.

Introduced: 1/23/85
Referred: House Special Committee on State Loans and Health, Education & Social Services

BY DAVIS, HURLEY, KOPONEN, LARSON, GRUENBERG AND SZYMANSKI

IN THE HOUSE BY DAVIS

HOUSE BILL NO. 96

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the scholarship loan program to students attending more than one postsecondary educational institution; and providing for an effective date."

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

* Section 1. AS 14.43.160(2) is amended to read:

(2) "full-time student" means an undergraduate or career education student who is enrolled and is in regular attendance at classes for at least 12 semester hours of credit or the equivalent during the semester or a graduate student who is enrolled and is in regular attendance at classes for at least nine semester hours of credit or the equivalent; any combination of semester hours of credit, or the equivalent, aggregating to the requisite number of semester hours and undertaken during a semester at two or more public or private institutions of higher education [OPERATING UNDER A CONSORTIUM] constitutes full-time student status;

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

COMMITTEE COPY

SCOMM

#50:17

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

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

COMMITTEE CALENDAR

HB 59 "An Act making a special appropriation to the Department of Natural Resources, division of parks, for the youth hostel loan fund; and providing for an effective date."

HB 61 "An Act relating to loans for youth hostels."

HB 109 "An Act relating to interest rates on and handling repayment of state loans; and providing for an effective date."

WITNESS REGISTER

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

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

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

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

Position Statement: Explained legal language of CS for HB 59

Steve Frank, Representative
Alaska State Legislature
Pouch V
Juneau, AK 99811
465-3709
Position Statement: Observer

PREVIOUS ACTION

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

ACTION NARRATIVE

TAPE #7, SIDE ONE

Recording Number	
001	The meeting was called to order at 3:35 p.m.by Chairman Sund. In attendance were Representatives Cotten, Fuller, and Frank. Representatives Duncan and Uehling arrived at 3:40 p.m.
020	Chairman Sund said that he would prefer to amend HB 59 to be a grant instead of loan program for youth hostels, and hold HB 61 in committee.
062	Representative M.M. Miller testified that he favors the idea of an amendment or committee substitute, as long as it would not jeopardize the bill's chances in Finance Committee.
083	There was discussion and general agreement among committee members that a grant appropriation would be preferable to administering a special low-interest loan program.
127	Keith Levy, of Legal Services, explained changes in the language of the bill to allow for an appropriation to DNR, Division of Parks, for youth hostel grants.
175	Representative Duncan moved to report out a CS, encorporating the change from a loan to a grant, with an effective date of July 1, 1985.
191	The motion was passed with unanimous

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

Number 210 — Chairman Sund opened the meeting for DCED testimony on HB 109.

Number 216 — Mr. Terry Elder, Deputy Commissioner for DCED, explained the philosophy behind HB 109. He said that the bill does 2 things:

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

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

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

Number 340 — Representative Cotten asked why the risk component is in the formula, if there is a different risk for each of the programs.

Number 346 — Mr. Elder answered that most programs are created by the legislature and that the legislature should determine the risk factor for each program. He emphasized that DCED is more concerned with getting the formula itself in place. He went on to say that the philosophy behind the administrative fee is that the beneficiaries of a subsidized loan program should pay for the administration of the program. 75 basis points covers both the origination and the servicing of the loans, whereas most lending institutions have a separate loan origination fee.

Number 407 — Chairman Sund asked if DCED would consider classifying loans according to their level

of subsidy.

Number 415 — Mr. Elder answered that it would be better to deal with the loan programs one at a time, and decide what subsidy that particular program should have.

Number 440 — Representative Uehling asked if it wouldn't be simpler to standardize across all loan programs, instead of working it out separately for each program.

Number 453 — Mr. Elder expressed the view that the formula isn't complicated, and that it allows the legislature to decide the level of subsidy based on the social value of the program. He went on to say that putting the interest, administrative fees and the risk factor back into the general fund would require DCED to come back to the legislature more often for funding the loan programs, which is a positive thing.

Number 543 — There was some discussion regarding DCED loans with other loan programs, which are tied either to the market or to the cost of funds.

Number 564 — There was some discussion regarding which loan programs are still active.

CHANGE TAPE #7, SIDE TWO

Number 001 — Representative Uehling asked if DCED has considered repealing or consolidating some of the loan programs.

Number 019 — Mr. Elder responded that most of the loan programs are created by the legislature, and that DCED just administers them. He said that DCED does not usually make recommendations unless a program is inactive.

Number 068 — Representative Duncan suggested that some loan programs will no longer be in demand if the interest rates go up. He used as an example the child care revolving loan fund. He said that child care is a low-profit business, and would not be possible if borrowers had to pay high interest.

Number 088 — Mr. Elder responded the legislature could choose to have a larger subsidy for such a

program.

Number 190 — Chairman Sund announced his intention to introduce a bill concerning the Alaska Power Authority and hydro loan issues and made further announcements regarding the next week's meetings dealing with student loan bills.

Number 240 — The meeting was adjourned at 4:32 p.m.

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

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

IN THE HOUSE

HOUSE BILL NO. 102

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

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

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

* Section 1. AS 37.12.071 is amended to read:

Sec. 37.12.071. ADDITIONAL POWERS. Notwithstanding other provisions of law governing disposal of state property, the board may, at either public or private sale, dispose of the assets of the corporation as required in AS 37.12.075. Disposal must be made in a manner that serves the best interests of the state, and may include amortization of payments over a period of years, but may not be by lease. In addition, the corporation may spend money to protect the assets of the corporation.

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

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

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

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

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

(b) In divesting the corporation of equity investments, the board may convert the equity investment of the corporation in a particular enterprise to debt, if the governing board of the enterprise

approves the conversion. The debt created by the conversion must become part of the outstanding loan portfolio of the corporation.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

ALASKA RESOURCES CORPORATION (ARC) *

Department of Revenue, Instrumentality
4th QUARTER FY 84

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

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

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

ALASKA RESOURCES CORPORATION (cont.)

DELINQUENCY AT THE END OF THE QUARTER

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

LOANS IN DEFAULT**

#	$
5	$3,575,819

NUMBER OF LOANS AWARDED DURING THE QUARTER, BY RANGE

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

MEAN LOAN AMOUNT DURING THE QUARTER

0

*ARC considers loans to be current until the 31st day of delinquency. In previous loan reports, delinquency may have been overstated as these loans were classified as delinquent.
**Loans in default are defined as delinquent loans that have been turned over to counsel for legal action.

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 23, 1985

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

Dear Representative Grussendorf:

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

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

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

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

Sincerely,

Bill Sheffield
Governor

...ATIVE SESSION

FISCAL NOTE

Revision Date

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

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker MB
Phone: 465-2350
Division: Treasury
Date: January 7, 1985

Approved by Commissioner: Steve McGrath
Date: 1/7/85
Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

HB102

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

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

January 29, 1985

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

Dear Mr. Sund:

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

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

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

The ARC board of directors has endorsed this legislation.

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

Sincerely yours,

Milt Barker

Milt Barker
Deputy Commmissioner of Treasury

BM/gb

Enclosure

cc: The Honorable Mary A. Nordale

TABLE

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

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

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

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

SCOMM

#50:18

COMMITTEE REPORT

HOUSE

4/19

(5)

FURTHER: FINANCE

4/10/85

(waived from Finance, to Loans, to be returned to Finance)

Date: 4/18/85

HOUSE SPECIAL COMMITTEE ON STATE LOANS

The Committee on ~~FINANCE~~ has had HB 105

"An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

under consideration and recommends:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

[X] replace with CS for CSHB 105 (Loans) [ ] same title [X] new title

and recommends it do pass

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

[ ] reports it back without recommendation

[ ] referred to the _____ Committee

MEMBERS SIGNING DO PASS

John Miller

MEMBERS HAVING OTHER RECOMMENDATIONS:

See Ltr to Exec

CHAIRMAN

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 197

Title: RE: Maximum Student Loans

Sponsor: Sund, et al.

Requestor: Sund

Date of Request: 2/19/85

FISCAL DETAIL

Agency Affected: Education

Program Category Affected: Postsecondary Education Commission

BRU, Program or Subprogram(s) Affected: Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	N.A.	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	N.A.	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: Kerry D. Rowbotham, Executive Director Phone: 465-2854

Division: Alaska Commission on Postsecondary Education Date: 2/19/85

Approved by Commissioner: _____ Date: _____

Agency: _____

Distribution (by Agency preparing fiscal note):

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

7/1/84

2/15/85

MEMORANDUM

TO:
FROM: Representative John Sund

RE: HB 197

Sectional analysis of proposed Student Loans legislation:

The purpose of this bill is to give undergraduate and graduate students the opportunity to apply loan money, promised to them for the upcoming school year, toward their summer quarter tuition.

The present Alaska Statutes will not allow students to attend more than three quarters or two semesters at full loan funding.($2,000 quarter/$3,000 semester) As a result, students who require more than four years to graduate must travel home for the summer and re-register in the fall for their remaining units. For a student going out of state and living off campus, the cost or travel and the trouble of relocating an apartment can be overwhelming.

This bill amends AS 14.43.110 - the statute setting loan terms in the Dept. of Education.

Section 1
This section provides that the committee may make a loan to a student for a summer term even if the total loan for the school year exceeds the $6,000 maximum. The loan for the summer term will be counted against the $6,000 maximum for the following school year.

To do this a student would present his loan promissory note to the school financial aid office and they would allow him to register for the summer and pay tuition with his first loan disbursement in September.

Section 2
This section provides that the committee may make a loan to a graduate student for a summer term, even if the loan for the school year exceeds the $7,000 maximum, if the loan for the summer term is counted against the $7,000 maximum for the following school year.

Section 3
This section amends AS 14.43.160 by adding a new paragraph that defines "summer term". The period from June 1, to August 31 is used, as it includes the dates that a school would provide for a summer term.

This bill would directly save undergraduate and graduate students time and money while creating no new cost for the state.

Background Materials on the Dedication Clause

Prepared by

Philip S. Barnett, Law Associate, Sierra Club
Legal Defense Fund, Inc.

April 16, 1985

Article IX, § 7, of the Alaska Constitution, the dedicated funds clause, provides as follows:

> The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska.

In State v. Alex, 646 P.2d 203 (Alaska 1982), the Alaska Supreme Court held that the application of the clause should not be limited to taxes and licenses. The Court observed that in a draft at the Constitutional Convention, the prohibition against dedication was applied to "all revenues." After a review of the history of the Convention, the Court held that the change from the draft to the final version was not intended to have significant consequences. Rather, "the purpose of the proposed amendment was to allow for the setting up of certain special funds." Id. at 210. All other dedications were intended to be prohibited.

The "certain special funds" mentioned in Alex are easily identified, for they were expressly referred to during the Constitutional Convention. Specifically, they are pension contributions, proceeds from bond issues, sinking fund receipts, revolving fund receipts, contributions from local government units for state-local cooperative programs, and tax receipts which the state might collect on behalf of local government units. See 1982 Alaska Op. Atty. Gen. No. 13 at 10-11.

The loans that will be used to capitalize the road and port do not fit within one of the exempt "certain special funds." Therefore, they cannot be dedicated.

Sunday, April 14, 1985, The Anchorage Times I-3



Red Dog: an ideal investment

By Robert R. Richards

THE ALASKA legislature has before it a dandy project that is an absolutely ideal opportunity for meaningful investment by the State of Alaska to foster economic development.

This project is ideal for severeal reasons.

It is a perfect size: $150 million.

It is self-liquidating through user fees.

It is perfectly timed: 1987-1988 when a downturn in state capital construction projects is anticipated.

It is perfectly located: in a rural area where the citizens have expreased a strong desire for new jobs.

IT REPRESENTS further diversification of the Alaska economy and of an economic region where 88 percent of personal income is dependent on state and federal government.

It involves a prudent degree of risk with the return on the investment being guaranteed by a strong multinational private company.

It presents the potential for significam downstream benefits by stimulating subsequent resource development projects by the private sector.

It presents substantial ancillary benefits through reducing the costs of fuels and supplies to the citizens of the area.

It represents a significant boost to the prosperity of Alaska's native corporations.

It represents a major thrust forward of Alaska's role as an exporter.

Most important, it generates a strong financial return on the investment: in excess of 14 percent.

IN SHORT, this investment opportunity — from virtually every vantage point — is about as perfect as you can get. It represents an ideal prototype investment by the public sector to stimulate investment by the private sector.

I am referring to the port and road associated with the Cominco/NANA Red Dog project.

This resource development package, representing a viable, cooperative effort by the public sector and the private sector, is precisely what we Alaskans have been looking for.

The Cominco/NANA Red Dog project involves a zinc, lead and silver mine 90 miles northeast of Kotzebue which would be the largest zinc mine in the world. It will create 630 full-time jobs for the duration of its 30 years of operations. It will inject $100 million annually into the Alaska economy in the form of payroll and benefits, local purchases, transportation, taxes, and royalties to native corporations.

ON-SITE construction work is expected to commence in 1987, and production is scheduled to begin in 1989.

The total cost of the project is estimated to be $400 million, including $150 million for the port and road. Cominco will guarantee to pay the toll fees and the cost of operation and maintenance of the facilities. Cominco further guarantees that, if it is necessary to postpone develop-

ment of the mine, it will repay the state the money which the state has invested in the port and road.

There are two very important dinstinctions to keep in mind when analyzing this project. The first is the definition of return on investment. The second is our understanding of whether or not Alaska is facing a buyer's market or a seller's market.

First the definition of return on investment. As any financial analyst knows, return on investment embodies the full array of incremental returns — all of the primary, secondary, tertiary and further financial benefits of an investment — including not only revenue generation but cost reductions. Cominco's calculations show that the return generated from the toll fee and the direct taxes to the state from operation of the mine generates a return on investment of 12.8 percent.

Secondly, existence of the mine would in turn reduce transfer payments (welfare, unemployment, etc.) to the region, estimated by the governor's task force to generate another 0.9 percent return, increasing the total return to 13.7 percent.

Additionally, when the multiplier effect is added in (that is, the taxes paid by all of the firms which sell goods and services to the mine and to the workers at the mine) the return increases to over 14 percent.

The second critical element is timing. Alaska is not the sole possessor of huge rich zinc deposits. There are many other potential places for investment in lead and zinc mines by the private sector, and there is not room in the forecasted gap between world demand and supply to accommodate all of the potential mines. Indeed, Alaska is a seller in a buyer's market, and in order for us to pre-empt other potential producers, we must move now to take advantage of this window of opportunity.

It is in Alaska's self-interest to move ahead vigorously with this ideal opportunity for a significant thrust forward in our critical striving for a more diversified and expanded economic base.

Robert R. Richards, an economist, is vice chairman of Alaska Pacific Bancorporation.

Cook
4/18/85 ✓

Original sponsor: Rules/Governor

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 105 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the authorization of bonds or notes, establishing conditions under which the bonds or notes for the DeLong Mountain transportation project may be issued; and providing for an effective date."

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

* Section 1. AS 37.15.410 is amended to read:

Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of providing part or all of the money to be used, with or without any grants or other money that [WHICH] may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed $86,525,000 [$62,825,000] is authorized to acquire, equip, construct, and install the additions, improvements, extensions, and facilities authorized in AS 37.15.510. The principal of and interest on these bonds shall be paid out of and secured by the gross revenues derived by the state from the ownership, lease, use, and operation of the airports, and of all the facilities of them and out of any other revenues or money that [WHICH] the state legislature may provide exclusive of any state tax or license.

* Sec. 2. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project.

* Sec. 3. Before bonds or notes authorized under sec. 2 of this Act may be issued the Alaska Industrial Development Authority shall comply with

AS 44.88.173 and, to the extent feasible, shall incorporate into the final finance plan for the DeLong Mountain transportation project the following terms and conditions:

(1) Cominco, Ltd. is required to agree in writing that

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco Alaska makes of the facilities compared to the use made by others;

(B) if Cominco Alaska ceases to develop the Red Dog Mine after costs or debts have been incurred for the project, Cominco, Ltd. will repay the Alaska Industrial Development Authority for those costs and debts;

(C) toll fees paid by Cominco Alaska for the use of facilities constructed as part of the project to the Alaska Industrial Development Authority may be periodically adjusted if the price of zinc rises above a level that yields a return on investment commensurate with risk;

(2) land in the Cape Krusenstern National Monument is conveyed to NANA Regional Corporation by the United States Department of the Interior;

(3) NANA Regional Corporation is required to agree in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, land needed for the port and road constructed as part of the project and land needed for future expansion of the road and port;

(4) tax exempt financing for the project is used to the maximum extent possible;

(5) a toll schedule, that may be periodically adjusted, is established for use of facilities constructed as part of the project that

(A) ensures a reasonable return on the state's investment in the project; and

(B) guarantees equitable access to the facilities by all users.

* Sec. 4. Before bonds or notes authorized under sec. 2 of this Act may be issued the Alaska Industrial Development Authority shall

(1) report in writing to the legislative budget and audit committee that the conditions under sec. 3 of this Act have been met; and

(2) agree with the Department of Revenue in writing to deliver all money generated by the DeLong Mountain transportation project, other than money necessary for payment of the principal and interest on bonds or notes issued under sec. 2 of this Act, to the Department of Revenue for deposit in the general fund.

* Sec. 5. This Act takes effect immediately in accordance with AS 01.-10.070(c).

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

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

April 15, 1985

The Honorable Arliss Sturgulewski
Chairman
Resources Committee
Alaska Senate
Pouch V
Juneau, AK 99811

Dear Senator Sturgulewski:

This letter is in response to the requests contained in your April 1 letter on state loans that may be used in financing the DeLong Mountain Transportation project. The responses are in as much detail as is available at this time.

1. It has been suggested that $142 million in state loans held by the Department of Revenue be transferred to AIDA bonds. I would like to know the make up of those loans. What is the amount of each category (such as veterans, commercial fishing, small business, tourism, fisheries enhancement, child care and historical districts), the interest rates by category and the maturity dates? What is the amount of money by category that returns to a revolving loan fund pool and what amount returns to the general fund? If any revolving loan funds are transferred to AIDA, how does that affect the future ability of those revolving funds to meet the public demand for loans?

   The following amounts of loans are held in the general fund and serviced by the Department of Commerce and Economic Development as of February 28, 1985:

Type	Amount ($ 000)	Average Interest Rate 1/	Average Maturity
Veterans	82,291.4	6.92%	2003
Small Business	18,573.5	8.49	1993
Commercial Fish	29,809.3	7.81	1991
Tourism	2,575.2	8.07	1996
Child Care	18.0	5.83	1989
Historical District	123.7	6.67	1993
Fisheries Enhancement	6,804.2	7.96	N/A
Total	140,195.3	7.39	

1/ Net of .5% service fee on loans serviced by Commerce and an estimated .125% Commerce service fee on loans serviced by banks. The bank services fees are also netted out.

These loans would be transferred to AIDA with the exception of an estimated $19,873,000 of commercial fish loans which are secured by permits. Only the state is authorized to hold permits as collateral.

To make up for this deficiency, AIDA would take up to $19,873,000 in loans held by the Department of Commerce and Economic Development. Commerce had $48,402,500 of commercial fish loans as of January 31, 1985 of which an estimated $16,118,000 were not backed by permits and would be taken by AIDA.

All of the payments on the general fund loans, both principal and interest, return to the general fund. Transfer of these loans to AIDA will reduce the amount of general funds available for appropriation in FY 86 and future years. It will not affect the ability of the revolving loan funds to meet loan demand.

Even with AIDA taking some Commerce loans, the Department's ability to meet loan demand should not be impaired. The estimated $16,118,000 in Commerce's commercial fish loans taken by AIDA would be replaced with a roughly equivalent amount, the $19,873,000 in estimated general fund commercial fish loans secured by permits, by transferring these loans from the general fund to Commerce.

2. What is the expected cash flow (principal and interest) by year from July 1, 1985 that would return to the state over the term of the loans if they remained in the Department of Revenue?

   See attached table for scheduled cash flow. Actual cash flow may be accelerated due to loan prepayments, resulting in a reduction of total interest from that scheduled.

3. What is the expected financial shortfall in state revenue in FY 86 as a result of transferring these loans to AIDA? Has any adjustment been made to the Administration's budget for FY 86 to reflect this income reduction?

   In our effort to minimize the impact on the FY 86 general fund revenues, the administration believes that no net adjustment will be required to the FY 86 budget by the appropriation of the loans to AIDA. The administration proposes to utilize the $17.8 million cash flow from loans held by the Department of Revenue as a substitute for the appropriation of $18 million in general funds now contained in the Governor's loan budget for this project. This will offset the reduction in general funds available for appropriation arising from the appropriation of the loans. This reduction would be $17.8 million for FY 86 based on the scheduled payments shown in the attached table. This would be composed of approximately $10 million in interest and $7.8 million in principal repayments.

The administration would propose that the cash needed to support the project could be obtained in part by giving AIDA the authority to use $12 million already appropriated to that agency. This would be combined with approximately $3 million of funds available from last year's appropriation for this project.

It should be noted that the amount of cash flow from these loans included in the Executive Budget 1986 as amounts available for appropriation is $31.3 million, composed of $13.3 million interest and $18 million principal repayments. The budget estimate is higher than the scheduled payments for two reasons. One is that prepayments on loans result in greater amounts of principal receipts than scheduled. The other is that this response to your questions has been done in much greater detail than the budget estimates.

A fiscal note for $17.8 million, reflecting the scheduled reduction in FY 86 revenue, will be submitted for the appropriation of the $142 million in loans. The difference between the scheduled payments and the budget estimate, $13.5 million, will be a downward adjustment to the next revenue estimates which will be made in June. This adjustment has not been incorporated in the Administration's FY 86 budget. The Administration does not believe this adjustment materially affects the March revenue forecast.

4. What is the total amount of interest that is expected to be returned to the state from the $142 million over the life of the loans calculated as of July 1, 1985?

Approximately $71.6 million in interest would be received by the state from July 1, 1985 through 2011 from the loans. The loan balances are estimated to total $135.9 million on July 1, 1985. The amount received by the general fund would be somewhat reduced by service fees retained by Commerce.

5. What is the total amount of interest that the state would expect from the $142 million in loans plus the $18 million in general fund expenditure if this $160 million were not transferred to AIDA?

Over the period of years to 2015, assuming compounding and an average rate of interest of 10%, total interest would come to $1,984.3 million. The present value of this interest would be $113.7 million at a 10% discount rate.

Implicit in the question is an assumption that the cash flow from the loans and the $18 million will not be spent if it is not appropriated to AIDA. If it is spent, the state would of course receive no interest on the $18 million and only the $71.6 million on the loans.

6. Will the transfer of the $142 million in loans to AIDA result in increased requests this year or in future years for the various state loan programs since the principal and interest will not flow back to the general fund or a revolving fund as expected?

   Transfer of the $142 million will not generally affect revolving fund cash flow and will not require increased requests for Commerce loan programs in the future. See question #1.

Sincerely,

Mary A. Nordale
Commissioner

MAN/gb
85-57

Enclosure

cc: Hon. Loren Lounsbury, Commissioner DCED
Bert Wagnon, Executive Director, AIDA

General Fund Loans to be Appropriated to AIDA
Estimated Cash Flow (Principal and Interest)
($ 000)

Fiscal Year	Veterans	Small Business	Commercial Fish	Tourism	Child Care	Historical District	Fisheries Enhancement	Total
1986	9,247	2,855	6,105	308	5	22	N/A	18,542
1987	9,034	2,783	5,786	308	4	22		17,937
1988	8,784	2,613	5,409	308	3	22		17,139
1989	8,554	2,404	4,243	308	2	18		15,529
1990	8,379	2,279	3,870	282	1	14		14,825
1991	8,343	2,134	3,233	243		14		13,967
1992	8,042	1,946	2,037	229		14		12,268
1993	7,409	1,551	837	221		14		10,032
1994	6,955	907	214	212		7		8,295
1995	6,851	344	34	208				7,437
1996	6,814	59		201				7,074
1997	6,532			186				6,718
1998	6,174			85				6,259
1999	6,038							6,038
2000	5,998							5,998
2001	5,899							5,899
2002	5,096							5,096
2003	4,254							4,254
2004	4,035							4,035
2005	3,925							3,925
2006	3,865							3,865
2007	3,182							3,182
2008	1,709							1,709
2009	521							521
2010	98							98
2011	20							20
Total	145,758	19,875	31,768	3,099	15	147	6,804 (principal only)	207,466

1. This table represents the cash flow to the Department of Commerce and Economic Development. Cash flow to the general fund would be further reduced by .5% service fee on loans serviced by Commerce and .125% service fee to Commerce on loans serviced by banks.
2. Cash flow has not been adjusted for delinquency or default. Except for commercial fish non-permit loans, the state expects complete recovery on defaults. Thus, delinquency and default merely produce lags in receipts.

Cook

AMENDMENT

Bond council

Offered in the HOUSE

TO: HB 105

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

Page 1, lines 6 and 7, delete:

"international airport revenue bonds authorization" and insert "authorization of bonds or notes, establishing conditions under which the bonds or notes for the DeLong Mountain transportation project may be issued"

Page 1, after line 22, insert the following new bill sections:

"* Sec. 2. The Alaska Industrial Development Authority is authorized to issue bonds or notes in a principal amount not to exceed $175,000,000 to provide financing for the DeLong Mountain transportation project. Bonds or notes may not be issued under this section until FINANCIAL PLAN FEASABLE

(1) Cominco, Ltd. agrees in writing to terms and conditions under which

(A) Cominco, Ltd. will pay for all or a portion of the operation and maintenance of facilities constructed as part of the project based on the use Cominco, Ltd. makes of the facilities compared to the use made by others;

(B) Cominco, Ltd. will repay all expenditures by the state for the project through toll fees for the use of facilities constructed as part of the project; AIDA.

(C) payments by Cominco, Ltd. to the [state] will be

260-million 30-years (0+4) ADDITION

accelerated if the price of zinc rises above a level determined by the Alaska Industrial Development Authority to yield a reasonable profit;

(2) land in the Cape Krusenstern National Monument is conveyed to NANA Regional Corporation by the United States Department of the Interior;

LEASHOLD INTEREST

(3) NANA Regional Corporation agrees in writing to make available to the Alaska Industrial Development Authority, at no more than fair market value, AND MATERIAL land needed for the port and road constructed as part of the DeLong Mountain transportation project and land needed for future expansion of the road and port;

(4) the Alaska Industrial Development Authority ~~obtains a ruling from the Internal Revenue Service that bonds or notes issued under this section will qualify for tax exempt status;~~ MAXIMIZES THE USE OF TAX EXEMPT FINANCING.

(5) the Alaska Industrial Development Authority establishes a toll schedule for use of facilities constructed as part of the DeLong Mountain transportation project that ensures a reasonable return on the state's investment in the project and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted; and P - Authority → Bondholder (ECONOMIC DEVELOPMENT FUND) (GEN. FUND)

(6) the Alaska Industrial Development Authority reports in writing to the legislative budget and audit committee that the conditions under (1) - (5) of this section have been met.

* Sec. 3. Notwithstanding limitations on the establishment of a capital reserve fund under AS 44.88.105, the authority may covenant and agree with the trustee or holders of the bonds or notes authorized under sec. 2 of this Act that the authority will establish a capital reserve fund for the

purpose of securing the bonds or notes, that the chairman of the authority will, by January 2 of each year, certify in writing to the governor and the legislature the amount required to restore the capital reserve fund to the capital reserve fund requirement, and that the legislature may appropriate to the authority the amount certified by the chairman. Nothing in this section creates a debt or liability of the state."

Renumber the following bill section.

Introduced: 1/23/85
Referred: Transportation and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 105

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

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

* Section 1. AS 37.15.410 is amended to read:

Sec. 37.15.410. BOND AUTHORIZATION. For the purpose of providing part or all of the money to be used, with or without any grants or other money which may become available, the issuance and sale of revenue bonds of the state in the total principal sum of not to exceed $86,525,000 [$62,825,000] is authorized to acquire, equip, construct, and install the additions, improvements, extensions, and facilities authorized in AS 37.15.510. The principal of and interest on these bonds shall be paid out of and secured by the gross revenues derived by the state from the ownership, lease, use, and operation of the airports, and of all the facilities of them and out of any other revenues or money which the state legislature may provide exclusive of any state tax or license.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.10.070(c).

ADD

COMMITTEE REPORT

HOUSE

3/12

(7)

FURTHER: FINANCE

1/23/85

Date: 12 MARCH 1985

The Committee on TRANSPORTATION has had HB 105

"An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

under consideration and recommends:

[X] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

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

and recommends _____

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

[X] ~~Zero~~ Fiscal Note Attached 1-11-85 2850.0

[ ] reports it back without recommendation

[ ] referred to the _____ Committee

MEMBERS SIGNING DO PASS

CATO Bette Cato

FURNACE Walt Furnace

SHULTZ Dick Shultz

MEMBERS HAVING OTHER RECOMMENDATIONS:

MARROU Andre M No Rec.

Bette Cato

CHAIRMAN

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 23, 1985

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

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill to raise from $62,825,000 to $86,525,000 the amount of international airports revenue bonds that may be issued by the state bond committee. This additional $23,700,000 is intended to be used for the Anchorage International Airport Terminal Renovation, Phase II.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 105

Title:

Sponsor:

Requestor:

Date of Request:

FISCAL DETAIL

Agency Affected: Debt Service

Program Category Affected: General Government

BRU, Program or Subprogram(s) Affected: IARF Debt Service and Fees

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS		2,850.0	2,850.0	2,850.0	2,850.0	2,850.0
TOTAL OPERATING		2,850.0	2,850.0	2,850.0	2,850.0	2,850.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		2,850.0	2,850.0	2,850.0	2,850.0	2,850.0
TOTAL		2,850.0	2,850.0	2,850.0	2,850.0	2,850.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Assumes issuance of bonds of $23,700,00 at 11% with level debt service for 30 years. The project appropriation is continued in the General Appropriation Bill and is titled "Anchorage International Airport Main Terminal Renovation Phase II". Debt Service is capitalized through the bond sales the first two years, and thereafter, paid from the International Airport Revenue Fund.

Prepared By: Ron B. Lind, Director Phone: 465-3911

Division: Financial and Administrative Services Date:

Approved by Commissioner: Wann S. Sparks Date: 1/11/85

Agency: DOT&PF

Distribution (by Agency preparing fiscal note):

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

7/1/84

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

1577 "C" STREET • SUITE 304 ☐ ANCHORAGE, ALASKA 99501-5177 ☐ (907) 274-1651

April 9, 1985

The Honorable Arliss Sturgulewski
Chairman, Senate Resources Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

In response to your letter of April 1, 1985, I am providing the following requested information. Please note that our responses are based upon the estimated net cash flows shown in Attachment I. After adjusting for loans that have paid down or will not be transferred for legal reasons, we estimate that approximately $136 million in loans will be transferred.

It is not possible to provide an unambiguous answer to the first three questions until two things happen. First, we need the results of the Finance Plan project, now being worked on, and second we need to have an agreement reached between AIDA and Cominco with regard to user fees. The best figures that we have at present with respect to revenue generated by the project are those tolls which Cominco has offered to pay. Please be aware that our use of these figures should in no way be taken as evidence that AIDA has agreed to these charges. In any case, utilizing the attached cash flows, and our most current assumptions regarding costs and financin we estimate that the cash flow of the portfolio would not be directly used after 1995. At that time, the cash flow would be used for coverage for the bonds, and eventually could flow back to the general fund. Any tolls collected above those needed to pay debt service on bonds and provide for coverage on the bonds could also flow back to the general fund.

1. If the $160 million ($142 million in loans plus the $18 million from the general fund) are transferred to the AIDA Economic Development Fund, what is the mechanism for these funds to flow back to the general fund over time?

   At this time, the actual repayment mechanism has not yet been determined. It could be set up as a loan from the Department of Commerce and Economic Development to AIDA, with terms ranging from a fixed amount per year, or "any amount above that required for debt service". Regardless of the mechanism, we recommend that a coverage test be utilized, and only income above that required for the coverage requirement be remitted to the State.

2. Considering that the $160 million will be used to back the sale of AIDA bonds but that toll fees charged to Cominco, LTD. (and perhaps others) as well as interest earned from the fund will be used to retire the bonds, what is the expected balance in the Economic Development Fund at the end of 20 years?

   As noted above, using our most current cost and financing assumptions, we assume all cash flow after 1995 will be available for reinvestment in the Economic Development Fund for purposes of providing coverage for the bonds. Since this also assumes that the only toll fees are from Cominco and that these fees are just enough to pay debt service, the cash flow from the loan portfolio after 1995 and its reinvestment will be the only source of funds to be deposited in the Economic Development Fund. Although these are the best assumptions available today, we believe they are conservative assumptions, especially with regard to other future users. In any case, if we assume the cash flow can be reinvested at a 10% earnings rate, then by 2005 the balance will be $106,433,000.

   These figures are based upon our latest estimates of relevant factors for what presently appears to be the best financing approach. This approach, which was discussed in an earlier memo, aggregates funds from the general fund appropriation, cash flow from the loan portfolio, and proceeds from a tax exempt bond sale. This total collection of funds is then used to pay for construction costs and for interest on the bonds until revenues from the project are sufficient to pay for the bonds.

3. Can you provide us with a projected Economic Development Fund balance by year from July 1, 1985 until the retirement of all of the $175 million in bonds issued for this project?

   Under our latest assumptions, only $135 million in debt will be issued. This reduced amount is possible because cash flows from the loan portfolio appear to be greater than originally estimated. Once again, using all of the assumptions mentioned above, the projected balance of the Economic Development Fund is given in Attachment II.

4. What effect will the additional management requirements of $142 million in loans have on AIDA's personnel requirements?

   We would not anticipate immediately transferring the loan servicing from Commerce to AIDA, but rather using a phase-in process. At the outset, we would request Commerce to continue servicing the portfolio for us. We expect that our servicing costs would be similar to those experienced by the Department of Commerce and Economic Development.

5. Can you provide us with a breakdown of the expenditures made to date and those anticipated from the $3 million appropriation in last years budget for this project?

   To date we have made the following commitments for expenditure: RSA with DOTPF for various engineering and technical assistance $50,000; RSA with Department of Law for specialized legal counsel $50,000; contract with

SRI International for Finance Plan $267,000: contract with R & M Engineering for cost verification and other engineering services $75,000; and other miscellaneous expenditures $15,000. Planned uses for the remainder are associated with getting the projects ready for construction bids, for instance, preparation of final detailed design, preparation of bid packages, and so forth.

6. What is the total amount that could be expected to accrue to the Economic Development Fund in both principal and interest over time if you added together the $18 million from the general fund, the $142 million principal in loans, the interest on the $18 million while in the fund, the interest generated from the $142 million in loans and the interest earned on the earnings of the fund?

   It appears in this question that you simply want us to do a straight forward calculation of a future value of a known income stream. If so, then of course the only real unknown is the assumed rate of return on the reinvestments. For these calculations we will assume it is 10%, and again we will use the cash flow shown in Attachment I. The results, by year, are given in Attachment III. Although the numbers on Attachment III get rather large, I think it is important to put these values in perspective, since what is really being shown on that table is the effects of compound interest. A more relevant number is the net present value of the appropriations being proposed. Assuming that $18 million is appropriated on July 1, 1985, that the loan portfolio can provide the net cash flow shown in Attachment III, and that 10% is the discount rate, then the net present value of these appropriations as of July 1, 1985 is $117.3 million.

Although no direct question was asked regarding the philosophy behind AIDA's involvement in this project, I believe it to be of paramount importance. We approach this project as an investment, both in needed infrastructure and diversification. We believe that, after some initial state assistance, the project will start generating income for the general fund. Eventually, the project should pay for itself many times over, and quite possibly be a major source of state revenue when other sources have dwindled.

Please let me know if you have further questions.

Sincerely,

Bertram L. Wagnon
Executive Director

BLW:ec

Enclosures

cc: Mary Nordale, Commissioner, Department of Revenue
Loren Lounsbury, Commissioner,
Department of Commerce & Economic Development

ATTACHMENT 1

Estimated cash flows from Department of Revenue loan portfolio (000)

Year	VETS	Small Bus/Rev	Small (a) Bus/Bank (Estimate, .594)	Comm Fish	Tourism/ Rev.	Tourism/ (b) Bank (Estimate, 1.185)	Child Care	Historic District	Gross (c) Total	Net (d) Total (.95)
86	9247	1791	1064	6105	141	167	5	22	18,542	17,615
87	9034	1746	1037	5786	141	167	4	22	17,937	17,040
88	8784	1639	974	5409	141	167	3	22	17,139	16,282
89	8554	1508	896	4243	141	167	2	18	15,529	14,753
90	8379	1430	849	3870	129	153	1	14	14,825	14,084
91	8343	1339	795	3233	111	132		14	13,967	13,269
92	8042	1221	725	2037	105	124		14	12,268	11,655
93	7409	973	578	837	101	120		14	10,032	9,530
94	6955	569	338	214	97	115		7	8,295	7,880
95	6851	216	128	34	95	113			7,437	7,065
96	6814	37	22		92	109			7,074	6,720
97	6532				85	101			6,718	6,382
98	6174				39	46			6,259	6,042
99	6038								6,038	5,736
2000	5998								5,998	5,698
01	5899								5,899	5,604
02	5096								5,096	4,841
03	4254								4,254	4,041
04	4035								4,035	3,833
05	3925								3,925	3,729
06	3865								3,865	3,672
07	3182								3,182	3,023
08	1709								1,709	1,624
09	521								521	495
10	98								98	93
11	20								20	19

Notes

(a) Cash flow figures available only for Dept. of Commerce serviced loans, of $10,473.7 principal balance. Estimate of cash flow of bank serviced loans of $6,221.3 balance assumed to be proportional to relative principal balances, i.e. 6,221.3 / 10,473.7 = .594

(b) Cash flow figures available only for Dept. of Commerce serviced loans, of $1,097.4 principal balance. Estimate of cash flow of bank serviced loans of $1,300.0 balance assumed to be proportional to relative principal balances, i.e. 1,300.0 / 1,097.4 = 1.185

(c) No cash flow figures are included for Fishery Enhancement loans since they were not available. It is expected that any significant cash flows would be well into the future and hence not available during the critical early years.

(d) Net figures are adjusted to take into account estimated delinquency and defaults as well as servicing costs, assuming net figures are 95% of gross figures.

ATTACHMENT II

Balance in Econonmic Development Fund in response to Question 3. Assumes that funds can be reinvested at a 10% rate of return.

Fiscal Year	Cash Flow from Loans (000)	Fund Balance (000)
1995	7,060	7,060
96	6,720	14,486
97	6,382	22,317
98	6,042	30,590
99	5,736	39,385
2000	5,698	49,022
01	5,604	59,528
02	4,841	70,322
03	4,041	81,395
04	3,833	93,367
05	3,729	106,433
06	3,672	120,749
07	3,023	135,846
08	1,624	151,055
09	495	166,656
10	93	183,414
11	19	201,775
12		221,952
13		244,147
14		268,562
15		295,418

ATTACHMENT III

Calculation of a hypothetical fund balance, based upon cash flows of Attachment I, $18 million on July 1, 1985, and assumed reinvestment rate of 10%.

Fiscal Year	Cash Flow from Loans (000)	Fund Balance (000)
1986	17,615	37,415
87	17,040	58,197
88	16,282	80,298
89	14,753	103,081
90	14,084	127,473
91	13,269	153,489
92	11,655	180,493
93	9,410	207,952
94	7,880	236,628
95	7,065	267,355
96	6,720	300,811
97	6,382	337,274
98	6,042	377,043
99	5,736	420,484
2000	5,698	468,230
01	5,604	520,657
02	4,841	577,564
03	4,041	639,361
04	3,833	707,130
05	3,729	781,572
06	3,672	863,401
07	3,023	952,764
08	1,624	1,049,665
09	495	1,155,126
10	93	1,270,732
11	19	1,397,824
12		1,537,607
13		1,691,367
14		1,860,504
15		2,046,555

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2500

April 8, 1985

The Honorable Arliss Sturgulewski
Chairman
Senate Committee on Resources
Pouch V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

Re: $142 Million AIDA Transfer

In response to your letter of April 1, 1985, I am providing you with the following requested information.

1. Will the transfer of the $142 million in loans to AIDA affect the personnel requirements of your loan servicing division? In other words, would you anticipate a reduction in staffing?

   There are several factors that are pertinent, assuming the appropriation to AIDA does take place and is effective July 1, 1985.

   (a) AIDA will not service the transferred loans.

   (b) The Division of Accounting and Collections would continue to service the loans after July 1 under contract with AIDA until such time as AIDA and/or the division decide that transfer of servicing to a private bank is appropriate.

   (c) The earliest such a servicing transfer could occur is mid-year FY '86 due to the complexity of the transfer, keeping in mind the transfer may not occur at all if AIDA and the division feel it is not appropriate.

   (d) If the FY '86 budget cuts are as severe as the first draft cut appears, the division may request that AIDA transfer the servicing. If this were to occur, the division would reduce staff after the servicing transfer so that the combined reduction in staff (due to budget cuts and the transfer) would be about 35% - proportionate to the number of loans transferred. Such staff reductions would <u>not</u> free up excess general funds because the

transferred loans would be those that currently generate 100% of our "other funds" (service fees) in the divisions' operating budgets (Division of Acccounting and Collections and the Division of Investments). Therefore, while the appropriation of these loans could result in a reduction in staff, it would not be in "General Fund" funded staff, and the staff reduction would come only after the transfer of servicing, not on the effective date of the appropriation.

2. If these loans were transferred to AIDA, do you anticipate that the loan repayment or servicing policies would change?

   No, both organizations expect repayment on a timely basis.

3. What would be the effect on the borrowers if these loans were transferred to another agency?

   While servicing remains under the Division of Accounting and Collections, the effects would be minimal: prior to the effective date of the appropriation, new loan numbers may be required to allow for accurate accounting to the new investor; this would entail a letter and a new supply of payment cards being sent to the borrower. The effort required of division staff to close out one investor and begin servicing a new investor will be substantial; borrowers may notice a slight decline in the quality and timeliness of service as the division copes with the changes.

   If the servicing itself were transferred to a private bank at some point, the following changes would occur:

   (a) Borrowers would receive another new loan number, another set of payment cards, and a series of letters explaining each step of the servicing transfer;

   (b) Service quality and timeliness may vary.

All impacts to borrowers could be summed up as short-term inconveniences which would occur for six months or so during the transition to a new servicer.

4. How would the loss of future income from these loans (both principal and interest) affect the ability of your loan divisions to provide for the public demand for loans in the various categories? Would you anticipate increased funding requests to the Legislature to meet the public need?

There would be virtually no effect on the loan fund balances.

The cash flow from these loans is remitted to the General Fund (through Division of Treasury) on a monthly basis, net of service fees, late fees, NSF fees and application/assumption fees which are retained by the fund. In the case of veterans and commercial fish, these fees then are appropriated by the Legislature to fund operating efforts in the Division of Accounting and Collections and the Division of Investments.

We would not anticipate increased funding requests in the loans budget to meet public loan demand.

5. Does the loss of income from these loans affect your FY '86 budget loan requests if all principal and interest are transferred on the $142 million as of July 1, 1985?

No, the loss of income to the loan funds will be negligible (See #4).

The operating budgets of the Division of Accounting and Collections and the Division of Investments could be impacted mid-year due to loss of service fees if the servicing is transferred prior to year-end FY '86.

Please let me know if you have further questions.

Sincerely,

Loren H. Lounsbury
Commissioner

LHL/mst1748m
040385c

cc: Mary Nordale, Commissioner, Department of Revenue
Bert Wagnon, Executive Director, AIDA

ALASKA PUBLIC INTEREST RESEARCH GROUP
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

The Red Dog Road and Port Project

THE PROPOSAL: Cominco/NANA have formed a joint venture to develop the Red Dog zinc/lead deposit just north of Kotzebue near the mouth of the Noatak River. The deposit is 55 miles from tidewater. With Administration support, Cominco /NANA is pushing the State to build a port facility and road from the deposit to tidewater for transportation to smelters in British Columbia and Japan.

Though majoir components of the plan have changed several times in the last 2 months, the most recent plan is for the State to transfer $142 million of the State's loan portfolio to the Alaska Industrial Development Authority's (AIDA) Economic Development Fund. The loan principal and interest would form collateral for a $175 bond issue for construction of the road and port. Some portion of construction costs would be paid by facilities users over the life of the project.

Until today, an $18 million appropriation to AIDA for the project was in the governor's budget. In February, 1984, the total cost of the project was anticipated at $135 million. That figure increased to $150 million in February, 1985, to $165 million in March, 1985 and $193 million in late March, 1985.

Varying moratoria on repayments, low-interest or no-interest loan terms, term repayment schedules and outright grants have been discussed by state policymakers and Cominco. The value of direct subsidy on the part of the State has varied from $40.1 million in February, 1984 to $65 million in February, 1985 to a high of $90 million in March, 1985.

NANA and Cominco have worked out a detailed agreement covering shared profits, local hire goals, efforts to minimize the adverse impacts of the project on the NANA region, etc.

Once the infrastructure is in place, the State and Cominco/NANA anticipate that other deposits in the area will be exploited as development

costs go down. GCO, Inc. owns rights to the Lik deposit 10 miles from Red Dog, and Cominco has control of the nearby Su deposit.

COST/BENEFIT OF PROJECT: The State projects a 5.3/1 (down from 6.2/1) cost-benefit ratio for the port and road project. (Assumes .60/lb. price for zinc, 15% return on investment for Cominco/NANA, $40.1 million subsidy, $169 million in direct returns to the State in taxes or transfer payment savings.)

"The ratio is high because it appears the project would not be viable without State support. Under the foregoing assumptions, the minimum level of investment the State can make in the project and have any expectation of immediate development is estimated to be $40.1 million. Higher involvement by the State through larger amounts of subsidy will increase expected rates of return to Cominco .... The State could subsidize the project up to $245.0 million and still have a benefit/cost ratio greater than 1 .... If the zinc price is lowered from .60 to .55 per pound (the low side of our estimated future price), the rate of return to Cominco would also fall. At the .55 price, to get the return to Cominco up to 15% the State might have to put up a subsidy of $158.0 million in the project. Because of the lower price, the taxes are also lower; this, coupled with the higher level of subsidy, reduces the benefit/cost ratio to 1.25 in comparison to the 6.2 figure generated by a .60 price." (Red Dog Project Analysis, February, 1984.)

At .63/lb., the project is expected to be viable without state investment. The current price of zinc is .45/lb.; of lead, .19/lb.

OTHER ISSUES: In addition to state sponsorship of the project, a few other issues must be resolved. The road route preferred by Cominco/NANA, the southern route, is less environmentally damaging. However, it runs through the Cape Krusenstern National Monument. The joint venture has applied for a land exchange and right of way from the Dept. of Interior. Congress is considering a bill approving the land exchange.

Just as difficult is the conflict between NANA and the North Slope Borough over jurisdiction over the Red Dog deposit. After ANCSA, the Arctic Slope Native Assoc. formed a borough which included a strip of land (the Red Dog deposit) which now is part of the NANA regional corporation. The borough and regional corporation boundaries should be roughly contiguous, but the processes were completed out of synch with each other and thus the important discrepancy occurred.

Without the tax base represented by the Red Dog mine, a proposed NANA area borough will not have enough revenues to function. Since the disputed area is not populated (and a simple vote cannot be taken), a complicated detachment process is underway. Various technicalities preempt the Legislature from signing off on any agreement until the '86 legislative session. NANA has indicated that if the boundary dispute is not settled, and tax policy is not clear, the mine will not be developed.

COST/BENEFIT OF THE MINE ITSELF: The Red Dog Project Analysis anticipates the following costs and benefits of the mine:

Employment:

Direct:	143 jobs during construction (40% NANA residents) 375 jobs during production (50-75% NANA residents)
Indirect:	92 during construction (23 in NANA villages) 226 during production (106 in villages)

Income:

Direct:	$8.8 million/yr during construction ($3.5 million to NANA residents) $12 million/yr during production ($7.5 million to NANA residents)
Indirect:	$2.3 million/yr during construction ($.575 million/yr in villages) $5.7 million/yr during production ($2.7 million/yr in villages)

Jobs for previously unemployed people:

During Construction: 38-- 12 in villages, 7 outside AK
During Production: 93--51 in villages, 10 outside AK

Tax revenues :

(Corporate income tax and mining license tax, based on probable price of zinc at .60/lb)
Cominco:
$2 million per year through 1992, $8 million in 1993, average $10 million per year through 2008.
NANA:
$2.36 million per year through 1991, $6.68 million after 1991.

Last year's investment tax credit grants the joint venture nearly $15 million in tax breaks through 1994.

ZINC OUTLOOK: Today's zinc price is .45 lb., lead price is .20/lb. The State's analysis of the Red Dog project assumes 20 year real prices for zinc and lead to average .60/lb and .35/lb respectively. Today's low prices are supposedly reflective of low recessionary demand and high supply of metals. Developing technology should bring about some product substitution for lead, little for zinc.

Business Week's 12/17/84 issue featured a cover story, "The Death of Mining." In it, the authors lump zinc and lead in with copper, nickel and moly markets and envision bad times ahead for the long term future. Cominco has reflected worldwide difficulties: it lost $31 million in 1982 and $39 million 1983. Analusts anticipate that lead and zinc demand will increase by 1-2% in the next ten years. The State is assuming a 2.5% increase in demand annually. The article does emphasize that third world mines are coming on line rapidly and are far superior to American mines as far as recovery technology goes. The Red Dog mne is analogous to a third world mine in this sense, except that transportation costs as a proportion of production costs are higher (40%) than average (10%).

Brad Tuck of the Institute for Social and Economic Research, wrote a chapter on mining in Alaska Resource Development last year. He anticipates that world metal prices will not increase significantly (prices would have to increase by 35% to reach the probable price of .60/lb in the state analysis). "The State will at best derive only modest revenues from non-fuel mineral and coal development. Annual revenues by the mid 1990s from Red Dog, Eagle, Greens Creek and Quartz Hill will be less than $10 million."

ALASKA PUBLIC INTEREST RESEARCH GROUP
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

RED DOG ROAD AND PORT FACTSHEET

The Alaska Industrial Development Authority (AIDA) with the support of the Administration, is pushing for an $18 million appropriation to AIDA's Economic Development Fund, along with a commitment of the interest and principal on $142 million of the State's loan portfolio. This commitment will become collateral for a bond issue of $175 million for actual road and port construction.

Over the past year, the estimated cost of the project has risen from $135 million to $193 million, an increase of 42%. The level of direct state subsidy increase from $40.1 milliion to $65 million between February, 1984 and February, 1985. Current options include direct subsidies of up to $90 million. If no appropriation is made, the State will provide a $15 million subsidy to the project through tax breaks already on the books.

When the legislature gave AIDA authority to develop and own projects such as the proposed road and port, it required that AIDA produce a Finance Plan for the legislature and the governor, laying out financing options. AIDA is specifically required to seriously consider those options requiring the least state involvement.

Although the legislature is being pressed to fund the project now, before the money runs out, the conclusions of the Finance Plan will not be available until next August at the earliest. In the meantime, the legislature is considering a $142 million loan appropriation and $175 million bond authorization based on a series of "finance options" assembled in less than 24 hours.

The Alaska Public Interest Research Group feels that the DeLong Mountain Regional Road and Port Facility is a poorly planned project, based on inadequate financial backup and nonexistent investment criteria. Given the State's other pressing needs and declining revenues, the project should not be funded this year.

If the legislature chooses to invest jn the Red Dog road and port project, it should protect Alaskans' interests by:

*Limiting the extent of the State's direct subsidy to the initial appropriation of $18 million;

*Requiring Cominco/NANA and any other future users to repay the principal and interest of a market value state loan from AIDA;

*Requiring Cominco/NANA and any other future users to cover operation and maintenance costs of the project;

*Requiring AIDA to return to the General Fund any toll payments beyond those necessary to repay the debt service and secure outstanding bonds;

*Putting a time limit on the project: if conditions are not met by March 15, 1986, the bond authorization lapses.

Post Office Box 1093/ Anchorage, Alaska 99510/ (907) 278-3661

Proposed Amendments to SB 280

Section 1. (1) (c) Cominco, Ltd. will repay all expenditures (market rate interest and principal) by the State for the project through toll fees paid beginning the year of project completion for the use of facilities constructed as part of the project; (and other payments;)

Section 1. (2) The United States Congress approves the Cape Krusenstern National Monument land exchange between NANA Regional Corporation and the United States Dept. of Interior or a right of way as authorized by Title 11 of ANILCA;

Section 1. (3) NANA Regional Corporation agrees in writing to convey to the Alaska Industrial Development Authority, (at no more than fair market value,) at no cost, land needed for the port and road constructed as part of the DeLong Mountain transportation project and land needed for future expansion of the road and port;

Section 1. (5) the Alaska Industrial Development Authority obtains a ruling from the Internal Revenue Service that all bonds or notes issued under this section will qualify for tax exempt status; (and;)

Section 1. (6) the Alaska Industrial Development Authority establishes a toll schedule for use of facilities constructed as part of the DeLong Mountain transportation project that minimizes the cost to the State of (ensures the greatest return on the state's investment in) the project and guarantees equitable access to the facilities by all users; the toll schedule may be periodically adjusted.

Section 1. (7) the Alaska Industrial Development Authority ensures that Cominco and any other future users will pay all operation and maintenance of facilities constructed as part of the project, on a pro rata basis;

Section 1. (8) the Alaska Industrial Development Authority agrees to limit the present value of the direct subsidy to the project to $18 million;

Section 1. (9) the Alaska Industrial Development Authority agrees to turn over any funds not necessary for bond security or construction of the authorized project to the general fund as they become available;

Section (2). If the Alaska Industrial Development Authority does not issue bonds for the project by March 15th, 1986, this bond authorization lapses.

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
(907) 465-4920

TUESDAY, APRIL 16, 1985
3:30 p.m.
Capitol Room 124 (House Judiciary)

* HB 105 "An Act relating to the international airports revenue bonds authorization; and providing for an effective date."

Loan Program Funding for FY 86.

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

* Indicates first public hearing.

SCOMM

#50:19

BILL SHEFFIELD
GOVERNOR

HB109

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 23, 1985

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

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to interest rates on and handling repayment of state loans. The bill establishes a fixed, market-tied interest rate for the commercial fisheries, fisheries enhancement, veterans', mining, child care, bulk fuel, alternative technology, residential energy, and historical district loan programs. The rate is based on the United States Treasury rate plus an administrative fee and a subsidy, with an adjustment for risk. The bill also provides that principal repayments on these loans will be returned to the loan funds. Income from the loans, including interest, administrative fees, late fees, and service charges to investors, is paid to the general fund.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date: November 30, 1984

REQUEST

Bill/Resolution No.: HB 109 #1

Title: Relating to Interest Rates & handling repayment of State loans

Sponsor: Rules/Governor

Requestor:

Date of Request:

FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.

Program Category Affected: Economic Development

BRU, Program or Subprogram(s) Affected: Investments

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE		-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND		4218.1	4,309.8	4,240.5	4,140.1	3,929.4
FEDERAL FUNDS						
OTHER		[4218.1]	[4,309.8]	[4,240.5]	[4,140.1]	[3,929.4]
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

This fiscal note must be read in conjunction with the fiscal note and backup materials submitted by the Division of Accounting & Collections.

Prepared By: Paul B. Arnoldt, Director Phone: 465-2510

Division: Investments Date: 12/4/84

Approved by Commissioner: Richard A. Lyon Date: 12.5.84

Agency: Commerce and Economic Development

Distribution (by Agency preparing fiscal note):

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

7/1/84

0872W113084d

STATE LOAN PROGRAMS
(Relating to Interest Rates and Handling
Repayment of State Loans)

LOAN BUDGET

$3,400.0 In FY '86, $3,400.0 in collected interest payments would be deposited into the Commercial Fishing Loan Fund (AS 16.10.300-.370) used to make new loans. As a result of this bill, interest payments will now be deposited into the General Fund and must be appropriated back to the Commercial Fishing Loan Fund. This procedure removes the question of the constitutionality of dedicated funds, i.e., the direct deposit and use of the interest payments. (See Attorney General Opinion dated November 30, 1982. Subject: The dedicated funds prohibition applied to various funds and accounts. Our file numbers J66-785-81 and J66-649-80.)

$549.0 In the FY '86 Loan Budget, $549.0 in collected interest payments was to be deposited into the Alternative Technology and Energy Revolving Loan Fund (AS 45.88.010- .500) and used to make new loans. As a result of this bill, interest payments will now be deposited into the General Fund and must be appropriated back to the Alternative Technology and Energy Revolving Loan Fund in order to meet the budgeted demand for new loans. This procedure also removes the question of the constitutionality of dedicated funds (see the discussion above).

The remaining loan programs administered by the department would accumulate $1,417.8 in interest payments in FY '86. These programs include the Residential Energy Conservation, Mining, Historical District, Fisheries Enhancement, Child Care and Bulk Fuel loan programs.

Since it is not anticipated that these amounts would be necessary to make new loans under the programs, only the amounts shown for the Commercial Fishing Loan and Alternative Energy Loan programs may be requested for appropriation back to the department in FY '86. Interest from the other loan programs would remain in the General Fund. If utilized, this treatment of the funds would result in a net <u>increase</u> in General Fund revenues of $1,417.8 in FY '86, in addition to the new revenues generated through market-tied interest rates. At such time as the interest payment becomes necessary to make new loans, requests for reappropriation from the General Fund would be made on an annual basis.

0872W113084d

OPERATING BUDGET HB 109 p 3 of 5

#1

$68.6 In the FY '86 Operating Budget request, $68.6 in service fees (late charges, service charges, assumption fees, and mortgage life insurance fees) received under the Veterans' Loan Fund would be appropriated as program receipts to cover the administrative costs involved in processing loan assumptions. As a result of this bill, service fees will now be deposited into the General Fund and will no longer be identified as program receipts. This funding will now be requested as General Funds.

$200.5 In the FY '86 Operating Budget request, $200.5 in service fees (service charges and late fees) received under the Commercial Fishing Loan Program would be appropriated as program receipts to cover the administrative costs involved in making new loans under this program. As a result of this bill, these service fees will now be deposited into the General Fund and will no longer be identified as program receipts. This funding will now be requested as General Funds.

Operating Budget impact is assumed to be constant for FY '87-90.

0872W11584c

TITLE OF INCREMENT/DECREMENT:	AGENCY CONTACT/PHONE NUMBER:
FN Relating to Interest Rates and handling repayment of State loans.	Paul B. Arnoldt, Director 465-2510

DESCRIBE WHY THIS INCREMENT/DECREMENT IS NEEDED AND WHAT IT PURCHASES:

LOAN BUDGET: In FY '86, $3,400.0 in collected interest payments would be deposited into the Commercial Fishing Loan Fund (AS 16.10.300-.370) and used to make new loans. As a result of this bill, interest payments will now be deposited into the General Fund and must be appropriated back to the Commercial Fishing Loan Fund. This procedure removes the question of the constitutionality of dedicated funds, i.e., the direct deposit and use of the interest payments. (See Attorney General Opinion dated November 30, 1982. Subject: The dedicated funds prohibition applied to various funds and accounts. Our file numbers J66-785-81 and J66-649-80.)

In the FY '86 Loan Budget, $549.0 in collected interest payments was to be deposited into the Alternative Technology and Energy Revolving Loan Fund (AS 45.88.010- .500) and used to make new loans. As a result of this bill, interest payments will now be deposited into the General Fund and must be appropriated back to the Alternative Technology and Energy Revolving Loan Fund in order to meet the budgeted demand for new loans. This procedure also removes the question of the constitutionality of dedicated funds (see the discussion above).

The remaining loan programs administered by the department would accumulate $1,417.8 in interest payments in FY '86. These programs include the Residential Energy Conservation, Mining, Historical District, Fisheries Enhancement, Child Care and Bulk Fuel loan programs.

Since it is not anticipated that these amounts would be necessary to make new loans under the programs, only the amounts shown for the Commercial Fishing Loan and Alternative Energy Loan programs may be requested for appropriation back to the department in FY '86. Interest from the other loan programs would remain in the General Fund. If utilized, this

CODE	EXPENDITURE BY OBJECT	AGENCY REQ.	GOV'S REQ.
100	Personal Services		
200	Travel		
300	Contractual Services		
400	Supplies		
500	Equipment		
600	Lands, Buildings, Etc.		
700	Grants, Claims, Etc.		
800	Miscellaneous		
	TOTAL		
	I-A Transfer (NON-ADD)		
1002	Federal Receipts		
1003	General Fund Match		
1004	General Fund	4,218.1	
1005	I-A Receipts		
1028	Program Receipts	[4,218.1]	
	Other		
POSITION INFORMATION	PFT	-0-	
	PPT		
	Non Permanent		
	Staff Months		

- ☐ Enhance Existing Service Compared to FY 85
- ☒ New Service Compared to FY 85
- ☐ Continuation of FY 85 Service Level
- ☐ Formula Program

IMPACT FROM CAPITAL PROJECT (NAME) _____

Chapter _____ SLA _____ Page/Line _____

C5 INCREMENT/DECREMENT REQUEST

Agency Priority _____ of _____

(6/84)-c5

AGENCY Commerce and Economic Development

PROGRAM Economic Development

BRU Investments

COMPONENT Administration

PROJECT _____

HB 109 #1

PAGE 4 OF 5

REVISED DATE

FY 86

treatment of the funds would result in a net increase in General Fund revenues of $1,417.8 in FY '86, in addition to the new revenues generated through market-tied interest rates. At such time as the interest payment becomes necessary to make new loans, requests for reappropriation from the General Fund would be made on an annual basis.

OPERATING BUDGET: In the FY '86 Operating Budget request, $68.6 in service fees (late charges, service charges, assumption fees, and mortgage life insurance fees) received under the Veterans' Loan Fund would be appropriated as program receipts to cover the administrative costs involved in processing loan assumptions. As a result of this bill, service fees will now be deposited into the General Fund and will no longer be identified as program receipts. This funding will now be requested as General Funds.

In the FY '86 Operating Budget request, $200.5 in service fees (service charges and late fees) received under the Commercial Fishing Loan Program would be appropriated as program receipts to cover the administrative costs involved in making new loans under this program. As a result of this bill, these service fees will now be deposited into the General Fund and will no longer be identified as program receipts. This funding will now be requested as General Funds.

Operating Budget impact is assumed to be constant for FY '87-90.

☐ ADDITIONAL EXPLANATION FORM

AGENCY Commerce and Economic Development

PROGRAM Economic Development

BRU Investments

COMPONENT Administration

HB 107 #1

PAGE 5 OF 5

REVISED DATE

FY 86

(6/84)-ae1

0872W11584c

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

pg 1 of 4

Revision Date: November 30, 1984

REQUEST

Bill/Resolution No.: HB109, #2

Title: Interest rates on and handling repayment of State loans by DCED

Sponsor: Rules

Requestor: Governor

Date of Request:

FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.

Program Category Affected: Economic Development

BRU, Program or Subprogram(s) Affected: Accounting & Collections

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE		0	721.4	1,125.0	1,486.2	1,911.9

FUNDING: (Thousands of Dollars)

GENERAL FUND		427.4	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER 1035 VRLF		[427.4]	-0-	-0-	-0-	-0-
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Revision: Please see attached for a summary of revenue impacts by loan fund.
Funding: The portion of this BRU's operating expenses formerly funded by restricted interagency receipts (budgeted VRLF service fees) must be funded by the general fund since this legislation will cause these service fees to be deposited into the general fund.

Prepared By: Margaret I. Hamley, Director Phone: 465-2555

Division: Accounting & Collections Date: 12-4-84

Approved by Commissioner: Richard A. Lyon Date: 12.5.84

Agency: Commerce and Economic Development

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

7/1/84

1009W113084c

HB 109, No. 2 Page 2 of 4

ANALYSIS - REVENUE

An Act Relating to Interest Rates on and Handling Repayment of State Loans by DCED

	GF	Veterans	Alternative Tech. Energy	Bulk Fuel	Child Care	Commercial Fish	Fish Enhancement	Historic District	Mining	REC	TOTAL
FY '86 Impact From:											
(1) Loans closed prior to 7/1/85	7,133.8	[999.4]	[549.0]	[0.0]	[42.1]	[4,167.6]	[0.0]	[17.7]	[1,134.4]	[223.6]	0.0
(2) Proposed Cash Flow, New Loans											
Principal Repayments	-	-	-	-	-	-	-	-	-	-	
Net Interest Earnings	-	-	-	-	-	-	-	-	-	-	
Risk Factor Earnings	-	-	-	-	-	-	-	-	-	-	
Administrative Fee	-	-	-	-	-	-	-	-	-	-	
(3) Less Present Cash Flow, New Loans											
[Principal Repayments]	-	-	-	-	-	-	-	-	-	-	
[Interest Earnings]	-	-	-	-	-	-	-	-	-	-	
NET IMPACT FY '86	$ 7,133.8	[999.4]	[549.0]	[0.0]	[42.1]	[4,167.6]	[0.0]	[17.7]	[1,134.4]	[223.6]	0.0
FY '87 Impact From:											
(1) Loans closed prior to 7/1/85	6,496.5	[925.8]	[513.4]	[0.0]	[37.7]	[3,844.0]	[120.7]	[17.4]	[844.0]	[193.5]	0.0
(2) Proposed Cash Flow, New Loans											
Principal Repayments	-	-	223.2	-	5.8	826.5	-	.5	220.4	186.4	1462.8
Net Interest Earnings	3,576.1	-		-			-				3,576.1
Risk Factor Earnings	447.3	-		-			-				447.3
Administrative Fee	268.4	-		-			-				268.4
(3) Less Present Cash Flow, New Loans											
[Principal Repayments]	-	-	[320.4]	-	[10.7]	[895.5]	-	[1.4]	[245.2]	[193.7]	[1,666.9]
[Interest Earnings]	-	-	[293.4]	-	[46.5]	[2,268.5]	-	[16.8]	[575.5]	[165.6]	[3,366.3]
NET IMPACT FY '87	$ 10,788.3	[925.8]	[904.0]	-	[89.1]	[6,181.5]	[120.7]	[35.1]	[1,444.3]	[366.4]	721.4

0915W113084c

HB 109,702 - pg 3 of 4

ANALYSIS - REVENUE

An Act Relating to Interest Rates on and Handling Repayment of State Loans by DCED

	GF	Veterans	Alternative Tech. Energy	Bulk Fuel	Child Care	Commercial Fish	Fish Enhancement	Historic District	Mining	REC	TOTAL
FY '88 Fiscal Impact From:											
(1) Loans closed prior to 7/1/85	6,010.7	[831.1]	[485.0]	[0.0]	[32.9]	[3,481.8]	[401.2]	[17.0]	[599.2]	[162.5]	0.0
(2) Proposed Cash Flow, New Loans											
Principal Repayments	-	-	472.3		12.3	1,759.5	-	1.2	469.2	396.4	3,110.9
Net Interest Earnings	5743.5	-	-	-	-	-	-	-	-	-	5,743.5
Risk Factor Earnings	718.4	-	-	-	-	-	-	-	-	-	718.4
Administrative Fee	431.1	-	-	-	-	-	-	-	-	-	431.1
(3) Less Present Cash Flow, New Loans											
[Principal Repayments]	-	-	[652.9]	-	[22.2]	[1,891.5]	-	[2.9]	[516.4]	[408.1]	[3,494.0]
[Interest Earnings]	-	-	[464.7]		[76.4]	[3,644.9]	-	[27.8]	[923.8]	[247.3]	[5,384.9]
NET IMPACT FY '88	$ 12,903.7	[831.1]	[1,130.3]	[0.0]	[119.2]	[7,258.7]	[401.2]	[46.5]	[1,570.2]	[421.5]	1,125.0
FY '89 Fiscal Impact From:											
(1) Loans closed prior to 7/1/85	5,780.2	[715.4]	[450.9]	[0.0]	[27.8]	[3,073.6]	[955.5]	[16.6]	[409.9]	[130.5]	0.0
(2) Proposed Cash Flow, New Loans											
Principal Repayments	-	-	708.6	-	19.6	2,809.5	-	1.8	749.2	633.0	4,921.7
Net Interest Earnings	7,730.3	-		-			-				7,730.3
Risk Factor Earnings	966.9	-		-			-				966.9
Administrative Fee	580.1	-		-			-				580.1
(3) Less Present Cash Flow, New Loans											
[Principal Repayments]	-	-	[1,002.5]	-	[34.5]	[2,995.5]	-	[4.4]	[816.0]	[645.6]	[5,498.5]
[Interest Earnings]	-	-	[618.2]	-	[105.5]	[4,905.3]	-	[38.7]	[1,242.2]	[304.4]	[7,214.3]
NET IMPACT FY '89	$ 15,057.5	[715.4]	[1,363.0]	[0.0]	[148.2]	[8,164.9]	[955.5]	[57.9]	[1,718.9]	[447.5]	1,486.2

0915W113084c

HB109, Am 2 - Page 4 of 4

ANALYSIS - REVENUE

An Act Relating to Interest Rates on and Handling Repayment of State Loans by DCED

	GF	Veterans	Alternative Tech. Energy	Bulk Fuel	Child Care	Commercial Fish	Fish Enhancement	Historic District	Mining	Rec.	TOTAL
FY '90 Fiscal Impact From:											
(1) Loans closed prior to 7/1/85	5,314.9	[650.0]	[416.8]	[0.0]	[23.2]	[2,632.2]	[1,201.6]	[16.1]	[277.4]	[97.6]	0.0
(2) Proposed Cash Flow, New Loans											
Principal Repayments	-	-	1,027.7	-	27.9	3,991.5	-	2.6	1,094.4	899.5	7,043.6
Net Interest Earnings	9,505.5	-	-	-	-	-	-	-	-	-	9,505.5
Risk Factor Earnings	1188.8	-	-	-	-	-	-	-	-	-	1,188.8
Administrative Fee	713.2	-	-	-	-	-	-	-	-	-	713.2
(3) Less Present Cash Flow, New Loans											
[Principal Recovery]	-	-	[1,370.5]	-	[47.7]	[4,222.5]	-	[8.1]	[1,146.8]	[908.6]	[7,704.2]
[Interest Earnings]	-	-	[752.8]	-	[133.7]	[6,037.0]	-	[49.4]	[1,527.6]	[334.5]	[8,835.0]
NET IMPACT FY '90	$ 16,722.4	[650.0]	[1,512.4]	-	[176.7]	[8,900.2]	[1,201.6]	[71.0]	[1,857.4]	[441.2]	1,911.9

0915W113084c

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2500

OFFICE OF THE COMMISSIONER

March 27, 1985

Honorable John Sund, Chairman
House Special Committee on State Loans
Pouch V
Juneau, Alaska 99811

Dear Representative Sund:

I would like to encourage your favorable consideration of HB 109 which establishes a market-tied interest rate for loan programs within the Department of Commerce and Economic Development.

At the time the various loan programs were established, the Legislature set the interest rates at or near the market rate. Over time, the statutorily set interest rates for most programs have changed very little while the market rates have risen considerably. HB 109 would provide a way of returning to the policy that was intended at the inception of each loan program, i.e., set the interest rate in some relation to the market and maintain that relationship through time by tying the rate to the market. In other words, a greater or lesser subsidy can be provided for any given loan program, according to social need, but the amount of the subsidy will remain static rather than having the interest rate remain static.

Besides providing a reasoned approach to financial management, an additional benefit will derive from a market-tied interest rate. The market-tied rate should even out the fluctuations in demand for certain loan programs. A rising market interest rate won't create an increased subsidy and, consequently, increased pressure on loan programs. This will stabilize the loan programs and facilitate planning for budgeting and administration of the programs.

HB 109 contains two further provisions which are important to financial management. The first is the authority to charge an administrative fee (the fee is built into the interest rate formula). This fee will eventually work so that the beneficiaries of loans will pay the administrative costs of the program. An average of 1,338 new loans are made each year. Currently, all residents of the State must assume the administrative costs for the recipients of these loans. An administrative fee represents a fair cost of business for loan recipients.

Secondly, HB 109 provides that only the principal from loan repayments returns to the loan fund to provide capital for new loans. The interest earnings are deposited in the general fund, providing additional income to the State. The revised language complies with concerns over dedicated funds. This will require the department to seek general fund appropriations rather than program receipts in order to meet projected loan demand. In addition, our operating budget will be funded solely by general fund appropriations rather than partly by program receipts. While the net effect of these two provisions is zero, it is critical that the fiscal note be passed with the bill so that the department will have the operating resources to administer the programs and loan funds to satisfy loan demand.

With the adoption of HB 109, the State would have a program that provides a source of funds for certain kinds of loans, subsidized according to social need, and bears some relation to market trends. I ask your careful consideration of this bill and will make myself available to answer your questions and concerns.

Sincerely,

F. Terry Elder
Deputy Commissioner

FTE/sa0681s
32785b

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT
DIVISION OF INVESTMENTS

POUCH D
JUNEAU, ALASKA 99811
PHONE: (907) 465-2510

March 1, 1985

The Honorable John Sund, Chairman
House Special Committee on Loans
Alaska State House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Representative Sund:

In follow-up to this department's testimony on HB 109 (market-tied interest rates), I would like to provide the House Special Committee on Loans with the following historical information relating to interest rates. This data should assist the committee in determining the subsidies that should be assigned to the market-tied interest rate formulas contained in HB 109.

For each of the loan programs affected by HB 109, I have identified the date and interest rate that was in effect when the loan program first became law as well as each time the interest rate was amended by the Legislature. This information is listed under the headings of Effective Date and Statutory Rate.

Under the heading of Average Loan Term, I have indicated the average length of time that loans are made for each of the loan programs. This information is necessary so that the committee can see what the corresponding market-tied interest rate would have been for a comparable loan term. The figures contained under the heading of Market-tied Rate is the six-month average interest rate that would have been calculated under HB 109. This figure does not include any adjustments for administrative fees, risks or subsidies as provided for under HB 109.

LOAN PROGRAM	EFFECTIVE DATE	STATUTORY RATE	AVERAGE LOAN TERM	MARKET-TIED RATE
Commercial Fishing AS 16.10.300-370	6-20-72 6-10-79 6-25-82	7.00% 9.50% 10.50%	10 yrs 10 yrs 10 yrs	6.10% 9.13% 14.02%
Fisheries Enhancement AS 16.10.500-560	9-16-76 6-10-79	8.00% 9.50%	20 yrs 30 yrs	7.96% 9.02%
Child Care AS 44.33.240-275	6-10-76 7-01-79	6.00% 7.00%	20 yrs 20 yrs	7.91% 9.06%
Alternative Energy AS 45.88.010-500	7-13-78 6-25-82	5.00% 5% 1st $15,000 15% | $15,000	10 yrs 10 yrs	8.17% 14.02%
Residential Energy Conservation AS 45.89.010-500	7-01-80 1-01-84	5.00% 11.44%	5 yrs 5 yrs	11.30% 11.44%
Bulk Fuel AS 45.87.010-500	6-13-80	12.11%	1 yr	12.11%
Mining AS 27.09.010-060	6-21-80	10.00%	10 yrs	9.13%
Historical District AS 45.98.010-070	9-16-77 6-01-79	6.50% 7.50%	30 yrs 30 yrs	7.70% 9.02%
Veterans' Loans	4-08-65	5.00%	10 yrs 20 yrs 30 yrs	4.17% 4.18% 4.19%
	10-07-67	6.00%	10 yrs 20 yrs 30 yrs	4.91% 4.88% 4.86%

LOAN PROGRAM	EFFECTIVE DATE	STATUTORY RATE	AVERAGE LOAN TERM	MARKET-TIED RATE
Veterans' Loans Continued				
	5-07-69	8.00%	10 yrs	5.90%
			20 yrs	5.86%
			30 yrs	5.83%
	5-27-71	Federal VA Rate (7% as of 5-27-71)	10 yrs	6.24%
			20 yrs	6.19%
			30 yrs	6.19%
	6-01-79	9.50%	10 yrs	9.13%
			20 yrs	9.05%
			30 yrs	9.02%

Please remember that under the fisheries enhancement loan program there is forgiveness of interest and deferment of principal for between six and ten years. Under the mining loan program, principal is deferred until the end of the second mining season and under the bulk fuel loan program, by regulation, no interest is charged on the first loan, 5.00% is charged on the second loan, and a market rate is charged on the third and subsequent loans. These factors should be considered when establishing the subsidy under the market-tied interest rate formulas.

If I can be of further assistance to the committee regarding HB 109, please let me know.

Sincerely,

Paul B. Arnoldt
Director

PBA/ltO463C
030185a

cc: Terry Elder, Deputy Commissioner

STATISTICS ON DCED LOAN PROGRAMS
(Thousands of Dollars)

December 31, 1984

	Veterans	Small Business	Commercial Fish	Tourism	Bulk Fuel	Child Care	Hist Dist	Mining	Alternate Energy	Resid. Energy	Fish Enhance	Power Dev.	Water Resource	Total
Commitments														
Total No. Loans Committed FY '72-85	7,718	1,338	2,636	59	147	42	9	65	2,679	2,161	97	2	5	16,958
Total Dollar Amount Committed FY '72-85	371,795.2	202,529.3	153,380.0	29,874.7	5,465.8	1,320.4	667.7	28,160.0	17,038.3	8,132.4	37,084.1	76,165.0	2,500.0	934,112.9
Total No. Loans Committed FY '84	-0-	-0-	240	-0-	51	11	1	14	392	322	18	*	-0-	1,049
Total Dollar Amount Committed FY '84	-0-	-0-	13,914.8	-0-	1,979.5	391.6	100.0	3,863.2	3,509.5	1,280.0	6,775.8	*	-0-	31,814.4
Total No. Loans Committed FY '85	-0-	-0-	89	-0-	27	6	-0-	2	171	147	9	2	-0-	453
Total Dollar Amount Committed FY '85	-0-	-0-	5,131.4	-0-	946.1	276.2	-0-	1,128.1	1,291.6	385.6	3,780.1	76,165.0	-0-	89,104.1
Appropriations														
Appropriation FY '85	-0-	-0-	3,500.0	-0-	-0-	-0-	-0-	-0-	1,000.0	-0-	5,000.0	210,000.0	-0-	219,500.0
Disbursements - FY '85														
No. of Loans Through 12/31/84	-0-	-0-	88	-0-	26	5	-0-	2	169	147	7	2	-0-	446
Dollars Through 12/31/84	-0-	-0-	4,597.0	-0-	950.0	266.2	-0-	1,128.2	1,266.6	385.6	3,708.1	76,165.0	-0-	88,466.7
Loans Outstanding														
Owned by Fund														
Total No. Loans Outstanding	135	272	990	5	49	25	3	48	1,940	1,570	73	2	1	5,113
Total Principal Amount Outstanding	6,142.8	34,098.1	48,266.5	3,258.2	1,637.1	871.6	340.4	19,180.1	11,989.2	5,011.9	29,381.9	76,165.0	909.8	237,252.6
Average Loan Amount Outstanding	45.5	125.4	48.8	651.6	33.4	34.9	113.5	399.6	6.2	3.2	402.5	38,082.5	909.8	46.4
Serviced for the Dept. of Revenue														
Total No. Loans Outstanding	1,848	233	773	14	N/A	4	3	N/A	N/A	N/A	14	N/A	N/A	2,889
Total Principal Amount Outstanding	83,607.4	19,413.9	30,477.5	2,536.9		19.7	125.1				6,804.2			142,984.7
Average Loan Amount Outstanding	45.2	83.3	39.4	181.2		4.9	41.7				486.0			49.5
Applications														
No. of Applications for New Loans Received FY '85	N/A	N/A	182	N/A	25	9	1	2	179	178	6	2	N/A	584
No. of Assumption Applications FY '85	31	5	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	N/A	-0-	36

*Created effective July 1, 1984

Prepared by: Division of Accounting and Collections, 465-2555

12/18/84

Department of Commerce & Economic Development / POSITION PAPER

1983 — 1984 — ADMINISTRATION LEVEL 3% HYDRO (PROVIDE 1985)

HB 109: An Act relating to interest rates on and handling repayment of State loans; and providing for an effective date.

SEC. 23 OF THE BILL

ACTIVE

ADMINISTRATION

Department Position: Support

This bill would allow the State to fix the amount of subsidy that would be offered through the following loan programs: Commercial Fishing, Fisheries Enhancement, Veterans, Mining, Child Care, Bulk Fuel, Alternative Technology and Energy, Residential Energy Conservation, Historical District and Fishermen's Mortgage and Note. INACTIVE House Bill number 109 accomplishes this by tying the interest rate charged under these programs to the rates prevailing in the marketplace at a given time. In so doing, the subsidy would remain constant regardless of the movements of the market rates.

The United States treasury rate was selected as the standard because:

1. it is the rate most commonly used in the financial industry as the benchmark by which risk is evaluated;

2. the rates are readily available from the federal government; and

3. the varying terms of the U.S. treasury rates can easily be matched to the terms of the loans made under the various loan programs.

This bill also provides that the repayments of interest, service charges, late fees, assumption fees and administrative fees from these loan programs be paid over to the Department of Revenue for deposit in the General Fund. The Legislature may then appropriate, from the General Fund, an amount to the Department of Commerce and Economic Development to fund operating expenses of the loan programs. This procedure avoids problems from the constitutional prohibition against dedicated funds.

Loren H. Lounsbury, Commissioner

Date: 2/7/85

1493m/020585a

SECTIONAL ANALYSIS -- HB 109
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

INTEREST RATES VALUES OVER TIME

Section 1.

This section would replace the current fixed interest rate of 10.5 percent for loans under the Commercial Fishing Loan Act, AS 16.10.300-16.10.370, with an interest rate that is established at the time the loan is made. The new interest rate would be based on a six-month average for U.S. Treasury bills of comparable duration and adjusted for risk, administration cost and the subsidy provided by the State. Interest rates would not change during the term of the loan. Existing loans would not be affected.

The proposed language represents an effort to introduce two important concepts to the administration of State loan programs. First, interest on State loans would vary with overall lending market rates. The degree of subsidy offered by the State through the affected loan programs, in this case, the commercial fishing loan program, would not depend on the interest rates prevailing in the marketplace at a given time. Rather, the subsidy, in the form of reduced interest rates, would remain constant to the borrower at 300 basis points or three percentage points. Second, the proposed change reflects an effort to quantify the risk to the State in making loans under the various programs, the cost of administration and the total State subsidy. Should any of these measures change over time, or if the Legislature should want to change the degree of subsidy, this can easily be accomplished. The department intends to use monthly averages of interest rates for U.S. Treasury securities of from one to thirty years' duration, updated weekly in a publication of the Federal Reserve System, "Selected Interest Rates." Interest rates for loan terms not reflected in this data would be interpolated from the nearest two figures available. An example of this monthly calculation and its effect on a typical commercial fishing loan is attached.

Section 2.

For fishermen who apply jointly under the commercial fishing loan program for a gear or vessel loan, this section would conform the language to the changes made in Section 1 (Market-Tied Interest Rates). It is identical in scope and effect to that section.

Section 3.

The second major change proposed by the bill is shown in this section. The new language provides that repayment of principal under the Commercial Fishing Loans Act will be made to the fund established for that purpose but interest, service charges, late fees, assumption fees and administrative fees will be paid over to the Department of Revenue for deposit in the General Fund. The Legislature may then appropriate

from the General Fund an amount to the Department of Commerce and Economic Development to fund operating expenses of the loan programs. The procedure avoids problems from the constitutional prohibition against dedicated funds. See the opinion of the Attorney General dated November 30, 1982.

Section 4.

The section is identical to Section 1 (Market-Tied Interest Rates) but the changes are made to the Fisheries Enhancement Loan Program, AS 16.10-500 - 16.10.620. The present interest rate for loans under this program is 9.5 percent.

Section 5.

The section is identical to Section 3 (General Fund Deposits) but the changes are made to the Fisheries Enhancement Loan Program, AS 16.10.500 - 16.10.620.

Sections 6, 7 & 9.

The changes proposed in these sections are identical to those proposed in Section 1 (Market-Tied Interest Rates) but are made to the Veterans' Loan programs, AS 26.15.010 - 26.15.170. The present interest rate is 9.5 percent.

Sections 8 & 10.

These sections are identical in effect to Section 3 (General Fund Deposits) but the changes are made to the Veterans' Loan programs, AS 26.15.010 - 26.15.170.

Section 11.

The section is identical to Section 3 (General Fund Deposits) but the changes are made to the Mining Loan program, AS 27.09.010 - 27.09.060.

Section 12.

The section is identical to Section 1 (Market-Tied Interest Rates) but the changes are made to the Mining Loan program, AS 27.09.010 - 27.09.060. The present interest rate is 9.5 percent.

Section 13.

The section clarifies that the Child Care Facility Revolving Loan Fund, AS 44.33.240 - 44.33.275, consists of legislative appropriations and repaid principal amounts and that these funds do not lapse at the end of a fiscal year.

Section 14.

The section is identical to Sections 1 (Market-Tied Interest Rates) and 3 (General Fund Deposits) but the changes are made to the Child Care Facility Revolving Loan Fund, AS 44.33.240 - 44.33.275. The present interest rate is 7 percent.

Section 15.

The section is generally these same in effect as Section 1 (Market-Tied Interest Rates) but the changes are made to the Bulk Fuel Revolving Loan program, AS 45.87.010 - 45.87.500. The present interest rates under this program are tied to an average of municipal bond yields. The change, therefore, is largely for the purposes of uniformity. The average of the municipal bond yields is presently 10.52 percent. The commissioner retains the authority to reduce or eliminate interest charges for communities facing hardship.

The section also includes the changes with regard to principal and other repayments found in Section 3 (General Fund Deposits).

Section 16.

The section is identical to Section 3 (General Fund Deposits) but the changes are made to the Alternative Technology and Energy program, AS 45.88.010 - 45.88.500.

Section 17.

The section is identical to Section 1 (Market-Tied Interest Rates) but the changes are made to the Alternative Technology and Energy program, AS 45.88.010 - 45.88.500.

Section 18.

The section is generally the same in effect as Section 1 (Market-Tied Interest Rates) but the changes are made to the Residential Energy Conservation Loan program AS 45.89.010 - 45.89.500. As in the case of the Bulk Fuel Revolving Loan program, the interest rates under this program are tied to an average of municipal bond yields. Presently that rate is 10.52 percent. Again, the change is largely for the purposes of uniformity.

Section 19.

The section is identical to Section 3 (General Fund Deposits) but the changes are made to the Residential Energy Conservation Fund program, AS 45.89.010 - 45.89.500.

Section 20.

The section includes provisions identical to those contained in Section 3 (General Fund Deposits) but the changes are made to the Historical District Loan Fund, AS 45.98.010 - 45.98.070. Language clarifying that the fund consists of legislative appropriations and repayments of principal is included.

Section 21.

The section is identical to Section 1 (Market-Tied Interest Rates) but the changes are made to the Historical District Loan Fund, AS 45.98.010 - 45.98.070. The present interest rate is 7.5 percent.

Section 22.

This section would replace the present fixed interest rate assessed as a penalty for inconsistent use of historical district loan funds with the proposed new flexible interest rate and provide that the penalty would consist of removal of the State subsidy for such loans. The present interest rate is fixed as 10.5 percent by AS 45.45.010.

Section 23.

The section is identical to Section 3 (General Fund Deposits) but the changes are made to the Fisherman's Mortgage and Note program, formerly AS 16.10.650 - 16.10.720. This program was repealed in 1982 so no new loans are being made. Repayments under existing loan continue.

Section 24.

The effective date for this legislation is proposed for July 1, 1985, the beginning of the new fiscal year.

PBA/kkk/B14
2585a

ATTACHMENT TO SECTIONAL ANALYSIS OF HB 109

(MARKET-TIED INTEREST RATES)

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

	U.S. TREASURY CONSTANT MATURITIES				
	1 yr.	5 yrs.	10 yrs.	20 yrs.	30 yrs.
June 1983	9.66	10.63	10.85	11.12	10.93
July 1983	10.20	11.21	11.38	11.59	11.40
August 1983	10.53	11.63	11.85	11.96	11.82
September 1983	10.16	11.43	11.65	11.82	11.63
October 1983	9.81	11.28	11.54	11.77	11.58
November 1983	9.94	11.41	11.69	11.92	11.75
December 1983	10.11	11.54	11.83	12.02	11.88
January 1984	9.90	10.37	11.67	11.82	11.75
February 1984	10.04	11.54	11.84	12.00	11.95
March 1984	10.59	12.02	12.32	12.45	12.38
April 1984	10.90	12.37	12.63	12.65	12.65
May 1984	11.66	13.17	13.41	13.43	13.43
June 1984	12.08	13.48	13.56	13.54	13.44
July 1984	12.03	13.27	13.36	13.36	13.21
August 1984	11.82	12.68	12.72	12.71	12.54
September 1984	11.58	12.53	12.52	12.42	12.29
October 1984	10.90	12.06	12.16	12.04	11.98
November 1984	9.82	11.33	11.57	11.66	11.56
December 1984	9.33	11.07	11.50	11.64	11.52
AVERAGE:					
Last 6 Mos.	10.91	12.16	12.31	12.31	12.18
Plus Risk	1.25	1.25	1.25	1.25	1.25
Plus Admin.	.75	.75	.75	.75	.75
Minus Subsidy	3.00	3.00	3.00	3.00	3.00
RATE TO BE USED FOR JANUARY, 1985	9.91	11.16	11.31	11.31	11.18

MJ/lt0764t
020185b

ATTACHMENT TO SECTIONAL ANALYSIS OF HB 109

MARKET-TIED INTEREST RATES LEGISLATION

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

	Average Loan Term	Present Interest Rate	Proposed Market-Tied Rate (January)
Commercial Fishing	10 yrs.	10.5%	11.31
Fisheries Enhancement	30 yrs.	9.5%	11.18
Child Care	20 yrs.	7.0%	11.31
Alternative Technology	10 yrs.	9.5%	11.31
Alternative Energy	10 yrs.	5.0% (first $15,000) 15.0% (amount over $15,000)	11.31
Residential Energy Conservation	5 yrs.	10.52% (presently)	11.16
Bulk Fuel	1 yr.	10.52%* (presently)	9.91
Mining	10 yrs.	10.0%	11.31
Historical District	30 yrs.	7.5%	11.18
Veterans' Loans	Varies	9.5%	11.31 (10-yr.) 11.31 (20-yr.) 11.18 (30-yr.)

(INACTIVE) 3-YEARS

*when charged

MJ/mst0764t
020185b

Opinion #13

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

JAY S. HAMMOND, GOVERNOR

POUCH K – STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

November 30, 1982

Gerald L. Wilkerson, C.P.A.
Legislative Auditor
Legislative Audit Division
Legislative Affairs Agency
Pouch W
Juneau, Alaska 99811

Honorable Carole J. Burger
Commissioner
Department of Administration
Pouch C
Juneau, Alaska 99811

Re: The dedicated funds prohibition applied to various funds and accounts. Our Files Nos. J~~66-785-81~~ and J66-649-80

Dear Mr. Wilkerson and Commissioner Burger:

You have both asked for a broad review of the application of the constitutional dedicated funds prohibition to various state funds and accounts. Alaska Const. art. IX, § 7. Because of the factual complexities presented by the various funds, accounts, and appropriations and because of the paucity of judicial precedent, we are not able to advise you with absolute certainty regarding the constitutionality of state practices. However, some of the issues raised by your request may be resolved in litigation which is now pending concerning the administration of

certain appropriations and funds by the Alaska Power Authority. 1/

In response to your request, we have identified and analyzed several categories of funds, accounts, and transactions which raise dedication questions. Our approach in dealing with these questions will be to first discuss the purpose and meaning of the dedication prohibition. We will then focus on the implications of a recent Alaska Supreme Court case that deals specifically with the dedicated funds prohibition. Next we will consider the probable legal status of several general categories of funds, accounts, and appropriations which raise dedication questions. Lastly, we will consider the dedication prohibition in reference to specific funds and appropriations.

We should point out that the advice given in this opinion could have a significant effect upon the state budget. This results from the recent adoption of Article IX, section 16 of the Alaska Constitution (the spending limit). Under the reasoning of this opinion, it may be that income earned by a loan fund or public enterprise must be appropriated to that fund or

---

1/ The legal issues in this litigation are the validity of the deposit of interest and principal payments on loans in a revolving loan fund and of the appropriation to the Power Development Fund of interest to be received on specific amounts appropriated to that fund (§ 1 ch. 90, SLA 1981 as reenacted by § 69 ch. 69 SLA, 1981 and amended by § 236 ch. 141, SLA 1982.). Trustees for Alaska, et al. v. State of Alaska and Alaska Power Authority, No. 3AN-492-82 Civ. (Alaska Super., Jan. 21, 1982)

enterprise if that income is to be retained by it. If the Alaska Supreme Court adopt that reasoning, the necessity for these appropriations would have to be considered by the administration and the legislature in developing a state budget which conformed to the spending limit. This concern would also become important if independent authorities for operation of entities like the State Ferry System or the Alaska Railroad were to be considered.

I. THE PURPOSE OF THE PROHIBITION

Article IX, Section 7 provides:

> DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article [establishing the Permanent Fund] or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska.

There are essentially two views of the meaning of this provision. Under the first interpretation the dedicated funds prohibition would require that every dollar received by the state be deposited and remain unrestricted in the general fund until it is withdrawn pursuant to an appropriation authorizing the expenditure of a specific dollar amount for a specific pur-

pose (absent a contrary federal requirement or a statutory dedication which existed prior to ratification of the Constitution). This is known as the strict interpretation view.

Under the strict view, the phrase "proceeds of any state tax or license" would encompass every dollar paid to the state (or to a public corporation or authority established by the state) for whatever purpose. State loan repayments (both principal and interest), enterprise receipts (e.g., airport lease revenues, parking garage receipts, etc.), program receipts (e.g., Ferry System ticket sales, University of Alaska tuition receipts, etc.), as well as all other revenues (e.g., taxes, natural resource revenues such as royalties, etc.), would be required to be deposited in the state treasury and retained there until the expenditure is authorized by appropriation of a specific dollar amount.

An argument can certainly be made that this is the proper interpretation of the dedicated funds prohibition. As set out in 1975 Op. Atty. Gen. No. 9 at 2 (Alaska May 2, 1974), "Section 7 of Article IX had two interrelated purposes: (1) to prevent any future dedication of revenues for special purposes [i.e., 'earmarking'] and (2) to prevent the creation of new special funds separate from the general fund." The rationale underlying each of these two purposes is "that the widespread existence of dedicated revenues lodged in special funds deprives

both the governor and the legislature of 'any real control over the finances of the state.'" Id. at 3 (citation omitted). Requiring all monies received by the state to be deposited into the general fund clearly would satisfy both interrelated purposes of the prohibition. The strict interpretation view of the dedication prohibition would preclude the use of public monies to establish a standing or revolving loan fund or any other program which would be self-sustaining. 2/

However, a second approach in interpreting the meaning of Article IX, section 7 is also very plausible. Under this view, the dedication prohibition is not to be construed to require a blanket prohibition of self-sustaining programs set up by the legislature. As noted in 1975 Op. Atty. Gen. No. 9 at 6-8 (Alaska, May 2, 1975), the constitutional framers substituted the phrase "[t]he proceeds of any state tax or license" for the phrase "[a]ll public revenues" to avoid having to state a number of intended exceptions to the prohibition on dedicated funds. Examples of these exceptions were pointed out in a January 4, 1956, 3/ memorandum by the Public Administration Service (PAS) to

---

2/ Of course, even under the strict view, there would be some kinds of monies received by the state which it could not, for independent legal reasons, deposit into the general fund. These monies would include trust funds, restricted gifts, and funds subject to restrictions by contract.

3/ The actual date shown on the memorandum is "January 4, 1955". However, considering the timing of the constitutional convention, this was certainly a typographical error.

the Constitutional Convention: "pension contributions, proceeds from bond issues, sinking fund receipts, revolving fund receipts, contributions from local government units for state-local cooperative programs, and tax receipts which the state might collect on behalf of local government units." 4/

Some of those examples were specifically mentioned by the court in State v. Alex, 646 P.2d 203 (Alaska 1982), which held that the phrase "proceeds of any state tax or license" was to be broadly construed to include all sources of public revenues. The court noted that the drafters intended to permit the establishment of certain special funds, (e.g., sinking funds for the repayment of bonds), but to prohibit the earmarking of any special tax to such a fund. Alex, supra at 210. The court did not elaborate on the application of the dedicated funds prohibition in these situations.

4/ The Public Administration Service prepared a publication entitled "Alaska Statehood Commission, Constitutional Studies (1955)" at the request of the Alaska Territorial Legislature for use at the constitutional convention. Ch 108 SLA 1949. This publication collected research papers on other state constitutions. Copies were mailed to all delegates, and it was often referred to in the convention proceedings. Alaska Statehood Committee, "Handbook for Delegates to the Alaska Constitutional Convention" 4 (1955). Referred to in State v. Alex, 646 P.2d 203, 209 n. 5 (Alaska 1982). The memorandum of January 4, 1956 contained comments by the PAS on the proposed draft of the Finance and Taxation article. Constitutional Convention Finance Committee minutes, Jan. 13, 1956.

II. MEANING OF THE PHRASE "PROCEEDS OF ANY STATE TAX OR LICENSE"

There has been continuing controversy over the proper construction of the phrase "proceeds of any state tax or license." In a number of earlier opinions, this office concluded that the dedicated fund prohibition did not reach all public revenues but, under its plain language, only the actual "proceeds of any state tax or license." See 1969 Op. Atty. Gen. Nos. 3 (Alaska, April 4, 1969) and 5 (Alaska, April 15, 1969); and 1959 Op. Atty. Gen No. 7 (Alaska, March 11, 1959). This conclusion also was reached by the Division of Legal Services in the Legislative Affairs Agency. See September 1, 1977 memorandum from Bill G. Berrier, Director, to Subcommittee on Alaska Renewable Resources Development Fund of Alaska Permanent Fund (House).

Those opinions all concluded that the prohibition did not reach revenues derived from the disposal of state-owned natural resources. Given this conclusion, it followed that the legislature was free to dedicate all or a certain portion of such revenues to specific purposes. An example of this is found in AS 37.11.020, which requires that not less than five percent of state mineral lease receipts be deposited in the Alaska Renewable Resources Development Fund. (This statutory dedication was the subject of Mr. Berrier's September 1, 1977, memorandum).

On the other hand, 1975 Op. Atty. Gen. No. 9 at 24 (Alaska, May 2, 1975) reached the opposite conclusion:

> Section 7 of Article IX of the state Constitution can be given its intended effect and serve its repeatedly expressed purpose only if the words "proceeds of any tax or license" are interpreted to mean what their framers clearly intended, i.e., the sources of any public revenues.
>
> Accordingly, it is our conclusion that the dedication of any source of public revenue: tax, license, rental, sale, bonus-royalty, royalty, or whatever is limited by the state Constitution to those existing when the Constitution was ratified or required for participation in federal programs.

(Emphasis added.)

In State v. Alex, 646 P.2d at 210, the Alaska Supreme Court adopted the position set out in 1975 Op. Atty. Gen. No. 9 (Alaska, May 2, 1975). 5/ It now is clear that the term "proceeds of any state tax or license" is to be construed broadly to reach all public revenues, including public revenues from the development of state-owned natural resources, and not just the proceeds of taxes and license fees.

5/ Alex involved a challenge by commercial fishermen to the collection by a private aquaculture association of a special assessment authorized by statute and imposed on the sale of salmon. The court held that the statute improperly delegated the legislature's taxing authority, and that the assessment constituted "proceeds of a state tax or license" within the meaning of Article IX, section 7. State v. Alex, 646 P.2d at 210, 213.

After the decision in Alex we can now reach some definite conclusions regarding some of the funds and accounts you have asked us to review. The answers to other questions, however, are not as clear.

III. IMPLICATIONS OF THE ALEX DECISION

There is no question that the dedicated funds prohibition in Article IX, section 7 flatly prohibits the legislature from dedicating future unrestricted general revenues to any particular purpose unless the dedication is required for participation in a federal program or the dedication existed before ratification of the Constitution. Alex, supra at 208-210. This confirms the view expressed in our April 1, 1981 memorandum opinion to the legislative auditor that the requirement in AS 37.11.020 that not less than five percent of state mineral revenues be placed in the Alaska renewable resources development fund is unconstitutional. This would be true of any statutory requirement that a specified percentage of revenues derived from the development of state-owned resources be deposited in a fund or earmarked for a particular purpose.

The Alex decision, however, does not provide answers to a number of additional questions. For example, does the dedicated funds prohibition apply (1) to money received through the sale of bonds (either general obligation bonds of the state or

revenue bonds of a public corporation); (2) to receipts from operation of facilities constructed with bond proceeds; or (3) to interest or investment income earned on money appropriated for a specific purpose? In short, are there any exceptions to the prohibition beyond those expressly set out in the Constitution? The section immediately following discusses this question.

IV. POSSIBLE EXCEPTIONS TO THE DEDICATED FUND PROHIBITION

A. Implied Exceptions.

An early draft of what is now Article IX, section 7 (but which was at that time numbered section 8) read as follows: "All public revenues shall be deposited in the state treasury . . ." Subsequent to this early draft, the Committee on Finance and Taxation of the Constitutional Convention requested comments from the Public Administration Service on this wording. The PAS responded with the January 4, 1956 memorandum in which it warned that a strict interpretation of section 7 (then section 8) would prohibit the segregation of state money without regard to the source. The PAS then suggested that certain exceptions be identified in section 7. These exceptions included pension contributions, proceeds from bond issues, sinking fund receipts, revolving fund receipts, contributions from local government units for state-local cooperative programs, and tax receipts

which the state might collect on behalf of local government units.

After considering the PAS memorandum, the committee deleted the phrase "all public revenues shall be deposited ..." and substituted the phrase "The proceeds of any state tax or license ...". 3 Alaska Const. Conv. Proceed. at 2361. The record of the committee debate makes it clear that the purpose of this change was to meet the problems raised by the PAS in its January 4 memorandum. See 1975 Op. Atty. Gen. No. 9 at 8 (Alaska, May 2, 1975).

Given this drafting history, a very good case can be made that the resent language of Article IX, section 7 must be read to include certain implied exceptions, such as those that are set out in the January 4 PAS memorandum, i.e., pension contributions, proceeds from bond issues, sinking fund receipts, revolving fund receipts, contributions from local government units for state-local cooperative programs, and tax receipts which the state might collect on behalf of local government units. We believe this implied exception approach is the better interpretation of the dedicated fund prohibition and would be adopted by the Alaska Supreme Court if the question is presented to it.

B. Dedication of Money to Specific Purposes on a Continuing Basis When Appropriated

A question of the proper application of the dedicated funds prohibition arises when money is appropriated to a revolving loan fund or other special reserve fund or account. Revolving loan funds provide for the return to the fund of repayments by borrowers of the principal (and frequently the interest on that principal) 6/ which was loaned to them from the fund so that new loans can be made on a continuing basis. Special reserve funds involve essentially the setting aside of money for certain specified future needs or conditions which may or may not occur. 7/ When this is done, it might be argued that the legislature has made an impermissible dedication with respect to the future use of the money placed in those funds and accounts.

We believe the better view is that the dedication prohibition does not apply to money once appropriated by the legislature, regardless of whether the appropriation contemplates that the money will be expended. Usually appropriations authorize money to be spent. In other cases, however, the legis-

---

6/ We discuss the dedication of interest earned by revolving loan funds and other separate funds and accounts in the next portion of this opinion which begins below at p. 14.

7/ The "Rainy Day Account," AS 37.05.179, is an example of such an account.

lature may prefer to establish by general law a continuing loan program and finance it through a one-time appropriation or to reserve money in a special fund or account for future use for limited purposes. A strong argument can be made that money once appropriated, regardless of the mechanism utilized, loses its character as revenue for the purpose of the dedicated funds prohibition because the purpose of the prohibition, i.e., that the legislature retain control over state revenues, has been satisfied.

Under this reasoning there would be no unlawful dedication involved in the return to a revolving loan fund of principal payments on loans. The initial appropriation would suffice to authorize the use of that money for other loans until the legislature reappropriates the unobligated assets of the fund or abolishes the fund.

Support for this position is found in the Alaska Supreme Court's analysis in the Alex case. In Alex, the court took note of the drafting change of Article IX, section 7 referred to earlier. This change, said the court, "did not seek to exempt some sources of revenue from the prohibition, but was intended instead to allow necessary dedication of funds once they were received and placed in the general fund." State v. Alex, supra at 210.

The Alaska Supreme Court has thus recognized that the dedication prohibition of Article IX, section 7 does not operate to prohibit all dedications whatever their nature. Rather, the court seems to be saying that Article IX, section 7 must be read to allow certain necessary dedications of money by the legislature after that money is received and placed in the state treasury (i.e., general fund). This analysis by the Supreme Court gives support to the argument that the dedication prohibition does not apply to money once it has been lawfully appropriated from the general fund and that the legislature can, without violating Article IX, section 7, create "necessary dedications" out of that money.

C. Income Generated by Specific Funds or Accounts

A question separate from that just discussed arises concerning the application of the dedicated fund prohibition to the interest or other income earned by money appropriated to revolving funds and other funds and accounts. Is that derivative income revenue which, under the prohibition, must be deposited in the general fund, or may it accrue directly to the fund or account which "earned" it, increasing the amount of money in that fund or account which may be spent without further appropriation?

We are advised by the Department of Administration that the National Committee on Governmental Accounting has defined a fund to be:

> A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Municipal Finance Officers Association of the United States and Canada, "Governmental Accounting, Auditing, and Financial Reporting," 1980, Appendix B.

From the point of view of generally accepted accounting principles, then, income generated by a fund accrues to that fund unless a transfer is authorized. Economic theory also leads to that result, arguing that the interest or investment income on a particular fund is simply an increase in the value of the fund which offsets inflation and reflects the gradual growth of our economy. Under either approach, such derivative income ought not to be considered revenue subject to the dedicated funds prohibition.

Derivative income such as interest and investment income is not a traditional source of public revenue. It is generated by public revenue which has been received and appropriated and would not be generated if the legislature had

simply spent the money rather than appropriated it to a separate fund. Thus, a statutory dedication of the interest or investment income of a separate fund would not impair the ability of future legislatures to control the spending of general revenues. Rather, it would create a new pool of resources to be used under the statutory guidelines applicable to a particular fund until a future legislature amended or repealed those guidelines. There is no indication in the minutes of the Constitutional Convention that the drafters considered the treatment of separate funds which are endowed in this manner.

A difficulty that arises from the view that the dedicated funds prohibition is not applicable to interest or investment income on separate funds is that it permits steadily increasing amounts of money to be received and used by state departments and agencies without legislative control through the annual budget process. This is precisely the problem posed by the dedication of revenue sources which the drafters sought to avoid. For this reason, while we are not certain about the likely outcome, we doubt that a blanket exception for derivative income would be approved by the courts.

After all, the Alaska Constitution was not written for accountants and economic theorists. Although not expressly addressed by them, the framers were very much aware of the boom-bust cycle of Alaska's economy. In fact, a driving force

behind statehood was the desire of Alaskans themselves to be able to manage the income derived from those brief periods -- as Prudhoe Bay bears witness -- when the state may receive enormous sums of money which are then immediately available for expenditure or placement, by appropriation, into a variety of funds and accounts for various permissible purposes. Depending on the number and size of those funds and accounts, the interest earned on the money placed in them could itself be substantial and would almost certainly be of a magnitude which is far greater than that likely envisioned by the National Committee on Government Accounting in the above-quoted standard. Moreover, the significance of that interest income in properly managing the state's budget leads us to the conclusion that our framers would have considered it to be within the dedicated fund prohibition. As we have indicated, however, the answer to this question is not free from doubt. Consequently, until the question is ruled on by the courts, we will defend legislative action dedicating, by general law, derivative income to the funds which "earned" them.

In the absence of valid general law dedications of derivative income, we believe there would still be a way to maintain legislative control over revenues through the budgetary process while achieving the efficient accounting organization provided by separate funds. This would be if the legislature appropriated to the separate fund for a fixed period the amount

of interest or investment income received by that fund. Since each legislature has implicit budgetary authority for a maximum period of only two years, this practice would not impair the ability of future legislatures to dispose of those derivative revenues. Under this line of reasoning, the interest on a loan fund or other separate fund is public revenue which must be transferred to the treasury, unless the fund is authorized by appropriation to retain it for a specific period. Although it may be possible to argue in favor of a longer period, our recommendation is that these appropriations of derivative income to the fund which "earns" them be made annually, for each fiscal year.

D. Appropriations Stated in General Terms, Rather than Specific Amounts.

The annual budget has traditionally included certain appropriations not stated in specific dollar amounts but rather in terms of money to be received from certain sources during the fiscal year. Such an appropriation, for example, would authorize the risk management division of the Department of Administration to spend the anticipated proceeds from any insurance settlement

or judgment arising from the damage or loss of state property. 8/ This practice ensures effective legislative control over state finances while, at the same time, it provides for budgeting flexibility which is especially useful for programs like risk management, the needs of which are necessarily unpredictable.

We have consistently advised that an appropriation is valid if it states a public purpose, has a source, states or implies a time period, and states an amount which is ascertainable by reference to specified information. Under this view a "revolving" loan fund could be established and operated, even if both principal and interest payments on loans are considered to be revenues which may not be dedicated, as long as there is an annual appropriation to the fund of all principal and interest payments received by the fund during the fiscal year. The fund would continue to revolve as long as it was included in the budget.

8/ See, for example, Sec. 7 ch. 113, SLA 1978 which provides:

> Amounts equivalent to the amounts to be received in settlement of insurance claims for property losses are appropriated from the general fund to the affected agency for the purpose of replacing the facility or service lost as a result of the incident giving rise to the insurance claim.

Under this language, the state could undertake immediate repair or reconstruction of a school, maintenance facility, or other property damaged by fire or other cause covered by insurance without having to wait for actual settlement and payment by the insurer.

The practice of appropriating to a separate fund an amount to be ascertained by reference to receipts from a specified source during a definite period accommodates the need and desire of each legislature for budgetary flexibility without impairing the ability of future legislatures to control and dispose of public revenues. In fact, since the legislature maintains control of the appropriation by means of the budget, it could be argued that this practice does not even create a dedication in the first place since a true dedication must function to take control away from the legislature. If legislative control is present, then a dedication does not exist.

We do not think that this practice violates the dedication prohibition.

V. APPLICATION OF DEDICATION PROHIBITION TO SPECIFIC FUNDS, ACCOUNTS AND APPROPRIATIONS

We have identified the following categories of funds, accounts, and appropriations which raise dedicated funds questions.

A. Allocation of a revenue source by statute to a fund or account from which it may be withdrawn only for limited purposes by appropriation.

1. Tobacco Tax (School) Fund (AS 43.50.140). This fund existed before ratification of the Alaska

Constitution and is therefore authorized to continue under Article IX, section 7. This tax and dedication have not been changed, but the legislature has imposed an additional tax on cigarettes which is deposited in the general fund. Although we have issued several opinions on the subject, there has been no judicial review, and it remains unclear to what extent the legislature may change the dedication or the underlying revenue source within the limit of "continuing" the dedication. 9/

2. Fish and Game Fund (AS 16.05.100 et seq.). The dedication of proceeds of fishing and hunting licenses to the operation of a Department of Fish and Game is required by federal law for participation in federal programs and is therefore authorized by Article IX, section 7. See 16 U.S.C. § 669. However, as discussed earlier, it is not clear whether a dedication of interest

---

9/ See Atty. Gen. Op. Nos. 7, 9, and 14; inf. memo (Alaska, March 10, 1966); Atty. Gen. Op. No. 22 (Alaska, June 2, 1978); inf. memo (June 30, 1981).

earned on investments in a fund such as that made by AS 16.05.110(5) is constitutional.

3. Reserves for Capital Outlay (AS 37.05.157) and Energy Facilities Development (AS 37.05.158).

By statute there is allocated to each of these accounts a fixed percentage of annual receipts from minerals on state land. Both of these funds appear to be unconstitutional dedications to the extent that they restrict the purpose for which money may be spent. We are informed that the Department of Administration has recorded the amounts to be allocated to each account but has not retained that money for expenditures related to capital outlay or energy facilities development. We also understand that the legislature has not made any appropriations from these two accounts. We suggest that AS 37.05.157 and AS 37.05.158 be repealed.

4. Renewable Resources Fund (AS 37.11.010-090). As we advised in our 1975 Attorney General Opinion No. 9, this statutory dedication is unconstitutional. We understand that the Department of Administration has followed our advice and has disregarded AS 37.11.010-090. We suggest that these statutes be repealed.

B. Allocation by Statute of Revenue to a Fund or Account From Which it may be Spent or Used Without Further Appropriation.

1. Public Employees Retirement System Fund (AS 39.35)

This fund receives money from employees and employers who participate in the system. State employer contributions are paid to the fund monthly. AS 39.35.280. State employee contributions are statutorily required to be withheld from wages and transferred to the funds. AS 39.39.170. Participating political subdivisions make similar contributions on behalf of their employees. Benefits are paid to members of the retirement systems according to statute AS 39.35.370 et seq. Expenses of administering the system are also paid from the fund but are specifically required by statute to be included in the annual operating budget. AS 39.35.100(b)(4). The Teacher's Retirement System is accounted for in the same manner.

Although this is clearly a dedication of money received by the state, we believe that it is permissible under the implied exception theory

discussed earlier. It is our opinion that there is an implied exception to the dedicated funds prohibition for pension fund contributions. 10/

2. International Airport Funds (AS 37.15.420, 430, 440)

The fund established under AS 37.15.420 contains money received from the sale of general obligation bonds for airport improvements and other grants or money provided for the same purpose for which the bonds were authorized. The fund established under AS 37.15.430 contains revenues received by the state from ownership and operation of its airports. The fund established under AS 37.15.440 contains interest earned on money in the section 420 fund and revenues transferred from the section 430 fund for the purpose of redeeming airport revenue bonds.

Although each fund provides for a dedication of state revenue, we believe that they are permissible under the implied exception theory discussed earlier at pp. 5 and 6. It is our opinion that there is an implied exception to the

10/ The constitutional provision for state employee retirement systems supports such an implied exception. Alaska Constitution, Article XII, section 7.

dedicated funds prohibition for revenue derived from bond issues and for revenue derived from facilities constructed with bond proceeds, at least to the extent that it is necessary to satisfy the debt obligation or maintain the facility so that it continues to generate revenues for that purpose. To the extent that revenues are dedicated for purposes which are not related to satisfying the debt or maintaining the facility 11/, we believe that dedication would

---

11/ AS 37.15.430(a) authorizes use of funds dedicated to the International Airport Revenue Fund for six purposes providing, in pertinent part, as follows:

> The money in the revenue fund shall only be used for the purpose of paying or securing the payment of the principal of and interest on the bonds and of and on any other revenue bonds issued by authorization of the legislature to provide funds to acquire, equip, construct and install additions and improvements to, and extensions of and facilities for, the airports and to be payable out of the revenue fund, the purpose of paying the normal and necessary costs of maintaining and operating the airports and all of the improvements and facilities of them, the purpose of paying the costs of renewals, replacements and extraordinary repairs to the airports and all of the improvements and facilities of them, the purpose of redeeming before their fixed maturies any and all revenue bonds issued for the purposes of the airports, the purpose of providing funds to acquire, construct and install necessary additions and improvements to and extensions of and facilities for the airports and all of their facilities, and the purpose of providing funds to pay any and all other costs relating to the ownership, use and operation of the airports.

violate Article IX, section 7 unless it either existed prior to ratification of our Constitution or is required by federal law. 12/

3. Continuing Debt Service Appropriation (AS 37.15-.012)

This statute purports to create a continuing annual appropriation from the general fund of the amount necessary to pay debt service on all outstanding general obligation bonds. This may be a dedication of revenues for a specific purpose. 13/ Even if it is, it is our opinion that there would be an implied exception to the dedicated fund prohibition for bond obligations.

4. Rural Electrification Revolving Loan Fund (AS 44-.83.361)

This fund received an initial appropriation from which the Alaska Power Authority is authorized to make loans. Principal and interest

---

12/ A dedication of airport revenues did exist prior to ratification. § 32-3A-15 ACLA 1949. However, it was repealed in 1968 by § 2 ch. 14, SLA 1968. On the other hand, it may be that 49 U.S.C. § 1718, adopted in 1970 and amended in 1982 by Section 511 of the Tax Equity and Fiscal Responsibility Act of 1982, P.L. 97-760, would be interpreted to require dedication of all airport revenues to construction, maintenance and operation of airports.

13/ Our uncertainty on this point arises from the fact that the statute does not purport to dedicate a particular revenue source.

payments on loans made from the fund are required by law to return to the fund. As we pointed out above, at n. 1, the questions of whether the principal and/or interest payments are revenues which may not be dedicated in this manner is now a matter in litigation in a suit filed by the Trustees for Alaska.

We will be defending the legislature's action in making both those dedications. In doing so, we will present in more detail a number of the arguments discussed above in support of the legislature's action. In addition, we will discuss the presumption of constitutionality of statutes and the deference due to the administrative and legislative interpretation of the dedicated funds prohibition. As indicated above, we believe that the return of principal payments to a loan fund does not offend the Constitution and that the return of interest payments to the loan fund may be permissible. However, we cannot predict with certainty the position that the court will adopt.

C. Appropriation of an amount from a specific revenue source (e.g., program receipts).

From time to time the legislature, by means of an annual operating budget appropriation, authorizes an agency to spend money that is generated out of one of the agency's programs. The appropriation also sets an upper limit on the amount that can be spent. Although program receipts are clearly state revenues which may not be dedicated, the practice of identifying program receipts as an appropriation source does not in any way limit legislative control over the expenditure of revenues because the legislature maintains control of the appropriation by means of the budget. Therefore, we believe that this practice is not affected by the dedicated funds prohibition.

D. Appropriation of an amount which is ascertainable only by reference to specified information.

Appropriations are regularly made to the risk management division, Department of Administration, of all proceeds during a fiscal year from claims, settlements or judgments arising from damage to or loss of state property. As pointed out above, at 18, this permits the state to repair or replace damaged property without specific appropriations, which would probably be either more or less than the actual property damage in any fiscal year.

The only difference between this and a typical appropriation is in the determination of the amount appropriated. When a fixed amount is appropriated, obligations incurred against it may be honored as long as there is cash available in the treasury. When an appropriation is made for an amount to be received from a certain source during a specific period, obligations may be honored only if a sufficient amount of money has been received from that source and there is cash available in the treasury. However, the amount of the appropriation remains determinable. Consequently, it is our opinion that these kinds of appropriations do not violate the dedicated fund prohibition. 14/

14/ The pending litigation discussed earlier (Trustees for Alaska v. State, supra) also includes a claim that an appropriation to the Alaska Power Authority of the interest to be received on money separately appropriated to the Power Development Fund violates the dedicated funds prohibition. § 1 ch. 90, SLA 1980, as reenacted by § 69 ch. 92, SLA 1981 and amended by § 236 ch. 141, SLA 1982. The questioned appropriation does not state a specific time period during which the interest is to be accrued. Consideration by the court of this particular question might not occur since, by informal memo dated April 19, 1982, we advised the Treasury Division of the Department of Revenue that the interest must be returned to the general fund because of a specific statutory requirement, AS 44.83.388(b). We are informed that no interest has accrued to the Power Development Fund.

E. Other Miscellaneous Dedications

1. Appropriations to the Permanent Fund. Since the constitution (Article IX, section 15) specifically authorizes dedications to the Permanent Fund of "at least" 25 percent of certain revenues, we believe any additional dedication to the fund by statute 15/ or by appropriation is also permissible.

2. Rainy day account. AS 37.05 179 creates a reserve fund to which money is appropriated and authorizes it to be spent for certain necessary emergency operating expenses at some future time. It is our opinion that this practice is permissible under the theory discussed above beginning at p. 12 that money once it is appropriated loses its character as revenue for purposes of the dedicated funds prohibition. A contrary view would severely restrict flexibility in state budgeting and accounting, and we doubt that such a view would be adopted by the courts.

15/ In 1980, the legislature increased the percentage dedication applicable to most new mineral leases to 50 percent. AS 37.13.010(a)(2).

We hope you find this analysis helpful in determining the nature of the problems presented by the dedicated fund prohibition and the various statutory programs which may or may not run afoul of it. We expect to be able to advise you with greater certainty on some of these questions at the conclusion of the pending litigation described above.

Sincerely,

Wilson L. Condon
Attorney General

WLC:jf

cc: Ron Lehr, Director
Division of Budget and Management

Jay Hogan, Director
Division of Legislative Finance
Legislative Affairs Agency

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE:
(907) 465-4919
(907) 465-4920

AGENDA

TUESDAY, 2/19/85, 3:30 p.m.
Room 124 (House Judiciary)

HB 59 "An Act making a special appropriation to the Department of Natural Resources, division of parks, for the youth hostel loan fund; and providing for an effective date."

HB 61 "An Act relating to loans for youth hostels."

* HB 109 "An Act relating to interest rates on and handling repayment of state loans; and providing for an effective date."

For more information, contact John Hartle
Room 411
465-4919

*Indicates first public hearing

SCOMM

#50:20

MEMORANDUM State of Alaska

TO: Bill Sheffield
Governor

DATE: 29 March 1985

FILE NO:

THRU: Mr. John Shively
Chief of Staff

TELEPHONE NO: 249-1228

FROM: MG Edward G. Pagano
The Adjutant General
Department of Military and Veterans Affairs

SUBJECT: Veterans Small Business Loans

Alaska veterans have expressed concern that small business loans are not available to veterans. These individuals have suggested the State of Alaska make or guarantee small business loans to qualified veterans. I am aware of proposed legislation submitted by the Department of Commerce and Economic Development that would include veterans under a linked deposit concept. I understand this bill may not be submitted by your office.

I have read HB 135 sponsored by Representatives Duncan, Sund and Herrmann and request you consider an amendment that would give veterans a preference for loans under that proposal.

It is the recommendation of the Department of Military and Veterans Affairs that veterans be specifically identified in this bill and loans through the "Small Business Development Loan" program be made available to qualified veterans at two percentage points below that rate being offered to non-veterans.

For the purpose of this bill, a veterans should be defined as follows: a person with 181 days or more active service in the Armed Forces of the United States who has been honorably discharged after having served during any period between April 6, 1917 and December 1, 1919, between September 16, 1940 and December 31, 1947 or between June 27, 1950 and October 14, 1976.

cc: Mr. Ray Gillespie
Director of Legislative Relations

Mr. Terry Elder
Deputy Commissioner

Miss Sandra Borbridge
Special Staff Assistant

Loan, Special committee capitol room 124

HB 135 3:30 PM

02-001A(Rev. 10/79)

Introduced: 1/28/85
Referred: House Special Committee
on State Loans and Finance

NFIC

BY DUNCAN, SUND AND HERRMANN

IN THE HOUSE

HOUSE BILL NO. 135

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act establishing a Small Business Development Loan program; and providing for an effective date."

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

* Section 1. AS 45.95.020 is repealed and reenacted to read:

Sec. 45.95.020. SMALL BUSINESS DEVELOPMENT LOANS. (a) The commissioner shall adopt regulations and policies to make small business development loans or to purchase small business development loans from a bank or other financial institution in the state. A small business development loan made under this chapter may not exceed $100,000 and shall be for the purpose of acquiring, operating, or equipping a business, other than a farming, mining, or fishing business. A small business development loan shall be secured by acceptable collateral and may not exceed 80 percent of the fair market value of the collateral offered as security. The initial rate of interest on a small business development loan is equal to the federal discount rate in effect on the first day of the month preceding the month of closing the loan plus three percentage points. The interest rate shall be adjusted annually to be three percentage points more than the federal discount rate in effect on the first day of the month preceding the month of the anniversary date of the loan.

(b) Money loaned shall be delivered to the borrower as provided by regulations adopted by the commissioner. Upon repayment of loans by installments, or otherwise, in accordance with the prescribed terms, or upon liquidation by foreclosure or other process, or upon

TIE TO HB149
market rate TIE

receipt of interest or other revenue, the money so received shall be turned over to the commissioner of revenue for deposit in the small business development revolving loan fund.

(c) The commissioner may not disqualify an applicant for, or prejudice an applicant's privilege to receive, a loan for a purpose authorized under this section because the applicant has previously received a loan under this chapter, but the total principal amount outstanding to a borrower on loans made under this chapter may not exceed $150,000.

* Sec. 2. AS 45.95.050 is amended to read:

Sec. 45.95.050. POWER OF COMMISSIONER TO ASSIGN AND SELL MORTGAGES. The commissioner may assign and sell small business development loan mortgages to the Alaska permanent fund, the Department of Revenue, the Alaska Industrial Development Authority, or to a bank or other private purchaser [STATE MORTGAGE ASSOCIATION] in consideration of receiving [ITS] cash, bonds, debentures and notes upon conditions which the commissioner [HE] considers advantageous to the state small business development lending program.

* Sec. 3. AS 45.95.060 is amended to read:

Sec. 45.95.060. ESTABLISHMENT [CREATION] OF FUND. The [THERE IS CREATED THE] small business development revolving loan fund is established in the Department of Commerce and Economic Development to carry out the purposes of this chapter. This fund may not [SHALL] be used for any [NO] other purpose.

* Sec. 4. AS 45.95.070 is amended to read:

Sec. 45.95.070. ELIGIBILITY FOR LOANS. A small business [PERSON] is eligible for a loan under this chapter if

(1) it [HE] can establish or demonstrate [GOOD CHARACTER,] capacity for financial responsibility and an [,] ability to provide

sufficient collateral [AND KNOWLEDGE OF ALASKA ECONOMIC CONDITIONS]; and

(2) [HE IS A RESIDENT OF THE STATE; AND

(3)] in the judgment of the commissioner [DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT]

(A) the business shows a definite potential for growth;

(B) the borrower will be able to repay the loan; and

(C) the loan has the potential to [WILL POTENTIALLY] create more jobs and provide additional services in the community.

* Sec. 5. AS 45.95.080 is amended to read:

Sec. 45.95.080. DEFINITIONS. In this chapter,

(1) "commissioner" means the commissioner of commerce and economic development;

(2) "small business" means a sole proprietorship, partnership, or corporation operating only in the state that is not a subsidiary of another business and that does not employ more than 10 employees.

* Sec. 6. Section 71(2), ch. 106, SLA 1980 is amended to read:

(2) no further loans may be made under AS 45.90.020 [,AS 45.95.020,] and AS 26.15.040(3).

* Sec. 7. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM April 1, 1985

SUBJECT: Sectional analysis of HB 135
(Small Business Development Loans)

TO: Representative Jim Duncan

FROM: Keith B. Levy KBL
Legislative Counsel

You have requested a sectional analysis of HB 135. This bill reactivates and amends the Small Business Development Loan program.

Section 1 rewrites the existing procedures for small business loans. The Commissioner of Commerce and Economic Development is required to adopt regulations to make or purchase small business loans, not to exceed $100,000, for the purpose of acquiring, operating, or equipping a business, other than a farming, mining, or fishing business. The loans must be secured by collateral and may not exceed 80 percent of the value of the collateral. The initial interest rate on the loans is equal to the federal discount rate in effect plus three percentage points and must be adjusted annually to maintain the same relationship with the federal discount rate. Money repaid on the loans is returned to the small business development revolving loan fund. A person may not be disqualified for a small business loan because the person already has one, but the total amount borrowed may not exceed $150,000.

Section 2 amends existing law to provide that the Commissioner of Commerce and Economic Development may assign and sell small business loans to the Alaska permanent fund, the Department of Revenue, the Alaska Industrial Development Authority, or to a bank or other private purchaser.

Section 3 amends existing law to clarify that that the small business development revolving loan fund is administered by the Department of Commerce and Economic Development.

Section 4 amends the eligibility requirements for small business loans to require demonstration that (1) the borrower has financial responsibility and the ability to provide sufficient collateral, (2) the business has a potential for growth, (3) the borrower will be able to repay the loan, and (4) the loan has potential to create more jobs and provide services in the community.

Section 5 defines "small business" as a "sole proprietorship, partnership, or corporation operating only in the state that is not a subsidiary of another business and that does not employ more than 10 employees."

Section 6 amends sec. 71(2), ch. 106, SLA 1980, which discontinued the existing small business loan program, to reactivate it.

Section 7 provides for an immediate effective date.

KBL:ojb
J13/047

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 135

Title: An Act establishing Small Business Dev. Loan Program

Sponsor: Duncan/Sund/Herrmann

Requestor:

Date of Request:

FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.

Program Category Affected: Economic Development

BRU, Program or Subprogram(s) Affected: Accounting & Collections

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
100 PERSONAL SERVICES		168.1	176.5	185.3	194.6	204.3
200 TRAVEL		9.3	9.8	10.3	10.8	11.3
300 CONTRACTUAL		56.1	51.5	66.8	82.2	97.6
400 SUPPLIES		.8	.3	.3	.3	.3
500 EQUIPMENT		18.5	-0-	-0-	-0-	-0-
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		252.8	238.1	262.7	287.9	313.5
CAPITAL						
REVENUE		4,302.0	10,704.0	17,121.0	23,550.0	30,003.0

FUNDING: (Thousands of Dollars)

GENERAL FUND		252.8	238.1	262.7	287.9	313.5
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME		3	3	3	3	3
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

See attachments.
Assumes initial appropriation of $40,000.0 and significant appropriations will be required in subsequent years to sustain loan demand. See Revenue analysis on page 4.

Prepared By: Margaret I. Hamley, Director Phone: 465-2555

Division: Accounting & Collections Date: 3-5-85

Approved by Commissioner: Loren H. Lounsbury Date: 3/6/85

Agency: Commerce and Economic Development

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

7/1/84

1781W3185a

HB 135
SMALL BUSINESS DEVELOPMENT LOAN PROGRAM

This bill establishes a new Small Business Development Loan program. The interest rate is based on the federal discount rate plus three points and also requires an annual loan anniversary interest rate adjustment. The maximum amount which can be loaned is $100,000 and outstanding loans under this program may not exceed $150,000. Loans may be made for the purpose of acquiring, operating and equipping a business except farming, mining or fishing. Borrowers who would like to refinance existing loans held by other financial institutions may do so.

The following information is assumed for purposes of preparation of this Fiscal Note. Loan demand is 533 loans per year, average loan size is $75.0, average term is 10 years, and the interest rate is 11.0% (based on current federal discount rate of 8% plus three points).

During FY '84, the Division of Accounting & Collections serviced a relatively stable number of loans, approximately 8,000 total: 1,100 new loans were processed while 925 loans were paid off.

The provision in this bill which causes the biggest impact to the division is the requirement for annual anniversary adjustment of the interest rate of the loan. A tracking system, tied to the closing date of the loan and compatible with the existing subsidiary loan accounting system, must be designed and implemented to effect the timely and accurate annual interest rate adjustment. Heavy borrower contact and individual account maintenance will be required after the first 12 months of the program when, on a monthly basis, new loan payment cards would have to be generated, letters produced, and borrower's phone calls and correspondence relating to the changed payment amounts dealt with. Also, borrowers who inadvertently send the old amount when the new interest rate is implemented will cause cash processing delays and additional costs to service.

In addition to the new positions and related costs described in the attachments, the division would incur the following expenses that cannot be associated with any position. Printing of a borrower's servicing packet $3.5; data processing supplies $.5; data processing design, development, documentation, implementation and training $20.0; DP chargeback - 533 loans @ 2.40/mo. $15.4.

1631W3485c

SUMMARY OF EXPENSES

	PERSONAL SERVICES	ASSOCIATED COSTS	TOTAL
Customer Services			
Accounting Technician II	37.1	9.5	46.6
Accounting Technician I	34.0	11.3	45.3
Collections			
Loan Examiner III	51.7	24.5	76.2
TOTAL	122.8	45.3	168.1

1631W3185b

REVENUE ANALYSIS

Proposed Small Business Development Loan Program
HB 135

	FY '86	FY '87	FY '88	FY '89	FY '90
New Loans (533/yr. at $75.0 av.)	$40,000.0				
New Loans (533/yr. at $75.0 av.) for subsequent years		$40,000.0	$40,000.0	$ 40,000.0	$ 40,000.0
Remaining Balance from prior year	Ø	$37,672.0	$72,748.0	$104,928.0	$133,876.0
Estimated Principal Recovery	$ 2,328.0	$ 4,924.0	$ 7,820.0	$ 11,052.0	$ 14,656.0
Estimated Interest Earned @11.0%	$ 2,200.0	$ 6,343.0	$10,202.0	$ 13,742.0	$ 16,926.0
Subtotal	$ 4,528.0	$11,267.0	$18,022.0	$ 24,794.0	$ 31,582.0
Less 5% Unrecoverable	[$ 226.0	[$ 563.0]	[$ 901.0]	[$ 1,239.0]	[$ 1,579.0]
	$ 4,302.0	$10,704.0	$17,121.0	$ 23,555.0	$ 30,003.0
Appropriation required to sustain demand level	$40,000.0	$35,698.0	$29,296.0	$ 22,879.0	$ 16,445.0

Federal discount rate as of 2/5/85 - 8%
Principal remaining balances calculated using 11.0% Remaining Balance Tables and estimating 10 years as average loan term.

Division of Accounting and Collections

1781W2
3185a

1.	POSITION TITLE: Accounting Technician II			RANGE/STEP: 14A	BARG. UNIT: GGU	PAGE/LINE	COV.	APPROV.	DISAPP.
2.	TYPE OF POSITION: PFT	STAFF MONTHS: 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION: Juneau	ELECTION DISTRICT: 4	LEG.		
3.	CONFIGURATION LEVEL	ADDITION: X			JUSTIFICATION				
4.	TYPE OF EXPENDITURE			AMOUNT					
	1		2	3					
	PERSONAL SERVICES								
5.	Salary 2,353/mo eff. 7/16/85		28.2						
6.	Benefits		4.6						
7.	Supplemental Benefits		1.7						
8.	Fixed Benefits		2.6						
9.	TOTAL PERSONAL SERVICES	01		37.1					
10.	Travel	02		-0-					
11.	Contractual	03		3.5					
12.	Commodities	04		.1					
13.	Equipment	05		5.9					
14.	Other								
15.	TOTAL COST			46.6					
	RECEIPT CODE	FUNDING SOURCE							
16.		Federal Receipts	1002						
17.		G.F. Match	1003						
18.		General Funds	1004	46.6					
19.		I-A Receipts	1005						
20.		Program Receipts	1028						
21.		Other							

FOR BSM USE ONLY
KEY NUMBER — — - — — - — — - — — - — —

Accounting Technician II

This position will be established in the Customer Service Section. Primary responsibility will be the litigation and repossession accounting and secondary responsibility will be backup to the Accounting Technician I for customer and loan servicing. Duties include auditing the account before it enters litigation or repossession status, maintaining a ledger card system on all litigation and repossession accounts, reviewing the invoices on all the expenses incurred, coding PBA accounts on the invoices and requesting payments of the invoices. When a loan is repossessed, this position will close the loan on the subsidiary loan and transfer it into the repossessed account. Upon sale of the repossessed property, this position prepares the AV's required to record the sale and clear the property from the State's books.

Associated costs included are space allocation, training, communications, general office supplies and furniture and equipment (open system work station, calculator, microfiche viewer, phone and cabinet).

REQUEST FOR NEW POSITION

AGENCY: Commerce & Economic Development
PROGRAM: Economic Development
BRU: Accounting & Collections
COMPONENT: Administration

Page of
Revised Date

FY 86

1630W

1.	POSITION TITLE: Accounting Technician I			RANGE/STEP: 12B	BARG. UNIT: GGU	FORM 12 PAGE/LINE	GOV.	APPROV.	DISAPP.
2.	TYPE OF POSITION: PFT	STAFF MONTHS: 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION: Juneau	ELECTION DISTRICT: 4	LEG.		
3.	CONTINUATION LEVEL		ADDITION: X						

4. TYPE OF EXPENDITURE	1	2	AMOUNT 3
	PERSONAL SERVICES		
5.	Salary 2,135/mo eff. 7/1/85	25.6	
6.	Benefits	4.2	
7.	Supplemental Benefits	1.6	
8.	Fixed Benefits	2.6	34.0
9.	TOTAL PERSONAL SERVICES	01	
10.	Travel	02	-0-
11.	Contractual	03	5.3
12.	Commodities	04	.1
13.	Equipment	05	5.9
14.	Other		
15.	TOTAL COST		45.3

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		G.F. Match	1003	
18.		General Funds	1004	45.3
19.		I-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR B&M USE ONLY
4A KEY NUMBER __ __ - __ __ - __ __ - __ __ - __ __

JUSTIFICATION

Accounting Technician I

This position will be established in the Customer Service Section and assigned the Small Business Development Loan portfolio. Duties include responding to customer service inquiries, requests and account, problems, auditing subsidiary ledger accounts making subsequent calculations of interest, principal, late fees, refunds, loan payoffs, and unapplied funds computations, initialing necessary system documents to effect the necessary correction and monitor the action to ensure proper recording on the subsidiary system.

Due to the annual loan anniversary interest rate adjustments based on the federal discount rate, there will be heavy monitoring and maintenance to the accounts on the subsidiary loan system. A high volume of borrower contact is anticipated due to the need to notify and instruct borrowers on payment amounts and procedures due to the interest rate adjustment.

Associated costs include communications (long distance, postage, centrex) training, space allocation, general office supplies and furniture and equipment (open system work station, calculator, microfiche viewer, phone and file cabinet).

13 REQUEST FOR NEW POSITION

01-1156 (7/82) - 13

AGENCY: Commerce & Economic Development

PROGRAM: Economic Development

BRU: Accounting & Collections

COMPONENT: Administration

Page of

Revised Date

FY

1630W

1.	POSITION TITLE: Loan Examiner III				RANGE/STEP: 19A	BARG. UNIT: GGU	PAGE/LINE	COV.	APPROV.	DISAPP.
2.	TYPE OF POSITION: PFT	STAFF MONTHS: 12 x 2	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION: Juneau	ELECTION DISTRICT: 4	LEG.		
3.	CONTINUATION LEVEL		ADDITION: X		JUSTIFICATION					

4.	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
	PERSONAL SERVICES		
5.	Salary 3,336/mo eff. 7/16/85	40.0	
6.	Benefits	6.6	
7.	Supplemental Benefits	2.5	
8.	Fixed Benefits	2.6	
9.	TOTAL PERSONAL SERVICES 01		51.7
10.	Travel 02		9.3
11.	Contractual 03		8.4
12.	Commodities 04		.1
13	Equipment 05		6.7
14	Other		
15.	TOTAL COST		76.2

	RECEIPT CODE	FUNDING SOURCE		AMOUNT
16.		Federal Receipts	1002	
17.		C.F. Match	1003	
18.		General Funds	1004	76.2
19		I-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR BSM USE ONLY
KEY NUMBER — — - — — - — — - — — - — —

Loan Examiner III

This position will be established in the Collections Section with litigation responsibilities resulting from the Small Business Development Loan program.

The primary responsibilities will be coordination of litigation with attorneys, i.e., foreclosures, bankruptcy, judgment and repossessions; attend hearings and is a witness in court cases for the attorney representing the State; travel to inspect collateral, appraise and make value determinations for determining type of litigation action, present and recommend to loan committee concerning major workout situations and disposal of repossessed property; property management of repossessed property including maintenance, repairs, insurance, etc.

Associated costs include travel for inspections and training, space allocations, communications (long distance, postage and centrex), printing of stationary, envelopes and forms, training, general office supplies and furniture and equipment (open system work station, calculator, microfiche viewer, phone, and file cabinet).

REQUEST FOR NEW POSITION

AGENCY: Commerce & Economic Development

PROGRAM: Economic Development

BRU: Accounting & Collections

COMPONENT: Administration

Page of

Revised Date

FY 86

1630W

Revision Date:

REQUEST
Bill/Resolution No.: HB 135
Title: Small Business Development Loan Program
Sponsor: Rep. Duncan
Requestor:
Date of Request:

FISCAL DETAIL
Agency Affected: Commerce & Econ. Dev.
Program Category Affected: Economic Development
BRU, Program or Subprogram(s) Affected: Investments

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES		407.6	407.6	407.6	407.6	407.6
200 TRAVEL		24.0	24.0	24.0	24.0	24.0
300 CONTRACTUAL		34.0	29.0	29.0	29.0	29.0
400 SUPPLIES		2.7	2.7	2.7	2.7	2.7
500 EQUIPMENT		56.7				
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		525.0	463.3	463.3	463.3	463.3
XXXXXXX (LOAN)		40,000.0	35,698.0	29,296.0	22,879.0	16,445.0
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		40,525.0	36,161.3	29,759.3	23,342.3	16,908.3
FEDERAL FUNDS						
OTHER						
TOTAL		40,525.0	36,161.3	29,759.3	23,342.3	16,908.3

POSITIONS:

FULL-TIME		9	9	9	9	9
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary
See attached pages 2 through 16.

Paul B. Arnoldt

Prepared By: Paul B. Arnoldt, Director Phone: 465-2510
Division: Investments Date: 3/6/85

Approved by Commissioner: Loren H. Lounsbury Date: 3/15/85
Agency: Commerce and Economic Development

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

7/1/84

1668W3585c

HB 135
SMALL BUSINESS DEVELOPMENT LOAN PROGRAM

This bill establishes a new Small Business Development Loan program. The interest rate is based on the federal discount rate plus three points and also requires an annual loan anniversary interest rate adjustment. The maximum amount which can be loaned is $100,000 and outstanding loans under this loan program may not exceed $150,000.

Loans under this program would be available for virtually any business enterprise except farming, fishing and mining. Borrowers who would like to refinance existing loans held by other financial institutions may do so. Loan requests would be received for manufacturing services and distribution activities utilizing all levels of technologies and workers. This variety of proposals would require a high level of scrutiny of loan applications by loan examiners. Specialization by loan examiners would be necessary to adequately assess loan applications calling for use of advanced technologies.

The division estimates that the average loan under this program would be $75,000. It is estimated that 533 loans will be made annually with an average term of seven years and an interest rate of 11.0% (based on current federal discount rate of 8% plus three points). In order to support this loan demand, an initial appropriation of $40.0 million will be required. Subsequent funding requirements are detailed on the attached Revenue Analysis.

For the last several years, the division has processed approximately 100 loans for each of its ten loan examiners. In addition, three loan closers and one document processor support the ten loan examiners. Based upon these statistics, the division will need 6 additional loan examiners and 3 additional loan closers as a result of HB 135. The division's support staff (director, regional loan managers, and clerks) will be required to absorb the additional support work load. Two loan examiners and one loan closer will be located in Juneau, Anchorage, and Fairbanks.

Loan applications would be monitored on a daily basis. Efforts to inform the public regarding the program will be carried out by the division. It is expected that these outreach efforts will generate some additional interest in other loan programs administered by the division.

Under the contractual line item, $7.0 is included for the design and printing of the small business loan application and loan closing forms. $2.0 is included in subsequent years for additional printing. This funding is specific to the program and was not detailed under the Request For New Positions.

1668W3585c

HB 135
SMALL BUSINESS DEVELOPMENT LOAN PROGRAM
SUMMARY OF EXPENSES

	Personal Services	Associated Costs	Total
Juneau Regional Office			
Loan Examiner III	$51.7	$12.0	$63.7
Loan Examiner II	45.2	12.0	57.2
Loan Closer II	33.1	12.8	45.9
Subtotal	$130.0	$36.0	$166.8
Anchorage Regional Office			
Loan Examiner III	$51.7	$12.0	$63.7
Loan Examiner II	45.2	12.0	57.2
Loan Closer II	33.1	12.8	45.9
Subtotal	$130.0	$36.0	$166.8
Fairbanks Regional Office			
Loan Examiner III	$58.6	$12.0	$70.6
Loan Examiner II	51.7	12.0	63.7
Loan Closer II	37.3	12.8	50.1
Subtotal	$147.6	$36.8	$184.4
Subtotals	$407.6	$108.8	$518.0
Design/printing application		$7.0	7.0*
Total	$407.6	$115.8	$525.0

*$2.0 included in subsequent years for additional printing of loan application pamphlet.

1668W3585c

REVENUE ANALYSIS

Proposed Small Business Development Loan Program
HB 135

	FY '86	FY '87	FY '88	FY '89	FY '90
New Loans (533/yr. at $75.0 av.)	$40,000.0				
New Loans (533/yr. at $75.0 av.) for subsequent years		$40,000.0	$40,000.0	$ 40,000.0	$ 40,000.0
Remaining Balance from prior year	Ø	$37,672.0	$72,748.0	$104,928.0	$133,876.0
Estimated Principal Recovery	$ 2,328.0	$ 4,924.0	$ 7,820.0	$ 11,052.0	$ 14,656.0
Estimated Interest Earned @11.0%	$ 2,200.0	$ 6,343.0	$10,202.0	$ 13,742.0	$ 16,926.0
Subtotal	$ 4,528.0	$11,267.0	$18,022.0	$ 24,794.0	$ 31,582.0
Less 5% Unrecoverable	[$ 226.0]	[$ 563.0]	[$ 901.0]	[$ 1,239.0]	[$ 1,579.0]
Cash Flow from Program	$ 4,302.0	$10,704.0	$17,121.0	$ 23,555.0	$ 30,003.0
Appropriation required to sustain demand level	$40,000.0	$35,698.0	$29,292.0	$ 22,879.0	$ 16,445.0

Federal discount rate as of 2/5/85 - 8%
Principal remaining balances calculated using 11.0% Remaining Balance Tables and estimating 10 years as average loan term.

Division of Accounting and Collections

1668W3585c

1.	POSITION TITLE: LOAN EXAMINER III				RANGE/STEP: 19A	BARG. UNIT: GGU	PAGE/LINE		APPROV.	DISAPP.
2.	TYPE OF POSITION: PFT	STAFF MONTHS: 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION: Juneau	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL		ADDITION							

	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
	PERSONAL SERVICES		
5.	Salary	40.0	
6.	Benefits	6.5	
7.	Supplemental Benefits	2.5	
8.	Fixed Benefits	2.7	
9.	TOTAL PERSONAL SERVICES	01	51.7
10.	Travel	02	4.0
11.	Contractual	03	3.0
12.	Commodities	04	0.3
13.	Equipment	05	4.7
14.	Other		
15.	TOTAL COST		63.7

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		G.F. Match	1003	63.7
18.		General Funds	1004	
19.		T-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR B&M USE ONLY
KEY NUMBER ___ - ___ - ___ - ___ - ___

JUSTIFICATION

The division estimates that 533 loans will be made annually under this loan program. Based upon actual workload performance of the division, a loan examiner can process approximately 100 loans in a year and maintain a 32 day turnaround from the day the application is received to the day the application is either approved or disapproved by a loan committee.

Small business loan requests will be received from a broad spectrum of the economy and will require the division to respond accordingly. This requirement for specialized expertise will be met by staffing each of the division's three regional offices (Juneau, Anchorage and Fairbanks) with one senior loan examiner III and one junior loan examiner II as well as one senior loan closer II.

The Loan Examiner III will act as lead examiner for the small business program within each regional office. Specialization by the Loan Examiner III will be necessary to adequately assess loan applications calling for advanced technologies.

REQUEST FOR NEW POSITION

AGENCY: Commerce & Economic Development

PROGRAM: Economic Development

BRU: Investment

COMPONENT: Administration

Page 5 of 16

Revised Date

FY 86

1113617/831-13

Estimates for the 200-500 line items assume that the new employee required for this new loan program will require support at levels similar to that actually being incurred by the division on other loan programs.

Travel: To inspect collateral, interview applicants, and inform the public on the loan program ($3,950).

Contractual: Space rental will be RSA'd to the Department of Administration ($3,000).

Commodities: General office supplies ($300).

Equipment:

Calculator	$ 365
Microfiche Reader	$ 300
Workstation	$4,085
Total	$4,750

1.	POSITION TITLE LOAN EXAMINER III			RANGE/STEP 19A	BARG. UNIT GGU	PAGE/LINE	COV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION Anchorage	ELECTION DISTRICT	LEG.		
3.	CONFIGURATION LEVEL		ADDITION						

4.	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
	PERSONAL SERVICES		
5.	Salary	40.0	
6.	Benefits	6.5	
7.	Supplemental Benefits	2.5	
8.	Fixed Benefits	2.7	
9.	TOTAL PERSONAL SERVICES	01	51.7
10.	Travel	02	4.0
11.	Contractual	03	3.0
12.	Commodities	04	0.3
13.	Equipment	05	4.7
14.	Other		
15.	TOTAL COST		63.7

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		C.F. Match	1003	
18.		General Funds	1004	63.7
19		I-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR BSM USE ONLY
KEY NUMBER — — - — — - — — - — — - — —

JUSTIFICATION

The division estimates that 533 loans will be made annually under this loan program. Based upon actual workload performance of the division, a loan examiner can process approximately 100 loans in a year and maintain a 32 day turnaround from the day the application is received to the day the application is either approved or disapproved by a loan committee.

Small business loan requests will be received from a broad spectrum of the economy and will require the division to respond accordingly. This requirement for specialized expertise will be met by staffing each of the division's three regional offices (Juneau, Anchorage and Fairbanks) with one senior loan examiner III and one junior loan examiner II as well as one senior loan closer II.

The Loan Examiner III will act as lead examiner for the small business program within each regional office. Specialization by the Loan Examiner III will be necessary to adequately assess loan applications calling for advanced technologies.

REQUEST FOR NEW POSITION

AGENCY Commerce & Economic Development

PROGRAM Economic Development

BRU Investment

COMPONENT Administration

Revised Date

FY 86

Estimates for the 200-500 line items assume that the new employee required for this new loan program will require support at levels similar to that actually being incurred by the division on other loan programs.

Travel: To inspect collateral, interview applicants, and inform the public on the loan program ($3,950).

Contractual: Space rental will be RSA'd to the Department of Administration ($3,000).

Commodities: General office supplies ($300).

Equipment:

Calculator	$ 365
Microfiche Reader	$ 300
Workstation	$4,085
Total	$4,750

ADDITIONAL EXPLANATION FORM

AGENCY: Commerce & Economic Development

PROGRAM: Economic Development

BRU: Investment

COMPONENT: Administration

REVISED DATE

FY 86

(6/84)-ae1

1. POSITION TITLE				RANGE/STEP	BARG. UNIT	PAGE/LINE	GOV.	APPROV.	DISAPP.
LOAN EXAMINER III				19A	GGU				
2. TYPE OF POSITION	STAFF MONTHS	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION	ELECTION DISTRICT	LEG.		
PFT	12				Fairbanks				
3. CONFIRMATION LEVEL		ADDITION							

4. TYPE OF EXPENDITURE	1	2	AMOUNT 3
PERSONAL SERVICES			
5. Salary		45.8	
6. Benefits		7.4	
7. Supplemental Benefits		2.7	
8. Fixed Benefits		2.7	
9. TOTAL PERSONAL SERVICES	01		58.6
10. Travel	02		4.0
11. Contractual	03		3.0
12. Commodities	04		0.3
13. Equipment	05		4.7
14. Other			
15. TOTAL COST			70.6

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		C.F. Match	1003	70.6
18.		General Funds	1004	
19		I-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR BSM USE ONLY
KEY NUMBER — — - — — - — — - — — - — —

JUSTIFICATION

The division estimates that 533 loans will be made initially under this loan program. Based upon actual workload performance of the division, a loan examiner can process approximately 100 loans in a year and maintain a 32 day turnaround from the day the application is received to the day the application is either approved or disapproved by a loan committee.

Small business loan requests will be received from a broad spectrum of the economy and will require the division to respond accordingly. This requirement for specialized expertise will be met by staffing each of the division's three regional offices (Juneau, Anchorage and Fairbanks) with one senior loan examiner III and one junior loan examiner II as well as one senior loan closer II.

The Loan Examiner III will act as lead examiner for the small business program within each regional office. Specialization by the Loan Examiner III will be necessary to adequately assess loan applications calling for advanced technologies.

(Continued)

REQUEST FOR NEW POSITION

AGENCY Commerce & Economic Development

PROGRAM Economic Development

BRU Investment

COMPONENT Administration

Revised Date

FY 86

Estimates for the 200-500 line items assume that the new employees required for this new loan program will require support at levels similar to that actually being incurred by the division on other loan programs.

Travel: To inspect collateral, interview applicants, and inform the public on the loan program ($3,950).

Contractual: Space rental will be RSA'd to the Department of Administration ($3,000).

Commodities: General office supplies ($300).

Equipment:

Calculator	$ 365
Microfiche Reader	$ 300
Workstation	$4,085
Total	$4,750

ADDITIONAL EXPLANATION FORM

AGENCY: Commerce & Economic Development

PROGRAM: Economic Development

BRU: Investment

COMPONENT: Administration

REVISED DATE

FY 86

(6/84)-ae1

1. POSITION TITLE: LOAN EXAMINER II				RANGE/STEP: 17A	BARG. UNIT: GGU	PAGE/LINE	COV.	APPROV.	DISAPP.
2. TYPE OF POSITION: PFT	STAFF MONTHS: 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION: Juneau	ELECTION DISTRICT	LEG.		
3. CLASSIFICATION LEVEL		ADDITION							

4. TYPE OF EXPENDITURE		AMOUNT
1	2	3
PERSONAL SERVICES		
5. Salary	34.7	
6. Benefits	5.6	
7. Supplemental Benefits	2.1	
8. Fixed Benefits	2.8	
9. TOTAL PERSONAL SERVICES	01	45.2
10. Travel	02	4.0
11. Contractual	03	3.0
12. Commodities	04	0.3
13. Equipment	05	4.7
14. Other		
15. TOTAL COST		57.2

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		G.F. Match	1003	57.2
18.		General Funds	1004	
19.		I-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR BSR USE ONLY
KEY NUMBER — — - — — - — — - — — - — —

JUSTIFICATION

The Loan Examiner II will function as a generalist in the processing of loan applications under the new small business program. The examiner will be responsible for those requests that do not involve advanced technologies or extreme complexities. The Loan Examiner II will take his/her lead from the Loan Examiner III and will be under the direct supervision of the Regional Loan Manager. One Loan Examiner II will be located in each of the division's three regional offices (Juneau, Anchorage, and Fairbanks).

Estimates for the 200-500 line items assume that the new employee required for this new loan program will require support at levels similar to that actually being incurred by the division on other loan programs.

Travel: To inspect collateral, interview applicants, and inform the public on the loan program ($3,950).
Contractual: Space rental will be RSA'd to the Department of Administration ($3,000).
Commodities: General office supplies ($300).
Equipment: Calculator $ 365
Microfiche Reader $ 300
Workstation $4,085
Total $4,750

REQUEST FOR NEW POSITION

AGENCY: Commerce & Economic Development
PROGRAM: Economic Development
BRU: Investment
COMPONENT: Administration

Revised Date

FY 86

1.	POSITION TITLE LOAN EXAMINER II			RANGE/STEP 17A	BARG. UNIT GGU	PAGE/LINE	COV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION Anchorage	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL		ADDITION							
4.	TYPE OF EXPENDITURE			AMOUNT						
	1		2	3						
	PERSONAL SERVICES									
5.	Salary		34.7							
6.	Benefits		5.6							
7.	Supplemental Benefits		2.1							
8.	Fixed Benefits		2.8							
9.	TOTAL PERSONAL SERVICES	01		45.2						
10.	Travel	02		4.0						
11.	Contractual	03		3.0						
12.	Commodities	04		0.3						
13.	Equipment	05		4.7						
14.	Other									
15.	TOTAL COST			57.2						
	RECEIPT CODE	FUNDING SOURCE								
16.		Federal Receipts	1002							
17.		C.F. Match	1003							
18.		General Funds	1004	57.2						
19.		I-A Receipts	1005							
20.		Program Receipts	1028							
21.		Other								

FOR BSM USE ONLY
KEY NUMBER — — - — — - — — - — — - — —

JUSTIFICATION

The Loan Examiner II will function as a generalist in the processing of loan applications under the new small business program. The examiner will be responsible for those requests that do not involve advanced technologies or extreme complexities. The Loan Examiner II will take his/her lead from the Loan Examiner III and will be under the direct supervision of the Regional Loan Manager. One Loan Examiner II will be located in each of the division's three regional offices (Juneau, Anchorage, and Fairbanks).

Estimates for the 200-500 line items assume that the new employee required for this new loan program will require support at levels similar to that actually being incurred by the division on other loan programs.

Travel: To inspect collateral, interview applicants, and inform the public on the loan program ($3,950).
Contractual: Space rental will be RSA'd to the Department of Administration ($3,000).
Commodities: General office supplies ($300).
Equipment: Calculator $ 365
Microfiche Reader $ 300
Workstation $4,085
Total $4,750

REQUEST FOR NEW POSITION

AGENCY Commerce & Economic Development
PROGRAM Economic Development
BRU Investment
COMPONENT Administration

Revised Date

FY 86

1.	POSITION TITLE LOAN EXAMINER II			RANGE/STEP 17A	OARG. UNIT GGU	PAGE/LINE	GOV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION Fairbanks	ELECTION DISTRICT	LEG.		
3.	CONFIRMATION LEVEL		ADDITION							

4. TYPE OF EXPENDITURE	1	2	AMOUNT 3
	PERSONAL SERVICES		
5.	Salary	40.7	
6.	Benefits	6.5	
7.	Supplemental Benefits	2.5	
8.	Fixed Benefits	2.7	
9.	TOTAL PERSONAL SERVICES	01	51.7
10.	Travel	02	4.0
11.	Contractual	03	3.0
12.	Commodities	04	0.3
13.	Equipment	05	4.7
14.	Other		
15.	TOTAL COST		63.7

	RECEIPT CODE	FUNDING SOURCE	
16.		Federal Receipts 1002	
17.		C.F. Match 1003	63.7
18.		General Funds 1004	
19.		I-A Receipts 1005	
20.		Program Receipts 1028	
21.		Other	

FOR OMB USE ONLY
KEY NUMBER — — - — — - — — - — — - — —

JUSTIFICATION

The Loan Examiner II will function as a generalist in the processing of loan applications under the new small business program. The examiner will be responsible for thos requests that do not involve advanced technologies or extreme complexities. The Loan Examiner II will take his/her lead from the Loan Examiner III and will be under the direct supervision of the Regional Loan Manager. One Loan Examiner II will be located in each of the division's three regional offices (Juneau, Anchorage, and Fairbanks).

Estimates for the 200-500 line items assume that the new employees required for this new loan program will require support at levels similar to that actually being incurred by the division on other loan programs.

Travel: To inspect collateral, interview applicants, and inform the public on the loan program ($3,950).
Contractual: Space rental will be RSA'd to the Department of Administration ($3,000).
Commodities: General office supplies ($300).
Equipment: Calculator $ 365
Microfiche Reader $ 300
Workstation $4,085
Total $4,750

REQUEST FOR NEW POSITION

AGENCY Commerce & Economic Development
PROGRAM Economic Development
BRU Investment
COMPONENT Administration

Revised Date

FY 86

1. POSITION TITLE				RANGE/STEP	BARG. UNIT	PAGE/LINE	GOV.	APPROV.	DISAPP.
LOAN CLOSER II				12A	GGU				
2. TYPE OF POSITION	STAFF MONTHS	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION	ELECTION DISTRICT	LEG.		
PFT	12				Juneau				
3. CONFIGURATION LEVEL		ADDITION							

4. TYPE OF EXPENDITURE		AMOUNT
1	2	3
PERSONAL SERVICES		
5. Salary	24.9	
6. Benefits	4.0	
7. Supplemental Benefits	1.5	
8. Fixed Benefits	2.7	
9. TOTAL PERSONAL SERVICES 01		33.1
10. Travel 02		-0-
11. Contractual 03		3.0
12. Commodities 04		0.3
13. Equipment 05		9.5
14. Other		
15. TOTAL COST		45.9

	RECEIPT CODE	FUNDING SOURCE	
16.		Federal Receipts 1002	
17.		C.F. Match 1003	
18.		General Funds 1004	45.9
19		I-A Receipts 1005	
20		Program Receipts 1028	
21.		Other	

FOR BSM USE ONLY
KEY NUMBER __ __ - __ __ - __ __ - __ __ - __ __

JUSTIFICATION

The Loan Closer II will be responsible for preparing and executing all documents necessary for closing loans under the new Small Business Development Loan program. In view of the large number of loans that are expected under this new program, one Loan Closer II will be required in each of the division's three regional offices (Juneau, Anchorage, and Fairbanks).

Contractual: Space rental will be RSA'd to the Department of Administration ($3,000).
Commodities: General office supplies ($300).
Equipment: Calculator $ 365
Word processing terminal $5,000
Workstation $4,085
Total $9,450

REQUEST FOR NEW POSITION

AGENCY Commerce & Economic Development
PROGRAM Economic Development
BRU Investment
COMPONENT Administration

Revised Date

FY 86

1113617/820-15

1.	POSITION TITLE: LOAN CLOSER II			RANGE/STEP: 12A	OCCUP. UNIT: GGU	PAGE/LINE	COV.	APPROV.	DISAPP.
2.	TYPE OF POSITION: PFT	STAFF MONTHS: 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION: Anchorage	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL		ADDITION						

4.	TYPE OF EXPENDITURE	1 / 2	AMOUNT 3
	PERSONAL SERVICES		
5.	Salary	24.9	
6.	Benefits	4.0	
7.	Supplemental Benefits	1.5	
8.	Fixed Benefits	2.7	
9.	Total PERSONAL SERVICES	01	33.1
10.	Travel	02	-0-
11.	Contractual	03	3.0
12.	Commodities	04	0.3
13.	Equipment	05	9.5
14.	Other		
15.	Total COST		45.9

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		G.F. Match	1003	45.9
18.		General Funds	1004	
19.		I-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR BSM USE ONLY
KEY NUMBER — — - — — - — — - — — - — —

JUSTIFICATION

The Loan Closer II will be responsible for preparing and executing all documents necessary for closing loans under the new Small Business Development Loan program. In view of the large number of loans that are expected under this new program, one Loan Closer II will be required in each of the division's three regional offices (Juneau, Anchorage, and Fairbanks).

Contractual: Space rental will be RSA'd to the Department of Administration ($3,000).
Commodities: General office supplies ($300).
Equipment: Calculator $ 365
Word processing terminal $5,000
Workstation $4,085
Total $9,450

REQUEST FOR NEW POSITION

AGENCY: Commerce & Economic Development
PROGRAM: Economic Development
BRU: Investment
COMPONENT: Administration

Revised Date

FY 86

1.	POSITION TITLE LOAN CLOSER II			12A	RANGE/STEP GGU	BARG. UNIT	PAGE/LINE	CON.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION Fairbanks	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL		ADDITION		JUSTIFICATION					

4.	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
	PERSONAL SERVICES		
5.	Salary	28.2	
6.	Benefits	4.6	
7.	Supplemental Benefits	1.8	
8.	Fixed Benefits	2.7	
9.	TOTAL PERSONAL SERVICES	01	37.3
10.	Travel	02	-0-
11.	Contractual	03	3.0
12.	Commodities	04	0.3
13.	Equipment	05	9.5
14.	Other		
15.	TOTAL COST		50.1

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		C.F. Match	1003	50.1
18.		General Funds	1004	
19.		I-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR BSR USE ONLY
KEY NUMBER __ __ - __ __ - __ __ - __ __ - __ __

The Loan Closer II will be responsible for preparing and executing all documents necessary for closing loans under the new Small Business Development Loan program. In view of the large number of loans that are expected under this new program, one Loan Closer II will be required in each of the division's three regional offices (Juneau, Anchorage, and Fairbanks).

Contractual: Space rental will be RSA'd to the Department of Administration ($3,000).
Commodities: General office supplies ($300).
Equipment: Calculator $ 365
Word processing terminal $5,000
Workstation $4,085
Total $9,450

REQUEST FOR NEW POSITION

AGENCY Commerce & Economic Development
PROGRAM Economic Development
BRU Investment
COMPONENT Administration

Revised Date

FY 86

SMALL BUSINESS DEVELOPMENT LOAN PROGRAM

Sources of Funding:

A. Inactive Loan Programs

Under this alternative, the portfolios of inactive loan programs would be transferred to the Small Business Development Loan Fund.

These inactive loan programs will have a cash flow in FY86 and FY87 of approximately $13.8 million. However, interest payments to the Small Business and Tourism Loan Programs have already been included in the Department of Revenue and OMB cash flow estimates. Therefore, of the $13.8 million, about $8.8 million is unallocated in the FY87 budget.

Program	FY86 P	FY86 I	7/1/86 Balance	FY87 P	FY87 I	Total
Small Business Dev. Loan Fund	3,153.9	2,345.2/	5,267.0	3,300.0	2,207.2/	10,774.2
Tourism Loan Program	289.6	297.8	547.3	318.6	245.5	1,111.4
Veterans Loan Program	551.9	1,059.5	337.0	590.5	1,012.0	1,939.5
SUBTOTAL:	3,995.4	3,702.5	6,151.3	4,209.1	3,464.7	13,825.1

Note: For the FY86 cash flow to be applicable, the bill must have an immediate effective date.

B. Active Loan Programs

The Governor's FY87 loans budget already reappropriates $19.2 million in loan fund surpluses to fund existing, active loan programs. Additional cash may be available through the elimination or scaling back of active loan programs or by merging active programs into the Small Business Loan Program.

Program	7/1/86 Balance	FY87 P	FY87 I	Total
Child Care Facility Loan Fund	435.4	111.3	60.0	606.7
Alternative Energy Loan Fund	897.4	1,744.2	722.6	3,364.2
Residential Energy Loan Fund	304.8	1,207.2	275.9	1,787.9
Historical District Loan Fund	125.8	6.4	27.4	159.6
SUBTOTAL:	1,763.4	3,069.1	1,085.9	5,918.4

Loans for Child Care Facilities would be absorbed within a Small Business Loan Program; however, acceptance of this option would take the State completely out of the lending business for alternative energy system development, residential energy conservation, and historical building acquisition and renovation. One alternative proposed by DCED would scale back the Alternative Energy Loan Program by eliminating passive energy systems, which comprise approximately 80% of the program's activity.

C. Summary

As much as $19.7 million may be available for a Small Business Development Loan Program in FY87. Of this amount, approximately $5 million has been included in the FY86/FY87 revenue estimates, leaving an "unallocated" balance of $14.7 million.

MEMORANDUM State of Alaska

TO: Jim Ayers, Director
Legislative Affairs
Office of the Governor

DATE: January 29, 1986

RECEIVED
JAN 30 1986

FILE NO.:

THRU:

TELEPHONE NO.: 465-2510

SUBJECT: Small Business Development Loan Program

FROM: Paul B. Arnoldt, Director
Division of Investments
Department of Commerce and
Economic Development

Terry Elder, Joan Brown, Maggie Hamley and I met with Guy Bell on January 22, 1986, to discuss the proposed small business program contained in HB 135, to recommend amendments to the bill, to discuss fiscal impacts, and to identify potential funding sources. We used Guy's memorandum to you dated January 21, 1986 as a basis for our discussion.

AMENDMENTS TO THE BILL

(1) Refinancing: Under HB 135, borrowers who would like to refinance existing loans held by other financial institutions may do so. This is a very costly provision and would add substantially to the number of loans that would qualify under the proposed small business program. Since these borrowers already have financing through the private sector, and since there is limited State funding for this proposed program, we recommend that refinancing be excluded under the bill.

(2) Interest rates: Under HB 135, the interest rate is based on the federal discount rate plus three points and also requires an annual loan anniversary interest rate adjustment. The federal discount rate is a short-term rate established by the Federal Reserve Board. Since differing discount rates are issued out of New York, San Francisco, etc., the bill would have to be clarified in this respect. The federal discount rate is not a market interest rate; typically, the federal discount rate lags the market. HB 109, introduced by the Governor, provides an excellent formula for calculating a market-tied interest rate. Another alternative, already used under the Bulk Fuel and the Residential Energy Conservation Loan Programs, is to charge interest at a rate equal to the percentage of the average weekly yield of municipal bonds for the 12 months preceding the date of the loan as determined from municipal bond yield rates reported in the 30-year revenue index of the Weekly Bond Buyer. We would recommend that an index other than the federal discount rate be used that both parallels the market and corresponds to various loan terms.

We also recommend that the annual adjustment in the interest rate over the life of the loan be eliminated. Making an annual adjustment in order to track rising and falling interest rates may only be an exercise in futility since in the long-run these increases and decreases will average out. There will be confusion among borrowers as their payments vary from year to year, and there will be considerable administrative and data processing costs incurred in implementing this provision.

Finally, since one of the proposals for partially funding the proposed small business loan program is to use surplus funds from the Veterans Loan Program, consideration should be given to granting a 1% veterans preference in the interest rate that is being charged.

(3) Terms: HB 135 does not establish a statutory maximum loan term. Since there will be innumerable small business loan requests, maybe the bill sponsor intended this provision to be addressed by the department under regulation. While this can be done, I only mention this in case there was a drafting oversight.

(4) Effective date: HB 135 would take effect immediately in accordance with AS 01.10.070(c). Clearly staffing, developing application packets, promulgating regulations, modifying data processing and accounting programs will take time. If an additional qualifier, such as, "no loan applications will be accepted until September 1, 1986" was added to the effective date clause, then the infrastructure could be in place and the public will not be disenfranchised by delays in implementing the program.

FISCAL IMPACTS

Updated fiscal notes for HB 135 for the Division of Investments and the Division of Accounting and Collections are included for your reference. These fiscal notes were adjusted to reflect today's personal service costs and current interest rates. We recognize that funding HB 135 at $40.0 million is very unlikely. Once some agreed upon funding level is established, we are prepared to revise these fiscal notes. We anticipate this new funding level will be substantially less than the $40.0 million loan demand that is anticipated under HB 135; therefore, the revised fiscal notes will be lower.

One of the proposed sources of funds contained in Guy's memorandum is to use surplus funds from the Small Business, Tourism and Veterans Loan Programs. Since these programs are inactive, that is no new loans are being made, there will be no change in the administrative costs necessary to support these programs as a result of using them as a funding source.

However, eliminating the Alternative Energy, Residential Energy Conservation, Child Care Facility, and Historical District Loan Programs to create a source of funds for the proposed small business program will reduce the administrative costs associated with these programs. Obviously, the cost of making and servicing new loans will be eliminated; however, the cost of servicing existing loans will continue. We recommend that consideration be given to eliminating specific categories of loans under the Alternative Energy Loan Program rather than eliminating the program altogether. In the past we have called attention to the problems of passive energy systems such as solar heating units and solar sunspaces. These types of loans account for approximately 80% of the Alternative Energy Loan Program. The remaining 20% represent loans for alternative energy sources utilizing wind, water and renewable fuels which satisfy the needs of many rural Alaskans and appear to be justified.

The following represents the first year savings that would be achieved if some or all of the mentioned loan programs were eliminated. These savings would serve as an offset against the fiscal notes for HB 135:

	Division of Investments	Division of Accounting & Collections	Total
(1) Alternative Energy:			
(a) 100% eliminated	$206.4	$13.4	$219.8
(b) 80% eliminated	$165.1	$10.7	$175.8
(2) Residential Energy	$135.4	$10.0	$145.4
(3) Child Care Facility	$ 19.6	$ 2.0	$ 21.6
(4) Historical District	$ 2.7	$ 0.4	$ 3.1

POTENTIAL FUNDING SOURCES

The Division of Accounting and Collections estimates the following cash will be available for reappropriation beginning FY 1987:

gross receipts

(1) Alternative Energy:	
(a) 100% Eliminated	$1,904.2
(b) 80% Eliminated	$1,523.4

(2) Residential Energy	$1,151.9
(3) Child Care Facility	$ 130.6
(4) Historical District	$ 26.1
(5) Small Business	$4,580.8
(6) Tourism	$ 489.3
(7) Veterans	$1,342.3

Obviously, reappropriating funds under the active loan programs (Alternative Energy, Residential Energy, Child Care Facility and Historical District) will have the effect of eliminating these loan programs; however, applications for child care facility loans and for some historical district loans will probably qualify under HB 135.

Bob Heath, Executive Director for the Alaska Power Authority, has advised us that no excess cash will be available for reappropriation from the Power Development Revolving Loan Fund beginning FY 1987.

PBA/me0597C
012986A
Attachments

cc: Guy Bell
Joan Brown
Terry Elder
Maggie Hamley
Bob Heath

MEMORANDUM State of Alaska

RECEIVED
JAN 30 1986

TO: Paul B. Arnoldt, Director
Division of Investments
Department of Commerce & Economic Development

DATE: January 31, 1986

FILE NO.:

TELEPHONE NO.: 465-2555

THRU: Margaret I. Hamley, Director
Division of Accounting & Collections

SUBJECT: Small Business Development Loan Program

FROM: Debbie Guillaume
Administrative Assistant III
Division of Accounting & Collections

Page 3, under "Potential Funding Sources," of your memo of January 29, 1986 addressed to Jim Ayers, contained information which I provided. The amounts in your memo were estimated total cash receipts for FY 86 and not net cash available for reappropriation beginning FY 87. Taking into consideration the Governor's budget request (HB 500, as introduced January 17, 1986), the estimated cash available on July 1, 1986 is as follows:

Alternative Energy	$677.6
Residential Energy	159.4
Child Care Facility	413.8
Historical District	122.7
Small Business	5,267.0*
Tourism	547.3*
Veterans	337.0
	$7,524.8

*Assumes repeal of Sections 3 and 4, Ch. 156, SLA 1984 which would allow cash balance to remain in the loan fund. (Current statute transfers 6/30 cash balance to General Fund each year.)

All of the active loan programs listed above are dependent on these funds for meeting FY 87 loan demand. Reappropriating these funds to a new loan program without merging the active loan programs into the new one will cause the shut down of these programs on July 1, 1986.

If all, or a portion of all of the active loan funds are eliminated and the administrative cost savings are taken into consideration, the July 1, 1986 cash available would be:

Program Eliminated:	Estimated 7-1-86 Cash Available	Admin. Cost Savings	Adjusted 7-1-86 Cash Available
Alternative Energy			
(1) 100% Eliminated	$677.6	$219.8	$897.4
(2) 80% Eliminated	677.6	175.8	853.4
Residential Energy	159.4	145.4	304.8
Child Care Facility	413.8	21.6	435.4
Historical District	122.7	3.1	125.8

I apologize for the misunderstanding. This information should clarify the cash available issue. Please contact me if you have any questions.

DG/lt4670t
013086b

cc: Jim Ayers, Director, Legislative Affairs, Office of the Governor
Guy Bell, Budget Analyst, OMB
Joan Brown, Director, Division of Admin. Svcs., DCED
Terry Elder, Deputy Commissioner, DCED
Bob Heath, Director, APA



THE AMERICAN LEGION

DEPARTMENT OF ALASKA
235 EAST 8th AVENUE
ANCHORAGE, ALASKA 99501
(907) 276-8211

E.P. "Shorty" OLIVER
Department Commander
9414 Long Run Dr., Juneau, AK 99803

ROBERT G. BLAIR
National Executive Committeeman
Box 2337, Kodiak, AK 99615

JOSEPH T. CRAIG
Alternate NEC
2323 First Ave.
Ketchikan, AK 99901

FLOYD R. JOHNSON
Department Adjutant/Service Officer
235 East 8th Avenue, Anchorage, AK 99501

April 9, 1985

Representative Jim Duncan
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Subject: House Bill 135

Dear Representative Duncan:

Alaska veterans are concerned that small business loans are not available to veterans. Our veterans have suggested the State of Alaska make or guarantee small business loans to qualified veterans.

It is requested you consider an amendment to House Bill 135 that would give veterans a preference for loans under that bill.

The American Legion, Department of Alaska recommends that veterans be specifically identified in this bill and loans through the "Small Business Development Loan" program be made available to qualified veterans at two percentage points below that rate being offered non-veterans.

There are approximately 66,000 veterans living in the State of Alaska and this requested amendment would help many of our veterans obtain small business loans.

Any consideration you make for the veterans is appreciated.

Sincerely,

E.P. "Shorty" Oliver
Department Commander

EO/spp

cc: Representative Hermann
Representative Sund

ALASKA
STATE LEGISLATURE

MEMORANDUM

February 8, 1985

TO: Representative Sund, Chairman
House Special Committee on Loans

FROM: Representative Jim Duncan

RE: HB 135

HB 135 concerning Small Business Development Loans has been referred to your committee.

I urge you to schedule it for a hearing as soon as possible. With the cuts in the federal small business loans, the proposed state loan program may be the only financing available to Alaskan businesses.

(c) After a default by a borrower, the maximum liability of the fund for a loan guarantee under this chapter is equal to the amount then in default multiplied by a percentage equal to the guaranteed percentage of the loan. Payments received toward satisfaction of a default shall be allocated between the lender and the fund according to the guaranteed percentage of the loan until the principal balance has been repaid. (§ 1 ch 83 SLA 1984)

Sec. 45.94.060. Definitions. In this chapter

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

(2) "department" means the Department of Revenue;

(3) "forest products business" means a sole proprietorship, partnership, corporation or other business organization formed for the purpose of harvesting or processing timber or other forest resources;

(4) "fund" means the forest products business loan guarantee fund. (§ 1 ch 83 SLA 1984)

Chapter 95. Small Business Loans.

Section

20. Small business loans

Sec. 45.95.010. Powers and duties of Department of Commerce and Economic Development in general.

NOTES TO DECISIONS

Cited in State v. First Nat'l Bank, Sup. Ct. Op. No. 2370 (File No. 5371), 629 P.2d 78 (1981).

Sec. 45.95.020. Small business loans. (a) The commissioner shall, under regulations and policies adopted by him, make small business loans to acquire, finance or refinance or equip businesses, including farming, mining and fishing, not exceeding $500,000. The loans shall be secured by acceptable collateral and may not exceed 75 percent of the appraised value of the collateral offered as security. The rate of interest may not exceed nine and one-half percent a year on the unpaid balance. For the purposes of this subsection business equipment includes, but is not limited to, farming equipment and fire protection systems approved under AS 18.70.081.

(b) *[Repealed, § 14 ch 122 SLA 1980.]*

(c) *[Repealed, § 108 ch 59 SLA 1982.]*

(d) Money loaned shall be delivered to the borrower in the form of a warrant drawn on the treasury, vouchered in the manner prescribed for state disbursing officers, and charged against the small business revolving loan fund. Each voucher shall be approved by the commis-

sioner or any bonded deputy authorized to act as a certifying officer. Upon repayment of loans by installments, or otherwise, in accordance with the prescribed terms, or upon liquidation by foreclosure or other process, or upon receipt of interest or other revenue, the money so received shall be turned over to the commissioner of revenue for deposit in the small business revolving loan fund.

(e) The commissioner may not disqualify an applicant for, or prejudice an applicant's privilege to receive, a loan to purchase and install a fire protection system solely because of a loan already made to the applicant under this chapter. (§ 8 ch 109 SLA 1971; am § 1 ch 103 SLA 1974; am § 110 ch 218 SLA 1976; am § 6 ch 139 SLA 1977; am § 25 ch 72 SLA 1979; am §§ 6, 7 ch 45 SLA 1980; am § 14 ch 122 SLA 1980; am § 108 ch 59 SLA 1982)

Effect of amendments. — The 1982 amendment repealed subsection (c) concerning a limitation on the authorization of loans.

Sec. 45.95.060. Creation of fund.

Cross references. — For annual appropriation of cash balance attributable to loans owned by the fund, see § 4, ch. 156, SLA 1984 in the Temporary and Special Acts.

Chapter 98. Historical District Revolving Loan Fund.

Section

40. Limitations on loans

Sec. 45.98.020. Historical district loans.

Opinions of attorney general. — The zoning power vested in the Department of Natural Resources under this section is broad enough to encompass the creation of historical districts as a control over land use, but the exercise of that authority does not make the property eligible for historic preservation loans under AS 45.98, which is aimed solely at historic districts established by municipalities January 3, 1980, Op. Att'y Gen.

Sec. 45.98.040. Limitations on loans. Loans made under this chapter are subject to the following limitations:

(1) state participation in all loans in the aggregate, for any one historical district qualifying under this chapter may not exceed $1,500,000;

(2) state participation in a loan for the restoration, improvement, rehabilitation or maintenance of any one building or structure qualifying under this chapter may not exceed $250,000;

(3) the loans shall be secured by acceptable collateral and may not exceed 85 per cent of the appraised value of the collateral offered as security;

Effect of amendments. — The 1979 amendment in subsection (b), substituted "commissioner of commerce and economic development" for "commissioner of commerce" and "Department of Commerce and Economic Development" for "Department of Commerce" in the first sentence and "may purchase" for "shall purchase" in the second sentence.

The 1980 amendment repealed subsection (b), which read: "The commissioner of commerce and economic development may sell or transfer at par value to the Department of Revenue the mortgages and notes held by the Department of Commerce and Economic Development as security for loans made under this chapter. The Department of Revenue may purchase the mortgages and notes offered."

Chapter 95. Small Business Loans.

Section

10. Powers and duties of Department of Commerce and Economic Development in general
20. Small business loans
30. Sale or transfer of preferred commercial paper
40. Sale or transfer of mortgages and notes
50. Power of commissioner to assign and sell mortgages
60. Creation of fund
70. Eligibility for loans
80. Definitions

Sec. 45.95.010. Powers and duties of Department of Commerce and Economic Development in general. (a) The Department of Commerce and Economic Development shall formulate general policies and adopt regulations.

(b) The department may hold hearings and subpoena witnesses and documents, and administer oaths in connection with hearings.

(c) The department shall

(1) cooperate with the state and its political subdivisions and agencies;

(2) adopt regulations necessary for the conduct of its business and for carrying out the provisions of this chapter, and make necessary regulations to maintain such standards;

(3) require bonds and undertakings from persons employed by it as shall in its judgment be necessary, and pay the premiums on them;

(4) establish such regional and local offices and such advisory groups as may be necessary or considered expedient to carry out or assist in carrying out its duties and authority. (§ 8 ch 109 SLA 1971; am § 109 ch 218 SLA 1976)

Effect of amendment. — The 1976 amendment substituted "Department of Commerce and Economic Development" for "Department of Commerce" in subsection (a).

Sec. 45.95.020. Small business loans. (a) The commissioner shall, under regulations and policies adopted by him, make small business loans to acquire, finance or refinance or equip businesses, including farming, mining and fishing, not exceeding $500,000. The loans shall be secured by acceptable collateral and may not exceed 75 percent of

the appraised value of the collateral offered as security. The rate of interest may not exceed nine and one-half percent a year on the unpaid balance. For the purposes of this subsection business equipment includes a but is not limited to, farming equipment and fire protection systems approved under AS 18.70.081.

(b) Repealed by § 14 ch 122 SLA 1980.

(c) No loans authorized by this section may be made unless the commissioner is satisfied that no money is available to the applicant from private lending institutions on a guaranteed basis as set out in (b) of this section.

(d) Money loaned shall be delivered to the borrower in the form of a warrant drawn on the treasury, vouchered in the manner prescribed for state disbursing officers, and charged against the small business revolving loan fund. Each voucher shall be approved by the commissioner or any bonded deputy authorized to act as a certifying officer. Upon repayment of loans by installments, or otherwise, in accordance with the prescribed terms, or upon liquidation by foreclosure or other process, or upon receipt of interest or other revenue, the money so received shall be turned over to the commissioner of revenue for deposit in the small business revolving loan fund.

(e) The commissioner may not disqualify an applicant for, or prejudice an applicant's privilege to receive, a loan to purchase and install a fire protection system solely because of a loan already made to the applicant under this chapter. (§ 8 ch 109 SLA 1971; am § 1 ch 103 SLA 1974; am § 110 ch 218 SLA 1976; am § 6 ch 139 SLA 1977; am § 25 ch 72 SLA 1979; am §§ 6, 7 ch 45 SLA 1980; am § 14 ch 122 SLA 1980)

Effect of amendments. — The 1976 amendment deleted "of commerce" following "commissioner" in the first sentence of subsection (a), in the first and third sentences of former subsection (b), in subsection (c), and in the second sentence of subsection (d).

The 1977 amendment substituted "$300,000" for "$100,000" at the end of the first sentence of subsection (a).

The 1979 amendment, in subsection (a), substituted "$500,000" for "$300,000" at the end of the first sentence and "nine and one-half per cent" for "eight per cent" in the third sentence.

The first 1980 amendment added fire protection systems approved under AS 18.70.081 to subsection (a) of AS 45.95.020 to insure that such systems were eligible for loans under AS 45.95. As enacted, that amendment inserted "fire protection systems approved under AS 18.70.081" preceding "mining and fishing" in the first sentence of subsection (a). The section has been rearranged by the revisor of statutes pursuant to AS 01.05.031 in the interest of clarity.

The second 1980 amendment repealed subsection (b), which read: "The commissioner may enter into agreements with private banks, other lending institutions and individuals for the purpose of guaranteeing loans made to qualified applicants. The guarantees may not exceed 90 per cent of the amount loaned and the loans shall be secured in the same manner provided for direct loans under this section. A loan made under this subsection and guaranteed by the commissioner and the state shall bear an interest rate not exceeding eight per cent a year on the unpaid balance."

Editor's note. — Section 1, ch. 139, SLA 1977, provides: "INTENT It is the intent of the legislature to foster an awareness of the need to preserve our

historic past; to protect those visible aspects of our invaluable heritage so that present and future generations may continue to be enriched by the originality and strength of Alaska's architectural and cultural beginnings."

Section 71, ch. 106, SLA 1980 provides that after July 1, 1981, "no further loans may be made under AS 45.90.020, AS 45.95.020, and AS 26.15.040(3)."

Subsection (b), referred to in subsection (c), was repealed by the second 1980 amendment.

Sec. 45.95.030. Sale or transfer of preferred commercial paper. The commissioner may negotiate with and transfer or sell to and repurchase from the Department of Revenue, its preferred commercial paper, not to exceed $1,000,000 for cash, which cash shall be used only for the purposes of making loans to persons eligible under this chapter. Money loaned under this section is subject to interest at the rate of two and one-half per cent a year until all principal and interest are fully paid. (§ 8 ch 109 SLA 1971; am § 111 ch 218 SLA 1976)

Effect of amendment. — The 1976 amendment deleted "of commerce" following "commissioner" in the first sentence.

Sec. 45.95.040. Sale or transfer of mortgages and notes. (a) The commissioner may sell or transfer at par value or at a premium or discount to any bank or other private purchaser for cash or other consideration the mortgages and notes held by the Department of Commerce and Economic Development as security for loans made under this chapter.

(b) The commissioner may sell or transfer at par value to the Department of Revenue the mortgages and notes held by the Department of Commerce and Economic Development as security for loans made under this chapter. The Department of Revenue may purchase the mortgages and notes offered. (§ 8 ch 109 SLA 1971; am § 112 ch 218 SLA 1976; am § 26 ch 72 SLA 1979)

Effect of amendments. — The 1976 amendment deleted "of commerce" following "commissioner" near the beginning of subsection (a) and near the beginning of the first sentence of subsection (b), and substituted "Department of Commerce and Economic Development" for "Department of Commerce" near the end of subsection (a) and in the first and second sentences of subsection (b).

The 1979 amendment in the second sentence of subsection (b), substituted "may purchase the mortgages" for "shall purchase all of these mortgages" and deleted "allowing the Department of Commerce and Economic Development a one-half of one per cent service fee" from the end.

Sec. 45.95.050. Power of commissioner to assign and sell mortgages. The commissioner may assign and sell small business loan mortgages to the Alaska State Mortgage Association in consideration of receiving its cash, bonds, debentures and notes upon conditions which he considers advantageous to the state small business lending program. (§ 8 ch 109 SLA 1971; am § 113 ch 218 SLA 1976)

Effect of amendment. — The 1976 amendment deleted "of commerce" following "commissioner" near the beginning of the section.

Sec. 45.95.060. Creation of fund. There is created the small business revolving loan fund to carry out the purposes of this chapter. This fund shall be used for no other purpose. (§ 8 ch 109 SLA 1971)

Sec. 45.95.070. Eligibility for loans. A person is eligible for a loan under this chapter if

(1) he can establish or demonstrate good character, capacity for financial responsibility, ability to provide sufficient collateral and knowledge of Alaska economic conditions;

(2) he is a resident of the state; and

(3) in the judgment of the Department of Commerce and Economic Development

(A) the business shows a definite potential for growth;

(B) the borrower will be able to repay the loan; and

(C) the loan will potentially create more jobs and provide additional services in the community. (§ 8 ch 109 SLA 1971; am § 1 ch 17 SLA 1974; am § 114 ch 218 SLA 1976)

Effect of amendment. — The 1976 amendment substituted "Department of Commerce and Economic Development" for "Department of Commerce" in the introductory language of paragraph (3).

Sec. 45.95.080. Definitions. In this chapter, "commissioner" means the commissioner of commerce and economic development. (§ 115 ch 218 SLA 1976)

Chapter 98. Historical District Revolving Loan Fund.

Section

10. Creation of historical district revolving loan fund
20. Historical district loans
30. Powers and duties of the department
40. Limitations on loans
50. Sale or transfer of mortgages and notes
60. Penalty provision
70. Short title

Cross references. — As to the creation of historical district commissions, see AS 29.48.108. As to the establishment of historical districts, see AS 29.48.110. As to the duty of the Historic Sites Advisory Committee with regard to historical district loans, see AS 41.35.180(5).

Editor's note. — Section 1, ch. 139, SLA 1977, provides: "INTENT. It is the intent of the legislature to foster an awareness of the need to preserve our historic past; to protect those visible aspects of our invaluable heritage so that present and future generations may continue to be enriched by the originality and strength of Alaska's architectural and cultural beginnings."

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

IN THE HOUSE

BY DUNCAN, SUND AND HERRMANN BY DUNCAN

HOUSE BILL NO. 135

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act establishing a Small Business Development Loan program; and providing for an effective date."

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

* Section 1. AS 45.95.020 is repealed and reenacted to read:

Sec. 45.95.020. SMALL BUSINESS DEVELOPMENT LOANS. (a) The commissioner shall adopt regulations and policies to make small business development loans or to purchase small business development loans from a bank or other financial institution in the state. A small business development loan made under this chapter may not exceed $100,000 and shall be for the purpose of acquiring, operating, or equipping a business, other than a farming, mining, or fishing business. A small business development loan shall be secured by acceptable collateral and may not exceed 80 percent of the fair market value of the collateral offered as security. The initial rate of interest on a small business development loan is equal to the federal discount rate in effect on the first day of the month preceding the month of closing the loan plus three percentage points. The interest rate shall be adjusted annually to be three percentage points more than the federal discount rate in effect on the first day of the month preceding the month of the anniversary date of the loan.

(b) Money loaned shall be delivered to the borrower as provided by regulations adopted by the commissioner. Upon repayment of loans by installments, or otherwise, in accordance with the prescribed terms, or upon liquidation by foreclosure or other process, or upon

COMMITTEE COPY

receipt of interest or other revenue, the money so received shall be turned over to the commissioner of revenue for deposit in the small business development revolving loan fund.

(c) The commissioner may not disqualify an applicant for, or prejudice an applicant's privilege to receive, a loan for a purpose authorized under this section because the applicant has previously received a loan under this chapter, but the total principal amount outstanding to a borrower on loans made under this chapter may not exceed $150,000.

* Sec. 2. AS 45.95.050 is amended to read:

Sec. 45.95.050. POWER OF COMMISSIONER TO ASSIGN AND SELL MORTGAGES. The commissioner may assign and sell small business development loan mortgages to the Alaska permanent fund, the Department of Revenue, the Alaska Industrial Development Authority, or to a bank or other private purchaser [STATE MORTGAGE ASSOCIATION] in consideration of receiving [ITS] cash, bonds, debentures and notes upon conditions which the commissioner [HE] considers advantageous to the state small business development lending program.

* Sec. 3. AS 45.95.060 is amended to read:

Sec. 45.95.060. ESTABLISHMENT [CREATION] OF FUND. The [THERE IS CREATED THE] small business development revolving loan fund is established in the Department of Commerce and Economic Development to carry out the purposes of this chapter. This fund may not [SHALL] be used for any [NO] other purpose.

* Sec. 4. AS 45.95.070 is amended to read:

Sec. 45.95.070. ELIGIBILITY FOR LOANS. A small business [PERSON] is eligible for a loan under this chapter if

(1) it [HE] can establish or demonstrate [GOOD CHARACTER,] capacity for financial responsibility and an [,] ability to provide

sufficient collateral [AND KNOWLEDGE OF ALASKA ECONOMIC CONDITIONS]; and

(2) [HE IS A RESIDENT OF THE STATE; AND

(3)] in the judgment of the commissioner [DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT]

(A) the business shows a definite potential for growth;

(B) the borrower will be able to repay the loan; and

(C) the loan has the potential to [WILL POTENTIALLY] create more jobs and provide additional services in the community.

* Sec. 5. AS 45.95.080 is amended to read:

Sec. 45.95.080. DEFINITIONS. In this chapter,

(1) "commissioner" means the commissioner of commerce and economic development;

(2) "small business" means a sole proprietorship, partnership, or corporation operating only in the state that is not a subsidiary of another business and that does not employ more than 10 employees.

* Sec. 6. Section 71(2), ch. 106, SLA 1980 is amended to read:

(2) no further loans may be made under AS 45.90.020 [,AS 45.95.020,] and AS 26.15.040(3).

* Sec. 7. This Act takes effect immediately in accordance with AS 01.-10.070(c).

E COPY

SCOMM

#50:21

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date

REQUEST
Bill/Resolution No: HB 146
Title: An Act relating to housing loans for the permanently disabled
Sponsor: Furnace, Collins
Requestor: Spec. Comm. on Loans
Date of Request:

FISCAL DETAIL
Agency Affected: Revenue
Program Category Affected: Economic Development
BRU, Program of Subprogram(s) Affected: Alaska Housing Finance Corporation

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

FUNDING: (Millions of Dollars)

GENERAL FUND	-	-	11.0	11.7	12.4	13.1
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	12.2	-	-	-	-
TOTAL	-	12.2	11.0	11.7	12.4	13.1

POSITIONS:

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

ANALYSIS: Attach a separate page for analysis.

Prepared By: Mark K. Cameron
Division: Alaska Housing Finance Corporation
Phone: 276-5599
Date: 3/8/85

Approved by Commissioner: Steven A. Strandberg
Agency: Revenue
Date: 3/11/85

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Analysis:

HB 146 would establish within AHFC a loan program for the severely and permanently disabled. The key to the program is a lower mortgage rate (6%). The lower interest rate will assist in qualifying those individuals who would not be afforded the opportunity of home ownership based upon current AHFC rates. Since this program will increase the number of residents who would qualify for AHFC loans, it is program expansive. The demand for this program is not expected to be offset by a reduction in any other AHFC program.

As drafted, a significant portion of the loans purchased would be nonconforming in that they would not be eligible for pledge to bonds issued by the Corporation. Accordingly, they would have to be funded out of pocket without the benefit of leveraging. As detailed below, the incremental cost of the program would be $12.2 million for FY 86. Were the bill amended to require a minimum 5% down payment on each loan, they would be eligible for pledge to bonds and the FY 86 cost would be reduced to approximately $4.5 million.

The purpose of the bill is to make financing available to those with special housing needs. It would be available to not only the severely disabled but also their parents and guardians if they are living with the individual. To prevent those who have already managed to obtain home ownership from selling their current home and buying another with a 6% loan, a prior homeownership rule could be imposed that would limit the program to those individuals who have not had an ownership interest in their primary residence during the 3 year period preceding their application. This additional requirement is estimated to reduce the program cost to $3.4 million for FY 86.

The program is not expected to increase operating expenses above those reflected in the Corporation's proposed FY 86 operating budget.

Summary of Assumptions

FY 86 applications for disabled	105
FY 86 applications for parents and guardians	149
Total loans	254

Direct funded loans [254 x 25% x $140,000]	$ 8,960,000
Subsidized leveraged loans [190 x $115,000 x 14.7%*]	3,211,950
	$12,171,950

* Analysis of subsidy percentage:

50% Tax-Exempt First Time Homebuyer Program	at 14% subsidy	= 7.0%
30% Tax-Exempt Veterans Mortgage Program	at 11% subsidy	= 3.3%
20% Taxable Program	at 22% subsidy	= 4.4%
		14.7%

Subsequent fiscal year activity:

- The analysis assumes program implementation in July 1986.
- A 10% decrease is estimated in FY 87 followed by 5% increases each year in FY 88 through FY 90.
- Effects of changing program mix in subsequent years when tax-exempt financing may not be available to AHFC are not included.

by the disability under which the borrower became eligible for the loan.

(e) For an individual or a parent or guardian of the individual to be eligible for a loan under this section, the individual must

(1) provide a written statement from a physician stating that the nature of the individual's disability is permanent;

(2) establish that the individual has a specialized housing need; and

(3) establish that the individual is severely disabled, through

(A) a statement from the federal Veterans Administration indicating that the individual is at least 70 percent disabled;

(B) proof of eligibility as a blind or disabled person under the federal supplemental security income program (42 U.S.C. 1381 - 1385) or the federal disability insurance benefits program (42 U.S.C. 423);

(C) a statement of eligibility from the Board of Vocational Rehabilitation (AS 23.15.010); or

(D) a statement of disability from the division of public health, family health section.

Introduced: 1/30/85
Referred: House Special Committee
on State Loans, Health,Education &
Social Services and Finance

IN THE HOUSE BY FURNACE AND COLLINS

HOUSE BILL NO.146

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to housing loans for the permanently disabled."

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

* Section 1. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.102. LOANS FOR THE PERMANENTLY DISABLED. (a) The corporation shall establish a residential housing loan program for the permanently disabled under the special mortgage loan purchase program (AS 18.56.098). A loan may be made under this section to an individual who is eligible under (e) of this section, or to a parent or guardian of the individual if the parent or guardian is living with the individual.

(b) A loan made under this section shall be at a fixed annual interest rate of six percent. The loan amount may not exceed the maximum loan amount for a single family residence under the special mortgage loan purchase program, and the appraised value of the residence may not exceed the loan amount by more than 25 percent. The corporation may not require a borrower to make a down payment toward purchase of a residence under this section.

(c) The value of the equity in a residence purchased with a loan under this section may not be used to deny the borrower state benefits to which the borrower may be otherwise entitled.

(d) The corporation may require a borrower under this section to prove present and future financial ability to repay the loan. However, a loan may not be denied solely because of circumstances caused

Introduced: 2/15/85
Referred: House Special Committee on
State Loans, Health, Education &
Social Services and Finance

Funding Information
General Fund $2,000,000
Other Funds - 0 -
$2,000,000

IN THE HOUSE

BY FURNACE, MARTIN AND COLLINS

HOUSE BILL NO. 204

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Alaska housing finance revolving loan fund for housing loans for the permanently disabled; and providing for an effective date."

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

* Section 1. The sum of $2,000,000 is appropriated from the general fund to the Alaska housing finance revolving loan fund (AS 18.56.082) for housing loans for the permanently disabled.

* Sec. 2. The appropriation made by this Act is for capitalization of a loan fund and does not lapse in accordance with AS 37.25.010.

* Sec. 3. This Act takes effect on the effective date of an Act establishing a residential housing loan program for the permanently disabled.

Testifying on HB 146:

Deborah Keller (needs to testify before 4:30)
Rep. Furnace
Steve Russell
Bob Franken
Denna Cline
} By teleconference from AK FC

Rm 411

STATE OF ALASKA
THE LEGISLATURE

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

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM March 7, 1985

SUBJECT: Sectional analysis of HB 146
(housing loans for permanently disabled)

TO: Representative Walt Furnace

FROM: Keith B. Levy KBL
Legislative Counsel

You have requested a sectional analysis of HB 146, relating to housing loans for the permanently disabled.

This bill adds a new section to the Alaska Housing Finance Corporation provisions (AS 18.56.102) to require AHFC to set up a residential housing loan purchase program for the permanently disabled under the existing special mortgage loan purchase program. These loans must be at a fixed annual interest of six percent. The loan amount may not exceed the maximum single family loan amount under the existing special mortgage loan program (currently $178,650) and the appraised value of the residence may not exceed the loan amount by more than 25 percent. AHFC may not require a down payment for the loans.

The bill also provides that the value of the equity in a home purchased with one of these loans may not be used to deny the borrower other state benefits to which the borrower may otherwise be entitled. Although AHFC may require the borrower to prove financial ability to repay the loan, it may not deny a loan solely because of circumstances caused by the disability under which the borrower became eligible for the loan.

The loans may be made to an individual or the parent or guardian living with the individual if the individual meets certain criteria. The person must prove that he or she is severely disabled, that the disability is permanent, and that the person has a specialized housing need. The disability may be established through any of the following:

a statement from the Veterans Administration indicating a minimum of 70 percent disability, proof of eligibility as a blind or disabled person under the federal SSI program or the disability insurance benefits program, a statement of eligibility from the state Board of Vocational Rehabilitation, or a statement of disability from the division of public health, family health section.

KBL:ojb
J12/067

Analysis:

HB 146 would establish within AHFC a loan program for the severely and permanently disabled. The key to the program is a lower mortgage rate (6%). The lower interest rate will assist in qualifying those individuals who would not be afforded the opportunity of home ownership based upon current AHFC rates. Since this program will increase the number of residents who would qualify for AHFC loans, it is program expansive. The demand for this program is not expected to be offset by a reduction in any other AHFC program.

As drafted, a significant portion of the loans purchased would be nonconforming in that they would not be eligible for pledge to bonds issued by the Corporation. Accordingly, they would have to be funded out of pocket without the benefit of leveraging. As detailed below, the incremental cost of the program would be $12.2 million for FY 86. Were the bill amended to require a minimum 5% down payment on each loan, they would be eligible for pledge to bonds and the FY 86 cost would be reduced to approximately $4.5 million.

The purpose of the bill is to make financing available to those with special housing needs. It would be available to not only the severely disabled but also their parents and guardians if they are living with the individual. To prevent those who have already managed to obtain home ownership from selling their current home and buying another with a 6% loan, a prior homeownership rule could be imposed that would limit the program to those individuals who have not had an ownership interest in their primary residence during the 3 year period preceding their application. This additional requirement is estimated to reduce the program cost to $3.4 million for FY 86.

The program is not expected to increase operating expenses above those reflected in the Corporation's proposed FY 86 operating budget.

Summary of Assumptions

FY 86 applications for disabled	105
FY 86 applications for parents and guardians	149
Total loans	254

Direct funded loans [254 x 25% x $140,000]	$ 8,960,000
Subsidized leveraged loans [190 x $115,000 x 14.7%*]	3,211,950
	$12,171,950

* Analysis of subsidy percentage:

50% Tax-Exempt First Time Homebuyer Program	at 14% subsidy	= 7.0%
30% Tax-Exempt Veterans Mortgage Program	at 11% subsidy	= 3.3%
20% Taxable Program	at 22% subsidy	= 4.4%
		14.7%

Subsequent fiscal year activity:

- The analysis assumes program implementation in July 1986.
- A 10% decrease is estimated in FY 87 followed by 5% increases each year in FY 88 through FY 90.
- Effects of changing program mix in subsequent years when tax-exempt financing may not be available to AHFC are not included.

41

DELIVER TO: JPOM

ORIGINAL
SENT: 03/21/85 TIME: 11:34
FROM: LIOA
SUBJECT: POM
PRINT DATE: 03/21/85 TIME: 11:34

TO: ALL REPRESENTATIVES

FROM: LUCINDA LAIRD
SVC COORDINATOR, ALASKA CHAPTER
MULTIPLE SCLEROSIS SOCIETY
933 E 12TH #1
ANCHORAGE, AK. 99501
PHONE 279-0809 HM 279-3752 WK

RE: HB 146-HOME LOANS FOR PERMANENTLY DISABLED

THIS LEGISLATION WILL EFFECTIVELY USE A COMPARATIVELY SMALL AMOUNT OF MONEY TO MEET THE OVERWHELMING NEED FOR ACCESSIBLE HOUSING IN ALASKA. THIS APPROACH WILL ALLOW THE FREE ENTERPRISE SYSTEM TO MEET THE NEEDS OF THE SPECIAL POPULATION, STIMULATING ECONOMIC GROWTH FOR THE ENTIRE STATE.

SCOMM

#50:22

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date: 3/5/85

REQUEST

Bill/Resolution No.: CSHB 161

Title: Student Loan Interest, Forgiveness, and Terms

Sponsor: Binkley

Requestor: House Loans Comm.

Date of Request: 3/4/85

FISCAL DETAIL

Agency Affected: Education

Program Category Affected: Postsecondary Commission

BRU, Program or Subprogram(s) Affected: Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	N.A.					
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	N.A.	-0-	-0-	-0-	-0-	-0-
CAPITAL				(56.7)	(168.9)	(349.3)
REVENUE	N.A.	-0-	-0-	56.7	168.9	349.3

FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	-0-	-0-	(56.7)	(168.9)	(349.3)
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	N.A.	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

See Attached

Prepared By: Kerry D. Romshard, Executive Director Phone: 465-2854

Division: Alaska Commission on Postsecondary Education Date: 3/6/85

Approved by Commissioner: Date:

Agency:

Distribution (by Agency preparing fiscal note):

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

7/1/84

HB 161
Analysis of Fiscal Impact

Assumptions

(1) % of borrowers entering repayment:

Percent	Years after borrowing
0.0	one year
22.4	two years
21.3	three years
21.8	four years
32.3	five years
2.2	six or more years
100.0	

(2) Borrowing averages will be:

FY86	$4,775	FY89	$5,725
FY87	$5,050	FY90	$5,900
FY88	$5,400		

(3) Loan volumes are at current projection levels and program is fully funded. Adjustments made will be the result of program changes.

Impacts

(1) Increasing loan interest from 5% to 8% (Section 1 of the bill).

(a) The increase will not affect loan volume.
(b) Increased interest will impact the fund over time in the following manner:

Year of	Borrowing Year				Total
Impact	FY86	FY87	FY88	FY89	New Revenue
FY86	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
FY87	-0-	-0-	-0-	-0-	-0-
FY88	56.7	-0-	-0-	-0-	56.7
FY89	108.2	60.7	-0-	-0-	168.9
FY90	168.5	118.5	62.3	-0-	349.3
FY91	247.9	177.6	121.6	58.5	605.6
FY92	253.5	265.1	182.3	114.2	815.1
FY93	253.5	271.1	272.2	171.1	967.9
FY94	253.5	271.1	278.3	255.5	1,058.4

(2) Eliminating the forgiveness benefits in 1990 (Section 4 of the bill)

(a) Elimination of forgiveness will not affect loan volume
(b) The impact of eliminating forgiveness will be realized over time, however, delaying implimentation until 1990, moves the fiscal impact even further into the future.

Year	Principal	Interest	Total Additional Revenue
FY86	$ -0-	$ -0-	$ -0-
FY87	-0-	$ -0-	$ -0-
FY88	-0-	$ -0-	$ -0-
FY89	-0-	$ -0-	$ -0-
FY90	-0-	$ -0-	$ -0-
FY91	-0-	$ -0-	$ -0-

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date: 10/22/85

REQUEST

Bill/Resolution No.: CSHB 161

Title: Re: Student Loans

Sponsor: Binkley

Requestor: Senate Finance

Date of Request: 10/22/85

FISCAL DETAIL

Agency Affected: Education

Program Category Affected: Postsecondary Education Commission

BRU, Program or Subprogram(s) Affected:
Student Loan Administration
Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING				30.3	63.7	67.5
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL			25.0			
400 SUPPLIES				.1	.2	.2
500 EQUIPMENT				1.2	1.2	
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING			25.0	31.6	65.1	67.7
CAPITAL			(46.1)	(2,158.9)	(4,263.8)	(6,510.8)
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	N.A.	(21.1)	(2,127.3)	(4,198.7)	(6,443.1)
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	N.A.	N.A.	-0-	1.0	2.0	2.0
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

See attached

Prepared By: Kerry D. Romesburg, Executive Director Phone: 465-2854

Division: Alaska Commission on Postsecondary Education Date: 10/22/85

Approved by Commissioner: _____ Date: _____

Agency: _____

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

7/1/84

Comments:

1. The $20.0 in contractual is for modifying the existing student loan on-line system to accommodate for individuals with loans carrying varying interest rates.

2. The monthly payments for borrowers would change upward the last seven years of the repayment cycle. Examples of the repayment schedule are:

Loan Amount	Current 5%	Delayed 8%
$ 1,000	$ 10.61	$ 10.61/$ 12.80
$24,000	$254.56	$254.56/$306.89

3. Forgiveness would be applied as it is now, with the State paying on behalf of the borrower up to 50% of the principal and interest accrued. Hence, the delayed impact of the 8% interest will actually provide a small additional incentive for forgiveness (about $26 on a $24,000 loan).

TABLE 1
PROJECTED REPAYMENT WITH CURRENT
PROGRAM TERMS

Year of Impact	BORROWING YEAR																	
	FY86		FY87		FY88		FY89		FY90		FY91		FY92		FY93		FY94	
	P	I	P	I	P	I	P	I	P	I	P	I	P	I	P	I	P	I
FY86																		
FY87																		
FY88	$1,769.6	$ 376.9																
FY89	3,452.3	735.3	$1,702.1	$ 362.5														
FY90	5,174.5	1,102.2	3,320.5	707.3	$1,777.5	$ 378.6												
FY91	7,726.2	1,645.7	4,977.0	1,060.1	3,467.7	738.6	$1,853.9	$ 394.9										
FY92	7,900.0	1,682.7	7,431.3	1,582.9	5,197.6	1,107.1	3,616.7	770.4	$1,930.6	$ 411.2								
FY93	7,581.5	1,614.9	7,598.5	1,618.5	7,760.6	1,653.0	5,420.9	1,154.7	3,766.5	802.3	$2,018.4	$ 429.9						
FY94	7,278.6	1,550.3	7,292.1	1,553.0	7,935.2	1,690.2	8,027.9	1,709.9	5,645.4	1,202.5	3,937.6	838.7	$2,110.2	$ 449.5				
FY95	6,968.6	1,484.3	7,000.8	1,491.2	7,615.3	1,622.1	8,276.2	1,762.8	8,429.3	1,795.4	5,901.9	1,257.1	4,116.7	876.9	$2,206.2	$ 469.9		
FY96	6,509.3	1,386.5	6,702.6	1,427.7	7,311.0	1,557.2	7,942.5	2,075.2	8,618.9	1,835.8	8,812.3	1,877.0	6,170.3	1,314.3	4,303.9	916.7	$ 2,306.5	$ 491.3
FY97	6,478.0	1,379.8	6,260.9	1,333.6	6,999.6	1,490.9	7,625.2	1,624.2	8,271.4	1,761.8	9,010.5	1,919.2	9,213.1	1,962.4	6,450.9	1,374.0	4,499.6	958.4
FY98	5,026.9	1,070.7	6,230.8	1,327.2	6,538.3	1,392.6	7,300.4	1,555.0	7,940.9	1,691.4	8,647.2	1,841.9	9,420.3	2,006.5	9,632.1	2,051.6	6,744.3	1,436.5
FY99	3,647.1	776.8	4,835.0	1,029.9	6,506.9	1,386.0	6,831.2	1,455.0	7,602.7	1,619.4	8,301.7	1,768.3	9,040.5	1,925.6	9,848.7	2,097.8	10,070.0	2,144.9
FY00	2,234.9	476.0	3,508.0	747.2	5,049.3	1,076.5	6,786.5	1,445.5	7,102.6	1,512.9	7,948.2	1,693.0	8,309.6	1,769.9	9,451.6	2,013.2	10,296.6	2,193.2

Assumptions: 1. General Fund appropriation remains constant at $60.0 million after FY87.

2. The percentage of borrowers entering repayment, with a 12-month grace period, will be:

Percent	Years After Borrowing
0.0	one year
22.4	two years
21.3	three years
21.8	four years
32.3	five years
2.2	six or more years
100.0	

3. Borrowing rates will not be reduced if interest is increased to 8 percent.

TABLE 2
PROJECTED REPAYMENT WITH
CSHB 161 TERMS

Year of Impact	BORROWING YEAR FY86 P	FY86 I	FY87 P	FY87 I	FY88 P	FY88 I	FY89 P	FY89 I	FY90 P	FY90 I	FY91 P	FY91 I	FY92 P	FY92 I	FY93 P	FY93 I	FY94 P	FY94 I
FY86																		
FY87			$ 38.0	$ 8.1														
FY88	$1,769.6	$ 376.9	1,740.1	370.6	$ 39.7	$ 8.5												
FY89	3,452.3	735.3	3,358.5	715.4	1,817.2	387.1	$ 41.4	$ 8.8										
FY90	5,174.5	1,102.2	5,015.0	1,068.2	3,507.4	747.1	1,895.2	403.7	$ 43.1	$ 15.0								
FY91	7,726.2	1,645.7	7,431.3	1,582.9	5,237.2	1,115.5	3,658.1	779.2	1,973.7	686.8	$ 45.1	$ 15.7						
FY92	7,900.0	1,682.7	7,598.5	1,618.5	7,760.6	1,653.0	5,462.3	1,163.5	3,809.6	1,325.7	2,063.4	718.1	$ 47.1	$ 16.4				
FY93	7,581.5	1,614.9	7,285.3	1,551.8	7,935.2	1,690.2	8,094.1	1,724.0	5,688.5	1,979.6	3,982.6	1,385.9	2,157.2	750.7	$ 49.2	$ 16.8		
FY94	7,278.6	1,550.3	6,994.0	1,489.7	7,608.1	1,620.5	8,276.2	1,762.8	8,429.3	2,933.4	5,946.9	2,069.5	4,163.8	1,449.0	2,255.4	784.9	$ 51.5	$ 17.9
FY95	6,968.6	1,484.3	6,695.8	1,426.2	7,303.9	1,555.7	7,935.1	1,690.2	8,618.9	2,999.4	8,812.3	3,066.7	6,217.4	2,163.7	4,353.1	1,514.9	2,357.9	820.5
FY96	6,509.3	1,386.5	6,261.0	1,333.6	6,992.5	1,489.4	7,617.7	1,622.6	8,263.6	2,875.7	9,010.5	3,135.7	9,213.1	3,206.2	6,500.1	2,262.0	4,551.1	1,583.8
FY97	6,478.0	1,379.8	6,230.8	1,327.2	6,538.3	1,392.7	7,293.0	1,553.4	7,933.2	2,760.8	8,639.1	3,006.4	9,420.3	3,278.3	9,632.0	3,351.9	6,795.8	2,364.9
FY98	5,026.9	1,070.7	4,803.9	1,023.2	6,506.9	1,386.6	6,819.3	1,452.5	7,595.0	2,643.1	8,293.6	2,886.2	9,032.0	3,143.1	9,848.7	3,427.3	10,070.1	3,504.4
FY99	3,647.1	776.8	3,476.8	740.6	5,016.8	1,068.6	6,786.5	1,445.5	7,101.6	2,471.4	7,940.1	2,763.2	8,670.8	3,017.4	9,442.7	3,286.1	10,296.6	3,583.2
FY00	2,234.9	476.0	2,118.5	451.2	3,630.8	773.4	5,232.4	1,114.5	7,067.5	2,459.5	7,424.3	2,583.7	7,551.7	2,628.0	9,064.8	3,154.6	9,872.2	3,435.5

Assumptions: 4. The percentage of borrowers entering repayment, with a 6-month grace period, will be:

Percent	Years After Borrowing
0.5	during first year
22.4	one year
21.3	two years
21.8	three years
31.8	four years
2.2	five or more years
100.0	

5. Forgiveness benefits will be received by 18 percent of the borrowers.
6. Default rate is not included.

TABLE 3
FISCAL IMPACT OF
CSHB 161

Year of Impact	BORROWING YEAR FY86 P	FY86 I	FY87 P	FY87 I	FY88 P	FY88 I	FY89 P	FY89 I	FY90 P	FY90 I	FY91 P	FY91 I	FY92 P	FY92 I	FY93 P	FY93 I	FY94 P	FY94 I	Total* P	Total* I
FY86																				
FY87			$ 38.0	$ 8.1															$ 38.0	$ 8.1
FY88			1,740.1	370.6	$ 39.7	$ 8.5													1,779.8	379.1
FY89			1,656.4	352.9	1,817.2	387.1	$ 41.4	$ 8.8											3,515.0	748.8
FY90			1,694.5	360.9	1,729.9	368.5	1,895.2	403.7	$ 43.1	$ 15.0									5,362.7	1,148.1
FY91			2,454.3	522.8	1,769.5	376.9	1,804.2	384.3	1,973.7	686.8	$ 45.1	$ 15.7							8,046.8	1,986.5
FY92			167.2	35.6	2,563.0	545.9	1,845.6	393.1	1,879.0	914.5	2,063.4	718.1	$ 47.1	$ 16.4					8,565.3	2,623.6
FY93			(313.2)	(66.7)	174.6	37.2	2,673.2	569.3	1,922.0	1,177.3	1,964.2	956.0	2,157.2	750.7	$ 49.2	$ 16.8			8,627.2	3,440.6
FY94			(298.1)	(63.5)	(327.1)	(69.7)	248.3	52.9	2,783.9	1,730.9	2,009.3	1,230.8	2,053.6	999.5	2,255.4	784.9	$ 51.5	$ 17.9	9,431.0	6,255.9
FY95			(305.0)	(65.0)	(311.4)	(66.3)	(341.1)	(72.7)	189.6	1,204.0	2,910.4	1,809.6	2,100.7	1,286.8	2,146.9	1,045.0	2,357.9	820.5	8,748.0	5,961.9
FY96			(441.6)	(94.1)	(318.5)	(67.8)	(324.8)	(69.2)	(355.3)	1,039.9	198.2	1,258.7	3,042.8	1,891.9	2,196.2	1,345.3	2,244.6	1,092.5	6,952.2	6,397.2
FY97			(30.1)	(6.4)	(461.3)	(98.3)	(332.2)	(70.8)	(338.2)	999.0	(371.4)	1,087.2	207.2	1,315.9	3,181.1	1,977.9	2,296.2	1,406.5	4,151.3	6,611.0
FY98			(1,426.9)	(303.9)	(31.4)	(6.7)	(481.1)	(102.5)	(345.9)	951.7	(353.6)	1,044.3	(388.3)	1,136.6	216.6	1,375.7	3,325.8	2,067.9	515.2	6,163.1
FY99			(1,358.2)	(289.3)	(1,490.1)	(317.4)	(44.7)	(9.5)	(501.1)	852.0	(361.6)	994.9	(369.7)	1,091.8	(406.0)	1,188.3	226.6	1,438.3	(4,304.8)	4,949.1
FY00			(1,389.5)	(296.0)	(1,418.5)	(302.1)	(1,554.1)	(331.0)	(35.1)	946.6	(523.9)	890.7	(757.9)	858.1	(386.8)	1,141.4	(424.4)	1,242.3	(6,490.2)	4,150.0

*NOTE: Totals after FY94 will be effected by loans made in FY95 and beyond.

TABLE 4
FISCAL IMPACT OF
8% INTEREST

ar	BORROWING YEAR																					
	FY86		FY87		FY88		FY89		FY90		FY91		FY92		FY93		FY94		Total*	
ict	P	I	P	I	P	I	P	I	P	I	P	I	P	I	P	I	P	I	P	I
86																				
87																				
88																				
89				$ 217.5																$ 217.5
90				424.4		$ 227.2														651.6
91				636.1		443.2		$ 236.9												1,316.2
92				949.7		661.3		462.2		$ 246.7										2,319.9
93				971.1		991.8		692.8		481.4		$ 257.9								3,395.0
94				931.8		1,014.1		1,025.9		721.5		503.2		$ 269.7						4,466.2
95				894.7		973.3		1,057.7		1,077.2		754.3		526.1		$ 281.9				5,565.2
96				856.6		934.3		1,245.1		1,101.5		1,126.2		788.5		550.0		$ 294.8		6,897.0
97				800.2		894.5		974.5		1,057.1		1,151.5		1,177.4		824.4		575.0		7,454.6
98				796.3		835.6		933.0		1,014.8		1,105.1		1,203.9		1,231.0		861.9		7,981.6
99				617.9		831.6		873.0		971.6		1,061.0		1,155.4		1,258.7		1,286.9		8,056.1
00				448.3		645.3		867.3		907.7		1,015.8		1,061.9		1,207.9		1,315.9		7,472.1

TE: Totals after FY94 will be effected by loans made in FY95 and beyond.

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 161

Title: Re: Student Loans

Sponsor: Binkley

Requestor: Binkley

Date of Request: 2/4/85

FISCAL DETAIL

Agency Affected: Education

Program Category Affected: Postsecondary Education Commission

BRU, Program or Subprogram(s) Affected: Student Loan Revolving Fund

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	N.A.					
CAPITAL	N.A.	(14,243.8)	(16,202.9)	(19,083.1)	(23,199.8)	(26,602.7)
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	(14,243.8)	(16,202.9)	(19,083.1)	(23,199.8)	(26,602.7)
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	N.A.	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

See Attached

Prepared By: Kerry D. Romesburg, Executive Director Phone: 465-2854

Division: Alaska Commission on Postsecondary Education Date: 2/5/85

Approved by Commissioner: Date:

Agency:

Distribution (by Agency preparing fiscal note):

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

7/1/84

HB 161
Analysis of Fiscal Impact

Assumptions

(1) % of borrowers entering repayment:

Percent	Years after borrowing
0.0	one year
22.4	two years
21.3	three years
21.8	four years
32.3	five years
2.2	six or more years
100.0	

(2) Borrowing averages will be:

FY86	$4,775	FY89	$5,725
FY87	$5,050	FY90	$5,900
FY88	$5,400		

(3) Loan volumes are at current projection levels and program is fully funded. Adjustments made will be the result of program changes.

Impacts

(1) Increasing loan interest from 5% to 8% (Section 1 of the bill).
(a) The increase will not affect loan volume.
(b) Increased interest will impact the fund over time in the following manner:

Year of Impact	Borrowing Year FY86	FY87	FY88	FY89	Total New Revenue
FY86	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
FY87	-0-	-0-	-0-	-0-	-0-
FY88	56.7	-0-	-0-	-0-	56.7
FY89	108.2	60.7	-0-	-0-	168.9
FY90	168.5	118.5	62.3	-0-	349.3
FY91	247.9	177.6	121.6	58.5	605.6
FY92	253.5	265.1	182.3	114.2	815.1
FY93	253.5	271.1	272.2	171.1	967.9
FY94	253.5	271.1	278.3	255.5	1,058.4

(2) Eliminating the forgiveness benefits (Section 6 of the bill)

(a) Elimination of forgiveness will not affect loan volume
(b) The impact of eliminating forgiveness will be realized over time, in the following manner:

Year	Principal	Interest	Total Additional Revenue
FY86	$ -0-	$ -0-	$ -0-
FY87	-0-	-0-	$ -0-
FY88	378.7	94.7	$ 473.4
FY89	1,143.2	285.8	$1,429.0
FY90	1,648.8	412.2	$2,061.0
FY91	3,814.0	953.5	$4,767.5

(3) Changing eligibility requirements (Section 2 of the bill)

(a) Requiring graduation from an Alaska high school would greatly reduce the number of borrowers eligible for the loan program. Based upon high school enrollment projections provided by the Department of Education, and based upon attendance patterns, the potential number of borrowers would be:

Year	Potential New Borrowers	Total Reduction in Borrowers
FY86	3,517	3,977
FY87	3,664	4,278
FY88	3,753	4,581
FY89	4,402	5,031
FY90	4,805	5,288

The fiscal savings of this requirement would be:

Year	Reduction in Borrowers	Savings
FY86	3,977	$18,990.2
FY87	4,278	$21,603.9
FY88	4,581	$24,737.4
FY89	5,031	$28,802.5
FY90	5,288	$31,992.2

(b) Providing aid on a need-based system would allow some borrowers, excluded by the high school requirement, to borrow. We have no good estimate on the number of students qualifying for need on a need-test analysis. The estimate is that only about one in four could qualify. Hence, the reduction in borrowers would be decreased by about 25%.

The fiscal impact of the needs analysis would be:

Year	Qualifying Borrowers	Cost
FY86	994	$ 4,746.4
FY87	1,070	$ 5,401.0
FY88	1,145	$ 6,184.4
FY89	1,258	$ 7,200.6
FY90	1,322	$ 7,799.8

(c) Therefore, the total fiscal impact of the two factors (high school graduation and a needs test) would be:

Year	Savings
FY86	$14,243.8
FY87	$16,202.9
FY88	$18,553.0
FY89	$21,601.9
FY90	$24,192.4

(4) Combining all changes would result in the following:

Year	Savings (including Revenue)
FY86	$14,243.8
FY87	$16,202.9
FY88	$19,083.1
FY89	$23,199.8
FY90	$26,602.7

Additional Notes

(1) Loan processing would be slowed greatly the first year, due to imposing the new requirements and needing to handle all loans a number of times.

(2) Grandfathering those current borrowers from the needs test requirement was assumed in the projected fiscal impact.

(3) Additional staff may be required to administer the needs test verification, but this is unknown until the whole process is actually finalized.

#161

AMENDMENTS TO CSHB ~~185~~(Loans)

(C) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before the applicant was absent from the state and the absence is due solely to

(i) serving an initial period of up to six years on active duty as a member of the armed forces of the United States;

(ii) serving, for up to three years, as a full-time volunteer under the Peace Corps Act;

(iii) serving, for up to three years, as a full-time volunteer under the Domestic Volunteer Service Act of 1973; VISTA

(iv) required medical care for the applicant or the applicant's immediate family;

(v) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (iv) of this paragraph; or

(D) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before the applicant or the parent or guardian was absent from the state and the absence is due solely to

(i) participating in a foreign exchange student program recognized by the commission;

(ii) attending a school as a full-time student;

(iii) full-time employment by the state;

(iv) being a member of or employed full-time by the state's congressional delegation;

(v) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (iv) of this paragraph.

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 161 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to student loans; and providing for an effective date."

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

* Section 1. AS 14.43.120(f) is amended to read:

(f) Interest on a loan given under AS 14.43.090 - 14.43.160 is at the rate of <u>eight</u> [FIVE] percent a year unless the loan is in default. Interest on a loan that is in default is 10 percent a year for the period the loan is in default.

* Sec. 2. AS 14.43.125 is repealed and reenacted to read:

Sec. 14.43.125. ELIGIBILITY OF STUDENTS. (a) A person may apply for and obtain a scholarship loan if the person

(1) is

(A) enrolled as a full-time student in a career education, associate, baccalaureate, or graduate degree program; or

(B) a graduate of a high school or the equivalent, or scheduled for graduation from a high school within six months, with sufficient credits to be admitted to a career education program or to an accredited college or university;

(2) is not delinquent or in default on a previously awarded scholarship loan; and

(3) is a resident of the state at the time of application for the loan; for purposes of this section, a person qualifies as a resident of the state if at the time of application for the loan the person

(A) has been physically present in the state for at least two years immediately before the time of application for the loan;

(B) is dependent on a parent or guardian for care, the parent or guardian has been present in the state for at least two years immediately before the time of application for the loan and the person has been present in the state for at least one year of the immediately preceding five years; or

(C) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before the applicant was absent from the state and the absence is due solely to

(i) military service;

(ii) volunteer service under the Peace Corps Act;

(iii) volunteer service under the Domestic Volunteer Service Act of 1973;

(iv) participating in a foreign exchange student program recognized by the commission;

(v) attending a school as a full-time student;

(vi) full-time employment by the state;

(vii) being a member of or employed full-time by the state's congressional delegation;

(viii) required medical care for the applicant or the applicant's immediate family; or

(ix) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (viii) of this paragraph.

(b) A person does not qualify as a resident of the state under

this section if the person declares or establishes residence in another state during an absence from Alaska.

* Sec. 3. Notwithstanding AS 14.43.120(j), the maximum portion of a scholarship loan that may be repaid by the state is 40 percent for a loan made for the school year beginning in 1986, 30 percent for 1987, 20 percent for 1988, and 10 percent for 1989.

* Sec. 4. AS 14.43.120(j), (o), and (p) are repealed.

* Sec. 5. Section 4 of this Act takes effect September 1, 1990.

* Sec. 6. Sections 1 - 3 of this Act take effect July 1, 1985.

50 % FORGIVENESS 85-86

86
87
88
89

Levy

A M E N D M E N T

Offered in the HOUSE

TO: CSHB 161(Loans)

Page 1, delete section 1 of the bill and insert:

"* Section 1. AS 14.43.120(f) is amended to read:

(f) Interest on a loan given under AS 14.43.090 - 14.43.160 is at the rate of five percent a year <u>for the first three years of repayment, and eight percent a year for the remainder</u> unless the loan is in default. Interest on a loan that is in default is 10 percent a year for the period the loan is in default."

IW-STATE

(PRIORITY)

20 AAC 15.025. PRIORITY RANKING OF APPLICANTS. (a) Upon receipt of a completed application for collegiate study, an applicant will be assigned priority points based upon the schedule set out in (b) of this section.

(b) Each applicant for a loan for a collegiate program will be assigned priority points based upon student status and state of attendance, according to the following schedule:

(1) student status (during loan period):
(A) continuing undergraduate or graduate students with existing Alaska student loans for the previous school year or term.....6 points
(B) remaining senior students.....5 points
(C) remaining junior students.....4 points
(D) remaining sophomore students.....3 points
(E) remaining freshman students.....2 points
(F) remaining graduate students.....1 point
(2) students attending colleges or universities in Alaska.....1 point

(c) Completed applications for collegiate study received by February 15th will be grouped together. Complete applications received after February 15th will be grouped in monthly lots. The groups will be processed according to priority point accumulation. Those applicants receiving the highest priority point accumulation within a group will be processed first and those receiving the lowest priority point accumulation within a group will be processed last. In the case of equal point accumulation within a group, priority will be based upon the earliest date of receipt of the completed application.

(d) Completed applications for a non-collegiate postsecondary program will be processed in the order of receipt of the application in the loan office. (Eff. 2/3/77, Reg. 61, am 12/7/80, Reg. 76; am 11/19/83, Reg. 88).

Authority: AS 14.43.105
Authority: AS 14.43.130

Introduced: 2/1/85
Referred: House Special Committee
on State Loans,Health,Education &
Social Services and Finance

IN THE HOUSE BY BINKLEY

HOUSE BILL NO. 161

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to student loans; and providing for an effective date."

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

Section 1. AS 14.43.120(f) is amended to read:

(f) Interest on a loan given under AS 14.43.090 - 14.43.160 is at the rate of eight [FIVE] percent a year unless the loan is in default. Interest on a loan that is in default is 10 percent a year for the period the loan is in default.

* Sec. 2. AS 14.43.125(a) is repealed and reenacted to read:

(a) A person may apply for and obtain a scholarship loan if the person

(1) is a resident of the state at the time of application for a scholarship loan;

(2) meets the requirements of (b) of this section; and

(3) has

(A) graduated from high school within one year preceding the date of application or is scheduled for graduation from a high school within six months after the date of application, with sufficient credits to be admitted to a career education program or to an accredited college or university; or

(B) established financial need in accordance with regulations adopted by the Alaska Commission on Postsecondary Education.

* Sec. 3. AS 14.43.125 is amended by adding a new subsection to read:

RETROACTIVE

(c) The recipient of a scholarship loan may continue to apply for and receive scholarship loans during each year in which the recipient remains enrolled as a full-time student in a career education, associate, baccalaureate or graduate degree program. A recipient who, after the date of the initial application, interrupts study as a full-time student for periods totaling more than two years may receive a new loan only if the recipient can establish financial need under (a)(3)(B) of this section.

Sec. 4. AS 14.43.640(b) is amended to read:

OK

(b) If a borrower meets the conditions provided in (a) of this section and is employed as a teacher in a rural elementary or secondary school in the state, a portion of the loan shall be repaid by the state. The [THE] portion of the loan that shall be paid by the state [, NOTWITHSTANDING AS 14.43.120(j),] is the following percentages of the total loan received plus interest up to a total of 100 percent of the total loan:

FORGIVENESS REMOVED

(1) one year employment, 15 percent;

(2) two years employment, an additional 15 percent;

(3) three years employment, an additional 15 percent;

(4) four years employment, an additional 25 percent;

(5) over four years employment, an additional 30 percent.

* Sec. 5. AS 14.43.640 is amended by adding a new subsection to read:

(e) Notwithstanding AS 14.43.120(f), interest on a loan made under AS 14.43.600 - 14.43.700 is at the rate of five percent a year unless the loan is in default. Interest on a loan that is in default is 10 percent a year for the period the loan is in default.

Sec. 6. AS 14.43.120(j), (o), and (p) are repealed.

OK

* Sec. 7. A student who received a scholarship loan during the school year before the year this Act takes effect may receive a new loan only if

the student

(1) initially applied for a loan while in high school or within one year after graduation from high school, and has not interrupted study as a full-time student for periods totaling more than two years; or

(2) can establish financial need under AS 14.43.125(a)(3)(B), as amended by sec. 2 of this Act.

* Sec. 8. This Act takes effect July 1, 1985.

FINANCIAL NEED

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE:
(907) 465-4919
(907) 465-4920

AGENDA

TUESDAY, 2/26/85, 3:30 p.m.
Room 124 (House Judiciary)
THIS MEETING WILL BE A STATE-WIDE TELECONFERENCE re. the following bills and related student loan topics.

* HB 161 "An Act relating to student loans; and providing for an effective date."

* HB 185 "An Act relating to student loans; and providing for an effective date."

* HB 197 "An Act relating to maximum loan amounts under the scholarship loan program; and providing for an effective date."

WEDNESDAY, 2/27/85, 3:30 p.m.
Room 519 (House Finance)

Continued consideration of student loan bills: HB 161, HB 185, and HB 197.

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

* Indicates first public hearing.

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 161 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to student loans; and providing for an effective date."

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

* Section 1. AS 14.43.120(f) is amended to read:

(f) Interest on a loan given under AS 14.43.090 - 14.43.160 is at the rate of <u>eight</u> [FIVE] percent a year unless the loan is in default. Interest on a loan that is in default is 10 percent a year for the period the loan is in default.

* Sec. 2. AS 14.43.125 is repealed and reenacted to read:

Sec. 14.43.125. ELIGIBILITY OF STUDENTS. (a) A person may apply for and obtain a scholarship loan if the person

(1) is

(A) enrolled as a full-time student in a career education, associate, baccalaureate, or graduate degree program; or

(B) a graduate of a high school or the equivalent, or scheduled for graduation from a high school within six months, with sufficient credits to be admitted to a career education program or to an accredited college or university;

(2) is not delinquent or in default on a previously awarded scholarship loan; and

(3) is a resident of the state at the time of application for the loan; for purposes of this section, a person qualifies as a resident of the state if at the time of application for the loan the person

(A) has been physically present in the state for at least two years immediately before the time of application for the loan;

(B) is dependent on a parent or guardian for care, the parent or guardian has been present in the state for at least two years immediately before the time of application for the loan and the person has been present in the state for at least one year of the immediately preceding five years; or

(C) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before the applicant was absent from the state and the absence is due solely to

(i) military service;

(ii) volunteer service under the Peace Corps Act;

(iii) volunteer service under the Domestic Volunteer Service Act of 1973;

(iv) participating in a foreign exchange student program recognized by the commission;

(v) attending a school as a full-time student;

(vi) full-time employment by the state;

(vii) being a member of or employed full-time by the state's congressional delegation;

(viii) required medical care for the applicant or the applicant's immediate family; or

(ix) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (viii) of this paragraph.

(b) A person does not qualify as a resident of the state under

this section if the person declares or establishes residence in another state during an absence from Alaska.

delete sec. 3

* Sec. 3. Notwithstanding AS 14.43.120(j), the maximum portion of a scholarship loan that may be repaid by the state is 40 percent for a loan made for the school year beginning in 1986, 30 percent for 1987, 20 percent for 1988, and 10 percent for 1989.

* Sec. 4. AS 14.43.120(j), (o), and (p) are repealed.

* Sec. 5. Section 4 of this Act takes effect September 1, [1990.] 1989

* Sec. 6. Sections 1 - 3 of this Act take effect July 1, 1985.

Alaska State Legislature
House

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

February 1, 1985

TO: Rep. John Sund
Chairman
Special Committees on Loans

FROM: Rep. Johne Binkley

Re: House Bill 161 "An Act relating to student loans; and providing for an effective date."

Today I have introduced a bill that will amend certain portions of the Post Secondary Commission program that deals with student loans.

The Alaska Student Loan program established in 1971 to provide aid to Alaska residents in the form of low interest loans, is undeniably the most generous such program in the nation. It has provided loans to over 50,000 Alaskans since the inception of the program. It was intended to allow students to leave Alaska to secure an education, and encourage them to return by providing that a portion of the loan would be forgiven for returning and working in the state, which needed trained people in many areas of expertise. Many students in the early days of the program, once they left the state would not return because of lack of opportunities for suitable employment when they returned.

Conditions have changed substantially since then. In a survey done by the Post Secondary Commission of the grant recipients of 1983-84, most students, regardless of whether they had attended school "outside" or not, intended to return to Alaska to live and work for various reasons. Those reasons most often cited by both groups of students were that Alaska was their home and that it provided economic opportunity. Loan forgiveness was not considered a major factor.

The financial climate of the state has changed also. In 1971, Alaskans' incomes ranked fourth in the nation, twenty percent above the per capita national average. Now we rank number one, and our income, per capita, is forty-seven percent above the national average.

There are and will continue to be students in Alaska who will need as much help as we as a state can provide them. In order to help as

many of those needy students as possible, I feel some changes are mandated in the student loan program as it is now constituted.

In this bill, the interest rate on student loans will be raised from its present five percent to eight percent. The rate on defaulted loans will remain the same.

If a student has not applied for admission to the student loan program within six months prior to graduation, or within one year after graduation from high school, the student must show financial need as established by regulation of the Post Secondary Commission. Once a student has applied for a loan, he/she may defer going to school for a cumulative of two years. This allows a student to travel, work one semester while attending school the other, or to respond to some emergency situation that might arise.

Once students have applied for, and been accepted into the program, they may continue to apply for and receive the loan as long as they remain a full-time student in a career education, associate, baccalaureate or graduate degree program, and will not have to demonstrate need unless they interrupt their studies for more than two cumulative years.

The intent of the change in the statutes is to limit the program to those who are newly graduated as these students usually have not had the opportunity to establish themselves in the work force. It does not seem to be the function of the state to guarantee an education to persons who are financially able to bear the cost of educating themselves.

Eliminating the "forgiveness" portion of the present loan program would allow the Commission to recover more funds that would then be available to provide loans for more Alaskan students, thus assuring that this will truly be a revolving loan program.

I appreciate your consideration of this bill and I will be available to answer questions on it.

Sincerely,



Johne Binkley
Representative
District 25

Attachments
1. Sectional Analysis House Bill 161
2. Survey of 1983-84 Alaska Student Loan Recipients

SECTIONAL ANALYSIS HOUSE BILL 161

Mary Beth Hilburn

"An Act relating to student loans; and providing for an effective date."

Section 1. AS 14.43.120(f) is amended to increase the interest rate on a student loan from five (5) percent to eight (8) percent.

Section 2. AS 14.43.125 (a) is repealed and reenacted changing the eligibility requirements by requiring a student who meets the established criteria for qualifying and desiring a state loan to apply within six months of graduation, or within a year after graduation, or to establish financial need as determined by regulations to be promulgated by the Post Secondary Commission.

Section 3. AS 14.43.125 adds a new subsection (c) which states that a recipient of a loan under (A) may continue without demonstrating need if the recipient does not interrupt the course of study for more than a cumulative of two years.

Section 4. AS 14.43.640(b) inserts some technical changes that clarify the intent of the section.

Section 5. AS 14.43.640 adds a new subsection that keeps the rate of interest on teachers loans at five (5) percent unless that loan is in default, then the interest is ten (10) percent.

Section 6. AS 14.43.120: (j), (o) and (p) of this section are repealed.

(j) is the portion of the statute that "forgives" up to 50% of the loan if the borrower returns to the state as a resident for varying periods of time.
(o) is the portion of the statute that nullifies the "forgiveness" clause if the loan is in default since it will no longer be needed.
(p) sets out the requirements of residency to qualify for "forgiveness" since it will no longer be applicable.

Section 7. Requires students presently receiving a student loan to meet the new qualification standards of initial application, or financial need.

Associated Students University of Alaska

(907) 474-7355

UNIVERSITY OF ALASKA, FAIRBANKS
Fairbanks, Alaska 99701

February 11, 1985

John Hartle
C/O Representative John Sund
Pouch V
Juneau, AK 99811

Dear Mr. Hartle:

Thank you for taking the time to discuss the Alaska Student Loan Program with me. I am currently making the final revisions on the ASUA Alaska Student Loan Position Paper, and will either send you a copy through the mail, or have Ken Knox, my legislative assistant, drop one off to you when he is in Juneau the 12th, 13th and 14th of this month.

I am enclosing a copy of an article taken from The Chronicle of Higher Education as it may be of interest to you. The article discusses the default rates of various loan programs for students.

Once again, thank you for discussing the Alaska Student Loan Program with me.

Sincerely yours,

Darin Hargraves

Darin Hargraves
ASUA Legislative Coordinator

Enclosure

Rate of Default Declines on Loans to Students, Varies Widely Among States

WASHINGTON

Default rates under the Guaranteed Student Loan program vary dramatically from state to state—from a high of 12.8 per cent in the District of Columbia to zero in North Dakota in fiscal 1983. Rates rose in 31 states from 1981 to 1983, but dropped in 17 others, a survey has found.

The default rate is the amount of money owed on delinquent loans divided by the total amount of money loaned.

The overall national default rate decreased from 10.17 per cent in 1981 to 9.16 per cent in 1983, while the dollar volume of loans in default grew 77 per cent, from $867-million in 1981 to $1.53-billion in 1983, according to a report by Jerry S. Davis, director of research and policy analysis at the Pennsylvania Higher Education Assistance Agency.

"This increasing default volume was expected, as huge volumes of Guaranteed Student Loans made in fiscal 1979, 1980, and 1981 reached maturity," Mr. Davis said.

Alaska Posts Biggest Decrease

The biggest drop occurred in Alaska, where the default rate went down 5.03 percentage points from 1981 to 1983. States where default rates rose the most in the three-year period include Arizona, California, the District of Columbia, Hawaii, Nebraska, Texas, and West Virginia, with increases ranging from 4 to nearly 13 percentage points.

The survey, which was based on data gathered by the Education Department, is of particular interest because paying off defaults in the Guaranteed Student Loan program costs the government about $800-million a year.

Budget pressures are forcing increased scrutiny of the causes of, and possible solutions to, the problems of student-loan defaults.

But the survey indicates that the default problem is not as bad as many people believe it to be, said Mr. Davis.

"Discussions of default rates and soaring default volumes and their costs to the Guaranteed Student Loan Program all too often treat these problems as if they were monolithic among all states," he said.

"The default problem is not the same for all states. These differences suggest that remedies for the problem cannot be couched in terms of national or program-wide solutions, but must recognize the different situations among the states," he continued.

States with long-established student-loan-guarantee agencies generally have better default rates than states with newer agencies. Mr. Davis called agencies "established" if they guaranteed at least 40 per cent of their total loans before fiscal 1981; "new" states guaranteed over 40 per cent since that year.

Default rates dropped in 17 of the 23 states that have "established" guarantee agencies.

Increases in 31 States

State guarantee agencies insure lenders who make Guaranteed Student Loans against default, and the federal government in turn insures state agencies for the loans they back.

Default rates increased in 31 states, largely because they had new agencies with limited experience insuring student loans, Mr. Davis said.

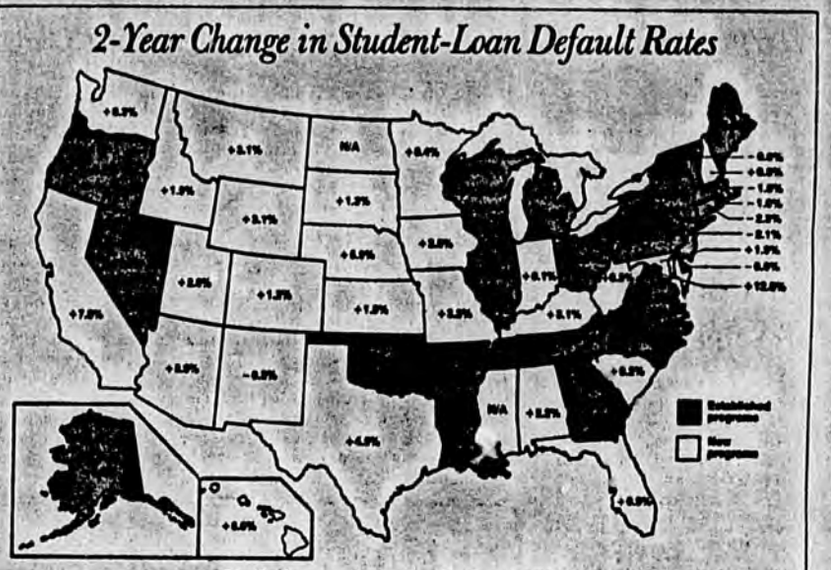
Mr. Davis said the decline in the overall national default rate was due primarily to lower rates in states that guarantee the largest volumes of loans, including Illinois, Massachusetts, New Jersey, New York, and Pennsylvania.

The number and dollar value of loans increased significantly from 1981 to 1983, with a total of $11.7-billion in such loans made during 1982 and 1983, the report says.

"Thus the recent huge increases in numbers of loan dollars guaranteed and reaching maturity has generated a not unexpected large increase in default loan dollar volumes," Mr. Davis said in his report.

—DONNA ENGELGAU

2-Year Change in Student-Loan Default Rates



Default rates by state for fiscal 1983

Alabama	2.2%	Kentucky	4.1%	North Dakota	0.0%
Alaska	1.4%	Louisiana	6.1%	Ohio	0.7%
Arizona	8.9%	Maine	2.9%	Oklahoma	0.5%
Arkansas	1.3%	Maryland	5.2%	Oregon	2.1%
California	9.2%	Massachusetts	2.4%	Pennsylvania	5.0%
Colorado	2.3%	Michigan	2.7%	Rhode Island	5.7%
Connecticut	4.5%	Minnesota	5.2%	South Carolina	0.9%
Delaware	2.0%	Mississippi	3.8%	South Dakota	2.8%
District of Columbia	12.8%	Missouri	6.4%	Tennessee	3.2%
Florida	2.0%	Montana	3.1%	Texas	4.8%
Georgia	4.4%	Nebraska	6.2%	Utah	2.8%
Hawaii	8.0%	Nevada	6.2%	Vermont	2.8%
Idaho	4.6%	New Hampshire	1.5%	Virginia	0.0%
Illinois	2.4%	New Jersey	4.7%	Washington	1.8%
Indiana	2.1%	New Mexico	0.3%	West Virginia	6.3%
Iowa	3.8%	New York	0.4%	Wisconsin	5.4%
Kansas	7.3%	North Carolina	3.8%	Wyoming	3.1%

Note: "Established" states guaranteed at least 40 per cent of their total student loans before fiscal 1981. "New" states guaranteed over 40 per cent of their student loans after that year.

The figures show the change in the default rate from fiscal 1981 to fiscal 1983.
n/a: Not available

SOURCE: JERRY S. DAVIS, PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY

Associated Students University of Alaska

(907) 474-7355

UNIVERSITY OF ALASKA, FAIRBANKS
Fairbanks, Alaska 99701

A POSITION PAPER: HOUSE BILL NO. 161

As student representatives of the University of Alaska, Fairbanks, the Legislative Council is responsible for bringing the needs of the student body to the state Legislature. An issue of the utmost importance to the students of this university is the introduction of House Bill No. 161, relating to the Alaska Student Loan program. The continuation of the current loan regulations is the primary objective of the Legislative Council this year. We feel we must adamantly oppose this bill for the following reasons:

1. Section (1) of this bill would increase the interest rate of student loans from five to eight percent per year. This in itself is not highly objectionable to the student body, although we are not pleased with the prospect. We do, however, believe that the increased interest rate, when combined with the other proposed changes in this legislation, will place serious financial burdens on many students attending this university. We have no strong objections to the increase in the interest rate to ten percent for defaulters either, but do feel that students intentionally defaulting payment on their student loans will continue to do so, and students in default for financial reasons will only plummet further into debt. We on the Legislative Council do share with the Alaska State Legislature their concerns regarding the default rate of the loan program. We have in the past consistently supported legislation designed to increase the fiscal responsibility of the borrower.

2. Section (2) of this bill would make it manditory that all loan applicants show financial need to be eligible for an initial student loan. ASUA objects to this because most loan programs base financial need solely upon parental income. Many students with financially secure parents would prefer to put themselves through school, as opposed to having their parents pay their way. These students would be rendered ineligible.

3. Section (5) sets a different rate of interest for rural education loans than for other student loans. This would discriminate against all students not wishing to pursue a career in rural education. We find this unacceptable.

4. Section (6) of this bill repeals the forgiveness clause in the current student loan program. It is this section to which we most strongly object. If passed, this would place a much heavier financial burden upon many students needing the loan to

attend school. The forgiveness clause is the one thing that separates the Alaska program from similar student loan programs in other states. It has attracted many Alaskan students back to the state after graduation. The sponsor's statement that this is indeed occuring is the very reason to maintain the status quo and not abolish this most important clause.

It is our opinion that the rural education loan was created to supplement the current student loan program, not replace it. We simply do not see the advantage in sacrificing the benefits of one loan program for another. The Legislative Council and the student body of the University Alaska, Fairbanks, strongly urge Alaska legislators to seriously consider the objections raised in this document. Again, the continuation of the current student loan program is the primary concern of the council, and most definitely, of students all across the great state of Alaska.

Submitted by: Robert Menard

Governmental relations representative

Student Association for University of Alaska, Anchorage

The intent of House Bill 161 is to put the Post Secondary Commission Student Loan Program on a sound financial basis, making it a truly revolving loan program.

While the intent is courageous and admirable, and while we feel that there is room for adjustments in the program, this bill has some provisions in it which we cannot support.

HB 161 would raise serious questions concerning discrimination between two groups. It divides rural and urban students, and continuing education and "non-traditional" students. For example, HB 161 would raise the interest rate from 5% to 8% for all urban students, but not for rural students. Secondly, the legislation would totally eliminate the forgiveness clause of the program. It does not address the people who are currently involved in the program, and the drastic impact that such a change would cause. Thirdly, the bill would mandate that loan applicants who have been out of high school for more than two years demonstrate financial need. This portion also applies to those who already have student loans--A student who is presently receiving a loan would have to reapply if he or she had been out of high school for more than two years at the time of his or her original application; while continuing

education students (directly from high school to post secondary) would not have to show financial need, resulting in top priority.

We believe the "value" judgements concerning this legislation are totally unethical and undermine the intent and focus of the student loan program. We understand that the House Special Committee on State Loans will be looking at tightening up this program, without in any way destroying its integrity. Creating a strong and fiscally responsible loan program for the future students of tomorrow is the positive direction that the committee should go.

The Student Loan Program is the most generous loan program offered to students in the nation. It is a program that the state should take pride in maintaining and promoting. Due to the ever declining revenues in the state, each program should be evaluated carefully, but due to the current standing of the student loans, many provisions would have a drastic effect on the student's financial burden. A short term remedy for a long term reality would drastically change the educational commitment that the State of Alaska is so proud to support.

Alternatives:

1) Forgiveness clause: Implement a reduction of 10% per year over a five year period.
2) Interest rates: Compatible with other student loan programs, i.e. 8%.
3) Default on loan: The State cannot tolerate persons not responsible for paying back their loan payments. Defaulting on

the loan program is cheating the students of tomorrow of their opportunity for furthering their own dreams of higher education.

Short-term Cuts

After reviewing the Student Loan Program and the effects that HB 161 would have on the program, the Student Body of the University of Alaska-Anchorage is completely opposed to HB 161.

The Student Association of the University of Alaska, Anchorage (SAUAA), recognizes the need for revision of the Alaska Student Loan Program so that it may be available for future generations, but SAUAA completely rejects HB 161 for the following reasons:

1- The accessability of the loan program must not be threatened. The five percent rate of interest encourages many Alaskans to further their educations. A three percent increase would mean on a $20,000 loan an extra $27 per month over a 10 year period. The burden of repayment becomes too great. The Postsecondary Education Commission no longer supports this increase and neither do the students of UAA.

2- The decrease of the grace period from one year to six months would create unneeded hardships for students. This part of the bill could increase the default rate due to problems encountered directly after graduation. If a student graduates in May, their note would become due in November which is typically a depressed financial time of year. If students take a break in the course of their studies, they will be forced into a repayment schedule. The students should be allowed the time of one year just to get their lives stable after being in school for so long. As many of us know, the federal government loan programs do not endorse six month grace periods either.

3- The ramping clause is misleading. It could not only lead to an administrative nightmare, but could lead to massive confusion by the students as well. SAUAA can see no good reason for its inclusion in the bill.

4- The Postsecondary Education Commission administers the Alaska Student Loan Program. With the budget cuts to the agency, the staff perform amazingly efficient. The commissioners are prominant, educated

leaders of Alaska. Their expertise and broad experiences should contribute towards a positive direction. On December 14, 1985, The commission passed a regulation that each student recipient of a loan must contribute $500 to their own education. This will create an additional $4.3 million into the fund to help other perspective students afford their educations.

We feel the commission has solved the problem Representative Binkley was concerned with in the beginning, the Postsecondary Education Commissioners should be congratulated on their efforts to rescue the Alaska Student Loan Program. Representative Binkley recognized a need and helped stimulate constructive discussions. There is no current need for HB 161 and SAUAA believes it should be taken off the agenda.

ANCHORAGE COMMUNITY COLLEGE STUDENT ASSOCIATION

Resolution No. 86-10
By: Virginia Belknap

OPPOSITION OF HB-161

WHEREAS the proposed changes suggested in HB-161 for the Student Loan Program would have a dramatic effect on the lives of students; and

WHEREAS students have been faced with tuition increases, reduced class time, a cost of living increase, promises of paid parking in the near future; and

WHEREAS the reduction of the grace period from one year to six months would cause financial burdens to the student just entering the work force; and

WHEREAS the U. S. House of Representatives has approved a bill that increases the grace period from six months to nine months for the 5.3 million students who receive guaranteed student loans and other government educational funding and that bill now goes to the U.S. Senate; and

WHEREAS education should be looked on as an investment in the future of our people, not as an expense and burden on society,

BE IT THEREFORE RESOLVED that the Assembly adopt this resolution as an offical and formal expression of opposition to HB-161, and

BE IT FURTHER RESOLVED that this resolution be forwarded to the Alaska Legislature, the student member of the Commission on Postsecondary Education, the ASIN representative and other student governments in the state of Alaska.

Bruck Bruckman
Bruck Bruckman, ACCSA President

12/20/85
Date Approved

Anchorage Community College Student Association
2801 PROVIDENCE DRIVE, ANCHORAGE, ALASKA 99508-4670
CAMPUS CENTER ROOM 225, 786-1205 or 786-1220

ANCHORAGE COMMUNITY COLLEGE STUDENT ASSOCIATION

Resolution 85-22
By Chris A. Tolladay

WHEREAS the education of Alaska students is deemed by this assembly to result in a greater potential for return on investment than any other investment currently being considered, and

WHEREAS CS 161 would eliminate the forgiveness clause of the scholarship loan program, thereby increasing the already substantial financial burden placed on Alaska postsecondary students, be it therefore

RESOLVED that this resolution be adopted as an expression of opposition to CS 161. Be it further

RESOLVED that this resolution be forwarded to the House Health, Education, and Social Services Committee, the House Finance Committee, the Anchorage legislative delegation, the Student Regent, the University of Alaska Legislative Liaison, the Alaska Commission on Postsecondary Education, the Statewide Student Information Network, and other student government groups in the state of Alaska.

Chris A. Tolladay, President, ACCSA

22-03-5
Date Approved

STATE OF ALASKA

MEMBER
FINANCE COMMITTEE
SPECIAL COMMITTEE ON FISHERIES

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4737

PO. BOX 1065
BETHEL, ALASKA 99559
(907) 543-2922

REPRESENTATIVE JOHNE BINKLEY

March 25, 1985

Ms. Rebecca Whittlesey
P. O. Box 691
Wrangell, Alaska 99929

Re: House Bill 161 - State Student Loan Program

Dear Ms. Whittlesey:

I was pleased that you took the time to participate in the teleconference on March 12. As a follow-up to the discussions on House Bill 161 I'd like to share just a few comments as to why it is so important that we re-evaluate Student Loan Program regulations now.

The Student Loan Program is the best loan program we have in the State of Alaska today. There is no better way for the State to invest its money than in the education of its people. That is why we must make some changes in the program to protect it for future generations to have the same opportunities. If we don't make changes now to put the program on a sounder financial base it will end up short-funded before too long. All state loan programs this year are looking at reductions in funding, whether or not HB 161 passes, the student loan program included. That will mean that some students who had planned on receiving state student loans may not receive them.

Changes in eligibility requirements would actually work to the benefit of young people just out of high school, like yourself, by giving you first priority regardless of your parents' financial situation. Under the changes I proposed to the regulations you would not have to compete for monies with the older students who have already gone through school and on to good paying jobs and who can truly afford to finance their own education. If choices have to be made, I feel young high school graduates and older students who demonstrate financial need should be given first priority.

I have received a large number of letters and public opinion messages concerning House Bill 161; I have listened to a substantial amount of testimony at hearings on the bill; I have talked with students on campuses across the State; I have talked with parents; I have talked with many persons who have taken the time to discuss this bill; and I have talked with a number of high school students. Interestingly, it is the high school students who seem to best understand that by making some adjustments in the program regulations now we are in effect strengthening the program and protecting its future.

I thank you for your interest. I hope you will continue to follow House Bill 161 and that you will lend your support to its passage.

Sincerely,

Johne Binkley
Representative

cc: Senator Bob Ziegler
Representative John Sund
Representative Robin Taylor

Ms. Rebecca Whittlesey
P. O. Box 691
Wrangell, Alaska 99929

Mr. Brian Roberts
P. O. Box 1163
Wrangell, Alaska 99929

Ms. Shellie A. Phillips
P. O. Box 1438
Wrangell, Alaska 99929

Ms. Lynda Nore
P. O. Box 366
Wrangell, Alaska 99929

Ms. Annette Vincent
P. O. Box 1782
Wrangell, Alaska 99929

Ms. Renee Sweat
P. O. Box 1551
Wrangell, Alaska 99929

Ms. Tanya Lofftus
P. O. Box 2009
Wrangell, Alaska 99929

Mr. Daniel Jonas
P. O. Box 1288
Wrangell, Alaska 99929

Mr. Gus Brock
P. O. Box 373
Wrangell, Alaska 99929

Ms. Tammy Watkins
P. O. Box 551
Wrangell, Alaska 99929

Ms. Tiffany Tibbetts
P. O. Box 613
Wrangell, Alaska 99929

Ms. Dorothy Kuntz
P. O. Box 455
Wrangell, Alaska 99929

Ms. April Oglend
P. O. Box 557
Wrangell, Alaska 99929

Mr. Jay Fitzinger
P. O. Box 1813
Wrangell, Alaska 99929

Ms. Michelle Merritt
P. O. Box 912
Wrangell, Alaska 99929

Mr. Kiply Prescott
P. O. Box 403
Wrangell, Alaska 99929

Mr. Ed Daniels
P. O. Box 1168
Wrangell, Alaska 99929

Ms. LeAnn Joseph
P. O. Box 976
Wrangell, Alaska 99929

Mr. Vern Meissner
P. O. Box 948
Wrangell, Alaska 99929

Mr. Patrick Hartshorn
P. o. Box 735
Wrangell, Alaska 99929

Ms. Brenda Christian
P. O. Box 65
Wrangell, Alaska 99929

Ms. DeAnn Churchill
P. O. Box 126
Wrangell, Alaska 99929

Mr. Hoop Wellons
P. O. Box 577
Wrangell, Alaska 99929

Mr. Bryon Pfundt
P. O. Box 855
Petersburg, Alaska 99833

Mr. Kevin Fredricksen
P. O. Box 534
Petersburg, Alaska 99833

Mr. Karl Hagerman
P. O. Box 214
Petersburg, Alaska 99833

Pat Ellis
P. O. Box 1068
Petersburg, Alaska 99833

Mr. Jim Bishop
P. O. Box 57
Petersburg, Alaska 99833

Ms. Susan Fryer
P. O. Box 691
Petersburg, Alaska 99833

Ms. Diane Otness
P. O. Box 423
Petersburg, Alaska 99833

Ms. Della Ingle
P. O. box 315
Petersburg, Alaska 99833

Mr. Mike Cottrell
P. O. Box 947
Petersburg, Alaska 99833

Mr. Keith Billi
P. O. Box 1334
Petersburg, Alaska 99833

Mr. Sam Marsh
P. O. Box 606
Petersburg, Alaska 99833

Mr. Kevin Kivisto
P. O. Box 1173
Petersburg, Alaska 99833

Ms. Elisabeth Enge
P .O. Box 166
Petersburg, Alaska 99833

Mr. Brian Mattson
P .O. Box 1168
Petersburg, Alaska 99833

Ms. Melissa Moss
P. O. Box 165
Petersburg, Alaska 99833

Mr. Ralph Strickland
P. O. Box 1307
Petersburg, Alaska 99833

Mr. Ty Cummins
P. O. Box 1131
Petersburg, Alaska 99833

Mr. Rick Hope
P. O. Box 102
Petersburg, Alaska 99833

Ms. Carol Busby
P. O. Box 5794
Ketchikan, Alaska 99901

Ms. Rhonda Palmer
P. O. Box 6052
Ketchikan, Alaska 99901

Ms. Tina Anderson
P. O. Box 7772
Ketchikan, Alaska 99901

Sacha Kotlarof
507 Cedar
Ketchikan, Alaska 99901

Mr. Jeff Lorton
Rt. I, Box 306
Ketchikan, Alaska 99901

Ms. Karen Yetka
P. O. Box 928
Ward Cove, Alaska 99928

Ms. Andrea Cusack
P. O. Box 9047
Ketchikan, Alaska 99901

Mr. Will Halstead
P. O. Box 8436
Ketchikan, Alaska 99901

Mr. Tyron Walker
Rt. I, Box 48
Ketchikan, Alaska 99901

Ms. Jeanne Sande
Rt. 1, Box 1096
Ketchikan, Alaska 99901

letter___ visit X___ phone___ meeting___ POM___

DATE: 1/10/86 NAME: Carolyn Nimor

SALUTATION: Carolyn ADDRESS: P.O. Box 9004

PHONE 225-9231 CITY, ZIP: Ketchikan 99901

AGENCY: OFFICE:

Taken by: Shari

Assigned to: "

All work completed: ✓

Issue/concern:

Student loan program - opposed to HB161

Action needed:

Letter

Action taken:

Letter written 1/27

ROLLODEX ✓ Filed under Constituent

COMPUTER ✓ Filed under LOANS 1

Follow-up letter or phone call:_____

JOHN SUND, REPRESENTATIVE
2505 2nd Avenue
Ketchikan, Alaska 99901
(907) 225-5552

While in Juneau
P. O. Box V
Juneau, Alaska 99811
(907) 465-4919

January 27, 1986

Ms. Carolyn Minor
P.O. Box 9004
Ketchikan, Alaska 99901

Dear Carolyn,

Thanks for stopping in my office earlier this month to discuss the student loan program. I appreciate your concerns.

As you know, House Bill 161 to revamp the student loan program passed out of the House last year and is now in the Senate Health, Education and Social Services Committee. Although I cannot be certain as to what the Senate will do with the bill, I can say with confidence that continuation of the student loan program remains a statewide priority.

Thanks again for your input and feel free to call on me in the future.

Sincerely,

John Sund
Representative

letter___ visit X___ phone___ meeting___ POM___

DATE: 1/10/86 NAME: Carolyn Minor

SALUTATION: Carolyn ADDRESS: P.O. Box 9004

PHONE 225-9231 CITY, ZIP: Ketchikan 99901

AGENCY: OFFICE:

Taken by: Shari

Assigned to: "

All work completed: ✓

Issue/concern:

Student loan program - opposed to HB161

Action needed:

Letter

Action taken:

Letter written 1/27

ROLLODEX ✓ Filed under Constituent

COMPUTER ✓ Filed under LOANS 1

Follow-up letter or phone call:_____

CONTACTS:

COMMENTS:

Name:
Agency:
Office:
Phone:
Address:

Name:
Agency:
Office:
Phone:
Address:

Name:
Agency:
Office:
Phone:
Address:

Additional follow-up required:

JOHN SUND, REPRESENTATIVE
2505 2nd Avenue
Ketchikan, Alaska 99901
(907) 225-5552

While in Juneau
P. O. Box V
Juneau, Alaska 99811
(907) 465-4919

January 27, 1986

Ms. Carolyn Minor
P.O. Box 9004
Ketchikan, Alaska 99901

Dear Carolyn,

Thanks for stopping in my office earlier this month to discuss the student loan program. I appreciate your concerns.

As you know, House Bill 161 to revamp the student loan program passed out of the House last year and is now in the Senate Health, Education and Social Services Committee. Although I cannot be certain as to what the Senate will do with the bill, I can say with confidence that continuation of the student loan program remains a statewide priority.

Thanks again for your input and feel free to call on me in the future.

Sincerely,

John Sund
Representative

letter___ visit X phone___ meeting___ POM___

DATE: 1/10/86 NAME: Richard VanCleave

SALUTATION: Richard ADDRESS: P.O. Box 9179

PHONE 225-6580 CITY, ZIP: Ketchikan 99901

AGENCY: OFFICE:

Taken by: Shari

Assigned to:

All work completed:_____

Issue/concern:

Student Loan Program - opposed to HB 161

Action needed:

Teacher Scholarship Loan Program info ~~[illegible]~~ requested
Letter

Action taken:

Letter written 1/27
Info requested from student loan program - brochure will be sent when ready (1-2 weeks)

ROLLODEX ✓ Filed under [illegible]

COMPUTER ✓ Filed under LOANS1

Follow-up letter or phone call:_____

CONTACTS:

COMMENTS:

Name:
Agency:
Office:
Phone:
Address:

Name:
Agency:
Office:
Phone:
Address:

Name:
Agency:
Office:
Phone:
Address:

Additional follow-up required:

JOHN SUND, REPRESENTATIVE
2505 2nd Avenue
Ketchikan, Alaska 99901
(907) 225-5552

While in Juneau
P. O. Box V
Juneau, Alaska 99811
(907) 465-4919

January 27, 1986

Mr. Richard VanCleave
P.O. Box 9179
Ketchikan, Alaska 99901

Dear Richard,

Thanks for stopping in my office earlier this month to discuss the student loan program. I appreciate your input.

As we discussed, the legislation that addresses the program, House Bill 161, passed out of the House last year after extensive amendments. It is now in the Senate Health, Education and Social Services Committee. I can't say what the Senate will do with the bill, but I can say with some certainty that continuation of the student loan program is a statewide priority.

You also requested information on the teacher scholarship loan program. A new brochure on the program is at the printer and will be forwarded to you when it is ready.

Participation in the program requires an invitation from a school district. If you hope to take advantage of the program soon, it may be worthwhile to begin contacting either the school district from which you graduated or the one in which you hope to work and express your interest.

Let me know if I can help out in any way.

Sincerely,

John Sund
Representative

Plan may foil Kenai fish nhancement project

Associated Press

Kasilof — The U.S. Fish and Wildlife Service may thwart state plans to use hatchery-produced fish to boost red salmon production in the Kasilof River on the Kenai Peninsula.

A soon-to-be-released management plan for the Kenai National Wildlife Refuge prohibits "wilderness" area fishery enhancement projects designed to push salmon production above natural or historic levels.

If that prohibition remains part of the plan, it could end state stocking of Tustumena Lake with hatchery-spawned sockeye fry. Those fry now account for as much as 50 percent of a growing Kasilof River red salmon run.

The lake was classified a wilderness area in 1980 by Congress.

Federal officials say they fear that continued introduction of hatchery fish will have an adverse effect on wild stocks that spawn in the streams that are part of the Kasilof River system.

The final draft of the refuge management plan is scheduled for release within the next two weeks. After its distribution, state officials will have 60 days to comment. They hope to change the prohibition, but it may be difficult.

"Any enhancement of salmon in Tustumena Lake has to be at the expense of the natural runs," said Refuge Manager Bob Delaney.

"My job is to protect Tustumena as a living laboratory. I'm more of a guardian than a gardener," he said. "A gardener massages and manipulates the environment to increase production."

But despite misgivings, the federal agency approved and has played a major role in a five-year, experimental stocking program conducted by the state. In 1978, 400,000 fry were released in Tustumena Lake. Last year, the total climbed to more than 15 million.

As a result of the program, more than 14 million stream and hatchery-spawned salmon will leave the Kasilof as smolts this year, said Loren Flagg of the state Department of Fish and Game's Fisheries Rehabilitation, Enhancement and Development Division.

"We feel the (Kasilof River) may be spawning-limited," Flagg said. If so, Tustumena Lake could support far more salmon than the streams that drain into it are capable of producing."

By putting fry in the lake and taking advantage of that excess rearing capacity, salmon production could be boosted far above the system's natural level, he said.

By monitoring the lake and spawning activity in adjacent streams, biologists can ensure that stocking does not harm the river's natural runs, Flagg said.

The potential dividends are tremendous, he said. If current survival trends continue, more than 1.4 million reds should return to the Kasilof in two to three years.

"The record return was 800,000 so we're looking at almost doubling the largest run ever recorded," Flagg said.

Bob Ochs, manager of the Crooked Creek Hatchery, said he sees the new refuge plan as just another example of a federal agency denying Alaskans full use of their state's natural resources.

"If we can produce fish without hurting the environment, why not let us do it?" he asked.

For commercial fishermen, the 600,000 additional salmon would be money in the bank, but organized sport fishermen may take a different view.

Large Kasilof River red salmon runs could mean more commercial fishing time on set net sites on the eastern shores of Cook Inlet. That could affect the incidental commercial catch of late-run Kenai River king salmon.

Temper foils robbery

Associated Press

Two armed, masked men fled under a barrage of merchandise hurled by a clerk after the pair tried to rob his convenience store, police said.

When the bandits entered the store late Friday, the clerk, Mark McCoy, 24, was at the rear of the store, police said. McCoy asked if he could help the two, reportedly thinking they were playing a joke.

In response, one of the men brandished a handgun, demanded cash and used his weapon to knock items from a store shelf. The second thief, wielding a knife, stood silently by the front door, police said.

The clerk got angry and started pitching bottles at the two. They immediately dashed out the door, police said, with the clerk in pursuit. He returned to the store to call for help when he remembered one of the

Rural lifestyles ebb in fast-growing Anchorage

by Naomi Klouda
Times Writer

Anchorage Assemblywoman Heather Flynn says it's no longer possible to live the back road country life in Anchorage, and the sooner people realize it the sooner they can settle down to planning a better organized city.

"I sometimes worry we are so busy hanging onto a myth that we won't be able to plan for tomorrow. Not one week goes by that I don't hear the media or some development group marketing the homesteading myth — and I'm not sure that's so honest," Flynn said in a recent interview.

"The rural lifestyle may have existed 20 years ago in Anchorage, but now it would cost a million bucks," said the 17-year Alaskan from Boston.

What is the rural lifestyle? Flynn says it's living in the boondocks with few amenities: A 10 acre spread away from neighbors. It's also lacking city services such as schools, road maintenance and water-sewer hookups.

"The problem is that in the places people think they can live that way — such as the Peters Creek area and on Hillside — it's not possible," Flynn said. "People want the peace and quiet, plus being close to a school, water and sewer systems, and landowners propose condominium projects and massive subdivisions in undeveloped areas, Flynn said. Assembly members are asked to review between 30 and 40 re-zoning proposals each year. Half of those are fairly large, she said.

"On the one hand you have the the landowner-developer who wants to realize profits and thinks he can do what he wants with his land," Flynn said. "On the other hand, you have the people who want to live without being crowded out or having their water-sewer systems threatened."

The problem in many cases boils down to resolving how to get adequate water and sewer hookups. The aquifer in many parts of the Greater Anchorage area cannot sustain increasing numbers of individual septic tanks without damaging water quality. At the same time, there are other areas where it isn't possible to hook up whole subdivisions to one line. "The cost is prohibitive," Flynn said.

Random commercial developments along major roads also dash the hopes for would-be rural neighborhood communities.

"Maybe when we have created enough disasters like Dimond Boulevard, our tolerance for mixing commercial and residential areas will increase," Flynn said.

Mixing the two is possible if planners nudge the process along through the maze of municipal procedures, she said. Downtown residential areas — sometimes called "yuppiedomes" — such as Park Place Condominiums and Cordova Square prove it, Flynn said.

But that sort of planning, called zoning with special limits, requires that developers landscape and buffer residential buildings from the surrounding commercial areas.

"It's not going to happen overnight, but we can hope for some areas to be straightened out. We're in the middle of re-development now," Flynn said.

"It really comes down to community pride — if people are embarrassed enough they will insist it gets cleaned up," she said. "The attitude that government created it and that government will fix it is hogwash. Personal responsibility has to come in to it."

Sam Man Ahn is making application for a new Restaurant/Eating Place Sec. 04.11.100 liquor license, d/b/a Tokyo Garden located at 930 W. 5th Avenue, Anchorage, Alaska 99501

**Interested persons should submit written comment to their local

NEED HELP FINDING A JOB?

THE J.T.P.A. PROGRAM OFFERS JOB FINDING ASSISTANCE IN A VARIETY OF FIELDS, INCLUDING:

ACCOUNTING
BOOK KEEPING
WORD PROCESSING
CLERICAL

If You Are Interested In These And Other Areas And Meet Income Eligible Guidelines; Please Contact:
THE MUNICIPALITY OF ANCHORAGE
CAREER DEVELOPMENT TRAINING

HB 161
LONG RANGE FISCAL IMPACT

Assumptions

1. Borrowing pattern will not change as a result increased interest or forgiveness elimination.

2. Program growth will follow essentially the same pattern as Alaska's population growth.

3. Repayment patterns will continue essentially as currently experienced.

4. Borrowing averages will continue to rise through 1990 and then will level as a result of loan maximums.

5. All figures are based upon full program funding.

Raising Interest to 8%

Year	New Revenue
FY86	$ -0-
FY87	-0-
FY88	56.7
FY89	168.9
FY90	349.3
FY91	605.6
FY92	815.1
FY93	967.9
FY94	1,058.4
FY95	1,197.4
FY96	1,309.3
FY97	1,431.8
FY98	1,565.7
FY99	1,712.0
FY2000	1,872.1

Eliminating Forgiveness

Year	Effective FY86	Effective FY91
FY86	$ -0-	$ -0-
FY87	-0-	-0-
FY88	473.4	-0-
FY89	1,429.0	-0-
FY90	2,061.0	-0-
FY91	4,767.5	-0-
FY92	5,077.4	-0-
FY93	5,305.8	701.4
FY94	5,661.4	1,924.2
FY95	5,955.8	2,587.6
FY96	6,366.7	5,978.1
FY97	6,519.5	6,486.3
FY98	6,689.0	6,689.0
FY99	7,244.2	7,244.2
FY2000	7,432.5	7,432.5

THE ALASKA STUDENT LOAN PROGRAM

Introduction

The Alaska Student Loan Program is one of the most successful programs offered by the State of Alaska. Its purpose is to provide low-interest loans to Alaskans wishing to pursue education and training at a postsecondary level. The program has grown from serving just over 1,000 Alaskans in 1971-72, to the current 1984-85 level of serving nearly 17,000 Alaskans. The true impact of this program is considerable, that is, the financial assistance, not only to the individual, but to the individual's family; the expanded educational opportunities afforded the citizens of the state; the societal benefits of having a more highly trained and educated citizenry; and the benefits to the state and local communities of having educational institutions and resources available to meet current and future demands. All of these are related, either directly or indirectly, to the availability of student loans. Alaska has chosen to invest in the education of its people. Through these loans, which are in large part repayable to the state, Alaska has committed itself to providing opportunities and access to all those residents seeking postsecondary education.

Legislative History

The current student loan program was created by the 1971 Alaska State Legislature, however, it was based upon a program which originated in 1968. The 1968 Alaska State Legislature established a program of

Scholarship Loans (Senate Bill 378). These loans were for undergraduate students studying in Alaska at an accredited institution. The students could borrow up to $500 per year for up to four years. The loans were non-interest-bearing and could be used only to meet the costs of books, tuition, and required fees (excluding room and board). If the student lived in Alaska after ceasing study, the loans were forgiven at a rate of $500 of loan indebtness for each six months spent in Alaska.

This program was amended by the 1970 Alaska State Legislature after a good deal of debate (based upon the bill number for the adopted legislation - FCCS SCS CSHB599). Loans now were for up to $750; could be used at any accredited college or university, could be used for books, tuition, room and board, and required fees; and were eligible for forgiveness at a rate of $750 of loan indebtedness for each full year spent in Alaska. The loans were still restricted to undergraduate students and were still non-interest-bearing.

In 1971, the Alaska State Legislature once again looked at student loans and passed CSHB415 (Finance) am S. This bill created the true framework for the present student loan program. Under the 1971 program, student loans could be obtained for undergraduate study, graduate study, and career education programs. Undergraduate students and career education students could borrow up to $2,500 per year and graduate students could borrow up to $5,000 per year. Students could borrow for up to six years of study. Loans were to bear interest at a rate of 5 percent and could be used for books, tuition, room and board, and required fees. Forgiveness was limited to 40 percent of the total borrowed (plus interest), and was accrued in 10 percent increments for each year of employment in Alaska after the grace year.

The loan program experienced minor amendments on a number of occasions, but remained relatively unchanged until the 1976 Alaska State Legislative Session. During that session, FCCSSB70 passed. Under this bill, the undergraduate and career education borrowing maximum was raised to $3,000 per year, but the $5,000 per year maximum for graduate students was maintained.

Subsequent legislatures continued to make relatively minor adjustments to the program, and then in 1981, the last major change occurred. The 1981 Legislature passed FCCSSB120, which raised the borrowing maximum to $6,000 per year for undergraduate and career education students and to $7,000 per year for graduate students. The bill also raised the amount of loan forgiveness up to 50 percent of the total borrowed (including interest), and provided that this forgiveness be accrued in 10 percent increments for each year of residence in Alaska after the grace year. Loans under this program could be obtained for up to five years for either undergraduate or graduate study or up to eight years of combined study. This is the program currently being administered by the state.

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

STATEMENT ON ALASKA STUDENT LOANS

The State of Alaska can make no better commitment of resources than investing in the education of its citizens. Direct support of Alaska's public elementary, secondary, and postsecondary school systems is vital to the state's continued growth and development. It is in the best interest of the state to provide access to these educational resources for the citizens of Alaska.

The best method of assuring access and opportunity is through the direct provision of educational services, but this is not always practical or possible, particularly at the postsecondary level. Therefore, the most effective and efficient method in attaining these goals of access and opportunity is through a system of low interest loans which allow the students to choose the educational setting most appropriate for their particular needs.

The Commission endorses and recommends the continuation and full-funding of the Alaska Student Loan Program. Amendments which restrict access by denying loans to groups of Alaskans, either by design or by default, are vigorously opposed.

Alaska State Legislature

Representative Niilo Koponen

FAIRBANKS
Box 252
Fairbanks, Alaska 99707
479-6782

JUNEAU
Pouch V
Juneau, Alaska 99811
465-4992

M E M O R A N D U M

TO: Representative Sund

FROM: Representative Niilo Koponen

RE: Student Loans Legislation

DATE: February 5, 1985

You will find find a copy of legislation pertaining to the Alaska Student Loan program attached. I intend to introduce this legislation on Friday, February 4. You may wish to co-sponsor this legislation.

This bill deals with two sections of AS 14.43. The first (AS 14.43.120(k)), deals with "Conditions of Loans" - specifically deferral of repayment. The second section (AS 14.43.125) deals with eligibility for the student loan program.

DEFERRAL OF REPAYMENT - This bill defines a maximum length of time (6 years) for which a person can have repayment of their student loan deferred because they are on active duty as a member of the armed forces of the United States.

ELIGIBILITY - Language is added making certain provisions by which a person could have been out of state within the last two years and still be eligible for a student loan. These provisions include required medical care, attendance school outside of Alaska as a fulltime student etc. Currently, military service is the ~~only~~ allowable ~~absence~~.

one of only absences in statute.

I have included a copy of the referenced existing statutes for your convenience. Please contact my staff person, Lisa McLaren, if you wish to be added as a co-sponsor.

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 161 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to student loans; and providing for an effective date."

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

* Section 1. AS 14.43.120(f) is amended to read:

(f) Interest on a loan given under AS 14.43.090 - 14.43.160 is at the rate of <u>eight</u> [FIVE] percent a year unless the loan is in default. Interest on a loan that is in default is 10 percent a year for the period the loan is in default.

* Sec. 2. AS 14.43.125 is repealed and reenacted to read:

Sec. 14.43.125. ELIGIBILITY OF STUDENTS. (a) A person may apply for and obtain a scholarship loan if the person

(1) is

(A) enrolled as a full-time student in a career education, associate, baccalaureate, or graduate degree program; or

(B) a graduate of a high school or the equivalent, or scheduled for graduation from a high school within six months, with sufficient credits to be admitted to a career education program or to an accredited college or university;

(2) is not delinquent or in default on a previously awarded scholarship loan; and

(3) is a resident of the state at the time of application for the loan; for purposes of this section, a person qualifies as a resident of the state if at the time of application for the loan the person

(A) has been physically present in the state for at least two years immediately before the time of application for the loan;

(B) is dependent on a parent or guardian for care, the parent or guardian has been present in the state for at least two years immediately before the time of application for the loan and the person has been present in the state for at least one year of the immediately preceding five years; or

(C) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before the applicant was absent from the state and the absence is due solely to

(i) military service;

(ii) volunteer service under the Peace Corps Act;

(iii) volunteer service under the Domestic Volunteer Service Act of 1973;

(iv) participating in a foreign exchange student program recognized by the commission;

(v) attending a school as a full-time student;

(vi) full-time employment by the state;

(vii) being a member of or employed full-time by the state's congressional delegation;

(viii) required medical care for the applicant or the applicant's immediate family; or

(ix) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (viii) of this paragraph.

(b) A person does not qualify as a resident of the state under

this section if the person declares or establishes residence in another state during an absence from Alaska.

* Sec. 3. Notwithstanding AS 14.43.120(j), the maximum portion of a scholarship loan that may be repaid by the state is 40 percent for a loan made for the school year beginning in 1986, 30 percent for 1987, 20 percent for 1988, and 10 percent for 1989.

* Sec. 4. AS 14.43.120(j), (o), and (p) are repealed.

* Sec. 5. Section 4 of this Act takes effect September 1, 1990.

* Sec. 6. Sections 1 [- 3] of this Act take effect July 1, 1985.

MEMORANDUM 2/3/83

TO: Rep. Koponen, Rep. Wendte, Minority Caucus members
FROM: Lisa McLaren, Suzanne Mullen
RE: Alaska Student Loan Program

SOME POINTS TO BE CONSIDERED

* In looking through the statues, House & Senate Journals, and what committee minutes were available from 1971 when the Alaska Student Loan Program was put into its current form, no intent language could be found. Perhaps creating some intent language for inclusion at the beginning of the statute is in order.

* The Alaska Student Loan Program is equally accessible to all Alaskans who meet its residency requirements. It affects not only those Alaskans who actually directly use the program, but also their families' well-being. It give young adults the ability to be self-sufficient in obtaining their postsecondary education & training. There is a nation-wide trend, duplicated in Alaska, towards the student population becoming older. Currently the average age of someone receiving an Alaska Student Loan is 23.

* It currently costs the State of Alaska about $24,500 to keep someone incarcerated in Alaska for a year. In Feb. 1983 Alaska had approximately 1146 persons incarerated (this figure and the cost figure does not include persons "furloughed"in halfway houses, or in federal institutions in the lower '48. These are an additional 267 persons which AK pays for.) For the State of Alaska to be loaning $6,000 per person plus administrative costs & interest subsidy could be a very reasonable expenditure for the State to make. It depends in part on what the administrative costs & interest subsidy costs. Those figures should be available in a day or so. The weight may actually fall upon the increasing number of persons seeking that benefit, and whether or not the State has a sufficient pool of funds to have out on loan for such a program and whether or not the State can afford the overall "cost" for a larger number of people.

* When re-examining the Alaska Student Loan Program, it might be wise to examine the scholarship programs currently in statute. In talking with persons who administer financial aid programs at UAF it sounds as if some of these programs are no longer functioning the way they were intended due to the population growth in the state. A comprehensive system to provide assistance to those seeking postsecondary education and training might prove the most effective and efficient.

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

May 19, 1983

MEMORANDUM

To: Representative Niilo Koponen

From: Leonard Steinberg, Research Staff L. S.

Re: Forecasting Student Loan Demand -- Additional information
Research Request 83-157

Attached is a follow-up memorandum from Mr. David Swanson regarding forecasts for student loan demand. Although Mr. Swanson was not able to develop a "life table" type of analysis, his findings led him to ask if the student loan program's participation rate is nearing the saturation point. Furthermore, Mr. Swanson identified the specific types of information that would be necessary to develop a more reliable "life table" type of analysis.

* * * * *

We hope this information is helpful. Please let us know if you would like any additional infomation.

LS

Attachment

MEMORANDUM State of Alaska

TO: Leonard Steinberg, Staff Researcher
House Research Agency

DATE: May 16, 1983

FILE NO:

Thru: Nico Bus, Acting Director
Administrative Services, DOL

TELEPHONE NO: 465-4500

Thru: Chuck Caldwell, Chief
Research and Analysis, DOL

SUBJECT: Student Loan Information

From: David Swanson, State Demographer
Research and Analysis, DOL

Following an intensive analysis of available data, we offer the following observations on CPE's forecasted number of student loan borrowers.

1. We believe that our preliminary finding (reported in our memo to you on May 12th, 1983) is correct: In order to achieve 24,365 borrowers by 1988-89, substantial increased participation in the loan program would be necessary. Even if our population forecast understates the 1988 population by 100,000 persons, a noticeable increase in participation would still be needed to generate 24,365 borrowers.

2. Is it possible that participation in the student loan program is nearing a "saturation point?" Although the following table (No. 1) presents a rough picture, it shows that in 1982-83, the "crude rate of participation in the student loan program" reached approximate parity with the "crude rate of full-time college participation" found in both Alaska and Washington.

   There are several reasons why the participation rate in the student loan program could exceed the rate for full-time participation in public colleges and universities. But will full-time attendance at vocational institutions, in-state private colleges and universities, and public colleges and universities out-of-state be sufficiently high to generate the borrowers by 1988-89 needed to achieve the 24,365 forecasted? Under the Department of Labor forecast of Economic Trends (used in conjunction with our population forecast), the outlook to 1988 shows relatively stable employment with declines occurring only within the construction industry. Under such a scenario, what will generate increased full-time school attendance?

3. After analyzing the data available for forecasting student loan borrowers we found that they were not sufficient to utilize the "life table" approach we desired. Consequently, we are unable to capture some of the dynamics underlying the program that we thought could assist the forecasting process.

   Using the data that are available, we can, under different assumptions, generate forecasts that are: less than those generated by CPE; higher than CPE's or about the same as CPE's. The crucial question - assumption - that needs to be answered is the level of participation in the program.

For example, if participation remains constant (29.43 per 1000), a population increase of 71,640 persons between 1982 and 1988 will generate only about 15,670 borrowers in 1988. On the other hand, if the trend in the rate of particiation found between 1981 and 1982 (22.74 and 29.43, respectively) continued to 1988, the crude participation rate would be 63.80. At a population increase of 71,640, this would generate 33,970 borrowers. Taking a simple average of these two values, 15,670 and 33,970, would result in 24,823 borrowers in 1988-89.

From the preceding examples, you can see why we believe that the assumption regarding the level of participation is crucial. This relates to the two major points that were made earlier: Given that participation must increase substantially in order to generate 24,365 borrowers by 1988-89, is it likely that it will if the rate of participation is currently reaching a "saturation point?"

4. As mentioned above, the "life table" type of analysis could not be accomplished because the CPE data were insufficient. This type of analysis, which would be very useful in developing a demographic-based forecast system, would require the following:

   a. Clear identification of <u>first-time borrowers</u> by age, type of program, etc.

   b. A tracking system to follow each <u>first time borrower</u>, in order to show:

      1. Terminations due to completion of an educational program;
      2. Terminations due to withdrawal before completion; and
      3. Borrowers who may have interrupted periods of attendance in a program.

   This type of information system would allow the creation of two important models: one giving the probability of 1st time participants by age, type program, etc.; the other showing flows through the program. Together these could be used with demographic data to help identify the number of people in the population who are eligible, the number using the program, and the number of people in the population who have exhausted benefits and are not part of the group eligible for entry in the program.

TABLE 1

	Year	Crude Participation Rate (Per 1000 Persons): Student Loan Borrowers in Alaska[1/]	Public 4 and 2 Year Full-time (10 hours and over) in Alaska[2/]	Public 4 and 2 Year Full-time (10 hours and over) in Washington State[3/]
	1971	3.38	N/A	N/A
	1972	5.30	N/A	N/A
	1973	4.95	N/A	32.71
	1974	4.19	N/A	32.38
	1975	4.48	N/A	34.01
	1976	4.69	N/A	31.55
	1977	5.42	N/A	30.91
	1978	6.79	N/A	29.41
	1979	9.47	N/A	29.69
	1980	15.39	27.74	27.51
	1981	22.74	29.82	N/A
	1982	29.43	29.03	N/A
Forecast	1983	31.58	N/A	N/A
	1984	36.51	N/A	N/A
	1985	38.22	N/A	N/A
	1986	41.48	N/A	N/A
	1987	43.21	N/A	N/A
	1988	45.76	N/A	N/A

1/ Student loan data are from page 13, "Alaska Student Loans: Background and Discussion Materials for the House Special Committee on State Loans," Alaska Commission on Postsecondary Education (no date). Population data used to compute rates for 1971-82 are from Table II.1 in Alaska Population Overview 1982, Alaska Department of Labor; Population Data for 1983-88 are from a forecast used for the "Plan of Service," Alaska Department of Labor.

2/ Statewide University of Alaska data used to develop full-time participation estimates for 1980-82 are from "Summary of closing Fall Semester Credit Enrollment and Credit Hour Data by Institution 1980-82," office of Institutional Planning, University of Alaska, February 25, 1983. These data only displayed total credit enrollment headcount. The full-time (10 or more hours) enrollment headcounts were estimated using data for Washington state, which show headcount enrollment by credits taken. ("Higher Education Enrollment Forecasts for the 1981-83 Biennium Budget, Office of Financial Management, State of Washington, December, 1980).

Approximately 66 percent of all students at four-year public institutions in Washington take 10 or more hours: approximately 33% of all students at two-year public insitutions take 10 or more hours. The population data used to develop the rates are from Table II.1, Alaska Population Overview 1982, cited above.

3/ The enrollment data for Washington are taken from "Higher Education Enrollment Forecasts for the 1981-83 Biennium Budget, Office of Financial Management, State of Washington, December, 1980. The population data for Washington are taken from Table 12, Population Trends for Washington State, Office of Financial Management, State of Washington, August, 1981.

MEMORANDUM State of Alaska

TO: Leonard Steinberg, Staff Researcher
House Research Agency

DATE: May 12, 1983

FILE NO:

Thru: Nico Bus, Acting Director
Administrative Services Division

TELEPHONE NO: 465-4500

Thru: Chuck Caldwell, Chief CRC
Research and Analysis

SUBJECT: Progress on Student Loan Forecast Project

From: David Swanson, State Demographer DAS
Research and Analysis

Here are some preliminary findings from our work on the student loan project. At this point our analysis is incomplete and utilizes some rough approximations but some points worth possible consideration have emerged.

It appears that CPE's forecasted increase in student loan borrowers is primarily due to an implied increase of participation in the program. Using, for example, CPE's forecast of 24,365 by 1988, our analysis shows that if age-specific participation rates remain at the levels reported for 1983, our civilian population forecast will generate only 14,875 borrowers in 1988.

Given that our forecasted civilian population for 1988 is accurate, age-specific participation rates would have to show the following increases by 1988 in order to generate 24,365 borrowers:

Age-specific participation rate of student loan borrowers
(Per 1000 civilian persons)

Age	1983	1988	Percent Change 1983-1988
15-19 years	47.24	77.39	63.8%
20-29 years	81.42	133.36	63.8
30-39 years	28.64	46.90	63.8
40-49 years	12.73	20.85	63.8
50-59 years	5.17	8.45	63.4
60 years and over	1.00	1.66	66.0
15 years and over	40.83	65.16	59.6%

Alternatively, if the age-specific participation rates for 1983 remained constant, the implied errors in our forecasted civilian population by age for 1988 would be as follows:

	1988 Civilian Population			
		Implied Under	Implied Error in DOL Forecast	
Age	DOL Forecast	CPE Loan Total	Absolute	Percent
15-19 years	34,796	57,007	-22,211	-38.96
20-29 years	115,417	189,044	-73,627	-38.95
30-39 years	99,905	163,617	-63,712	-38.94
40-49 years	60,011	98,272	-38,261	-38.93
50-59 years	34,898	57,060	-22,162	-38.84
60 years and over	28,908	48,000	-19,092	-39.78
15 years and over	373,935	613,000	-239,065	-39.00

Our population forecasts do not provide an error-free description of the actual population that will be in Alaska in the future. Further, we cannot provide an error-free forecast of the participation rates that will occur in the future. However, our initial analysis suggests the following two related points.

1. It may be helpful to use our forecasting procedure as a means of identifying implicit assumptions contained within CPE's forecasts. For example, our analysis strongly indicates that CPE's implicit participation rates will have to increase between now and 1988 to achieve the 24,365 figure even if our forecasted civilian population is increased by over 215,160 persons. The "crude participation" rate needed to generate 24,365 borrowers in 1988 at increasing levels of population illustrates this implicit feature in the CPE forecast:

If Forecasted 1988 Population is increased by:	1988 Crude Participation rate needed to generate 24,365 borrowers	Difference Between Crude Participation Rate Needed in 1988 and the Current Rate of 40.83
0 persons	65.16	+24.33
23,907 persons	61.24	+20.41
47,812 persons	57,77	+16,94
71,720 persons	54.67	+13.84
95,627 persons	51.89	+11.06
119,533 persons	49.30	+ 8.47
143,440 persons	47.09	+ 6.26
167,346 persons	45.01	+ 4.18
191,253 persons	43.11	+ 2.28
215,160 persons	41.36	+ 0.53

In our view it is unlikely that our forecast for 1988 would be in error to the degree indicated by -239,065 civilian persons 15 years and over. To generate these "missing persons" the volume of migration into the state between now and 1988 would have to be over three times the volume experienced during the 5 year period associated with the pipeline boom. On the other hand, our forecast for 1988 could easily understate the population that will be here by 70,000 persons.

2. It may be worthwhile to focus more attention on participation rates. The CPE Methodology for forecasting has inherent assumptions on participation even through participation rates are not explicitly used. Variability in rates used for estimation purposes is generally the primary cause of variation (or error) in the resulting estimates. By explicitly looking at the implied range of participation rates contained within a given CPE forecast and a given population forecast, perhaps a clearer picture of participation and its correlates would emerge.

As stated in the beginning of this memo, our analysis is incomplete. Consequently, no attempt has been made at a detailed description of the conceptual and data problems that could potentially affect our approach to the student loan forecast project. We have developed a list of potential problems and will examine them as work progresses.

We will pursue a course of analysis similar to the one outlined here upon receiving the data that CPE is generating for us. Conceptually, this course will be superior to the "participation rate" analysis but it requires the derivation of additional data -- which may not be available. As we reach either critical or interesting points in our continued work, we will provide you with the results.

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

March 25, 1983

MEMORANDUM

To: Representative Niilo Koponen

From: Leonard Steinberg, Research Staff L. S.

Re: Cost Breakdown of Student Loans
Research Request 83-114

Lisa McLaren of your office requested information about the subsidy inherent in an Alaska student loan. We were asked to analyze the costs to the State for at least two scenarios: first, a one-time, one-year loan of $4,500, and second, four consecutive one-year loans of $4,500. We were also requested to provide a projection of the number of Alaska high school seniors that will attend college in Alaska in the next five years. Last, Ms. McLaren requested information about who receives student loans and how the Commission on Postsecondary Education projects student loan demand.

Findings

A one-time, one-year student loan of $4,500 at 5 percent interest has a present value cost to the State of $2,357, not including the cost of forgiveness. The cost can increase up to $3,064 if the borrower takes advantage of the maximum (50 percent) forgiveness. Four consecutive $4,500 loans have a present value cost of $8,367, not including the cost of forgiveness, and up to $11,923 if the full 50 percent forgiveness allowance is used. The cost of student loans is not as sensitive to repayment interest rates as might be expected because of the high cost of deferring interest and principal repayment. Increasing the interest rate from 5 to 9 percent would save the State approximately $585 on a 1-year loan and $2,026 on a 4-year loan, not including the cost of forgiveness. The present value cost of the forgiveness provision is less than the nominal cost because the forgiveness occurs in the future when the value of money is substantially less. For a 1-year loan of $4,500, eliminating the forgiveness provisions would save the State up to $707 and for a 4-year loan, would save the State up to $3,556. However, the cost of student loans is sensitive to market interest rates (which determine the opportunity cost of money) precisely because of the high cost of deferment.

Projecting the number of Alaska high school seniors that will attend college in Alaska during the next five years is difficult because of a lack of adequate data. These projections have not been made by the Department of Education, the Commission on Postsecondary Education, nor the University of Alaska. The Department of Education's Office of Planning and Research recently published projections of the number of Alaska high school seniors through the remainder of the decade, and the Commission on Postsecondary Education annually conducts a survey of Alaska high school seniors that reports the plans of this group for postsecondary education. On the basis of this information, we estimate that between 1,434 and 1,589 Alaska high school seniors will attend college in Alaska in FY 1984, rising to between 1,525 and 2,442 Alaska high school seniors attending college in Alaska in FY 1988.

Student loans are used mostly by undergraduate students in Alaska; in January 1983, the Commission on Postsecondary Education estimated that 49 percent of all student loans in FY83 would go to this group. The Commission's demand projections for student loans are based on correlating the projected number of seniors and the number of individuals in the 18-45 age group with the past demand for student loans, and projecting forward on the basis of the expected number of each group. A comparison of past demand projections and real demand shows that there has been substantial variation between projected and actual demand.

Student Loan Subsidy

Methodology. The cost of a student loan has been determined by using the net present value method of analysis. Other analytical techniques would yield slightly different answers to the question of how much a student loan costs. The net present value form of analysis was chosen specifically because it presents a single figure for the net gain or loss of a stream of benefits and costs over time.

Through discounting, net present value analysis (also known as discounted cash flow analysis) accounts for the fact that a given amount of money today is worth more than that same in future years. The discount rate used is an estimation of how much difference there will be between today's dollars and future dollars. For this analysis we chose a discount rate of 10 percent. The discount rate for any analysis is established by the rate of return which would be obtained by an alternative investment of similar duration and risk. We assumed that funds not spent on the student loan program and not spent on alternative government services would be invested in a low-risk asset such as

a Treasury Bill. Current yields on 10-15 year Treasury Bills are 10-10.5 percent; as long-term interest rates appear to be declining, we chose to use a discount rate of 10 percent. Changes in long-term interest rates can substantially modify the answers produced by this analysis.

Student loans are generally distributed at the begining of each academic semester or quarter, not all at once. For this analysis, we assumed that half the money would be distributed in September and half four months later in January. Both interest payments and repayment of principal are deferred during the time a student is in school and for one year thereafter. In analyzing the financial impacts of the forgiveness provisions we assumed that forgiveness will occur by eliminating payments at the end of the repayment period. The Postsecondary Commission has already approved this change from the current method of providing cash rebates throughout the repayment period. New regulations reflecting this change are in the process of being adopted.

The one-time administrative cost for each loan was estimated on the basis of a March 10, 1983 memo (attached as Appendix A) on administrative costs from Dr. Kerry Romesburg, Executive Director of the Commission on Postsecondary Education, to Representative Mae Tischer. According to Dr. Romesburg, the cost of finalizing a loan award in FY 83 is approximately $84 and the cost of each loan account in repayment is $89. To determine the cost per loan we summed the appropriate number of loan award costs and loan repayment years for each cost estimate. Depending on the length of the repayment period, the administrative cost per one-year loan is estimated to be between $978 and $511. Similarly, the administrative cost for four consecutive loans is estimated to be between $1,231 and $784.

The default rate is currently around 9 percent. The cost of collecting on loans in default is included in the administrative costs. Approximately 0.6 percent ($300,000) of the amount of money that should be in repayment as of March 16 will never be collected because of death, disability, or disappearance of the borrower, and has been written off by the Commission. Loan write-offs, though part of the real cost of a student loan, have not been included in this analysis because of the small cost per loan.

Discussion. The cost of a single $4,500 student loan at 5 percent is shown in Table 1 below. The first row indicates the total cost to the State under different forgiveness conditions. The remaining rows in the table indicate the breakdown of costs among the different cost components.

As indicated in Table 1, a single $4,500 loan at 5 percent interest costs the State $2,357 not including the cost of forgiveness. Forty-two percent of this cost is administrative expenses, 37 percent of the cost is the interest subsidy, and 21 percent of the cost is required to pay for the deferment of interest repayment. The total cost grows to $3,064 with full 50 percent forgiveness and the relative size of the cost components cited above declines as the forgiveness subsidy rises to 38 percent of the total cost.

Table 1

Present Value Cost Breakdown Of A Single (1-Year) $4,500 Loan At 5 Percent

Cost Component	No Forgiveness	Amount of Loan Forgiven				
		10%	20%	30%	40%	50%
Total	$2,357.43 (100%)	$2,455.40 (100%)	$2,572.90 (100%)	$2,711.96 (100%)	$2,874.85 (100%)	$3,064.03 (100%)
Admin. Costs	977.68 (42%)	888.34 (36%)	799.00 (31%)	709.66 (26%)	620.32 (22%)	530.98 (17%)
Interest Subsidy	875.33 (37%)	875.33 (36%)	875.33 (34%)	875.33 (32%)	875.33 (30%)	875.33 (29%)
Deferment Subsidy	504.42 (21%)	504.42 (20%)	504.42 (20%)	504.42 (19%)	504.42 (18%)	504.42 (16%)
Forgiveness Subsidy*	0.00 (0%)	187.31 (8%)	394.15 (15%)	622.55 (23%)	874.78 (30%)	1,153.30 (38%)

* Note: Eliminating the forgiveness provisions will not reduce the cost to the State by the full amount of the forgiveness subsidy because of increased administrative costs in handling the loan over a longer period of time.

Table 2 presents the total cost and a breakdown of the cost structure for four consecutive loans of $4,500 at a 5 percent interest rate. Total costs for four consecutive loans range from $8,367 with no forgiveness to $11,923 with full 50 percent forgiveness. With four consecutive loans, the relative importance of the various cost components is different from a single loan; because of the time factor, the deferment subsidy is the most important cost component in every scenario except 50 percent forgiveness.

Table 2

Cost Breakdown Of Four Consecutive $4,500 Loans At 5 Percent

Cost Component	No Forgiveness	Amount of Loan Forgiven				
		10%	20%	30%	40%	50%
Total	$8,366.89 (100%)	$8,930.08 (100%)	$9,558.11 (100%)	$10,260.94 (100%)	$11,046.38 (100%)	$11,922.98 (100%)
Admin. Costs	1,230.52 (15%)	1,141.18 (13%)	1,051.84 (11%)	962.50 (9%)	873.16 (8%)	783.82 (7%)
Interest Subsidy	3,501.32 (42%)	3,501.32 (39%)	3,501.32 (37%)	3,501.32 (34%)	3,501.32 (32%)	3,501.32 (29%)
Deferment Subsidy	3,635.05 (43%)	3,635.05 (41%)	3,635.05 (38%)	3,635.05 (36%)	3,635.05 (33%)	3,635.05 (30%)
Forgiveness Subsidy*	0.00 (0%)	652.52 (7%)	1,369.90 (14%)	2,162.07 (21%)	3,036.85 (27%)	4,002.84 (34%)

* Note: See note on forgiveness subsidy for Table 1.

In addition to clarifying the relative value of the deferment subsidy, the cost component breakdown also indicates the relative costs of the forgiveness program. However, the savings realized from eliminating the forgiveness program are substantially less than the amount shown as the cost of the forgiveness subsidy. The reason for this difference is that the administrative expenses increase for every year the loan is retained as an account. Loan forgiveness reduces administrative expenses because the number of years in which the account is handled is reduced. For example, 10 percent of a $4,500 loan is $450, but eliminating 10 percent forgiveness saves the State $98, 22 percent of $450. Eliminating the entire forgiveness program would reduce State costs for a one-time $4,500, 5 percent interest loan by a present value of $707 or 23 percent of the $2,250 being forgiven. For four consecutive $4,500, 5 percent interest loans, costs to the State could be reduced by $3,557 or 30 percent of the $9,000 being forgiven. Table 3, below, shows the real present value savings to the State from eliminating the forgiveness program and the percentage of the nominal amount forgiven that these savings represent.

Table 3

Actual Savings Realized From The Elimination of Forgiveness
(Percentage of Nominal Amount Forgiven)

Loan	Amount of Loan Forgiven				
	10%	20%	30%	40%	50%
$4,500 1-Year 5-Percent	$97.97 (22%)	$215.47 (24%)	$354.53 (26%)	$517.42 (29%)	$706.60 (31%)
4/$4,500 Loans ($18,000) 5-Percent	$563.19 (31%)	$1,191.22 (33%)	$1,894.05 (35%)	$2,679.49 (37%)	$3,556.09 (40%)

Tables 4 and 5 illustrate the degree to which the present value cost analysis is sensitive to a change in borrowers' interest rates. Table 4 shows the cost to the State of a one-time, one-year student loan of $4,500 with borrowers being charged a 9 percent interest rate. The table indicates that raising the interest rate to 9 percent (an 80 percent increase) will reduce the cost to the State of a one-time one-year loan by 25 percent when comparing costs without forgiveness and 12 percent under a 50 percent forgiveness scenario. Table 5 illustrates similar cost reductions for four consecutive $4,500 loans lent at 9 percent.

Table 4

Cost Breakdown Of A Single (1-Year) $4,500 Loan At 9 Percent

Cost Component	No Forgiveness	Amount of Loan Forgiven				
		10%	20%	30%	40%	50%
Total	$1,772.48 (100%)	$1,906.41 (100%)	$2,063.61 (100%)	$2,246.53 (100%)	$2,457.83 (100%)	$2,700.48 (100%)
Admin. Costs	977.68 (55%)	888.34 (47%)	799.00 (39%)	709.66 (32%)	620.32 (25%)	530.98 (20%)
Interest Subsidy	179.51 (10%)	179.51 (9%)	179.51 (9%)	179.51 (8%)	179.51 (7%)	179.51 (6%)
Deferment Subsidy	615.29 (35%)	615.29 (32%)	615.29 (30%)	615.29 (27%)	615.29 (25%)	615.29 (23%)
Forgiveness Subsidy	0.00 (0%)	223.27 (12%)	469.81 (23%)	742.07 (33%)	1,042.71 (43%)	1,374.70 (51%)

Dropping the forgiveness program from the one-time $4,500 loan at 9 percent interest could reduce the cost of the loan by up to $928.00 or 34 percent. Eliminating the forgiveness program could also reduce the cost of four consecutive $4,500 loans at 9 percent interest by up to $4,321 or 41 percent.

Comparisions between Tables 1 and 2 and Tables 4 and 5 also indicate that if the interest rate is raised to 9 percent and the forgiveness provisions are eliminated, costs can be reduced by 42 percent from the most expensive cost of a one-time, one-year $4,500 loan. Similarly, costs for four consecutive loans at $4,500 can be reduced by up to 47 percent.

Table 5

Cost Breakdown Of Four Consecutive $4,500 Loans At 9 Percent

Cost Component	No Forgiveness	Amount of Loan Forgiven				
		10%	20%	30%	40%	50%
Total	$6,341.04 (100%)	$7,026.04 (100%)	$7,791.78 (100%)	$8,646.70 (100%)	$9,600.05 (100%)	$10,662.16 (100%)
Admin. Costs	1,230.52 (20%)	1,141.18 (16%)	1,051.84 (14%)	962.50 (11%)	873.16 (9%)	783.82 (7%)
Interest Subsidy	718.04 (11%)	718.04 (10%)	718.04 (9%)	718.04 (8%)	718.04 (7%)	718.04 (7%)
Deferment Subsidy	4,392.48 (69%)	4,392.48 (63%)	4,392.48 (56%)	4,392.48 (51%)	4,392.48 (46%)	4,392.48 (41%)
Forgiveness Subsidy	0.00 (0%)	774.34 (11%)	1,629.42 (21%)	2,573.68 (30%)	3,616.37 (38%)	4,767.82 (45%)

Student loan costs to the State per dollar loaned decrease as the amount loaned increases. The cost to the State per dollar loaned also decreases as the number of loans granted to the same party increases. Last, the cost to the State per dollar loaned falls as interest rates rise. The first two trends can be explained by the relatively high and constant cost of loan administration. The third trend is solely a function of reducing the level of interest subsidy required.

As of March 3, 1983, 12,827 student loans averaging $4,415 have been awarded in FY 83. Had these loans averaged $4,500, and had all borrowers been one-time borrowers, the present value cost to the State of these loans would be $30,238,755, not including the cost of forgiveness. If the loans averaged 20 percent forgiveness, then the present value cost to the State would rise to $33,002,588. Had these loans been part of a multi-year lending package, the present value costs to the State would be less.

Alaska High School Senior/College Freshman Projections

As far as we have been able to determine, reliable projections of the number of Alaska high school seniors that will attend college in Alaska have not been made. Consequently, we made our own projections on the basis of the best available information. The accuracy of the data we used to make the estimates below is unknown, but we estimate only a 50 percent level of confidence in the accuracy of these projections. Nevertheless, we feel that the actual number of Alaska high school seniors that will attend college in Alaska lies somewhere in the range of estimates provided below.

Table 6

Estimated Number of Alaska High School Seniors Attending College in Alaska

Fiscal Year	Number of Students
84	1,434 - 1,589
85	1,461 - 1,800
86	1,515 - 2,052
87	1,489 - 2,200
88	1,525 - 2,442

The estimates in Table 6 were based upon two basic sources of information. First, the Department of Education's Office of Planning and Research has recently published a report entitled Enrollment Projections for Alaska Public Schools. The report provides two separate estimates of enrollments in grades K-12 through FY 1989; the first estimate is based on cohort enrollments and the second estimate is based on cohort enrollments and cohort births. Both estimates appear to be simple linear models which do not account for changes in economic conditions and changes in migration patterns. The Office of Planning and Research does not prepare these reports regularly and therefore does not have a history of making these types of projections. Furthermore, it is not possible to check earlier projections to determine whether or not the Office of Planning and Research has been accurate in the past; the Office has prepared only one other report of this type (during the pipeline period) and it was found to be highly inaccurate. The estimates in Table 6 are derived from the cohort enrollment based projections only.

The Alaska Commission on Postsecondary Education conducts a survey of Alaska high school seniors every year which asks, among other things, how many seniors plan to attend college and of those, how many plan to attend in Alaska. The Commission on Postsecondary Education has not conducted a follow-up survey to determine how often high school seniors actually do attend college in Alaska. Moreover, some of the findings of the survey cast doubt on the survey's accuracy. For example, the 1981-82 Survey Report stated that 1,849 seniors intended to attend college or a vocational-technical school after graduation, but 2,576 (727 more) seniors responded to questions about where they intended to attend college or a vocational-technical school.

According to the survey, the portion of high school seniors intending to seek postsecondary education has remained fairly constant at approximately 57 percent during the years 79-80, 80-81, and 81-82. However, the 1981-82 report found that 40.6 percent of high school seniors seeking postsecondary education would do so in Alaska; in 1980-81, 36.5 percent intended to stay in Alaska and in 1979-80, 31 percent had intended to stay in Alaska.

Our estimates in Table 6 are based on the assumption that 56.7 percent of high school seniors will attend postsecondary education after high school. The lower end of our estimate represents a projection based on the 1981-82 finding that 40.6 percent of Alaska high school seniors intended to seek postsecondary education in Alaska. The upper end of our estimate reflects the trend of an increasing percentage of Alaska high school seniors intending to seek postsecondary education in Alaska.

An evaluation of the accuracy of the high school survey in the Anchorage area has been prepared by the Anchorage School District and their information will be forwarded to you as soon as we receive it. Additionally, the University of Alaska is sending information about past enrollments and how many freshmen attended high school in Alaska; this information will also be forwarded to you when it is received.

Student Beneficiaries

The largest single group benefiting from student loans are undergraduates studying in Alaska (about 40 percent). As of January 1983, undergraduates studying in Alaska were expected to receive 54 percent of all undergraduate student loans and 49 percent of all student loans. By the end of the year, these numbers will drop a few percentage points because Alaska students are more likely to drop out of school in mid-year than out-of-state students, but undergraduates in Alaska will remain the single largest group of borrowers. Additionally, the Commission's January data shows that 73 percent of all vocational students with student loans attend school in Alaska, and 26 percent of all graduate students with student loans attend school in Alaska. A copy of the Commission on Postsecondary Education's most recent annual report on student financial aid programs, which contains additional statistical information, is enclosed for your review. Table 7 below describes the beneficiaries by student group as of March 3, 1983.

Table 7

Distribution of 1983 Student Loans by Group
(as of March 3, 1983)

Group	Number	Amount	Average Amount per Loan
Undergraduates	10,125 (79%)	$42,607,931 (75%)	$4,208
Vocational	1,560 (12%)	$7,878,118 (14%)	$5,050
Graduate	1,142 (9%)	$6,149,590 (11%)	$5,384
Total	12,827	$56,635,639	$4,415

The trend during recent years has been for an increasing number of student loan borrowers to attend school in Alaska. Table 8 below illustrates the percentage of undergraduate and graduate student loan borrowers who attended colleges in Alaska during the last five fiscal years.

Table 8

Percentage of Student Loan Borrowers Attending in Alaska Schools

Fiscal Year	Undergraduates	Graduates
1979	35%	12%
1980	36%	12%
1981	45%	18%
1982	47%	24%
1983	54%	26%

Student Loan Demand

The Commission on Postsecondary Education projects future student loan demand by correlating the historical demand for student loans with the number of high school seniors and the number of individuals in the 18-45 year age group, and projecting forward on the basis of the expected size of these two groups. The Commission uses the projections of the number of high school seniors developed by the Department of Education in Enrollment Projections for Alaska Public Schools. Similarly, the Commission obtains estimates of expected size of the 18-45 year old age group from the Department of Labor's Alaska Population Overview and Alaska Annual Planning Information.

The Commission's system for projecting demand does not account for changes in economic conditions, the trend toward increasingly older postsecondary students, changes in migration patterns, or changes in the laws and regulations concerning the student loan program. The Commission's demand projections for student loans exceeded actual demand by 33 percent in FY82 and underestimated actual demand by 17 percent in FY83. Attached as Appendix B is a memorandum from Commission Executive Director Dr. Kerry Romesburg comparing the projected demand with actual demand for fiscal years 1971-1984.

* * * * *

We hope this information has been helpful to you. Please let us know if you would like additional information.

LS/sj

Attachments

APPENDIX D

BILL SHEFFIELD, GOVERNOR

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

POUCH FP
JUNEAU, ALASKA 99811
PHONE: (907) 465-2854

M E M O R A N D U M

TO: Representative Mae Tischer
Co-Chairman, House HESS

FROM: Kerry D. Romesburg, Executive Director
Alaska Commission on Postsecondary Education

DATE: March 10, 1983

At the recent HESS Committee hearing on HB 56, you requested information on administration costs of student loans. Listed below are the actual costs for FY82 and the budgeted costs for FY83.

	FY82-Actual	FY83 Budgeted
100	$ 835,400	$1,467,900
200	11,800	7,800
300	438,500	667,200
400	17,100	19,800
500	80,800	153,000
TOTAL	$1,383,600	$2,315,700

In FY82 we made 9,898 finalized loans, and in FY83 we estimate 12,500. At mid-year FY82 we had 8,718 loan accounts in repayment, and at mid-year FY83, we had 14,128 accounts in repayment. Therefore, in FY82 we handled (either in awards or repayment and collections) 18,616 loan accounts, and in FY83, we handled 26,628 loan accounts. Dividing this into the administrative expense, one finds a straight administrative cost in FY82 of $74.32 per loan account handled, and $86.96 per loan account handled in FY83.

Pro-rating our administrative expenses between loan awards and loan collections, we can get a better estimate of costs to make loans and costs to collect loans. This break-out includes a lot of estimates and assumptions, but at least it can serve as a guide.

	Awards-82	Repayment-82	Awards-83	Repayment-83
100	$389,389	$446,011	$ 667,842	$ 800,058
200	5,497	6,303	3,548	4,252
300	244,170	194,330	303,552	363,648
400	7,971	9,129	9,008	10,792
500	37,662	43,138	69,609	83,391
TOTAL	$684,689	$698,911	$1,053,559	$1,262,141

05-F34LH

Again, simply dividing by the number of accounts handled, one gets an administrative cost in FY82 of $69.17 per loan award finalized and $80.17 per loan account in repayment, and $84.28 per loan award finalized and $89.34 per loan account in repayment in FY83.

A third way of looking at administrative cost is to compare it as a percentage of loan volume. Using this approach, in FY82 we find that award administration cost 1.69% of loan award volume, and repayment administration cost 15.31% of loan funds collected and/or forgiven. In FY83, award administration costs 1.87% of loan award volume, and repayment administration cost 17.60% of loan funds collected and/or forgiven. (It should be noted that these percentages already have default totals factored out.)

I am not certain that this is exactly what you were asking for in terms of administrative costs per loan. If not, please let me know and I will re-work the figures.

cc: Representative Terry Martin
Representative Rick Uehling
Representative Walt Furnace

APPENDIX B

BILL SHEFFIELD, GOVERNOR

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

POUCH FP
JUNEAU, ALASKA 99811
PHONE: (907) 465-2854

M E M O R A N D U M

TO: Leonard Steinberg
House Research Agency

FROM: Kerry D. Romesburg, Executive Director
Alaska Commission on Postsecondary Education

DATE: March 21, 1983

When we last met, you asked for a five-year history of the "fit" of our projections. I went back through old budget documents and have developed a twelve-year "fit." The two tables enclosed with this memorandum contain the data for number of loans, average loan amounts, and total program cost. Prior to FY77, the estimates were based upon a linear regression model utilizing state population estimates. From FY78 through the present, the estimates are based upon a linear regression model utilizing the state population estimates and the projected high school seniors.

You will note that the newer regression missed pretty badly in FY79 and again in FY81 & 82. In FY79, borrowing amounts were raised from $2,500 to $3,000; in FY81, we simply missed (we received an additional $3,000,000 in a supplemental, which is not reflected in the estimate); and in FY82, borrowing amounts were raised from $3,000 and $5,000 to $6,000 and $7,000.

Enclosure

YEAR		NUMBER OF LOANS		AVERAGE AMOUNT		TOTAL AMOUNT	
		ESTIMATE	ACTUAL	ESTIMATE	ACTUAL	ESTIMATE	ACTUAL
FY 71							
FY 72		1,060	1,081	$ 1,500	$ 1,483	$ 1,582,300	$ 1,603,158
FY 73		1,575	1,748	1,850	1,642	2,910,000	2,870,384
FY 74		1,640	1,665	1,800	1,793	2,952,900	2,986,176
FY 75		1,750	1,457	1,900	1,826	3,322,000	2,659,807
FY 76		1,975	1,719	1,950	1,968	3,850,500	3,382,997
FY 77		2,050	1,921	2,000	2,004	4,100,000	3,850,507
FY 78		2,100	2,265	2,100	2,033	4,410,000	4,604,167
FY 79		2,200	2,795	2,200	2,296	4,840,000	6,416,402
FY 80		3,500	3,718	2,469	2,393	8,641,500	9,373,949
FY 81		4,800	6,460	2,500	2,475	12,000,000	15,957,717
FY 82		6,600	9,898	3,750	4,098	24,750,000	40,559,499
FY 83		15,000	12,834 *	4,250	4,357 *	63,750,000	55,926,813*
FY 84		15,000	N.A.	4,900	N.A.	73,500,000	N.A.

* As of 3-18-83

YEAR		NUMBER OF LOANS		AVERAGE AMOUNT		TOTAL AMOUNT	
		ERROR	%	ERROR	%	ERROR	%
FY 71							
FY 72		21	1.9	$ (17)	(1.1)	$ 20,858	1.3
FY 73		173	10.0	(208)	(12.7)	(39,616)	(1.9)
FY 74		25	1.5	(7)	(0.4)	33,276	1.1
FY 75		(293)	(20.1)	(74)	(4.1)	(662,193)	(24.9)
FY 76		(256)	(14.9)	18	9.1	(467,503)	(13.8)
FY 77		(129)	(7.5)	4	0.2	(249,493)	(6.5)
FY 78		165	7.3	(67)	(3.3)	184,167	4.0
FY 79		595	21.3	96	4.2	1,576,402	24.6
FY 80		418	10.7	(76)	(3.2)	732,449	7.8
FY 81		1,660	25.7	25	1.0	3,957,717	24.8
FY 82		3,298	33.3	348	8.5	15,809,499	39.0
FY 83		(2,166)	(16.9)	107	2.5	(7,823,187)	(14.0)
FY 84		N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

REQUEST FOR BIDS TO PROVIDE LOAN SERVICING

FOR THE STUDENT LOAN PROGRAM

1.0 PURPOSE OF REQUEST the State of Alaska, the Alaska Commission on Postsecondary Education is soliciting proposals for the servicing of Alaska student loans throughout repayment, deferment, and collection of defaulted accounts.

The State plans to gain current and long-term savings by contracting for the servicing of the repayment and collection functions of the student loan program.

The bids for this servicing should be less than current state costs. The phasing out and elimination of commission staff associated with the loan repayment and collection services and related costs will finalize the cost savings to the state.

2.0 CONSIDERATIONS

2.1 This Request for Proposal (RFP) does not in any way commit the State of Alaska or the Alaska Commission on Postsecondary Education to reimburse recipients of this RFP for any costs involved in the preparation and submission of proposals. All materials submitted to the State in response to this RFP will become the property of the State and will not be returned.

2.2 Furthermore, this RFP does not obligate the State of Alaska to accept, or contract for, any services expressed or implied.

2.3 The State of Alaska reserves the right to:

(a) Request any respondent to clarify their proposal or to supply additional material that is necessary to assist in the contract award.

(b) Modify or otherwise alter any or all of the requirements of this RFP. If, in the opinion of the State, there is a material requirements modification, all respondents will be given an equal opportunity to modify their proposals in the specific areas designated by the State.

(c) Reject any or all proposals and specifications received and to waive formality in bidding procedures.

(d) Require the submission of a reasonable performance bond as a guarantee of project completion.

3.0 QUESTIONS REGARDING THIS RFP

All questions regarding details or scope of this project must be submitted in writing and will be answered in writing. Questions should be addressed to:

Mr. Kevin Hanon

Alaska Commission on Postsecondary Education

Division of Student Financial Aid

Pouch FP

Juneau, Alaska 99811

Copies of questions and answers will be sent to all firms that receive a copy of the RFP. No questions will be addressed that are received after 4:30 p.m., March 30, 1984.

4.0 PROPOSED PROJECT SCHEDULE

4.1 Request Released	February 28, 1984
4.2* Final Date for Written Questions	March 30, 1984
4.3 Pre-bid Conference	April 11, 1984
4.4 Proposals Due	May 11, 1984
4.5 Vendor Selection	May 25, 1984
4.6 Contract Negotiation	June 8, 1984
4.7 Begin Project Implementation	June 11, 1984
4.8 Assume Loan Servicing	August 20, 1984

*A summary of all written questions received with answers will be sent to all vendors who have indicated interest in responding to this RFP.

5.0 GENERAL INFORMATION

5.1 The Alaska Student Loan Program (ASLP) is administered by the Alaska Commission on Postsecondary Education. The Commission will continue to determine loan eligibility and make loan awards. As of January 9, 1984, there were 20,600 loan accounts in the loan repayment and collections cycle. Of these, 15,327 were current in payments, 1,345 were 30 to 59 days delinquent, 624 were 60 to 89 days delinquent, 420 were 90 to 120 days delinquent, and 2,884 were in default (over 120 days past due and in litigation).

5.2 The ASLP has been experiencing rapid growth over the past five years. Vendors should realize that the service function will be heavily impacted over the next few years as large numbers of accounts enter the repayment cycle. Loan volume history and projections are presented in Appendix B.

5.3 The ASLP has a number of unique features, so it is not a Federal Guaranteed Student Loan Program (GSL). However, one year's worth of loans, 1981-82, was comprised of a combination of ASLP and GSL loans. Therefore, potential vendors must be able to service both types of loans (see summary in Appendix B).

5.4 ASLP loans have been awarded since 1971-72, and loan terms have changed a number of times since the program's inception. The contractor should accommodate loans of variable interest, variable repayment schedules, variable deferment categories, and variable forgiveness rates.

5.5 Loan repayment begins one year after the student ceases to be a full-time student (except federal GSL, which only have a six-month "grace" period).

5.6 Repayment is over a 10-year period with provision to extend to 15 years if necessary. Portfolio also includes some loans (early ASLP) with a 6-year repayment period with extension to

11 years, and Federal GSL loans, which also have a 10-year repayment, but also impose a minimum monthly payment of $30 per month.

5.7. Interest does not accrue and is not charged while a student is full-time, while in the 12-month grace period (6-month for Federal GSL), while in approved deferments, and while in a 6-month grace period following approved deferments. The exception is on early ASLP loans with 6-year repayment period. With these loans, interest accrues during the "grace year."

5.8 Current loans, including the Federal GSL loans in our portfolio, received up to 50% forgiveness, but some earlier ASLP loans may still only be eligible for up to 40% forgiveness.

5.9 Loans may be partially forgiven if, upon completion of the program of study, the borrower resides in Alaska. That portion, for up to a total of 50% of the total principal and interest, shall accrue as follows:

2-3 years residence, 10%
3-4 years residence, an additional 10%
4-5 years residence, an additional 10%
5-6 years residence, an additional 10%
Over 6 years residence, an additional 10%

Residence must be continuous and must begin with in one year of completion of the program.

5.10 Approximately 1 account in 5 applies for and receives forgiveness benefits.

5.11 No portion of the loan receipts including interest, may be withheld in the form of collection or servicing fees; rather, these expenses must be part of the contract to be billed to the Commission.

5.12 Multiple loans may be grouped wherever possible, except in the case of the Federal GSL loans.

5.13 Approximately 98% of all loan payments come through a lock-box arrangement with Alaska Pacific Bank in Anchorage.

5.14 ASLP is currently an on-line automated system tied to the State's mainframe. The ASLP system was developed by Computer Management Services, Inc. (CMSI), which is currently servicing the system. The State's mainframe is described in the following paragraph.

5.15 The Juneau Data Center (JDC) currently operates two IBM 3033 mainframes, referred to as "CPU A" and "CPU B" under VM/SP and OS/MVS, respectively. The Anchorage Data Processing Center operates one IBM 3031 and one 3081 mainframe. System software on CPU A includes VTAM, CMS, and PVM. System software on CPU B includes VTAM, ACF/VTAM, NJE, JES2, NCCF, NPDA, and CICS. A migration of VCNA with all terminals having cross-domain capability is in process. Pertinent applications support software includes, SPM, CMS, LIBRARIAN, VSAM, RAMIS II, ADABAS, NATURAL, ADAMINT, DMS, COBOL, CICS, AMS, VSAM-ASSIST, and BSAM QUICK-INDEX. Numerous other languages and software packages exist.

Vendors desiring technical information concerning current configurations, release levels, or software availability should contact the JDC Customer Services Manager at (907) 465-4801.

It should not be construed that because the State of Alaska currently has a suitable mainframe computer that proposals address this alternative. This is but one variation, and the State encourages innovation and alternative approaches.

5.16 Samples of all current forms and reports can be seen at the Commission's office.

5.17 Appendix B contains information on Repayment and Collection's workloads and a list of printed forms used in servicing loans. Each quantity represents a years supply.

6.0 SCOPE OF WORK

6.1 All loan servicing must include those functions currently handled by the Alaska Commission on Postsecondary Education in the Repayment and Collections sections. This also includes all Memorial Scholarship accounts (see Appendix B for a description).

6.2 An on-going interface must be maintained with the loan awards and microfiche records sections.

6.3 GSL reporting requirements, as prescribed by federal program regulations, must be met.

6.4 The contractor will have full responsibility for borrower inquires and decisions regarding repayment (including revised repayment schedules) forgiveness, deferment, and collection actions and status. Contractor also handles all illegal loans.

6.5 The following management reports must be submitted by the contractor. A copy of each report appears in Appendix B.

(a) Monthly statement of principal received current month and year-to-date for both federal GSL and state loans.

(b) Monthly statement of interest received current month and year-to-date for both federal GSL and state loans.

(c) Monthly statement of both principal and interest forgiven current month and year-to-date for both federal GSL and state loans.

(d) Monthly past due report listing number of accounts and dollar volume of such accounts current, 30-59 delinquent, 60-89 delinquent, 90-119 delinquent, and 120+ in default (including those in litigation). Report should include default rate as defined by Commission.

(e) Monthly summary of loans in deferment, by deferment status.

(f) Annual summary of repayment account for income tax purposes -- to be mailed to borrower.

(g) Federal GSL Quarterly Reports.

(h) Accounts receivable monthly report.

(i) Periodic death, disability, bankruptcy, and uncollectible accounts report.

(j) Notification of paid-in-full accounts.

6.6 Collection of defaulted accounts (over 120 days past due) must include skiptracing and preparation of court documents for processing by the Office of the Alaska Attorney General. If repayment on a revised schedule basis is set by the courts, the contractor must service repayment again (usually at 10.5 percent interest).

6.7 In skiptracing, every reasonable effort must be made to locate the borrower.

6.8 Litigation involves preparing all the paperwork (Department of Law supplies stationary for complaint and summons) for complaint and summons and payment for servicing them. Other paperwork or activities include the following:

(a) Location of and maintaining contact with borrowers.

(b) Request for default judgment.

(c) Revised schedules based on default judgment.

(d) Payment of attorney fees.

(e) Writ of execution (after contractor locates borrower's assets).

(f) Processing funds received from court actions.

(g) Maintain report on status of all borrowers in litigation.

(h) Dealing with Bankruptcy - Chapters 7 and 11.

(i) Dealing with Bankruptcy - Chapter 13.

6.9 Recommend to the Commission, loans for write-off after due diligence in collecting loan has been taken and documented in the file.

6.10 Write-off loans due to death of borrower.

6.11 Report to the Credit Bureau all defaulted student loan accounts.

6.12 Successful contractor's activities with regard to servicing the ASLP and appropriate GSL loans in behalf of the Commission must be subject to audit to the satifaction of the Alaska Division of Legislative Audit.

6.13 A transition plan must be submitted detailing how the transition will be accomplished. Complete takeover is scheduled for August 20, 1984.

7.0 PROPOSAL EVALUATION

7.1 Proposals will be evaluated primarily on the basis of the criteria listed below, although the State reserves the right to consider any other factors which it may consider to be pertinent.

(a) Responsiveness to all items, requests, and requirements contained in this RFP.

(b) Costs quoted and estimated ultimate costs to the State. Future cost increases will only be considered for increases in the volume of loans serviced and increases in

the cost of comparable services. The successful contractor will receive priority consideration at renewal time if his costs have been kept at a reasonable level.

(c) Technical and personal qualifications and related experience of personnel to be assigned. Personal resumes are required.

(d) Qualifications, capability, and experience of the vendor including general management, project management, financial responsibility and stability, willingness to negotiate and cooperativeness.

7.2 All bid responses must be complete and received no later than 5:00 p.m., April 9, 1984. It must address all areas of the proposal and must contain a plan for transition and eventual assumption of full servicing of loans in the repayment/collection cycle.

8.0 MISCELLANEOUS

8.1 Contractors must have a current Alaska State Business License in order to conduct business in Alaska. However, this is not a requirement for submitting a proposal if the proposal contains a declaration of intention to obtain such a license before contract negotiations begin.

8.2 The Postsecondary Education Commission will serve as a board of appeal for conflicts which may arise between student loan borrowers and the contractor.

8.3 Successful contractor's activities with regard to servicing the ASLP and appropriate GSL loans on behalf of the Commission must be subject to audit by state and federal audit divisions.

8.4 This RFP and portions of the vendors proposal will be attached to the negotiated contract and will become part thereof.

8.5 A copy of the State of Alaska's Standard Agreement Form for Professional Services Contract is enclosed. The firm selected will be expected to agree to the provisions of the agreement unless deviations are negotiated with the Alaska Commission on Postsecondary Education and approved by the Department of Law.

APPENDIX A

INSURANCE

During the life of this contract, the Contractor shall purchase and maintain insurance with a carrier or carriers satisfactory to the Department of Administration, Division of Risk Management, covering injury to persons or property suffered by the State of Alaska or a third party, as a result of errors or omissions or operations which arise both out of and during the course of this contract by the Contractor or by any subcontractor or anyone directly, or indirectly employed by them. The coverage will also provide protection against injuries by all employees of the Contractor and the employees of any subcontractor engaged in work under this contract. A Certificate of Insurance will be furnished to the Contracting Officer prior to beginning work under this contract. This certificate will show evidence of coverage and provide a written thirty (30) day prior notice to the Contracting Officer, of cancellation, non-renewal or material change. Failure to furnish satisfactory evidence of insurance or lapse of the policy is material breach and grounds for termination of the Contractor's services.

Before performing under this contract, evidence of the following coverages will be provided.

1. Comprehensive General Liability with coverage limits per contract schedule:

    a. Premises operations
    b. Independent contractors
    c. Products/ completed operations
    d. Blanket contractual
    e. Personal injury

2. Comprehensive Automobile Liability with coverage limits per contract schedule.

    a. All owned vehicles
    b. All hired vehicles
    c. All non-owned vehicles

3. Professional Liability with Limits per Contract Schedule.

    a. Coverage for all errors, omissions or negligent acts which the Contractor, employees, or the subcontractors may make which result in financial loss to the State of Alaska.

APPENDIX B

APPENDIX B

TABLE OF CONTENTS

Item	Page
Student Loan Volumes, 1971-72 projected to 1988-89	17
Accounts in Repayment, 1980-81 projected to 1988-89	18
Sample Work Volumes:	
Repayment Division	19
Collection Division	20
Current Program Form Listing:	
Volume and Cost	21
Guaranteed Student Loan (GSL) Program:	
Comparisons to Alaska program	23
Memorial Scholarship Loans	25
Sample Formats for Management Reports	27

STATE STUDENT LOAN ACTIVITY
Projected to 1989-90
(Current Program)

Year	Loan Awards	Loan Volume	Cumulative Total	Average Loan	Loan Collections	Federal Funds	Forgiveness	General Fund
1971-72	1,081	$ 1,603,158	$ 1,603,158	$1,483	$ -0-	$ -0-	$ -0-	$ 1,603,158
1972-73	1,748	2,870,384	4,473,542	1,642	-0-	-0-	-0-	2,870,384
1973-74	1,665	2,986,176	7,459,718	1,793	-0-	-0-	-0-	2,986,176
1974-75	1,457	2,659,807	10,119,525	1,826	235,476	-0-	703	2,424,331
1975-76	1,719	3,382,997	13,502,522	1,968	465,530	-0-	44,233	2,977,467
1976-77	1,921	3,850,507	17,353,029	2,004	1,141,461	-0-	64,746	2,709,046
1977-78	2,265	4,604,167	21,957,196	2,033	1,191,851	-0-	314,306	3,412,316
1978-79	2,795	6,416,402	28,373,598	2,296	1,391,643	-0-	445,985	5,024,758
1979-80	3,918	9,373,949	37,747,547	2,393	1,603,436	-0-	409,501	7,770,513
1980-81	6,460	15,957,717	53,705,264	2,475	2,225,388	-0-	555,494	13,732,329
1981-82	9,898	40,559,499	94,264,763	4,098	2,779,900	1,000,000	785,769	36,819,599
1982-83	13,058	55,007,395	149,272,158	4,213	4,609,051	1,200,000	(846,028)	49,198,344
1983-84*	14,800	68,441,895	217,714,053	4,600	7,591,895	850,000	2,311,210	60,000,000
1984-85	16,404	80,379,600	298,093,653	4,900	10,929,389	500,000	3,101,116	68,950,211
1985-86	17,693	99,080,800	397,174,453	5,600	14,755,178	350,000	4,233,108	83,975,622
1986-87	17,894	105,574,600	502,749,053	5,900	19,400,405	225,000	5,604,037	85,949,195
1987-88	17,178	102,209,100	604,958,153	5,950	24,147,464	150,000	7,016,459	77,911,636
1988-89	15,212	90,511,400	695,469,563	5,950	28,447,628	65,000	8,304,299	61,998,772

*1983-84 through 1989-90 are projections

Revised

ALASKA STUDENT LOAN ACTIVITY

ACCOUNTS IN REPAYMENT

Year	Number of Accounts*
1980-81	7,196
1981-82	10,683
1982-83	15,669
1983-84*	20,758
1984-85	26,297
1985-86	31,828
1986-87	37,482
1987-88	43,323
1988-89	49,602

*1983-84 through 1988-89 are projections

Volume of Work

Following is a sample of the volume of work of the Repayment Staff in a week's period:

275	Incoming correspondence
25	Name changes
290	Address changes
165	Incoming LRSR
77	Telephone calls
160	Incoming enrollment certification forms
217	Schedules entered
85	Targets requested from microfiche
70	Revised schedules entered

The following is a sample of the volume of work reviewed and approved by the Repayment Officer and/or Supervisor on a weekly basis:

25	Accounts receivable adjustments
10	Request for copy of cancelled warrant
10	Deferments
15	Corrected schedules calculated
340	Letters to Word Processing
145	Enrollment certifications to Word Processing
18	Payoff figures

Volume of Work

Following is a sample of the volume of work of the Collection Staff in a week's period:

75	Incoming correspondence
4	Name changes
21	Address changes
384	Telephone calls
1	Incoming enrollment certification forms

Following is a sample of the volume of work reviewed and approved by the Collection Officer and/or Supervisor in a week's period (or as otherwise noted):

7	Accounts receivable adjustment
1	Cancelled warrant request
35	Deferment requests
432	Letters to Word Processing
3	Enrollment certifications to Word Processing
5	Payoff figures
1	Default judgment schedules entered (bi-weekly)
1	Request for default judgment (bi-weekly)
1	Bankruptcy Proof of Claim
1	Retained attorney fee

DIVISION OF STUDENT FINANCIAL AID
REPAYMENT/COLLECTION/ACCOUNTING
PRINTED FORMS

FORM NO.	FORM DESCRIPTION	QUANTITY ORDERED	COST	DATE ORDERED
05-001-80SL	Statement of Loan Terms	20,000	1,500.00	10/13/83
05-004-80SL	Loan Recipient Status Report	35,000	8,085.00	11/01/83
05-006-80SL	Long Data Mailer	90,000	7,536.00	08/03/83
05-008-80SL	Short Data Mailer	50,000	2,563.00	06/29/83
05-018-82	Forgiveness Worksheet	4,000	78.00	05/10/82
05-020-82	Forgiveness Information Sheet	5,000	104.00	07/11/83
05-021-82	Forgiveness Application	3,500	80.00	06/17/83
05-023-82	Memorandum to the File	10,000	202.00	10/10/83
05-026-82	Request for Duplicate Fiche	11,500	702.00	07/11/83
05-028-82	Request for Hardcopy	5,000	98.00	12/05/83
05-029-82	Request for Deferment of Payments	2,500	48.00	01/27/83
05-031-82	Request for Unemployment Deferment	5,000	104.00	11/02/82
05-032-82	Letter-Office of the Registrar	2,500	59.00	10/25/83
	Letter-Office of the Registrar(ACC)	2,500	59.00	10/25/83
	Letter-Office of the Registrar(UAF)	2,500	59.00	10/25/83
	Letter-Office of the Registrar(UAA)	2,500	59.00	10/25/83
05-035-82	Request for Reduced Payments	1,000	24.00	08/20/81
05-036-82	Request for Medical Deferment	4,000	86.00	10/27/83
05-037-82	Recap Sheet	5,000	104.00	10/03/83
05-042-82	Forbearance Agreement	1,000	21.00	08/20/81
05-051-82	Revised Schedule Worksheet	5,000	104.00	09/23/82
05-053-82	Notice-Deferment of Loan Payments	6,000	122.00	07/14/83
05-054-82	Memorandum-Subject: Pay-off	4,000	86.00	09/28/82
05-059-82	Address Change	4,000	80.00	10/21/83

FORM NO.	FORM DESCRIPTION	QUANTITY ORDERED	COST	DATE ORDERED
05-060-82	Collections Memorandum	5,000	114.00	12/29/82
05-065-82	Request for copy of Cancelled Treasury Warrant	2,500	59.00	09/28/83
05-067-83	Multiple Accounts Receivable Adjustments	2,500	59.00	09/10/83
05-068-83	Memorandum-Payroll Deduction	250	8.00	03/21/83
05-074-82	Request for Accounts Receivable Adjustment	4,000	86.00	10/28/83
05-075-83	Request for Waiver of State Forgiveness Benefit Requirements	100	4.20	10/05/83
05-076-83	Request for Enrollment Vertification	2,500	59.00	10/24/83
05-077-83	Credit Report	250	8.00	10/28/83
05-078-83	Verification of Student Attendance	2,500	59.00	10/25/83
05-079-83	Application for Reduced Payments	2,000	39.00	10/27/83
N/A	Estimated Repayment Schedule	750	24.00	09/23/83
N/A	Request for Inclusion of Alaska Student Loan Provisions-2-opt.	2,500	59.00	09/23/83
N/A	Request for Inclusion of Alaska Student Loan Provisions-4-opt.	2,500	59.00	09/23/83

VI. GUARANTEED STUDENT LOAN PROGRAM

C. DIFFERENCES IN ADMINISTERING THE GUARANTEED STUDENT LOAN PROGRAM AND THE ALASKA STUDENT LOAN PROGRAM DURING REPAYMENT STATUS

Summary

The Alaska Student Loan Program (ASLP) has been making student loans since 1971. During the 1980-81 school year the Alaska Student Loan Program qualified as an approved lender under the Guaranteed Student Loan Program, a federally-reinsured student loan program.

During that school year the maximum GSLP undergraduate loan allowable was $2,500.00 and the maximum ASLP undergraduate loan was $3,000.00. If the borrower qualified for a $3,000.00 loan, he was issued a $2,500.00 GSLP Promissory Note and a $500.00 ASLP Promissory Note.

During the 1980-81 school year 5,236 borrowers received GSLP loans totaling $11,556,257 through the Alaska Student Loan Program.

Most borrowers who received GSLP loans during the 1980-81 school year also have received ASLP loans, either during the same year, in prior years or in subsequent years.

Since the laws and regulations governing the GSLP and ASLP programs are slightly different, the loans must be kept separate during the disbursement and repayment process. On the following page is a chart outlining the differences in the two programs which affects the administration of the loans during repayment.

V. C. DIFFERENCES IN ALASKA STUDENT LOAN AND GUARANTEED STUDENT LOAN PROGRAMS

	ALASKA STUDENT LOAN PROGRAM (01 loans)	GUARANTEED STUDENT LOANS (51 Loans)
Years loans have been made	1971 through the present	1980-81 school year only
Are loans reinsurred?	No	Yes, by U.S. Department of Education (USDE), but only death claims are filed.
Annual interest rate	5% while in repayment status. Interest is waived while in school and during periods of deferment.	5% interest billed USDE while in 1st 6 months of grace period and during periods of deferment listed below. (These are considered as 9% loans when billing for special allowance.
Grace period	1) 1 year grace period when borrower ceases to be full-time student 2)6 month grace period after periods of approved deferment listed below.	1) 6 month grace period when borrower ceases to be a full-time student. However, student receives full year period--during 2nd 6 month period, interest accrued is waived by State. 2)6 month period after periods of approved deferment.
Allowable periods of deferment of repayment	1)Full-time student status (unlimited) 2)Active duty with U.S. Armed Forces (unlimited) 3)Full-time Peace Corps Volunteer (3 year limit) 4)Full-time Domestic Service Act Volunteer (3 year limit) 5)Unemployment (1 year limit) 6)50% medical disability 7)Internship/residency (2 year limit)	1)Full-time student status (unlimited). 2)Active duty with U.S. Armed Forces (3 year limit) 3)Full-time Peace Corps Volunteer (3 year limit) 4)Full-time Domestic Service Act Volunteer 3 year limit) 5)Unemployment (1 year limit) 6)Graduate fellowship program (unlimited) 7)Rehabilitation training program (unlimited)
Can borrower qualify for deferment if 120 days or more past due in monthly payments?	Yes	No
Minimum annual payment	None - 10 years to repay	$360.00 annual payment to principal, plus interest.
When must borrower receive repayment schedule?	Not defined, but borrower is required to notify the ASLP office when he ceases to be a full-time student so that a repayment schedule may be prepared.	150 days prior to the end of the grace period.

REPAYMENT

MEMORIAL SCHOLARSHIP ACCOUNTS

The following memorial scholarship loans are administered by the ASL office.

Michael Murphy Memorial Scholarship loan may be used only to pursue a degree program in an accredited college or university in law enforcement, law, probation and parole, or penology, or closely related fields.

Carroll L. "Butch" Swartz Memorial Scholarship may be used only to pursue a degree program in an accredited college or university in criminal law, criminology, corrections, police science and administration, juvenile justice, or other fields closely related to criminal justice.

Harvey Golub Memorial Scholarship loan may be used only to pursue a degree program in accredited college or university in civil, mechanical, electrical, electronic, petroleum, mining, traffic and transportation, sanitary, chemical or other recognized field of engineering.

Robert C. Thomas Memorial Scholarship loan may be used only to pursue a degree program in an accredited college or university that will lead to a career in education or public administration, or other closely related fields.

These loans are not on the SFAS, but are kept on ledger cards. Once they have entered the repayment cycle they require a monthly review to verify that payments are being made.

These loans are basically subject to the same regulations as ASL accounts with the following exceptions:

- grace year is 6 months
- loan is non-interest bearing
- minimum monthly payments are $50
- loan must be repaid within 6 years

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

SCHOLARSHIP REVOLVING LOAN FUND

FUND 610

STATEMENT OF REVENUE, EXPENDITURES, AND DISBURSEMENTS

AS OF _____

CASH RECEIPTS

Balance Forward Prior Year			$
FY___Appropriation			
Deposit Suspense			
Principal Forgiven			
Interest Forgiven			
Uncollectibles			
Principal Received-Previous Report (State)	$		
Principal Received-Current Month (State)		$	
Principal Received-Previous Report (Federal)	$		
Principal Received-Current Month (Federal)		$	
Interest Received-Previous Report (State)	$		
Interest Received-Current Month (State)		$	
Interest Received-Previous Report (Federal)	$		
Interest Received-Current Month (Federal)		$	
TOTAL CASH RECEIPTS AS OF _____			$

EXPENDITURES

Less:	Principal Forgiven-Previous Report (State)	$		
	Principal Forgiven-Current Month (State)		$	
Less:	Principal Forgiven-Previous Report(Federal)	$		
	Principal Forgiven-Current Month (Federal)		$	( )
Less:	Interest Forgiven-Previous Report (State)	$		
	Interest Forgiven-Current Month (State)		$	
Less:	Interest Forgiven-Previous Report (Federal)	$		
	Interest Forgiven-Current Month (Federal)		$	( )
Less:	Uncollectibles (State)		$	
	Uncollectibles (Federal)			( )

DISBURSEMENTS

Less:	Disbursements-Previous Report (State)	$		
	Disbursements-Current Month (State)		$	
Less:	Disbursements-Previous Report (Federal)	$		
	Disbursements-Current Month (Federal)		$	( )
CASH BALANCE				$

EXHIBIT 248

ALASKA COMMISSION ON POSTSECONDARY EDUCATION
SCHOLARSHIP REVOLVING LOAN FUND
FUND 610
BALANCE SHEET
AS OF _____

CASH BALANCE			$_____
RECEIVABLES (Loans Outstanding)			
Receivables-From Prior Years (State)	$_____		
Receivables-From Current Year (State)	_____	$_____	
Receivables-From Prior Years (Federal)	$_____		
Receivables-From Current Year (Federal)	_____	$_____	_____
TOTAL ASSETS			$_____
FUND BALANCE			$_____

EXHIBIT 249

ALASKA COMMISSION ON POSTSECONDARY EDUCATION
MEMORIAL SCHOLARSHIP REVOLVING LOAN FUND

FUND 411
STATEMENT OF REVENUE, EXPENDITURES, AND DISBURSEMENTS
AS OF _____

CASH RECEIPTS			
Balance Forward Prior Year			$_____
Principal Forgiven			_____
Uncollectibles			_____
Contributions Received-Previous Report	$_____		
Contributions Received-Current Month	_____	$_____	
Principal Received-Previous Report	$_____		
Principal Received-Current Month	_____	$_____	_____
TOTAL CASH RECEIPTS AS OF _____			$_____
EXPENDITURES			
Less: Principal Forgiven-Previous Report	$_____		
Principal Forgiven-Current Month	_____	$_____	
Less: Uncollectibles		$_____	(_____)
DISBURSEMENTS			
Less: Disbursements-Previous Report		$_____	
Disbursements-Current Month		_____	(_____)
CASH BALANCE			$_____

EXHIBIT 250

ALASKA COMMISSION ON POSTSECONDARY EDUCATION
MEMORIAL SCHOLARSHIP REVOLVING LOAN FUND

_____

FUND 611
BALANCE SHEET
AS OF _____

CASH BALANCE		$_____
RECEIVABLES (Loans Outstanding)		
Receivables-From Prior Years	$_____	
Receivables-From Current Year	$_____	_____
TOTAL ASSETS		$_____
FUND BALANCE		$_____

EXHIBIT 251

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

FUND 700

STATEMENT OF REVENUE AND DISBURSEMENTS

AS OF _____

CASH RECEIPTS		
Balance Forward Prior Year		$_____
Current Year Receipts-Previous Report	$_____	
Current Year Receipts-Current Month	_____	_____
TOTAL CASH RECEIPTS AS OF _____		$_____
DISBURSEMENTS		
Less: Current Year Disbursements-Previous Report	$_____	
Current Year Disbursements-Current Month	_____	(_____)
FUND BALANCE		$_____

EXHIBIT 75

REPORT R81-ESA-0090 — STATE OF ALASKA: COMM ON POST SECONDARY EDUCATION — PAGE 131
PROGRAM ESA-0090 COMPILED 11.09.46 — DIVISION OF STUDENT FINANCIAL AIDS
DATE 10/30/83 — STUDENT FINANCIAL AID SYSTEM
TIME 11:03:04 — PAST DUE PAYMENT REPORT

LOAN SFX	CURRENT REPAYMENT SCHEDULE DATE	PRNCPL	INTRST	TOTAL	PAST-DUE PRINCIPAL	INTEREST	30	60	90	120	S T	C D	LAST PAYMENT DATE	AMOUNT	PAID THRU	DEFERMENT CODE	BEGIN	END	CORRESPONDENCE CODE	DATE
RAILSBACK, BILL D. 568-07-6821																				
81	7/82	4.17	1.13	5.30	5.27	1.13	X						9/12/83	10.68	7/83				I38	8/09/83
51	7/82	24.91	5.63	30.14	25.56	5.63	X						8/12/83	68.28	7/83				I38	8/09/83
RAUCH, DEBORAH ANN 574-52-6655																				
51	7/80	9.58	2.62	12.20	47.90	13.10				X	5		8/22/80	12.20	8/80	P	9/01/80	6/15/83		
RAUCH, JOHN ANTHONY 574-56-1483																				
81	2/83	33.33	9.10	42.43	266.64	72.80				X	5				1/83				HSK	9/02/82
RAUSA, SHERI (REAVIS) 574-28-7611																				
51	2/82	14.30	3.48	38.20	362.88	.38				X	5		9/10/83	38.20	8/82				2CA	6/28/83
RAUSCH, ANN K. 574-56-6832																				
81	7/83	61.67	16.82	78.49	61.67	16.82	X						6/10/83	78.49	8/83				IRE	5/17/83
51	7/83	25.00	5.62	30.62	25.00	5.62	X						7/10/83	30.62	8/83				IRE	5/17/83
RAUSCH, STEVEN M 574-32-6711																				
81	7/83	10.18	2.68	12.86	30.54	8.04			X		5				6/83				760	9/12/83
RAULS, CALTON 258-92-4988																				
81	8/79	11.57	1.85	13.42	578.50	92.50				X	5				7/79				25K	6/16/81
RAY, DONA K 563-78-1483																				
81	2/83	9.34	3.87	13.21	74.72	30.96				X	5				1/83	X	2/01/83	1/31/84	7WP	8/31/83
READ, AMY 574-60-1626																				
51	7/82	25.29	4.89	30.29	71.37	19.28			X		5		5/23/83	30.27	8/83				760	9/12/83
READ, LALLIE JILL 574-54-0464																				
51	6/82	25.29	4.80	30.09	49.21	9.60	X				X		7/13/83	30.09	7/83				26B	1/10/83
READ, RUTH 532-68-6481																				
81	6/79	20.83	4.37	25.20	1,022.16	227.24				X	5				5/79				25K	6/16/81
52	6/79	20.83	4.37	25.20	1,022.16	227.24				X	5				5/79				25K	6/16/81
REARDEN, MICHAEL B 574-22-7852																				
52	6/81	14.58	3.58	18.56	72.90	19.30				X	5		6/15/83	55.66	6/83				79B	8/23/83
REASOR, EDWARD ALSON* 574-52-1297																				
51	7/82	543.75	135.10	859.65	6,750.38	127.20				X	1				6/82				GDL	5/02/83
REBISCHKE, MINA M 488-42-4795																				
81	8/78	18.62	5.01	23.63	149.37	29.34				X	1		11/17/82	47.26	8/82	9	1/01/83	6/30/83	K20	9/13/83
REDDING, SANDRA L 574-36-0012																				
51	7/82	29.29	5.30	34.59	388.41	78.38				X	1		7/06/82	34.59	7/82				6PL	7/15/83
REDEAGLE, KEITH W 574-16-6691																				
51	5/81	13.37	4.46	17.83	187.73	75.84				X	1	T	11/18/82	53.58	7/81				6C1	8/16/83
REDEAGLE, PHILIP M. 574-14-4081																				
51	7/83	10.14	2.38	12.52	30.42	8.54			X		5				6/83				760	9/12/83
REDEAGLE, RON WADE 574-30-7468																				
51	7/83	24.38	6.54	30.92	73.14	19.62			X		5				6/83				760	9/12/83
REDHEAD, GEORGE P. 574-50-8906																				
51	6/83	41.67	11.26	53.93	166.68	45.04				X	5				5/83				79B	9/23/83
81	6/83	25.32	4.44	30.76	185.28	17.76				X	5				5/83				79B	9/23/83
REDICK, RUSS KEVIN 574-26-2771																				
51	6/83	50.00	13.64	63.64	200.00	54.56				X	5				5/83				25K	8/25/83
REECE, [illegible] A. 574-38-[illegible]																				
81	7/82	9.17	2.50	11.67	183.37	1.66				X	T		9/19/83	11.67	12/82				+L5	9/08/83
51	7/82	26.29	4.21	30.68	275.48	.38				X	T		9/19/83	30.68	12/82				+L5	9/08/83
REED, ARTHUR E. 574-56-9289																				
51	7/82	25.84	6.43	30.07	61.27	8.76	X				X		7/25/83	30.28	8/83				ZCX	12/06/82

EXHIBIT 76

REPORT 281-ES..-0890
PROGRAM ESA-6390 COMPILED 11.09.46
DATE 11/05/83
TIME 1:29:29

STATE OF ALASKA: COMM ON POST SECONDARY EDUCATION
DIVISION OF STUDENT FINANCIAL AIDS
STUDENT FINANCIAL AID SYSTEM
PASTDUE PAYMENT REPORT

LOAN SFX	CURRENT REPAYMENT SCHEDULE DATE	PRNCPL	INTRST	TOTAL	PAST-DUE PRINCIPAL	PAST-DUE INTEREST	30	60	90	120	STD	LAST PAYMENT DATE	LAST PAYMENT AMOUNT	PAID THRU	DEFERMENT CODE	DEFERMENT BEGIN	DEFERMENT END	CORRESPONDENCE CODE	CORRESPONDENCE DATE
PRECOLLECTIONS ACTIVITY:					NUMBER OF LOANS	ORIGINAL LOAN AMT						CURRENT BALANCE	PAST DUE PRINCIPAL				AMOUNT INTEREST		
AUTOMATIC TRANSFERS TO PRECOLLECTIONS TODAY					479	1,671,673.61						1,667,165.76	11,511.82				6,583.54		
MANUAL TRANSFERS TO PRECOLLECTIONS LAST MONTH					6	36,293.23						29,128.81	1,145.25				444.21		
AUTOMATIC CURES LAST MONTH					383	1,169,758.44						872,821.97	5,985.75				291.64-		
MANUAL CURES LAST MONTH					139	441,469.28						398,567.22	1,677.41-				71.54		
TRANSFERS TO COLLECTIONS LAST MONTH					19	121,483.72						105,166.13	20,697.83				3,625.45		
TOTAL ACCOUNTS IN PRECOLLECTIONS					1,370	9,718,293.82						8,648,721.63	651,392.38				149,736.12		
COLLECTIONS ACTIVITY					NUMBER OF LOANS	ORIGINAL LOAN AMT						CURRENT BALANCE	PAST DUE PRINCIPAL				AMOUNT INTEREST		
TRANSFERS TO COLLECTIONS LAST MONTH					39	123,483.72						105,166.58	20,697.83				3,625.45		
TRANSFERS TO REPAYMENT (CURES) LAST MONTH					19	33,855.51						25,378.81	495.92				32.57		
TERMINATIONS FROM COLLECTIONS LAST MONTH					1	28						28	28				28		
TOTAL ACCOUNTS IN COLLECTIONS					910	2,468,157.36						2,175,123.65	511,691.99				109,227.35		
AGED ANALYSIS (ACCOUNTS IN DEFERMENT ARE CURRENT)					NUMBER OF LOANS	ORIGINAL LOAN AMT						CURRENT BALANCE	PAST DUE PRINCIPAL				AMOUNT INTEREST		
CURRENT					13,194	53,558,312.26						46,535,951.49	338,794.34-				1,922.79-		
30 TO 59 DAYS					1,398	3,582,246.25						2,744,516.79	39,434.28				8,143.82		
60 TO 89 DAYS					411	1,209,145.33						1,021,169.14	6,552.26				1,464.71		
90 TO 120 DAYS					357	1,241,881.53						1,055,378.13	53,344.38				13,713.92		
PRECOLLECTIONS OVER 120 DAYS					2,328	6,193,725.25						5,679,195.28	575,150.79				134,367.35		
COLLECTIONS OVER 120 DAYS (EXCLUDING LITIGATION)					966	1,613,532.53						1,393,195.31	176,328.51				41,434.43		
LOANS IN LITIGATION					132	782,501.18						336,779.71	169,382.19				15,277.39		DEFAULT RATE
TOTAL					18,146	68,341,474.19						59,191,427.11	814,569.36				254,383.18		11.68

EXHIBIT 86

REPORT RB1-ESA-1620 STATE OF ALASKA: COMM ON POST SECONDARY EDUCATION PAGE 97
PROGRAM ESA-1620 COMPILED 14.18.09 DIVISION OF STUDENT FINANCIAL AIDS
DATE 03/10/83 STUDENT FINANCIAL AID SYSTEM
TIME 23:44:18 ALPHABETIC LIST OF DEFERMENTS

GRACE YEAR

LOAN SPE	DFR COLL END	STAT	DEFERMENT CODE	BEGIN	END	CORRESPONDENCE CODE	DATE	LOAN TYPE	LOAN CODE	DATE	SCHEDULE CODE	EFFECTIVE	AMOUNT DISBURSED	ORIGINAL 1ST PYMT	CURRENT BALANCE
RAMSEY, CAROLYN 178-36-6968															
01			3	5/16/82	5/15/83			F			C	1/01/83	2,500.00	6/01/83	2,500.00
RANDALL, JOHN EDGAR III 574-18-5013															
01			0	6/16/82	6/15/83		12/03/82	S			C	7/01/83	6,000.00	7/01/83	6,000.00
RANDOLPH, JOHN LUCAS 574-32-2578															
01			0	10/19/82	10/18/83		1/11/83	S			C	11/01/83	6,184.00	11/01/83	6,184.00
01			3	10/19/82	10/18/83	HLS	1/11/83	F			C	11/01/83	2,500.00	11/01/83	2,500.00
RANEY, EDGAR L. 449-19-9147															
01			0	6/19/82	6/18/83			S			C	7/01/83	6,000.00	7/01/83	6,000.00
RAPPI, ELVA SMOJEAN 558-16-7248															
01			0	12/16/82	12/15/83		2/24/83	S					5,000.00		5,000.00
RASCHICK, GREG P. 536-64-9197															
01			0	6/16/82	6/15/83			S			C	7/01/83	3,000.00	7/01/83	3,000.00
RASMUSSEN, DIANA D 560-68-8732															
01			0	8/13/82	8/12/83			S			C	9/01/83	6,000.00	9/01/83	6,000.00
01			3	8/13/82	8/12/83			F			C	9/01/83	3,000.00	9/01/83	3,000.00
RATAJ, JEANNE LOUISE 344-42-9865															
01			0	5/16/82	5/15/83			S			C	6/01/83	2,450.00	6/01/83	2,450.00
RAUSCH, ANN E. 574-54-6432															
01			0	6/16/82	6/15/83			S			C	7/01/83	7,400.00	7/01/83	7,400.00
01			3	6/16/82	6/15/83			F			C	7/01/83	2,500.00	7/01/83	2,500.00
RAUSCH, STEVEN M 574-32-8711															
02			0	12/16/82	12/15/83	HLS	1/01/83	S			C	1/01/84	13,275.00	1/01/84	13,275.00
01			3	12/16/82	12/15/83		2/23/83	F			C	1/01/84	2,500.00	1/01/84	2,500.00
RAVINET, PATRICIA C. 574-28-7535															
01			0	5/16/82	5/15/83	HLS	10/25/82	S			C	6/01/83	5,000.00	6/01/83	5,000.00
RAYBURN, ERIC EDWARD 574-58-1874															
01			0	6/16/82	6/15/83	HLS	11/26/82	S			C	7/01/83	1,900.00	7/01/83	1,900.00
RAYBURN, PATRICIA ANNE 571-48-0962															
01			0	6/25/82	6/25/83			S			C	7/01/83	6,450.00	7/01/83	6,450.00
READ, STANLEY MONTIE 521-42-2881															
01			0	5/16/82	5/15/83	HLS	10/04/82	S			C	6/01/83	6,000.00	6/01/83	6,000.00
REAMER, PEARL M 574-10-4022															
01			2	9/06/82	9/06/83		12/17/82	S			C	10/01/83	6,000.00	10/01/83	6,000.00
REARICK, ALISON 574-28-1334															
01			0	8/16/82	8/15/83			S			C	9/01/83	8,534.00	9/01/83	8,534.00
01			3	8/16/82	8/15/83			F			C	9/01/83	2,467.00	9/01/83	2,467.00
RECKER, DARLYS J. 371-48-7477															
01			0	5/16/82	5/15/83			S			C	6/01/83	3,000.00	6/01/83	3,000.00
REDFEARN, RHEATTE D. 585-44-3972															
01	*		0	6/16/82	6/15/83			S			C	5/01/83	5,000.00	5/01/83	5,000.00
01	*		3	6/16/82	6/15/83			F			C	5/01/83	1,440.00	5/01/83	1,440.00
REDHEAD, GEORGE P. 574-58-5906															
01			0	5/16/82	5/15/83	HLS	10/25/82	S			C	6/01/83	5,000.00	6/01/83	5,000.00
01			3	5/16/82	5/15/83	HLS	10/25/82	F			C	6/01/83	2,000.00	6/01/83	2,000.00
REDICK, DARREN VERN 574-62-6451															
01			0	5/05/82	5/04/83	HLS	9/13/82	S			C	6/01/83	5,750.00	6/01/83	5,750.00

EXHIBIT 226

REPORT R02-ES..0740
PROGRAM ESA-0740 COMPILED 15.55.43
DATE 11/05/83
TIME 7:58:18

STATE OF ALASKA: COMM ON POST SECONDARY EDUCATION
DIVISION OF STUDENT FINANCIAL AIDS
STUDENT FINANCIAL AID SYSTEM
STATE FORGIVENESS FOR MONTH ENDING 10/31/83

LAST NAME	FIRST NAME	ACCOUNT NUMBER	LN SX	CNL NUM	TRANS DATE	FORGIV CREDIT	FORGIV ADJUST	TOTAL FORGIV	REFUND	REFUND ADJUST	TOTAL REFUND	DATE ENTRED
ZAUGG	LYNDA L.	574188982-01	4TH	832879					67.13		67.13	100683
SUBTOTAL						277.13		277.13	67.13		67.13	
ZDANOVEC	CAROL S.	527029886-01	2ND	101183		118.65		118.65				101183
SUBTOTAL						118.65		118.65				
ZDANOVEC	RICHARD G.	323381846-01	3RD	101183		118.24		118.24				101183
SUBTOTAL						118.24		118.24				
ZIE	MARIE L.	574283757-01	2ND	102183		1,468.84		1,468.84				102483
SUBTOTAL						1,468.84		1,468.84				
ZIMMERMAN	JULIE A.	574548911-01	1ST	101083		89.84		89.84				101083
SUBTOTAL						89.84		89.84				
ZIMMERMAN	JULIE A.	574548911-01	1ST	101083		277.38		277.38				101083
SUBTOTAL						277.38		277.38				

MONTHLY TOTALS

NUMBER LISTED	CNL NUM	FORGIVE CREDIT	FORGIVE ADJUST	TOTAL FORGIVE	REFUND	REFUND ADJUST	TOTAL REFUND
85	1ST	27,994.81	2,588.50	25,373.31	2,141.76	298.36	1,853.40
61	2ND	19,513.19	2,183.70	17,489.69	2,381.13	0.00	2,381.13
53	3RD	13,746.47	1,771.84	11,967.63	1,781.43	0.00	1,781.43
61	4TH	12,774.91	767.26	12,007.65	5,883.27	0.00	5,883.27
12	5TH	6,473.72	767.26	5,706.46	4,668.72	0.00	4,668.72
272	TOTAL	79,780.58	8,078.56	71,634.82	17,467.48	298.36	17,297.32

EXHIBIT 114(b)

Alaska Commission on Postsecondary Education
Division of Student Financial Aid

01/21/83

GRUBBS ,KEVIN E. ACCT NUMBER
2328 SEAVIEW APT.2048
HONOLULU AK 96822 462-06-1913

STATEMENT OF ACCOUNT

FOR THE PERIOD 01/01/1982 THRU 12/31/1982

LOAN NUMBER	46206191301
NUMBER OF PAYMENTS	4
PAYMENT TOTAL	$128.17
INTEREST PAID	$27.51
PRINCIPAL PAID	$100.66
OUTSTANDING PRINCIPAL BALANCE	$1,624.34

STATEMENT OF ACCOUNT

FOR THE PERIOD 01/01/1982 THRU 12/31/1982

LOAN NUMBER	46206191351
NUMBER OF PAYMENTS	4
PAYMENT TOTAL	$210.21
INTEREST PAID	$35.21
PRINCIPAL PAID	$175.00
OUTSTANDING PRINCIPAL BALANCE	$2,075.00

THE OUTSTANDING PRINCIPAL BALANCE STATED ABOVE IS NOT A PAYOFF AMOUNT. IT DOES NOT REFLECT INTEREST DUE TO DATE. PLEASE REQUEST THE AMOUNT DUE IF YOU WISH TO PAY YOUR ACCOUNT IN FULL.

ANY QUESTIONS CONCERNING YOUR STUDENT LOAN ACCOUNT(S) SHOULD BE DIRECTED TO THE ALASKA COMMISSION ON POSTSECONDARY EDUCATION, STUDENT FINANCIAL AID OFFICE, POUCH FP, 400 WILLOUGHBY AVENUE, JUNEAU, ALASKA 99811. PLEASE REFERENCE YOUR LOAN NUMBER.

05-006-80 SL

EXHIBIT 265(a)

A

U.S. DEPARTMENT OF EDUCATION OFFICE OF POSTSECONDARY EDUCATION OFFICE OF STUDENT FINANCIAL ASSISTANCE WASHINGTON, D.C. 20202	GUARANTEE AGENCY QUARTERLY REPORT Guaranteed Student Loan Program and PLUS PROGRAM	Form Approved. OMB # 1840-0002 Expir.Date: 12/84

NAME OF AGENCY	STATE	REPORT FOR QUARTER ENDING		
		(MONTH)	(DAY)	(YEAR)
NAME OF PREPARER	TITLE			
SIGNATURE	DATE PREPARED			

	PART A—FUNDS AVAILABLE	CURRENT QUARTER	FEDERAL FISCAL YEAR (CUMULATIVE)	CUMULATIVE SINCE NOV 3 1968
	SECTION 1—SOURCE OF FUNDS			
A-1	INSURANCE PREMIUMS RECEIVED (NET OF REFUNDS)			
A-2	STATE APPROPRIATIONS RECEIVED			
A-3	FEDERAL ADVANCES RECEIVED			
A-4	FEDERAL REINSURANCE PAYMENTS RECEIVED			
A-5	ADMINISTRATIVE COST ALLOWANCE RECEIVED			
A-6	TOTAL COLLECTIONS ON CLAIMS PAID			
A-7	INVESTMENT EARNINGS RECEIVED			
A-8	OTHER NON-FEDERAL SOURCES			
A-9	TOTAL SOURCES (1+2+3+4+5+6+7+8)			
	SECTION 2—USES OF FUNDS			
A-10	TOTAL CLAIMS PAID			
A-11	OPERATING EXPENSES			
A-12	LENDER FEES PAID			
A-13	PORT OF COLLECTIONS REMITTED TO DE			
A-14a	OTHER USES (SPECIFY)			
A-14b	OTHER USES (SPECIFY)			
A-15	TOTAL USES (10+11+12+13+14)			
A-16	EXCESS OF SOURCES OVER USES (9-15)			
A-17	RESERVE RATIO (F-13 + F-12 + H-10 + A-16)			
	SECTION 3—ADJUSTMENTS (END OF QUARTER)			
A-18	FED. REINSURANCE PMTS. DUE FROM DE			
A-19	ADMIN. COSTS ALLOW. DUE FROM DE			
A-20	PORT. OF COLLECTIONS DUE TO DE			
A-21a	OTHER ADJ. (SPECIFY)			
A-21b	OTHER ADJ. (SPECIFY)			
A-22	TOTAL ADJUSTMENTS (18+19+20 & 21)			
A-23	ADJUSTED FUNDS AVAILABLE (16+22)			

ED 1220 (3/82)

EXHIBIT 265(b)

U.S. DEPARTMENT OF EDUCATION OFFICE OF POSTSECONDARY EDUCATION OFFICE OF STUDENT FINANCIAL ASSISTANCE WASHINGTON, D.C. 20202	GUARANTEE AGENCY QUARTERLY REPORT Guaranteed Student Loan Program	Form Approved. OMB # 1840-0002 Expir. Date: 12/5-

NAME OF AGENCY	STATE	REPORT FOR QUARTER ENDING		
		MONTH	(DAY)	(YEAR)

PART 5 – OUTSTANDING STUDENT LOANS		PRINCIPAL ONLY		
		CURRENT QUARTER	FEDERAL FISCAL YEAR (CUMULATIVE)	CUMULATIVE SINCE NOV 8, 1965
5-1	LOANS GUARANTEED			
5-2	LOANS CANCELLED COMPLETELY			
5-3	LOANS CANCELLED PARTIALLY			
5-4	NET LOANS GUARANTEED (1 - 2 - 3)			
5-5	PRINCIPAL PORTION OF CLAIMS PAID – DEFAULT			
5-6	PRINCIPAL PORTION OF CLAIMS PAID–BANKRUPTCY			
5-7	PRINCIPAL PORTION OF CLAIMS PAID–DEATH & DIS			
5-8	TOTAL PRINCIPAL PORTION OF CLAIMS PAID(5-6-7)			
5-9	PRINCIPAL REPAID PRIOR TO CLAIM			
5-10a	ADJUSTMENT (PRIN. REPAID AT CONVERSION)			
5-10b	ADJUSTMENT (LENDER REPURCHASES)			
5-10c	ADJUSTMENT (CAPITALIZED INTEREST)			
5-10d	ADJUSTMENT (SPECIFY)			
5-11	NET ADJUSTMENT (10a-b-c-d)			
5-12	LOANS PAID IN FULL			
5-13	OUTSTANDING LOANS (4-8-9-11-12)			
5-14	INTERIM LOANS (IN SCHOOL AND GRACE)			
5-15	MATURED PAPER (4 - 14)			
5-16	LOANS IN DEFERMENT			
5-17	LOANS IN REPAYMENT (13 - 14 - 16)			

ED 1130 (3/82)

EXHIBIT 265(c)

C

U.S. DEPARTMENT OF EDUCATION OFFICE OF POSTSECONDARY EDUCATION OFFICE OF STUDENT FINANCIAL ASSISTANCE WASHINGTON, D.C. 20202	GUARANTEE AGENCY QUARTERLY REPORT Guaranteed Student Loan Program	Form Approved. OMB # 1840-0002 Expir. Date: 12/84

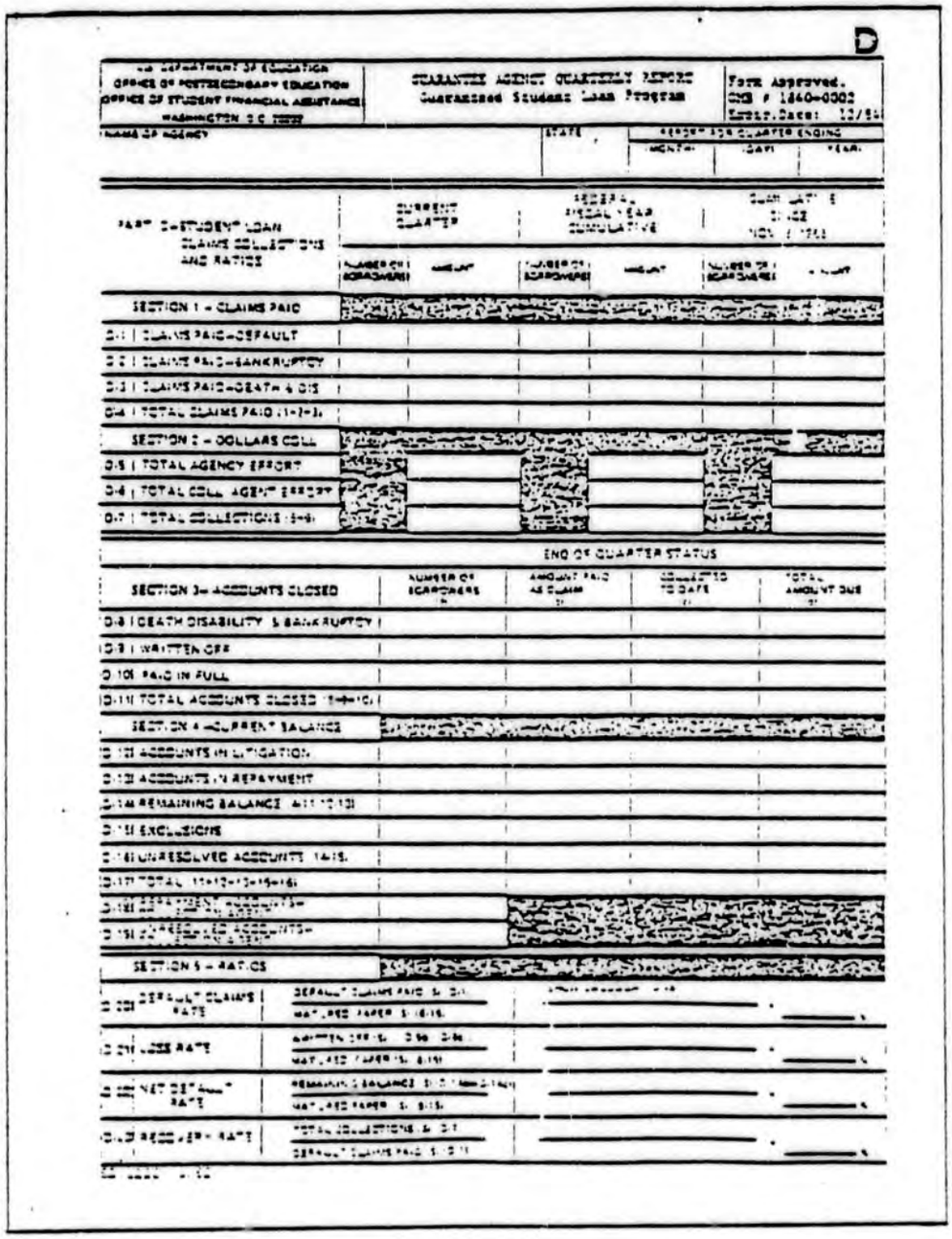
NAME OF AGENCY	STATE	REPORT FOR QUARTER ENDING		
		MONTH	DAY	YEAR

	PART C – STUDENT LOAN PROGRAM OPERATIONS	CURRENT QUARTER	FEDERAL FISCAL YEAR (CUMULATIVE)	CUMULATIVE SINCE NOV 8 1965
C-1	NUMBER OF BORROWERS			
C-2	NUMBER OF REPEAT BORROWERS			
C-3	TOTAL NUMBER OF LOANS (NET OF CANCELLATIONS)			
C-4	NUMBER OF NONSUBSIDIZED LOANS			
C-5	DOLLAR VOLUME OF NONSUBSIDIZED LOANS			
C-6	AVERAGE LOAN SIZE (5-4 ÷ 3)			
C-7	NUMBER OF BORROWERS IN INTERIM STATUS			
C-8	MATURED PAPER NUMBER OF BORROWERS (7 - 5)			
C-9	NUMBER OF PRECLAIMS ASSISTANCE REQUESTS RECEIVED			
C-10	NUMBER OF PRECLAIMS ASSISTANCE REQUESTS IN PROCESS			
C-11	NUMBER OF CLAIMS PREVENTED			
C-12	CURE RATE (11 ÷ (9-10))			
C-13	TOTAL NUMBER ACTIVE LENDERS (PAST FOUR QUARTERS)			
C-14	AGENCY FULL TIME EQUIVALENT STAFF (END OF QUARTER)			

LENDER TYPE	LOAN VOLUME ($)			DEFAULT CLAIMS PAID ($)		
	CURRENT QUARTER	FEDERAL FISCAL YEAR CUMULATIVE	CUMULATIVE SINCE (SPECIFY)	CURRENT QUARTER	FEDERAL FISCAL YEAR CUMULATIVE	CUMULATIVE SINCE (SPECIFY)
ELIGIBLE SCHOOLS	C-15			C-20		
STATE OR PRIVATE NONPROFIT LENDERS	C-16			C-21		
COMMERCIAL FINANCIAL INSTITUTIONS	C-17			C-22		
ALL OTHER TYPES OF INSTITUTIONS OR AGENCIES	C-18			C-23		
TOTAL	C-19			C-24		

ED 1130 (3/82)

EXHIBIT 265(d)



D

U.S. DEPARTMENT OF EDUCATION OFFICE OF POSTSECONDARY EDUCATION OFFICE OF STUDENT FINANCIAL ASSISTANCE WASHINGTON, D.C. 20202	GUARANTEE AGENCY QUARTERLY REPORT Guaranteed Student Loan Program	Form Approved. OMB # 1840-0002 Expir. Date: 12/84

NAME OF AGENCY	STATE	REPORT FOR QUARTER ENDING (MONTH)	(DAY)	(YEAR)

PART D—STUDENT LOAN CLAIMS COLLECTIONS AND RATIOS	CURRENT QUARTER		FEDERAL FISCAL YEAR CUMULATIVE		CUMULATIVE SINCE NOV. 1, 1965	
	NUMBER OF BORROWERS	AMOUNT	NUMBER OF BORROWERS	AMOUNT	NUMBER OF BORROWERS	AMOUNT
SECTION 1 – CLAIMS PAID						
D-1 CLAIMS PAID—DEFAULT						
D-2 CLAIMS PAID—BANKRUPTCY						
D-3 CLAIMS PAID—DEATH & DIS						
D-4 TOTAL CLAIMS PAID (1+2+3)						
SECTION 2 – DOLLARS COLL						
D-5 TOTAL AGENCY EFFORT						
D-6 TOTAL COLL. AGENT EFFORT						
D-7 TOTAL COLLECTIONS (5+6)						

SECTION 3 – ACCOUNTS CLOSED	END OF QUARTER STATUS: NUMBER OF BORROWERS (1)	AMOUNT PAID AS CLAIM (2)	COLLECTED TO DATE (3)	TOTAL AMOUNT DUE (4)
D-8 DEATH DISABILITY & BANKRUPTCY				
D-9 WRITTEN OFF				
D-10 PAID IN FULL				
D-11 TOTAL ACCOUNTS CLOSED (8+9+10)				
SECTION 4 – CURRENT BALANCE				
D-12 ACCOUNTS IN LITIGATION				
D-13 ACCOUNTS IN REPAYMENT				
D-14 REMAINING BALANCE (4-11-12-13)				
D-15 EXCLUSIONS				
D-16 UNRESOLVED ACCOUNTS (14-15)				
D-17 TOTAL (11+12+13+15+16)				
D-18 REPAYMENT ACCOUNTS—[illegible]				
D-19 UNRESOLVED ACCOUNTS—[illegible]				
SECTION 5 – RATIOS				

D-20 DEFAULT CLAIMS RATE	DEFAULT CLAIMS PAID ($) D-1 / MATURED PAPER ($) (8-15)	[illegible]	× ____ %
D-21 LOSS RATE	WRITTEN OFF ($) D-9 D-8 / MATURED PAPER ($) (8-15)		× ____ %
D-22 NET DEFAULT RATE	REMAINING BALANCE ($) D-1 [illegible] / MATURED PAPER ($) (8-15)		× ____ %
D-23 RECOVERY RATE	TOTAL COLLECTIONS ($) D-7 / DEFAULT CLAIMS PAID ($) D-1		× ____ %

[illegible]

EXHIBIT 265(e)

U.S. DEPARTMENT OF EDUCATION OFFICE OF POSTSECONDARY EDUCATION OFFICE OF STUDENT FINANCIAL ASSISTANCE WASHINGTON, D.C. 20202	GUARANTEE AGENCY QUARTERLY REPORT Guaranteed Student Loan Program and PLUS Program	Form Approved. OMB # 1840-0002 Expir.Date: 12/31
PART I - REQUEST FOR PAYMENT OF ADMINISTRATIVE COST ALLOWANCE FOR QUARTER ENDING _____	CURRENT QUARTER	FEDERAL FISCAL YEAR (CUMULATIVE)
I 1 PRINCIPAL AMOUNT OF LOANS GUARANTEED	$	$
I 2 TOTAL COLLECTIONS ON CLAIMS PAID TO LENDERS	$	$
I 3 AMOUNT OF COLLECTIONS RETAINED PURSUANT TO SECTION 428(c)(6)(A)(i) - COMPLEMENT OF REINSURANCE PERCENTAGE	$	
I 4 AMOUNT OF COLLECTIONS RETAINED PURSUANT TO SECT. 428(c)(6)(A)(i) - 24% PERCENT OFFSET	$	
I 5 TOTAL AMOUNT RETAINED (3+4)	$	$
I 6 PORTION OF COLLECTIONS DUE TO OFFICE OF EDUCATION (2-5)	$	$
I 7 PERCENTAGE RETAINED (4 ÷ 2)		%
I 8 ADMINISTRATIVE COSTS OF PRECLAIMS ASSISTANCE	$	$
I 9 ADMINISTRATIVE COSTS OF COLLECTIONS	$	$
I 10 ADMINISTRATIVE COSTS RELATED TO MONITORING ENROLLMENT AND REPAYMENT STATUS	$	$
I 11 TOTAL COSTS OF PRECLAIMS ASSISTANCE AND COLLECTIONS (8+9+10)	$	$
I 12 ADMINISTRATIVE COSTS OF PROMOTION OF COMMERCIAL LENDER PARTICIPATION	$	$
I 13 OTHER ADMINISTRATIVE COSTS RELATED TO THE STUDENT LOAN INSURANCE PROGRAM	$	$
I 14 TOTAL ADMINISTRATIVE COSTS (11+12+13)	$	$
COMPLETE THIS SECTION ONLY IF APPLYING FOR THE SECONDARY ADMINISTRATIVE COSTS ALLOWANCE		
I 15 DATE AGENCY CAME INTO COMPLIANCE WITH SECTION 428A(a)(2) ARR. _____		
I 16 LOANS GUARANTEED SINCE DATE OF COMPLIANCE (COMPLETE ONLY IF I 15 IS DURING CURRENT FISCAL YEAR)	$	$

The above data are agreed to be the data of the agreement and report and the undersigned hereby certifies that the above statements made are representations of the Department of Education and agrees that an accountable reporting to and data shall be subject to audit by the U.S. Department of Education or other authorized officials of the Federal Government having responsibility for the program.

_____ Name of Agency

_____ Signature of Officer

_____ Date

_____ Printed Name and Title of Officer

WARNING: Any person who knowingly makes a false statement or misrepresentation on this form is subject to penalties which may include fines or imprisonment under the United States Criminal Code and 20 U.S.C. 1097.

ED 1130 (3/83)

EXHIBIT 265(f)

F

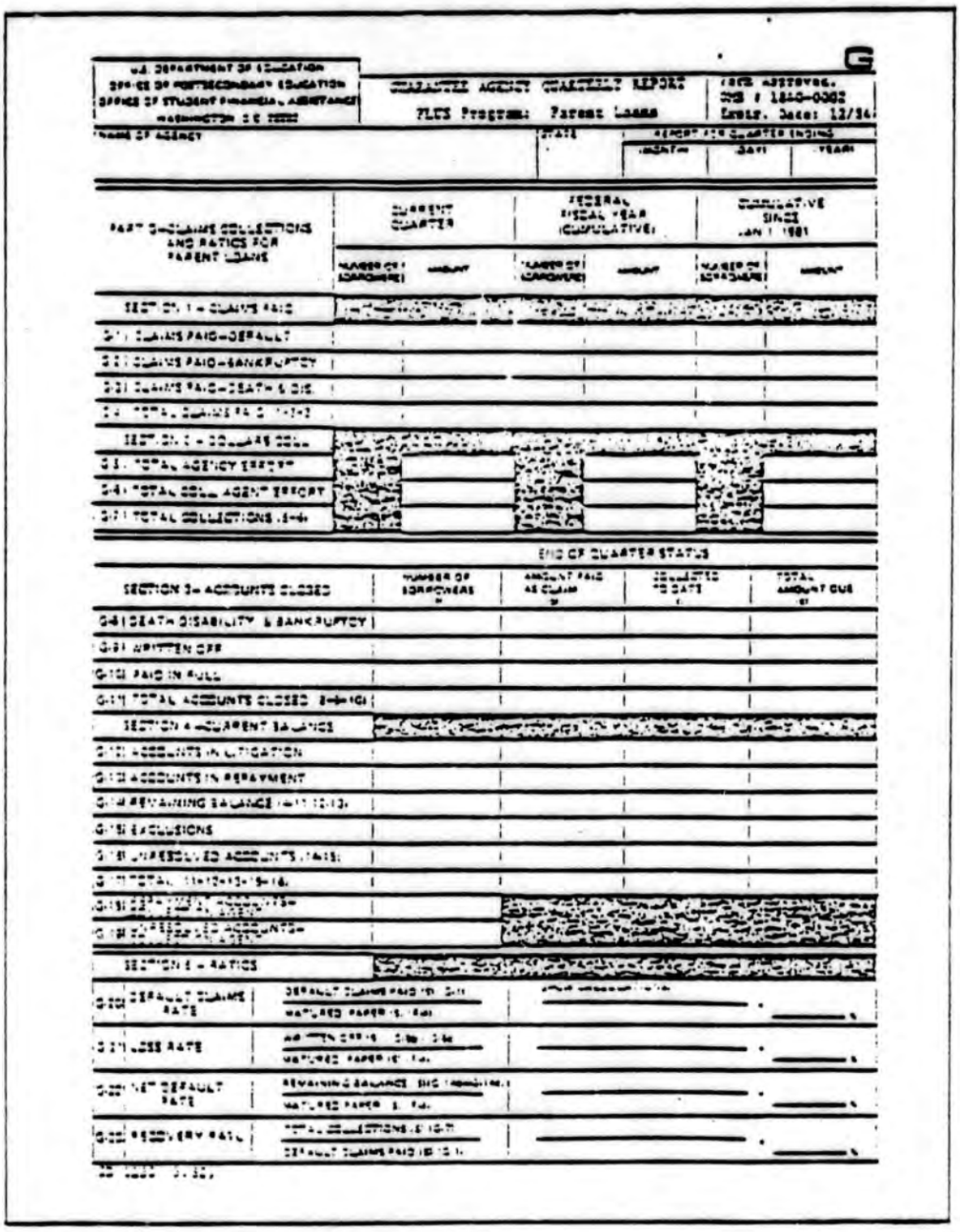
U.S. DEPARTMENT OF EDUCATION OFFICE OF POSTSECONDARY EDUCATION OFFICE OF STUDENT FINANCIAL ASSISTANCE WASHINGTON, D.C. 20202	GUARANTEE AGENCY QUARTERLY REPORT FFEL Program: Parent Loans	Form Approved. OMB # 1840-0000 Expir. Date: 12/31/

NAME OF AGENCY	STATE	REPORT FOR QUARTER ENDING		
		(MONTH)	(DAY)	(YEAR)

PART F- OUTSTANDING PARENT LOANS (PLUS)		PRINCIPAL ONLY		
		CURRENT QUARTER	FEDERAL FISCAL YEAR (CUMULATIVE)	CUMULATIVE SINCE JAN. 1, 1981
F-1	LOANS GUARANTEED			
F-2	LOANS CANCELLED COMPLETELY			
F-3	LOANS CANCELLED PARTIALLY			
F-4	NET LOANS GUARANTEED (1+2+3) (MATURED PAPER)			
F-5	PRINCIPAL PORTION OF CLAIMS PAID-DEFAULT			
F-6	PRINCIPAL PORTION OF CLAIMS PAID-BANKRUPTCY			
F-7	PRINCIPAL PORTION OF CLAIMS PAID-DEATH & DIS			
F-8	TOTAL PRINCIPAL PORTION OF CLAIMS PAID (5+6+7)			
F-9	PRINCIPAL REPAID PRIOR TO CLAIM			
F-10a	ADJUSTMENT - PRIN. REPAID AT CONVERSION			
F-10b	ADJUSTMENT - LENDER REPURCHASES			
F-10c	ADJUSTMENT - CAPITALIZED INTEREST			
F-10d	ADJUSTMENT - SPECIFY			
F-11	NET ADJUSTMENT (10a+b+c+d)			
F-12	LOANS PAID IN FULL			
F-13	OUTSTANDING LOANS (4-8-9-11-12)			
F-14	LOANS IN DEFERMENT			
F-15	LOANS IN REPAYMENT (13-14)			

ED 1130 (11/82)

EXHIBIT 265(g)



G

U.S. DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION
OFFICE OF STUDENT FINANCIAL ASSISTANCE
WASHINGTON, D.C. 20202

GUARANTEE AGENCY QUARTERLY REPORT
FLUS Program: Parent Loans

FORM APPROVED.
OMB # 1840-0002
Expir. Date: 12/84

NAME OF AGENCY	STATE	REPORT FOR QUARTER ENDING (MONTH)	(DAY)	(YEAR)

PART G—CLAIMS COLLECTIONS AND RATIOS FOR PARENT LOANS	CURRENT QUARTER		FEDERAL FISCAL YEAR (CUMULATIVE)		CUMULATIVE SINCE JAN 1, 1981	
	NUMBER OF BORROWERS	AMOUNT	NUMBER OF BORROWERS	AMOUNT	NUMBER OF BORROWERS	AMOUNT
SECTION 1 – CLAIMS PAID						
G-1) CLAIMS PAID—DEFAULT						
G-2) CLAIMS PAID—BANKRUPTCY						
G-3) CLAIMS PAID—DEATH & DIS.						
G-4) TOTAL CLAIMS PAID (1-2-3)						
SECTION 2 – DOLLARS COLL.						
G-5) TOTAL AGENCY EFFORT						
G-6) TOTAL COLL. AGENT EFFORT						
G-7) TOTAL COLLECTIONS (5-6)						

SECTION 3 – ACCOUNTS CLOSED	END OF QUARTER STATUS: NUMBER OF BORROWERS (1)	AMOUNT PAID AS CLAIM (2)	COLLECTED TO DATE (3)	TOTAL AMOUNT DUE (4)
G-8) DEATH DISABILITY & BANKRUPTCY				
G-9) WRITTEN OFF				
G-10) PAID IN FULL				
G-11) TOTAL ACCOUNTS CLOSED (8-9-10)				
SECTION 4 – CURRENT BALANCE				
G-12) ACCOUNTS IN LITIGATION				
G-13) ACCOUNTS IN REPAYMENT				
G-14) REMAINING BALANCE (4-11-12-13)				
G-15) EXCLUSIONS				
G-16) UNRESOLVED ACCOUNTS (14-15)				
G-17) TOTAL (11-12-13-15-16)				
G-18) [illegible]				
G-19) UNRESOLVED ACCOUNTS— [illegible]				
SECTION 5 – RATIOS				

G-20) DEFAULT CLAIMS RATE	DEFAULT CLAIMS PAID ($) (G-1) / MATURED PAPER ($) (F-4)	[illegible]	____ %
G-21) LOSS RATE	WRITTEN OFF ($) (G-9b) (G-9c) / MATURED PAPER ($) (F-4)	____	____ %
G-22) NET DEFAULT RATE	REMAINING BALANCE ($) (G-14b) (G-14c) / MATURED PAPER ($) (F-4)	____	____ %
G-23) RECOVERY RATE	TOTAL COLLECTIONS ($) (G-7) / DEFAULT CLAIMS PAID ($) (G-1)	____	____ %

[illegible]

EXHIBIT 265(h)

H

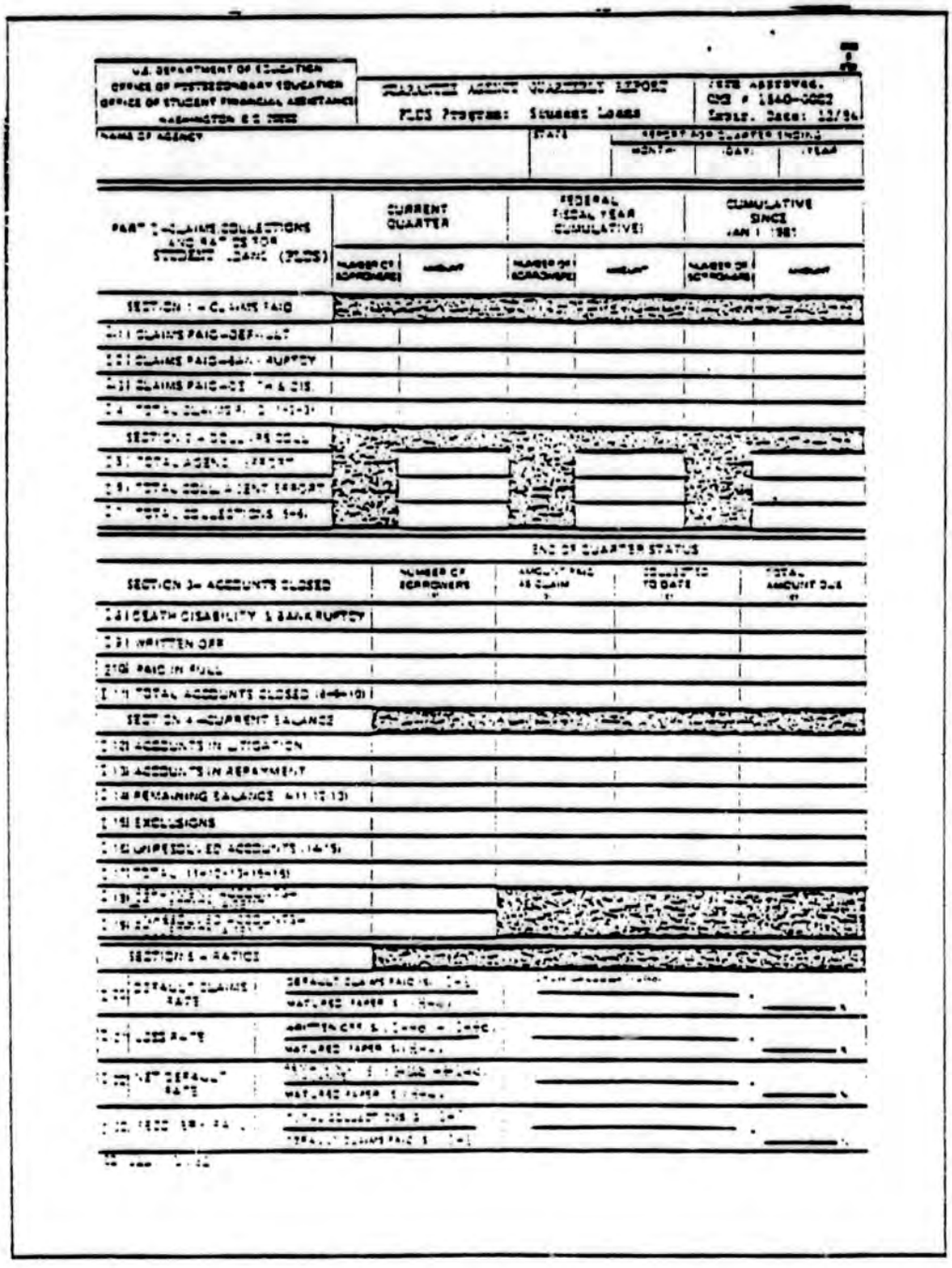
U.S. DEPARTMENT OF EDUCATION OFFICE OF POSTSECONDARY EDUCATION OFFICE OF STUDENT FINANCIAL ASSISTANCE WASHINGTON, D.C. [illegible]	GUARANTEE AGENCY QUARTERLY REPORT FLUX Program: Student Loans	Form Approved. OMB # 1840-0002 Expir. Date: [illegible]

NAME OF AGENCY	STATE	REPORT FOR QUARTER ENDING		
		(MONTH)	(DAY)	(YEAR)

PART H — OUTSTANDING STUDENT LOANS (FLUX)		PRINCIPAL ONLY		
		CURRENT QUARTER	FEDERAL FISCAL YEAR (CUMULATIVE)	CUMULATIVE SINCE JAN. 1, 1981
H-1	LOANS GUARANTEED			
H-2	LOANS CANCELLED COMPLETELY			
H-3	LOANS CANCELLED PARTIALLY			
H-4	NET LOANS GUARANTEED (1-2-3) MATURED PAPER			
H-5	PRINCIPAL PORTION OF CLAIMS PAID-DEFAULT			
H-6	PRINCIPAL PORTION OF CLAIMS PAID-BANKRUPTCY			
H-7	PRINCIPAL PORTION OF CLAIMS PAID-DEATH & DIS			
H-8	TOTAL PRINCIPAL PORTION OF CLAIMS PAID (5+6+7)			
H-9	PRINCIPAL REPAID PRIOR TO CLAIM			
H-10a	ADJUSTMENT (PRIN. REPAID AT CONVERSION)			
H-10b	ADJUSTMENT (LENDER REPURCHASES)			
H-10c	ADJUSTMENT (CAPITALIZED INTEREST)			
H-10d	ADJUSTMENT (SPECIFY)			
H-11	NET ADJUSTMENT (10a+b+c+d)			
H-12	LOANS PAID IN FULL			
H-13	OUTSTANDING LOANS (4-8-9±11-12)			
H-14	LOANS IN DEFERMENT			
H-15	LOANS IN REPAYMENT (13-14)			

[illegible] 1230 (3/82)

EXHIBIT 265(i)



U.S. DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION
OFFICE OF STUDENT FINANCIAL ASSISTANCE
WASHINGTON, D.C. 20202

GUARANTEE AGENCY QUARTERLY REPORT
PLUS Program: Student Loans

FORM APPROVED.
OMB # 1840-0002
Expir. Date: 12/84

NAME OF AGENCY	STATE	REPORT FOR QUARTER ENDING		
		MONTH	DAY	YEAR

PART I—CLAIMS, COLLECTIONS AND RATIOS FOR STUDENT LOANS (PLUS)	CURRENT QUARTER		FEDERAL FISCAL YEAR (CUMULATIVE)		CUMULATIVE SINCE JAN 1, 1981	
	NUMBER OF BORROWERS	AMOUNT	NUMBER OF BORROWERS	AMOUNT	NUMBER OF BORROWERS	AMOUNT
SECTION 1 — CLAIMS PAID						
1 CLAIMS PAID—DEFAULT						
2 CLAIMS PAID—BANKRUPTCY						
3 CLAIMS PAID—DEATH & DIS.						
4 TOTAL CLAIMS PAID (1+2+3)						
SECTION 2 — DOLLARS COLL.						
5 TOTAL AGENCY EFFORT						
6 TOTAL COLL. AGENT EFFORT						
7 TOTAL COLLECTIONS (5+6)						

SECTION 3 — ACCOUNTS CLOSED	END OF QUARTER STATUS: NUMBER OF BORROWERS	AMOUNT PAID AS CLAIM	COLLECTED TO DATE	TOTAL AMOUNT DUE
8 DEATH DISABILITY & BANKRUPTCY				
9 WRITTEN OFF				
10 PAID IN FULL				
11 TOTAL ACCOUNTS CLOSED (8+9+10)				
SECTION 4 — CURRENT BALANCE				
12 ACCOUNTS IN LITIGATION				
13 ACCOUNTS IN REPAYMENT				
14 REMAINING BALANCE (4-11-12-13)				
15 EXCLUSIONS				
16 UNRESOLVED ACCOUNTS (14-15)				
17 TOTAL (11+12+13+15+16)				
18 [illegible]				
19 [illegible]				

SECTION 5 — RATIOS			
20 DEFAULT CLAIMS RATE	DEFAULT CLAIMS PAID ($) [illegible] / MATURED PAPER ($) [illegible]	[illegible]	%
21 LOSS RATE	WRITTEN OFF ($) [illegible] / MATURED PAPER ($) [illegible]		%
22 NET DEFAULT RATE	[illegible] / MATURED PAPER ($) [illegible]		%
23 [illegible]	TOTAL COLLECTIONS ($) [illegible] / DEFAULT CLAIMS PAID ($) [illegible]		%

[illegible]

EXHIBIT 265(j)

J

U.S. DEPARTMENT OF EDUCATION OFFICE OF POSTSECONDARY EDUCATION OFFICE OF STUDENT FINANCIAL ASSISTANCE WASHINGTON, D.C. 20202	GUARANTEE AGENCY FINANCIAL REPORT FFEL Programs Parent Loans and Student Loans	Form Approved. OMB 1840-0002 Expir. Date: 12/31/

NAME OF AGENCY	STATE	REPORT FOR QUARTER ENDING		
		MONTH	DAY	YEAR

PART J – PARENT LOANS AND STUDENT LOANS PROGRAM OPERATIONS	CURRENT QUARTER	FEDERAL FISCAL YEAR CUMULATIVE	CUMULATIVE SINCE JAN 1 1981
J01 NUMBER OF BORROWERS			
J02 NUMBER OF REPEAT BORROWERS			
J03 NUMBER OF LOANS			
J04 NUMBER OF STUDENTS			
J05 AVERAGE LOAN SIZE ((Item J03 ÷ Item J04))			
J06 AVERAGE INDEBTEDNESS ((Item J03 ÷ Item J04))			
J07 NUMBER OF PRECLAIMS ASSISTANCE REQUEST RECEIVED			
J08 NUMBER OF PRECLAIMS ASSISTANCE REQUEST IN PROCESS			
J09 NUMBER OF CLAIMS PREVENTED			
J10 CURE RATE ((Item J09 ÷ (Item J07 + Item J09)))		%	%
J11 TOTAL NUMBER ACTIVE LENDERS (LAST FOUR QUARTERS)			

LENDER TYPE	LOAN VOLUME ($)			DEFAULT CLAIMS PAID ($)		
	CURRENT QUARTER	FEDERAL FISCAL YEAR (CUMULATIVE)	CUMULATIVE SINCE JAN 1 1981	CURRENT QUARTER	FEDERAL FISCAL YEAR (CUMULATIVE)	CUMULATIVE SINCE JAN 1 1981
ELIGIBLE SCHOOLS	J12			J17		
STATE OR PRIVATE NONPROFIT LENDERS	J13			J18		
COMMERCIAL FINANCIAL INSTITUTIONS	J14			J19		
ALL OTHER TYPES OF INSTITUTIONS OR AGENCIES	J15			J20		
TOTAL	J16			J21		

ED 1000 J 10

EXHIBIT 266

REPORT RS1-ESA-1415 STATE OF ALASKA: COMM ON POST SECONDARY EDUCATION PAGE :
PROGRAM ESA-1415 COMPILED 17.48.48 DIVISION OF STUDENT FINANCIAL AIDS
DATE 10/11/83 STUDENT FINANCIAL AID SYSTEM
TIME 11:34:25 FEDERAL LOANS OUTST FOR PERIOD ENDING 9/30/83

In document it is stated from 2/1 ... on or before 3/30/84

INTERIM LOANS - IN SCHOOL/GRACE

LAST NAME	FIRST NAME	SSN	LOAN SFX	DEFERMENT CD	DEFERMENT BEGIN	DEFERMENT END	ORIGINAL REPAY DATE	AMOUNT DISBURSED	CURRENT BALANCE	DAYS PAST-DUE	COLL STATUS
AARONSON	CORBI LYN	574-54-4888	51					1,388.00	1,388.00		
AASE	MARK MITCHELL	574-52-5879	51					1,667.00	1,667.00		
ABERLY	PATTI LEE	574-58-2875	51					430.00	430.00		
ABLESCOP	RENEE LYNN	574-66-0918	51					2,500.00	2,500.00		
ACEVEDA	CAROL JEAN	574-16-2759	51					2,500.00	2,500.00		
ACKLEY	HOLLY ELIZABETH	558-56-0588	51					2,500.00	2,500.00		
AGOSTI	TIMOTHY P.	574-58-1887	51					2,500.00	2,500.00		
AGUILA	ELIZABETH EMELIA	574-54-2276	51					1,389.00	1,389.00	4	
AMMENSFELD	KAYLA MIRIAM	574-32-6740	51	B	12/16/82	12/17/83	1/01/84	2,500.00	2,500.00		
AIKEN	DANA CHARLES	574-58-0561	51					2,500.00	2,500.00		
ALBERT	JANET LYNN	574-60-0867	51					1,900.00	1,900.00		
ALBERTSON	DARLENE MAE	574-46-6693	51					2,334.00	2,334.00		
ALBRECHT	PATRICIA ANNE	574-50-9527	51	B	6/20/83	6/19/84	9/01/84	2,500.00	2,500.00		
ALLCORD	GAYLE	571-58-5516	51	C	1/13/83	5/05/84		2,500.00	2,500.00		
ALLEN	CAROL JANE	574-52-4654	51					2,500.00	2,500.00		
ALLEN	JASON JAMES	574-66-9818	51					1,750.00	1,750.00		
ALLEN	MILADA MILAGROSA	540-64-4503	51	B	12/16/82	12/15/83	1/01/84	2,500.00	2,500.00		
ALLEN	RICHARD MARTIN	125-12-0764	51					2,500.00	2,500.00		
ALLEY	LESLIE A.	574-58-8026	51	C	1/12/83	5/13/84		1,780.00	1,780.00		
ALLIS	PEGGY A.(DIERYCK)	574-62-7452	51	B	5/16/83	5/15/84	6/01/84	2,500.00	2,500.00		
ALLISON	SUSAN MARIE	574-54-0470	51	B	5/16/83	5/15/84	6/01/84	2,500.00	2,500.00		
ALLMIRAS	VERONICA MCLEAN	575-56-7574	51	B	12/16/82	12/15/83	1/01/84	2,500.00	2,500.00		
ALMQUIST	ROXANNE LESLEY	574-32-4255	51					1,500.00	1,500.00		
ANCHETA	PRESCO TOLETE	574-52-4065	51					2,500.00	2,500.00		
ANDERSEN	LEON R	574-26-6387	51	B	5/16/83	5/15/84	6/01/84	2,500.00	2,500.00		
ANDERSEN	LESLIE IRENE	574-16-0729	51					2,000.00	2,000.00		
ANDERSON	MICHAEL JOSEPH	557-58-4459	51	B	12/16/82	12/15/83		2,500.00	2,500.00		
ANDERSON	PHILIP THOMAS	574-36-0608	51	B	12/16/82	12/15/83	1/01/84	2,500.00	2,500.00		
ANDERSON	SCOTT CLAYTON	574-62-0519	51	C	5/15/81	5/15/83		2,500.00	2,500.00		
ANDERSON	SEAN WALTER	574-58-8718	51					2,500.00	2,500.00		
ANDERSON	STEVEN LEWIS	574-26-6705	51					2,500.00	2,500.00		
ANDRESEN	PATRICK DUANE	484-62-3754	51	C	9/01/83	12/15/83		1,488.00	1,488.00		
ANDREWS	CHRISTINA FAYE	574-58-4928	51	B	5/16/83	5/15/84		2,500.00	2,500.00		
ANDREWS	DENNIS KEITH	574-56-6778	51					1,900.00	1,900.00		
ANGERMAN	LEONARD SCOTT	574-52-7250	51					2,500.00	2,500.00		
ANONSON	DAVID ALAN	574-32-9979	51					2,500.00	2,500.00		
ANTE	CAROLINE MARIE	574-56-4722	51	C	1/01/83	6/15/83	6/01/83	1,777.00	1,777.00	49	5
ANTIOQUIA	DEANNE L.	574-52-1537	51					2,100.00	2,100.00		
ANTRIM	MARC SEAN	574-28-9767	51					2,500.00	2,500.00		
APPEL	BETH MARIE	574-56-6516	51					2,500.00	2,500.00		
APPELO	PAIGE NOEL	574-56-6485	51					2,500.00	2,500.00		
APPLEGARTH	NANCY ELLEN	574-52-5129	51					2,500.00	2,500.00		
AACHER	WILLIAM BRETT	557-58-2553	51					2,500.00	2,500.00		
ARNUSER	DUSTIN D.	574-52-7264	51					1,729.48	1,729.48		
AREHART	SCOT ALLEN	574-56-8960	51					834.00	834.00		
ARGETSINGER	ELIZABETH SUE	574-60-1727	51					2,500.00	2,500.00		
ARMSTRONG	JANET I.	574-22-9646	51					1,500.00	1,500.00		
ARMSTRONG	KEITH MILLER	574-56-2709	51	B	1/22/83	1/21/84	2/01/84	2,100.00	2,100.00		

EXHIBIT 228

REPORT R01-ESA-6450
PROGRAM ESA1450 COMPILED 8.47.38
DATE 10/06/82
TIME 1:18:42

STATE OF ALASKA: COMM ON POST SECONDARY EDUCATION
DIVISION OF STUDENT FINANCIAL AIDS
STUDENT FINANCIAL AID SYSTEM
ACCOUNTS RECEIVABLE FOR 9/30/82

BORROWER NAME	ACCOUNT #	LN AM SF-SF	ORIGNL NET DISB OR CNVRTD BAL	CURRENT BALANCES AWARDS STATUS	DEFERMENT STATUS	G C	REPAYMENT STATUS	C S	UNKNOWN STATUS	SZWR TOTAL (RECEIVBL)
TOTAL			3,000.00	3,000.00						3,000.00
ZYLA MARK L.	463278158-01-02		2,600.00				2,600.00	5		
TOTAL			2,600.00				2,600.00			2,600.00

	STATE TOTALS	FEDERAL TOTALS	GRAND TOTALS
TOTAL AMOUNT DISBURSED	98,887,988.22	11,358,794.50	109,366,782.72
TOTAL AWARDS STATUS	57,039,395.46		57,039,395.46
TOTAL DEFERMENT STATUS	9,230,059.61	2,376,382.46	11,606,362.07
TOTAL REPAYMENT STATUS	17,277,679.80	3,868,227.18	20,345,906.98
TOTAL UNKNOWN STATUS	8,229,212.72	5,921,128.62	14,150,341.34
TOTAL BORROWER RECEIVABLE	91,776,347.59	11,365,638.26	103,141,985.85

TOTAL NUMBER OF STUDENTS WITH OUTSTANDING BALANCES IS 22,527

EXHIBIT 180(A)

REPORT R01-E[illegible]-1810
PROGRAM ESA-1810 *NATURAL*
DATE 11/11/83
TIME 00:37:50.4

STATE OF ALASKA: COMM OF POSTSECONDARY EDUCATION
DIVISION OF STUDENT FINANCIAL AID
STUDENT FINANCIAL AID SYSTEM
CUMULATIVE LIST OF WRITTEN OFF ACCOUNTS
DEATH

LAST NAME	FIRST NAME	SSN	LN SX	ORIGINAL PRINCIPAL	WRITE-OFF AMOUNT
ALLIGER	DAWN ELLEN	522-72-8563	51	1,500.00	1,500.00
ALLIGER	DAWN ELLEN	522-72-8563	01	5,000.00	5,000.00
BAKER	LINWOOD ARTHUR	574-34-5595	01	2,000.00	2,000.00
BARTELS	HARRY JR.	563-86-1225	01	1,000.00	1,000.00
BOCKMAN	MARCUS F	574-22-3911	01	1,200.00	1,149.29
BOSWELL	DOUGLAS M.	461-68-4619	01	3,000.00	3,000.00
BOUTET	PAUL J	574-28-7483	51	1,500.00	1,162.02
BOYDEN	ROGER D	546-56-0546	01	3,000.00	2,793.18
BRANSON	CAROL LEE	574-52-8140	01	3,000.00	3,000.00
BUCKNER	ROY E.	443-14-9245	01	5,100.00	5,100.00
CARROLL	KENNETH J.	574-50-5259	01	3,000.00	3,000.00
CHONG	BRYSON H	574-30-0350	01	3,600.00	3,232.72
CLAXTON	DARRYL L.	574-50-4163	01	1,150.00	832.68
[illegible]	MARK RICHARD	574-34-5514	01	8,000.00	8,000.00
CONRAD	TAMMY SUE	574-54-4316	01	6,200.00	6,200.00
CROXTON	RUTH E.	574-22-4791	02	1,550.00	1,465.14
CROXTON	RUTH E.	574-22-4791	01	1,150.00	1,025.54
CUNNINGHAM	BLAIR L	531-60-5339	01	2,500.00	2,500.00
DONOVAN	JAMES B.	347-36-6202	01	1,250.00	1,250.00
[illegible]	LAUREL WAYNE	574-54-3099	01	2,572.10	2,572.10
FURLONG	JERRY K.	480-70-4290	51	2,500.00	2,500.00
FURLONG	JERRY K.	480-70-4290	01	500.00	500.00
HOLGATE	JONATHAN L.	035-30-6325	01	1,985.00	1,985.00
HOSETH	MICHAEL A.	535-46-9671	01	2,008.40	2,008.40
HUSS	BERNARD M.	574-32-4483	01	10,000.00	8,166.74
[illegible]	JAMES R.	393-56-2933	01	2,200.00	1,810.07
JAMES	PETER S.	574-20-6036	01	1,051.22	917.87
JOHNSON	STEVEN F.	321-58-1209	01	2,450.00	2,450.00
JOHNSON	THEODORE	463-76-1751	01	3,000.00	2,800.00
JONES	BRIAN KEITH	574-60-8739	01	5,025.00	5,025.00
JONES	CLAYTON JOHN	432-29-5644	01	2,250.00	2,250.00
KAMSTRA	CYNTHIA G.	574-30-1043	01	1,900.00	1,725.87
KING	LORI	574-50-5567	01	1,100.00	1,100.00
KING	LORI	574-50-5567	51	1,900.00	1,900.00
KITSCH	GEORGE W.	574-24-8184	01	2,500.00	
KREBS	JENNI SUE	574-62-9411	01	6,000.00	6,000.00
KUSZ	VERNA LANE	555-46-4647	51	1,500.00	1,500.00
KUSZ	VERNA LANE	555-46-4647	01	6,000.00	6,000.00
LEE	DENNIS H.	574-28-1527	01	2,588.00	2,588.00
LINDER	RONALD G. II	520-52-3522	02	5,900.00	5,900.00
LINDER	RONALD G. II	520-52-3522	01	2,500.00	2,500.00
LONGQUIST	GARY [illegible]	574-56-0291	01	4,850.00	4,850.00
LONG	TERRANCE A.	574-20-8215	01	800.00	800.00
MADRID	LEORA L.	574-20-1558	01	2,278.79	659.37
MAKER	RICHARD MERTON JR	004-54-3729	01	1,850.00	1,645.15

EXHIBIT 180(B)

REPORT R01-ESA-1810
PROGRAM ESA-1810 *NATURAL*
DATE 11/11/83
TIME 00:37:50.4

STATE OF ALASKA: COMM OF POSTSECONDARY EDUCATION
DIVISION OF STUDENT FINANCIAL AID
STUDENT FINANCIAL AID SYSTEM
CUMULATIVE LIST OF WRITTEN OFF ACCOUNTS
MEDICAL DISABILITY

PAGE 3

LAST NAME	FIRST NAME	SSN	LN SX	ORIGINAL PRINCIPAL	WRITE-OFF AMOUNT
ALDRICH	JUDITH E	022-34-0783	01	2,125.00	107.50
BURJESSON	CHARLOTTE M.	556-30-5681	01	3,000.00	3,000.00
BYINGTON	WILLIAM B.	574-28-9300	01	6,615.00	6,615.00
CANEDO	JEAN M	574-18-8489	01	3,340.00	3,140.76
CHAUSSEE	ELIZABETH R	536-28-9340	01	920.00	827.96
FIELDS	STEPHEN E.	574-26-1309	01	1,000.00	759.57
GREGG	PERCY CALVIN	210-12-1436	01	2,500.00	2,500.00
GROH	PAUL W.	574-18-8875	01	2,500.00	1,188.12
HANAWALT	DAVID E.	540-46-4099	01	550.00	550.00
JONES	FREDERICK W.	521-12-7518	01	4,923.75	4,923.75
KAMMERZELL	STEVEN G.	574-14-6862	01	1,500.00	1,500.00
LAFFERTY	LAVEDI ROBERTA C.	541-40-9590	51	1,500.00	1,473.21
LEE	BRIAN E.	459-19-9354	01	840.00	692.60
LEVAN	EVERETT C.	531-18-3550	01	8,800.00	8,800.00
LUDY	LORREL J.	387-46-7529	01	3,000.00	2,904.54
NEWSOM	WARREN T.	414-16-1740	01	2,125.00	2,125.00
PEHRSON	CORRINE R.	566-26-0025	01	250.00	250.00
PEHRSON	CORRINE R.	566-26-0024	51	1,250.00	1,250.00
ROBERTS	STEPHEN R.	574-26-2145	01	7,775.00	7,775.00
SANCHEZ	ANTONIO K	057-16-6475	01	6,102.91	6,102.91
STURDEVANT	DORIS	053-20-4653	01	7,500.00	6,982.92
SUTTON	RICHARD	495-26-4474	01	1,400.00	1,133.52
SZALAI	CAROLYN	462-50-6025	51	1,110.00	1,110.00

AMOUNT SURROUNDED 70,926.66 AMOUNT WRITTEN OFF 66,812.25

EXHIBIT 180(C)

REPORT R01-[illegible]-1810
PROGRAM ESA-1810 *NATURAL*
DATE 11/11/83
TIME 00:37:50.4

STATE OF ALASKA: COMM OF POSTSECONDARY EDUCATION
DIVISION OF STUDENT FINANCIAL AID
STUDENT FINANCIAL AID SYSTEM
CUMULATIVE LIST OF WRITTEN OFF ACCOUNTS
BANKRUPTCY

LAST NAME	FIRST NAME	SSN	LN SX	ORIGINAL PRINCIPAL	WRITE-OFF AMOUNT
BEESON	DEBRA A	574-28-0231	01	1,203.05	642.90
BLOODWORTH	MICHAEL K	431-06-6383	01	137.47	137.47
CIAROCHI	MICHAEL M.	574-26-1710	01	750.00	711.54
GILLOW	KENNETH C.	574-24-1090	01	136.96	136.96
HILL	FREDRICK H.	574-26-9716	01	3,668.13	3,527.56
HILLS	MARGARET R.	574-28-0344	01	2,500.00	1,967.75
HORNER	JACK	574-26-1569	01	9,080.00	9,080.00
JOHNSON	JO ANN RUBY	523-54-0915	01	1,100.00	974.37
LAVALLEE	CLAUDIA L	533-52-7277	01	2,302.39	1,908.33
MARLOW	DONALD W. JR.	531-56-2405	01	2,517.00	2,517.00
MESSER	RANDALL EARL	574-20-0981	01	2,000.00	1,794.69
PALMER	MARTIN	265-30-7147	01	1,340.96	809.66
WALTERS	HOWARD C.	541-42-6393	01	1,113.00	1,022.84
WEBB	PEGGY JEAN	574-24-4899	01	6,763.00	6,763.00
WINGFIELD	JAMES OTIS JR.	540-50-8668	01	1,250.00	1,250.00
WISE	RUTH NILANE	574-20-3686	01	1,500.00	1,500.00
WYATT	FAY I	574-18-8378	01	667.33	663.55

AMOUNT BORROWED 38,309.29 AMOUNT WRITTEN OFF 35,187.62

EXHIBIT 180(D)

REPORT RB1-EGA-1818
PROGRAM ESA-1818 *NATURAL*
DATE 11/11/83
TIME 09:37:50.5

STATE OF ALASKA: COMM ON POSTSECONDARY EDUCATION
DIVISION OF STUDENT FINANCIAL AID
STUDENT FINANCIAL AID SYSTEM
CUMULATIVE LIST OF WRITTEN OFF ACCOUNTS
WRITTEN OFF

LAST NAME	FIRST NAME	SSN	LN SX	ORIGINAL PRINCIPAL	WRITE-OFF AMOUNT
DAVIS	DAVID HARRY	574-24-6783	01	1,800.00	
DIETZ	JOHN WORTH	561-44-1535	01	1,197.16	2.54
DUFFY	CATHERINE F.	574-26-4282	01	850.00	11.11
DUNEGAN	ERNEST D.	260-74-2735	01	1,500.00	1,500.00
EDGMON	DESCRAM L.	574-16-6575	01	1,519.15	1,519.15
EDWARDS	BERNIE M.	443-46-6408	01	24.93	24.93
FABER	DOLORES M.	522-44-4344	01	1,161.28	2.59
FERGUSON	SUSAN C.	574-38-9897	01	1,338.00	
FEUSI	GEORGIA G.	457-78-9769	01	1,856.25	4.25
FORREST	CRAIG M.A.	574-16-6138	01	1,574.85	1.44
FOSTER	MARK A.	574-32-8114	01	1,250.00	2.45
FOWLER	JUDITH A.	516-78-6281	01	939.16	12.15
FRANCALANCI	RANAE K.	574-18-9134	01	5,000.00	4,281.91
FRANCISCO	ELINOR JOSIE	574-32-3240	01	2,125.00	
GARBE	MARTHA TERESA	348-38-6594	01	1,494.57	11.35
GELLER	SYNDEY JO	574-22-7319	01	983.54	8.80
GELVIN	BETSY KAY	574-26-3675	01	1,459.52	937.15
GIBSON	SHERRIE A	574-32-1282	01	170.00	170.00
GOFF	CAROL A.	574-24-1875	01	1,000.00	1,000.00
GOLDIZEN	JOE M.	574-52-7034	01	1,790.90	
GOODRICH	JEANETTE A.	575-30-0552	01	305.61	9.55
GORDON	JEFF E.	574-52-8714	01	1,000.00	2.70
GOSE	SUSAN M	574-24-5281	01	2,350.18	8.38
GRASSER	EDUARD K.	574-38-9145	01	1,372.50	4.13
GRAY	CLINTON J.	574-18-4252	01	561.22	2.91
GREEN	TERRENCE F.	293-46-5422		375.00	
GRIFFITH	YONG SU	574-24-7588	01	432.00	432.00
GUTMAN	JACQUELINE L.	574-26-8651	01	170.95	2.14
HAMMOND	ROBERT L.	567-76-6218	01	1,840.22	2.22
HARDUAR	ANTHONY B.L.	123-42-2513	01	1,450.00	1.20
HARMAN	JONATHAN L.	432-98-7545	01	1,808.75	2.21
HARRIS	MARY L.	574-26-8788	01	975.99	8.47
HARTER	WENDY J.	574-22-9783	01	2,037.91	8.94
HARTLEY	JAMES A.	574-38-2616	01	261.51	2.01
HARTWIGSEN	ANDREA L.	546-64-5869	01	2,500.00	2,500.00
HAYNES-BADILLO	SHERRY A.	574-32-8466	01	959.62	
HAYS	IRA	451-07-4232	01	2,975.00	2,975.00
HEIKES	JO'ANNE	574-22-1395	01	1,618.10	1,618.10
HEMSTOCK	JUDITH G.	523-52-7422	01	1,000.00	1,000.00
HENDERSON	JOANN ELIZABETH	574-22-8504	01	1,411.11	8.81
HENRY	FRANCIS A.	139-43-6412	01	901.62	3.22
HEVING	GLORIA E.	574-26-6660	01	375.00	375.00
HEYWORTH	CATHY S.	574-38-6396	01	807.33	1.75
HICKEY	COLLEEN M	574-26-2581	01	350.00	9.78
HILCOSKE	MARY M.	574-26-3802	01	1,576.50	

EXHIBIT 180(E)

REPORT R01-ESA-1810
PROGRAM ESA-1810 *NATURAL*
DATE 11/11/83
TIME 08:37:59.6

STATE OF ALASKA: OFFICE OF POSTSECONDARY EDUCATION
DIVISION OF STUDENT FINANCIAL AID
STUDENT FINANCIAL AID SYSTEM
CUMULATIVE LIST OF WRITTEN OFF ACCOUNTS
COMPROMISE

LAST NAME	FIRST NAME	SSN	LN SX	ORIGINAL PRINCIPAL	WRITE-OFF AMOUNT
GRUEN	HARDY	574-24-1712	01	1,109.00	167.88
MCKIRGAN	HERBERT K	574-22-6696	01	536.30	

AMOUNT BORROWED 2,436.30 AMOUNT WRITTEN OFF 167.88

3-16-84

TO CSHB 681 (HESS):

Lines 24 - 26, Page 1

Delete "A loan is in default under this subsection if a loan payment is 120 or more days past due."

Line 29, Page 1 - Line 1, Page 2

Delete "A loan is in default under this subsection if a loan payment is 120 or more days past due."

Line 6, Page 2

AS 14.43.120 is amended by adding a new subsection to read:

"(q) For the purposes of this section, a loan is in default if a loan payment is 120 or more days past due."

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF LAW

POUCH K – STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

OFFICE OF THE ATTORNEY GENERAL

March 16, 1984

The Honorable Mae Tischer, Chair
Health, Education, and Social
Services Committee
Alaska House of Representatives
Pouch V
Juneau, AK 99811

Re: Draft CS for HB 681(HESS)
-- default on and collection of student loans
Our file: 377-114-84

Dear Representative Tischer:

At the request of Bill Lovell, of your staff, I have reviewed Legislative Counsel Lynn Asper's February 29, 1984 draft of a committee substitute for HB 681, which Bill delivered to me this morning. The draft CS makes no substantive change from the original HB 681, and the Department of Law has no objection to it on that basis.

The draft CS makes two minor style changes: (1) it changes the word "which" to the word "that" in two places, which is good; and (2) in the bill's sec. 2, the draft deletes our subsec. (f)'s reference to default "under (o) of this section," while adding to (f) a sentence stating that default occurs if a loan payment is 120 or more days past due. That new sentence in (f) repeats our new sentence in (o) and adds the phrase "under this subsection" in both places. Basically, that looks okay.

Regarding the latter, my only concern is that, when an identical provision is placed in two different locations in the statutes, there is always the potential for one of them to be amended in the future while the other one is overlooked; this could cause confusion and litigation. Lynn's objection to our version is based on his feeling that where our subsec. (f) refers to "default under (o) of this section" it is not really accurate since, although (o) contains what is essentially a definition of "default," default is not really occurring under that subsection. It's a fairly subtle point, but a third approach that would meet both of our concerns would be to change both (f) and (o) to refer to "default as defined in (q) of this section." Then add a new section to the bill that would add a new AS 14.43.120(q) to read "For the purposes of this section, a loan is in default if a loan

payment is 120 or more days past due." (Or perhaps this definition could be added to the definition section for AS 14.43's art. 4 -- AS 14.43.160.)

Thank you for this opportunity to comment.

Yours truly,

NORMAN C. GORSUCH
ATTORNEY GENERAL

By: Arthur H. Peterson
Arthur H. Peterson
Assistant Attorney General

AHP/jb

cc: Kerry Romesburg
Executive Director
Alaska Commission on Post-secondary Education
Department of Education

Lynn Asper
Legislative Counsel
Legislative Affairs Agency

Linda Scoccia
Assistant Attorney General
Juneau

PREPARED BY JAY LIVEY, HOUSE RESEARCH AGENCY, STATE LOAN PROGRAMS
10-11-83

SCHOLARSHIP REVOLVING LOAN FUND

Department of Education, Commission on Postsecondary Education
4th QTR. FY 1983

Approved During the Qtr.		Rescinded* During the Qtr.		Approved During FY 83 to Date		Loans Outstanding To Date	
#	$	#	$	#	$	#	
613	$476,050	418	$1,141,976	13,476	$56,219,371	48,387	$152,858,526

DELINQUENCY AT THE END OF THE QUARTER

1-29 DAYS		30-59 DAYS		60-89 DAYS		90-120 DAYS	
#	$	#	$	#	$	#	$
11,174	$35,770,158	1773	$5,378,555	609	$1,455,839	350	845,649

LOANS IN DEFAULT**

#	$
2,163	$5,133,555

	MEAN LOAN AMOUNT DURING THE QTR.
Undergraduate	$4,122
Graduate	$5,129

*The commision does not formally deny loans; loan examiners discourage ineligible applicants from applying. However, during certain times of the year the commission receives notification that students have cancelled their loans because they have withdrawn from school or found alternate funding.

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

FIGURE

TOTALS - ALL STATE LOAN PROGRAMS

4th QUARTER FY 1983

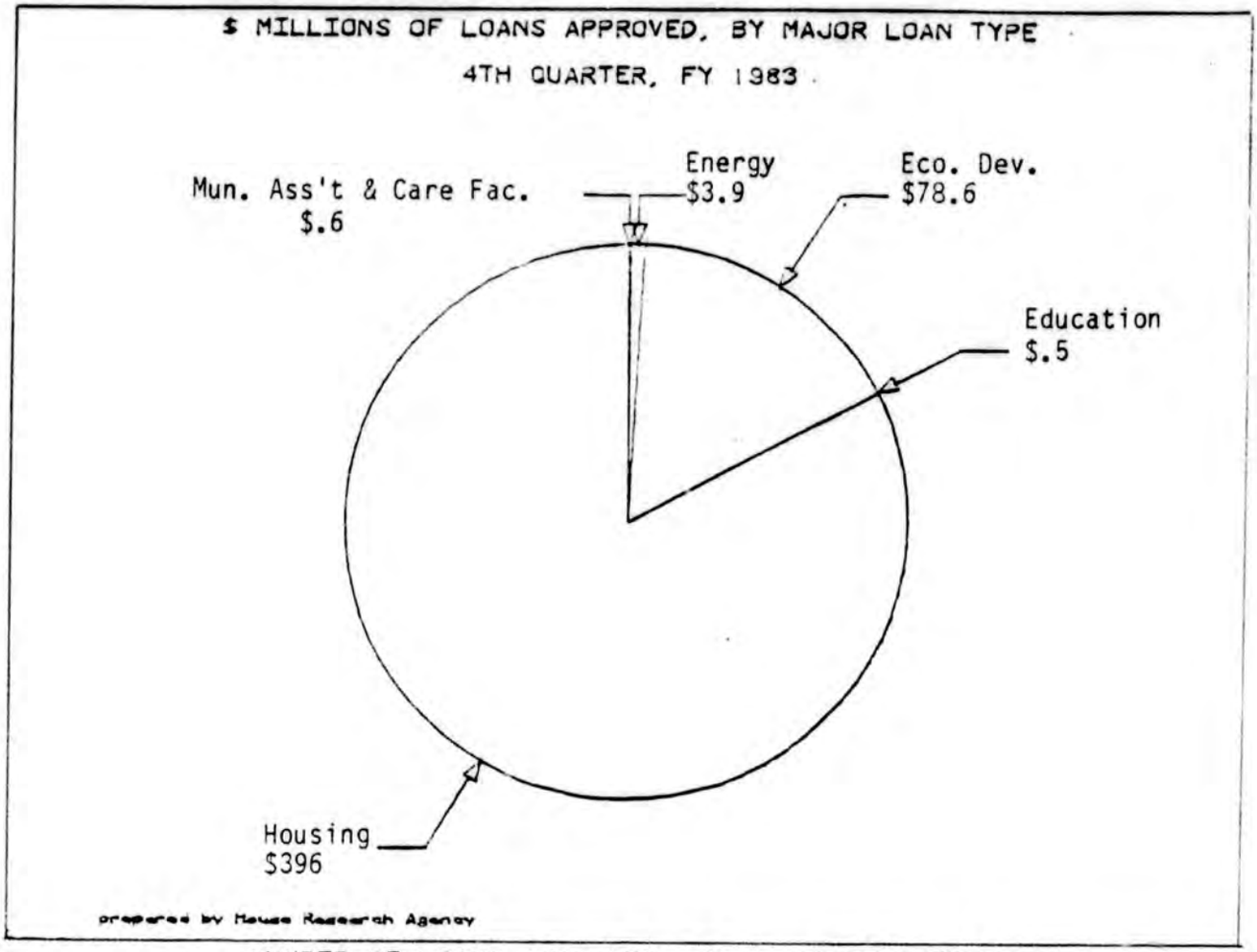
Loans Outstanding To Date		Total Loans Approved During FY 83		Loans Approved During the Qtr.		Loans Denied During the Qtr.	
#	$	#	$	#	$	#	$
98,015	$3,913,711,912	30,221	$1,451,753,853	5224	$479,625,607	712	$66,330,212

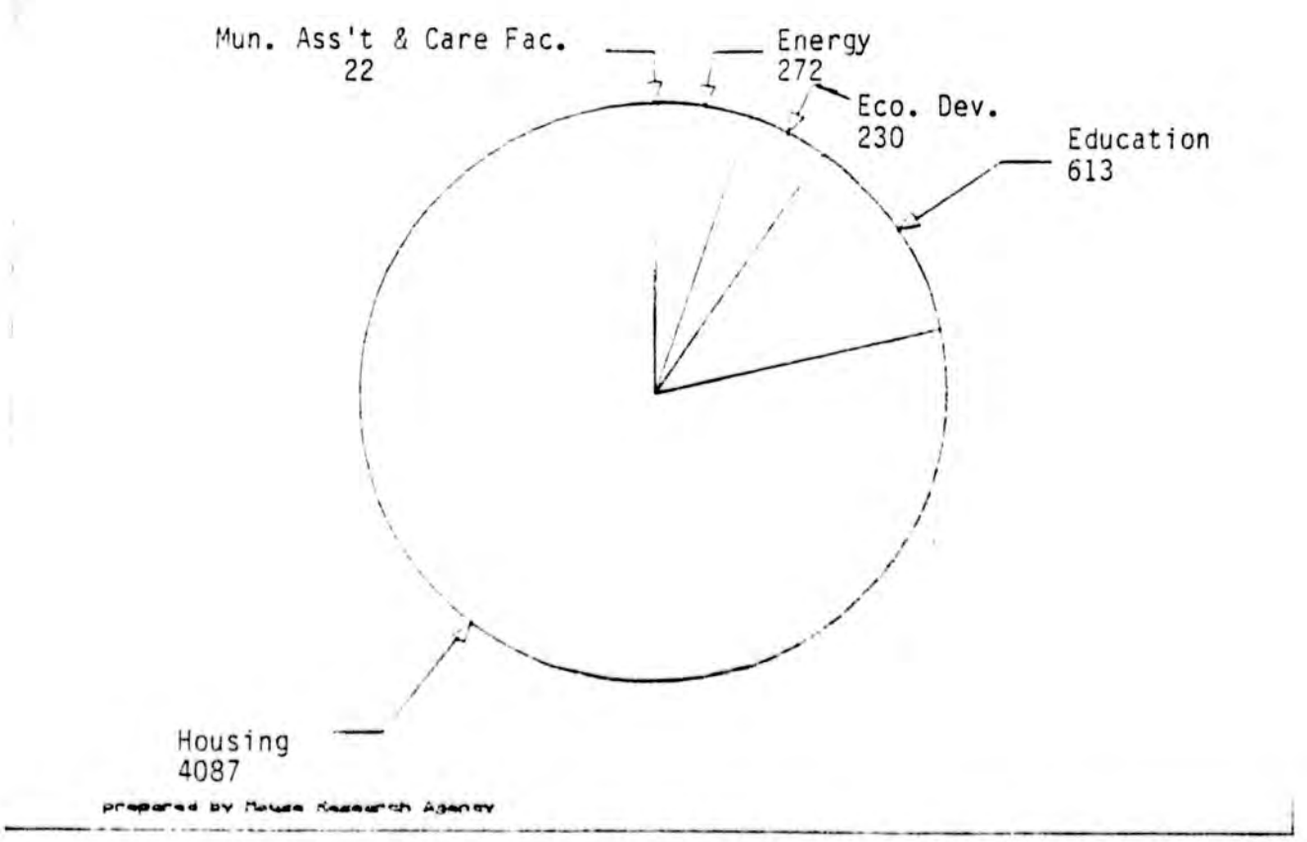
FIGURE 2
DATA BY LOAN TYPE
4th QUARTER FY 1983 AND ALL LOANS OUTSTANDING

	Economic Development	Education	Energy	Housing	Medical and Child Care	Municipal Assistance	Totals
# Approved During the Quarter	230	613	272	4,087	4	18	5,224
% of Total # Approved During the Qtr.	4.4%	11.8%	5.2%	78.2%	0.07%	0.3%	100.0%
$ Amount Approved During the Qtr.	$78,554,170	476,050	$3,857,595	$395,964,900	$140,000	632,110	$479,625,607
% of Total $ Approved during the Qtr.	16.5%	.10%	0.8%	82.5%	0.04%	.13%	100.0%
# Approved During FY 83 to Date	846	15,257	1,382	12,679	9	48	30,221
$ Amount Approved During FY 83 to Date	$244,633,048	$63,857,540	$26,924,049	$1,087,236,150	$357,841	$28,745,225	$1,451,753,853
# of Loans Outstanding to Date	8,131	48,387	3,158	38,276	18	45*	98,015
$ Amount of Loans Outstanding to Date	$693,781,813	$152,858,526	$37,748,024	$2,786,287,250	$14,516,749	$150,392,850	$3,913,711,912

NOTE: For a list of the programs that are included in each category, see page 3.
* Does not include Bulk Fuel Revolving Loan Fund

FIGURE

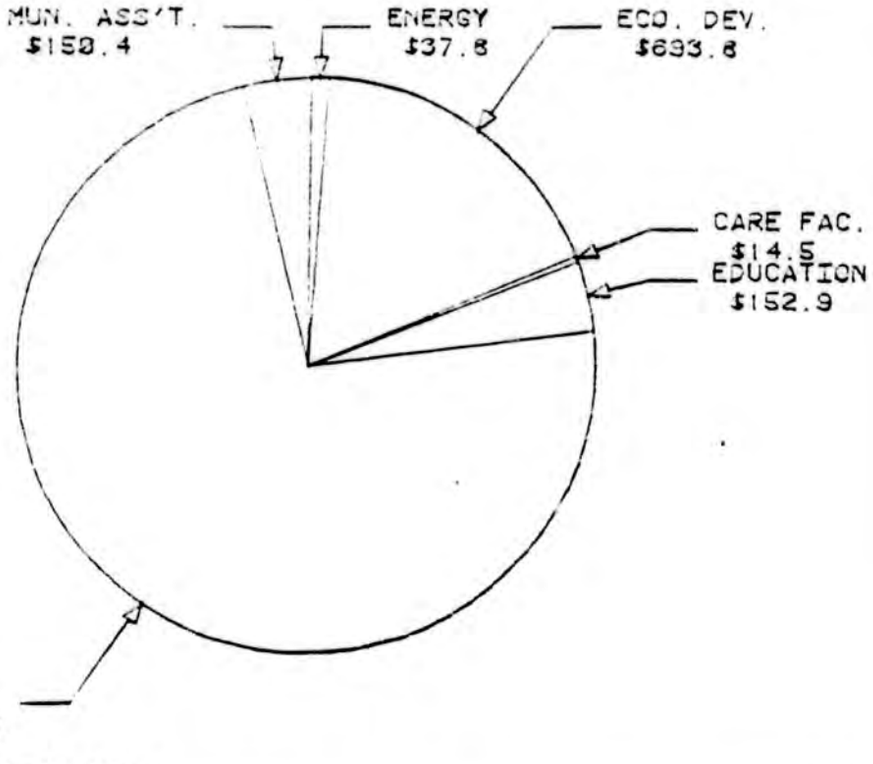

$ MILLIONS OF LOANS APPROVED, BY MAJOR LOAN TYPE
4TH QUARTER, FY 1983
Mun. Ass't & Care Fac.
$.6
Energy
$3.9
Eco. Dev.
$78.6
Education
$.5
Housing
$396
prepared by House Research Agency


NUMBER OF LOANS APPROVED, BY MAJOR LOAN TYPE
4TH QUARTER, FY 1983
Mun. Ass't & Care Fac.
22
Energy
272
Eco. Dev.
230
Education
613
Housing
4087
prepared by House Research Agency

FIGURE

$ MILLIONS IN LOANS OUTSTANDING TO DATE, BY MAJOR LOAN TYPE

4TH QUARTER, FY 1983

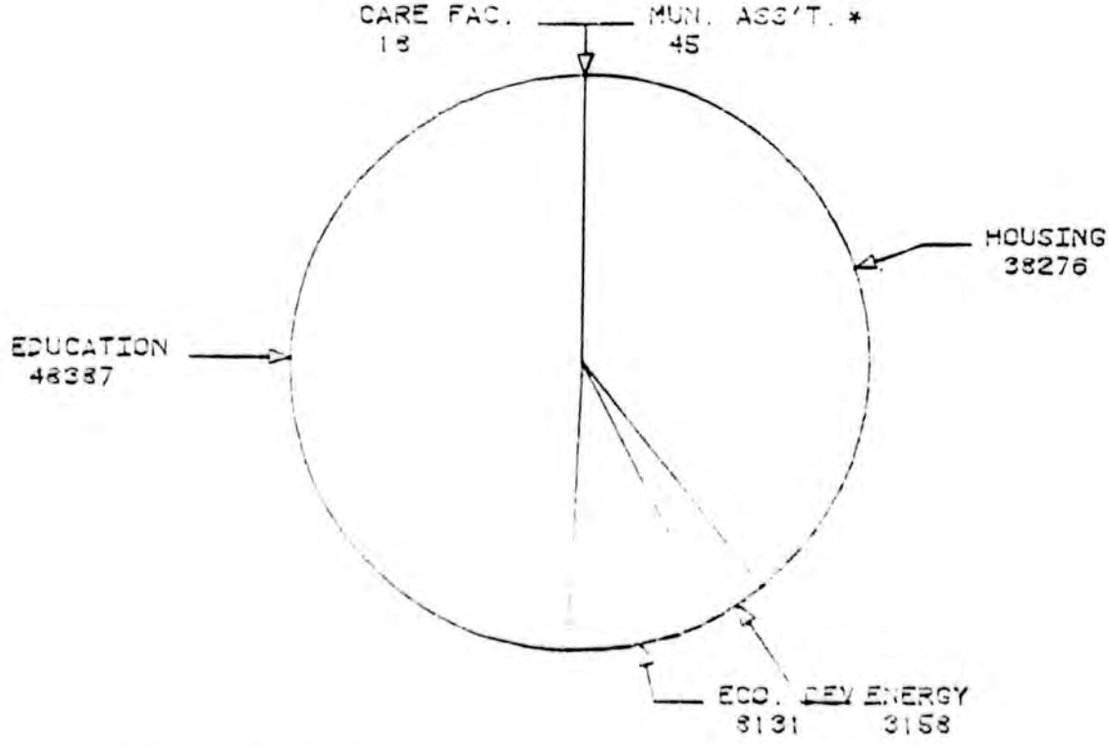


prepared by House Research Agency

NUMBER OF LOANS OUTSTANDING TO DATE, BY MAJOR LOAN TYPE

4TH QUARTER, FY 1983

(Excludes Bulk Fuel Revolving Loan Fund*)



prepared by House Research Agency

Summary of Delinquency[1] and Default[2]
State Loan Programs
4rd Quarter FY 83

Loan Program	Delinquent Loans		Loans in Default	
	$(thousands)	%	$	%
Indirect Lenders				
Alaska Housing Finance Corporation (all programs)	$77,921.3	2.5%	$1,376.4	0.4%
Alaska Industrial Development Authority				
AIDA-purchased	5,868.2	1.7%	0.0	0.0
Appropriated to AIDA	8,548.8	2.5%	2,993.5	0.9%
AIDA Total	14,416.6	4.2%	2,993.5	.9%
Alaska Medical Facility Authority	0.0	0.0%	0.0	0.0%
Alaska Municipal Bond Bank Authority	0.0	0.0%	0.0	0.0%
Direct Lenders				
Agricultural Revolving Loan Fund	5,079.0	12.7%	2,928.1	7.3%
Alaska Power Authority				
Power Project Fund	0.0	0.0%	0.0	0.0%
Rural Electrification Rev. Loan Fund	0.0	0.0%	0.0	0.0%
Alaska Resources Corporation	3,678.0	22.0%	3,676.3	22.1%
Alternative Technology and Energy Revolving Loan Fund	NA	NA	NA	NA
Child Care Facility Rev. Loan Fund	NA	NA	NA	NA
Commercial Fishing Revolving Loan Fund	NA	NA	NA	NA
Fisheries Enhancement Rev. Loan Fund	0.0	0.0%	0.0	0.0%
Housing Assistance Loan Fund[3]	32.6	--	0.0	0.0%
Medical Malpractice Liability Revolving Loan Fund	0.0	0.0%	0.0	0.0%
Mining Loan Fund	NA	NA	0.0	0.0%
Residential Energy Conservation Fund	NA	NA	NA	NA
Scholarship Revolving Loan Fund	43,450.2	28.4%	5,133.6	3.4%
Small Business Revolving Loan Fund	NA	NA	NA	NA
Tourism Revolving Loan Fund	NA	NA	NA	NA
Veterans' Revolving Loan Fund	NA	NA	NA	NA
Water Resources Revolving Loan Fund	0.0	0.0%	0.0	0.0%

House Research Agency -- less than 0.1% NA - not available

[1]Delinquency includes all loans that are more than one day past due at the end of the quarter; the exceptions are the Agricultural Revolving Loan Fund and AIDA, which provided data only for loans that are more than 30 days past due.

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

[3]Includes only the Nonconforming Housing loan program and mortgages for the Rural Owner-Occupied and Rural Non-Owner-Occupied programs that were purchased since the start of FY 83; mortgages made by the two rural programs before July 1, 1982 are serviced by AHFC and are included in AHFC's delinquency and default figures.

STATE OF ALASKA
FISCAL NOTE

Revision Date 4/8, 1983

I. REQUEST

Bill/Resolution No.: CSSHB 56
Title: Act Re: Student Loans
Sponsor: Lindauer
Requestor: House Loan Committee

II. FISCAL DETAIL

Agency Affected: Education
Program Category Affected: Postsecondary Comm
BRU, Program of Subprogram(s) Affected:
Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC						
TOTAL OPERATING						
CAPITAL	N.A.	52.5	74.5	(217.9)	(781.9)	(2,362.9)
REVENUE	N.A.	-0-	-0-	93.5	372.5	1,562.8

FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	52.5	74.5	(217.9)	(781.9)	(2,362.9)
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

FULL-TIME	N.A.					
PART-TIME						
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

IV. ANALYSIS: Attach a separate page for any Analysis

Prepared By: Kerry D. Romesburg
Phone: 465.2854
Division: Commission on Postsecondary Education
Date: 4/8/83

Approved by Commissioner:
Date:
Department:

Distribution:
Original to Legislative Finance
Copy to Office of Management and Budget (for Legislature introduced bills)
Copy to Department (for Governor introduced bills)
Copy to Sponsor
Copy to Requestor (if different from Sponsor)

3/8/83

CSSSHB56 (Revised 4/8/83)

IV Analysis:

(a) Increasing interest from 5% to 8%

FY84	$0	FY87	$(372.5)
FY85	$0	FY88	$(1,562.8)
FY86	$(93.5)	FY89	$(3,210.2)

(b) Reducing forgiveness to 20%

FY84	$0	FY87	$(520.2)
FY85	$0	FY88	$(930.0)
FY86	$(214.2)	FY89	$(1,491.0)

(c) Allowing for borrowing actual amount of tuition (based upon attendance of 0.35% of total borrowers)

FY84	$52.5	FY87	$110.8
FY85	$74.5	FY88	$129.9
FY86	$89.8	FY89	$145.0

Increasing interest on loans from 5% to 8%
after the first 36 months of repayment

Year of Impact	Borrowing Year				Total New Revenue
	FY 86	FY 87	FY 88	FY 89	
FY 86	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
FY 87	-0-	-0-	-0-	-0-	-0-
FY 88	-0-	-0-	-0-	-0-	-0-
FY 89	-0-	-0-	-0-	-0-	-0-
FY 90	-0-	-0-	-0-	-0-	-0-
FY 91	39.7	-0-	-0-	-0-	39.7
FY 92	75.7	42.5	-0-	-0-	118.2
FY 93	118.0	83.0	43.6	-0-	244.6
FY 94	173.5	124.3	85.1	41.0	423.9
FY 95	177.5	185.6	127.6	79.9	570.6

Levy is working out language since Maynard didn't. I think we finally got it squared away & tight enough. He'll send it to the Committee (at the request of the sponsor) & copy us.

If that's what 2 lawyers are like — Judiciary must ~~be~~ really be something.

Levy.

A M E N D M E N T

Offered in the HOUSE By Sund

TO: CSHB 161(Loans)

Page 1, delete section 1 of the bill and insert:

"* Section 1. AS 14.43.120(f) is amended to read:

(f) Interest on a loan given under AS 14.43.090 - 14.43.160 is at the rate of five percent a year <u>for the first three years of repayment, and eight percent a year for the remainder</u> unless the loan is in default. Interest on a loan that is in default is 10 percent a year for the period the loan is in default."

20 AAC 15.025. PRIORITY RANKING OF APPLICANTS. (a) Upon receipt of a completed application for collegiate study, an applicant will be assigned priority points based upon the schedule set out in (b) of this section.

(b) Each applicant for a loan for a collegiate program will be assigned priority points based upon student status and state of attendance, according to the following schedule:

(1) student status (during loan period):
(A) continuing undergraduate or graduate students with existing Alaska student loans for the previous school year or term.....6 points
(B) remaining senior students.....5 points
(C) remaining junior students.....4 points
(D) remaining sophomore students.....3 points
(E) remaining freshman students.....2 points
(F) remaining graduate students.....1 point
(2) students attending colleges or universities in Alaska.....1 point

(c) Completed applications for collegiate study received by February 15th will be grouped together. Complete applications received after February 15th will be grouped in monthly lots. The groups will be processed according to priority point accumulation. Those applicants receiving the highest priority point accumulation within a group will be processed first and those receiving the lowest priority point accumulation within a group will be processed last. In the case of equal point accumulation within a group, priority will be based upon the earliest date of receipt of the completed application.

(d) Completed applications for a non-collegiate postsecondary program will be processed in the order of receipt of the application in the loan office. (Eff. 2/3/77, Reg. 61, am 12/7/80, Reg. 76; am 11/19/83, Reg. 88).

Authority: AS 14.43.105
Authority: AS 14.43.130

SURVEY OF 1983-84 ALASKA STUDENT LOAN RECIPIENTS

Alaska Commission on Postsecondary Education
March, 1984

INTRODUCTION

The Alaska Student Loan program, established in 1971, is the most generous loan program in the nation, and has provided student financial aid, in the form of low interest loans, to over 50,000 Alaskan residents. For a number of years the vast majority of borrowers used their Alaska loans to attend postsecondary educational institutions outside the State of Alaska, but from 1975 to 1982 there was a steadily increasing trend toward in-state attendance, culminating in over fifty percent of the 1982-83 borrowers attending school in Alaska. Then, in 1983-84, the trend broke. As of November 1, 1983, 53.4 percent of the student loan borrowers were attending school out-of-state.

In an effort to better understand this break in an eight-year pattern, all 1983-84 loan recipients were surveyed. This was the first attempt to survey current borrowers in the thirteen-year history of the loan program, so the opportunity was taken to solicit opinions on a number of issues related to Alaska student loans.

PROCEDURE

During the last week of October 1983, questionnaires (see Appendix A) were mailed to all (13,026) 1983-84 student loan recipients. The questionnaires were mailed to the permanent home address of each borrower in the hope that it would be forwarded to school addresses when necessary. No follow-up was conducted, since not all files contain accurate current address data.

FINDINGS

Of the 13,026 loan recipients surveyed, 7,476 (57.4%) returned completed questionnaires. For a census-type survey with no follow-up, this is an acceptable response rate as long as the respondents seem to be distributed in a pattern similar to the borrowing population. As can be seen in Table 1, the response rate by student level was quite evenly spread, when compared to the borrowing population, and therefore should serve as a good indicator for inference to the population. Similarly, the in-state/out-of-state mix is not disproportionate.

The only group which may be over-represented is graduate students attending in Alaska, since the response rate was a very high 94.4%. However, since this class of borrowers is relatively small, it should not lessen the reliability of the findings.

TABLE 1

Distribution Of Respondents By
Student Level

Student Level	Alaska Attendance			Out-of-State			Total		
	No.	%	% of Borrowers	No.	%	% of Borrowers	No.	%	% of Borrowers
Freshman	856	25.6	43.7	974	23.6	51.5	1,830	24.5	47.5
Sophomore	743	22.2	57.6	829	20.1	58.4	1,572	21.0	58.1
Junior	596	17.8	64.4	745	18.0	64.4	1,341	17.9	64.4
Senior	516	15.4	64.2	648	15.7	63.8	1,164	15.6	64.0
Graduate	255	7.6	94.4	695	16.8	71.1	950	12.7	76.2
Vocational	378	11.4	46.4	241	5.8	47.9	619	8.3	47.0
Total	3,344	100.0	55.1	4,132	100.0	59.4	7,476	100.0	57.4

Type of Institution Attended. The loan borrowers were asked to indicate what type of school they were attending and whether it is located in Alaska or out-of-state. Over three-fourths (78.0%) of the respondents indicated they were attending a four-year college or university, either public or private, with out-of-state enrollees more heavily represented in this type of school, than Alaska enrollees. (See Table 2.) Not surprisingly, community college and vocational students tend to attend in Alaska, rather than traveling outside for schooling.

TABLE 2

Distribution Of Respondents By
Type Of Institution

Type of Institution	Alaska		Out-of-State		Total	
	Number	%	Number	%	Number	%
Vocational	445	13.3	287	6.9	732	9.8
Community Colleges	766	22.9	231	5.6	997	13.3
Private Coll/Univ.	182	5.4	1,628	39.4	1,810	24.2
Public Coll/Univ.	1,951	58.4	1,986	48.1	3,937	52.7
Total	3,344	100.0	4,132	100.0	7,476	100.0
% of Respondents	44.7		55.3		100.0	
% of Borrowers	55.1		59.4		57.4	

Student Loan Interest Rate. The current interest rate on Alaska student loans is 5%. This is the lowest student loan interest for any state comprehensive student loan program in the nation, and there is nearly always debate over the level during each legislative session. When the borrowers were asked, they strongly endorsed retaining the 5% loan rate. Nearly three-fourths (74.9%) of the borrowers felt that 5% is the appropriate interest rate for these loans. Only 18.6% of the borrowers felt the rate should be increased, and even then, most felt only a small increase was in order. (See Table 3.)

TABLE 3

What Rate Of Interest Should Be
Set For Student Loans?

Interest Rate	Number	Percentage
5%	5,603	74.9
6%	640	8.6
7%	441	5.9
8%	164	2.2
9%	145	1.9
No Opinion	483	6.5
Total	7,476	100.0

Student Loan Borrowing Maximums. The Alaska Student Loan program permits students to borrow up to $6,000 per year for undergraduate study and up to $7,000 per year for graduate study. Once again, Alaska's program is distinguished from other state-level comprehensive student loan programs in the nation. There is no other comparable loan program with borrowing maximums as high as Alaska's. Current borrowers were asked what maximums they believed to be appropriate for Alaska Student Loans. As indicated in Table 4, the majority (78.4%) by more than three-to-one, believed the current maximums are appropriate. Few, less than 5%, felt the maximums should be lowered, and 16.1% felt the maximums should be raised.

TABLE 4

Should The Loan Borrowing
Maximum Be Changed?

Response	Number	Percent
Retains Current Level	5,863	78.4
Reduce Maximum	306	4.1
Revise Maximum Upward	1,201	16.1
No Opinion	106	1.4
Total	7,476	100.0

An interesting pattern develops when one looks at which students believe higher maximums are appropriate. These data are presented in Table 5, and indicate that freshman borrowers, both in-state and out-of-state, and graduate borrowers attending out-of-state are disproportionately represented in the 1,201 persons desiring higher borrowing limits. One might guess that the out-of-state graduate borrowers are reacting to actual costs incurred by such attendance when they want limits raised, but the fact that freshman, when compared to sophomores, juniors, and seniors, are disproportionately represented in those wishing higher limits, may simply mean that they do not know the true costs of attendance in this--their first semester of school.

TABLE 5

Distribution Of Respondents Favoring
Raising The Loan Maximum

Type of Institution	Alaska		Out-of-State		Total	
	Number	%	Number	%	Number	%
Freshman	144	28.7	141	20.2	285	23.7
Sophomore	95	18.9	134	19.2	229	19.1
Junior	83	16.5	97	13.9	180	15.0
Senior	44	8.7	94	13.5	138	11.5
Graduate	42	8.3	184	26.4	226	18.8
Vocational	95	18.9	48	6.8	143	11.9
Total	503	100.0	698	100.0	1,201	100.0

Student Loan Forgiveness Benefits. One of the more controversial aspects of the Alaska Student Loan program is the provision of forgiveness benefits. This too, distinguishes Alaska's program as the most generous in the country. If Alaska borrowers complete the program of study for which they borrow and then live in Alaska, they can have up to 50% of their total indebtedness, including interest, forgiven by the State. Periodic discussion in Alaska's Legislature centers on whether this forgiveness provision should be retained. When asked, the current borrowers overwhelmingly indicated their belief that forgiveness should be retained at the current level. (See Table 6.)

TABLE 6

Should The Loan Forgiveness
Benefits Be Changed?

Response	Number	Percent
Retain Current Level	6,864	91.8
Reduce Forgiveness	358	4.8
Discontinue Forgiveness	166	2.2
No Opinion	88	1.2
Total	7,476	100.0

This rather straightforward result was not unexpected, but does not get at the heart of the debate on forgiveness. In order to better understand the effects of forgiveness, borrowers were asked if forgiveness influenced their decisions regarding how much they borrowed and where they would live after schooling. The results, found in Table 7, are somewhat mixed. For students attending in Alaska, forgiveness influenced borrowing in nearly as many cases as it did not, but for out-of-state attendees, forgiveness was said not to be a factor by nearly two-to-one. In terms of residence after schooling, forgiveness did not seem to be a big factor one way or the other for those attending in-state, but was said to influence the decisions of out-of-state attendees, again by nearly two-to-one.

TABLE 7

Influence Of Loan Forgiveness
Benefits On Student Decisions

Do Loan Forgiveness Benefits Influence Decisions Regarding:	Alaska Attendance		Out-of-State	
	Yes	No	Yes	No
How much you borrow?	1,516	1,789	1,812	2,255
Where you live after schooling?	1,538	1,780	2,684	1,396

Change From In-State to Out-of-State Attendance. Borrowers were asked if they had attended a postsecondary school last year, and if so, where. The pattern toward continued attendance was evident for both Alaska attendees and out-of-state attendees. Of the 2,117 respondents currently attending school in Alaska who also attended a postsecondary school last year, 90.4% had attended school in Alaska last year too; and of the 2,942 respondents currently attending school out-of-state who also attended a postsecondary school last year, 78.8% had attended school out-of-state last year, too. Looking only at those students who switched from Alaska to out-of-state attendance, or the reverse, one finds that only 9.6% of the students currently attending in Alaska, attended out-of-state last year; and 21.2% of the students currently attending out-of-state, attended in Alaska last year. (See Table 8.)

TABLE 8

Attendance In-State Versus Out-Of-State This Year
Versus Last, By Type Of Institution

Type Of Institution	Current Attendance in Alaska					Current Attendance Out-of-State				
	Alaska Last Year		Out-of-State Last Year		Total	Alaska Last Year		Out-of-State Last Year		Total
	No.	%	No.	%	No.	No.	%	No.	%	No.
Vocational	39	90.7	4	9.3	43	-0-	0.0	77	100.0	77
Community Coll.	478	87.2	70	12.8	548	44	19.7	179	80.3	223
Private Coll/Univ.	97	85.1	17	14.9	114	204	16.7	1,018	83.3	1,222
Public Coll/Univ.	1,300	92.1	112	7.9	1,412	376	26.5	1,044	73.5	1,420
Total	1,914	90.4	203	9.6	2,117	624	21.2	2,318	78.8	2,942

In order to try to determine why a person would switch from attending in Alaska to attending out-of-state, the 624 respondents who did so were asked to list the top factors (up to four) influencing that decision. The results (based upon a weighted average giving more value to each person's primary reason for switching and correspondingly less for other reasons) are listed in Table 9. Program Availability was the most influential factor in the decision to switch to out-of-state attendance, followed by Closeness to Home and Low Tuition and Expenses. The high ranking of Closeness to Home is difficult to understand, unless persons were trying to indicate they were attending out-of-state so as not to be close to home.

TABLE 9

Reasons For Attending Out-Of-State After
Attending In Alaska Last Year

Reason (Descending Order)	Weighted Average
Availability of Program	442.3
Closeness to Home	333.7
Low Tuition and Expenses	321.0
Availability of Financial Aid	239.2
Geographic Location/Weather/Climate	176.5
School Reputation/Prestige	159.0
Ability to Work While Attending	137.3
Encouragement of Parents/Friend	83.1
Availability of Campus Housing	57.0
Encouragement of Teachers/Counselors	41.3
Friends Are There	36.3
Athletics/Recreational Activities	32.4
Religious Atmosphere	26.2
Sororities/Fraternities/Organizations	5.4

Next, those 624 persons switching from Alaska attendance to out-of-state were asked what factor could have encouraged them to continue their Alaska attendance rather than switching. The top factor was again Program Availability, and it was the top factor regardless of what type of institution was being attended out-of-state. The other factors which seemed to have a strong influence on the decision to switch to out-of-state attendance were: Quality, Campus Housing, Lower Costs, and Better Weather. (See Table 10.)

TABLE 10

For Those Attending Out-Of-State After Attending In Alaska Last Year, What Would Have Kept Them In Alaska? By Type Of Institution

Vocational School	Community College	Private Coll/Univ.	Public Coll/Univ.
Program Availability Better Quality Lower Costs	Program Availability Campus Housing Better Quality Better Weather Lower Costs	Program Availability Better Quality Campus Housing Religious Atomosphere Lower Costs	Program Availability Better Quality Campus Housing Better Weather Lower Costs

Reasons For Selecting Current Institution. All respondents were asked why they chose their particular institution for pursuing their education, and as can be seen in Table 11, Program Availability was a very important factor for all students regardless of whether they were attending in Alaska or out-of-state and regardless of the type of school attended. The top three factors for each classification are presented in Table 11, and there is a difference between the responses of those attending in Alaska compared to those attending out-of-state. While the most important factor for out-of-state attendance at community colleges and public colleges or universities is Program Availability, the most important factor for Alaskan attendance at community colleges and public colleges and universities is Closeness to Home. It should also be noted that School Reputation, while an important factor for persons attending out-of-state, was not one of the top three factors for those attending in Alaska.

TABLE 11

Top Three Reasons For Selecting Current
Institution Of Attendance,
By Type Of Institution

Type of Institution	Most Important Factor	Second Factor	Third Factor
Vocational			
(Alaska)	Program Availability	Ability to Work	Financial Aid
(Out-of-State)	Program Availability	School Reputation	Finanical Aid
Community College			
(Alaska)	Closeness to Home	Program Availability	Low Cost
(Out-of-State)	Program Availability	Low Cost	School Reputation
Private College/University			
(Alaska)	Program Availability	Ability to Work	Financial Aid
(Out-of-State)	Program Availability	School Reputation	Religious Atmosphere
Public College/University			
(Alaska)	Closeness to Home	Program Availability	Low Cost
(Out-of-State)	Program Availability	School Reputation	Climate/Weather

For Those Attending Out-of-State, What Could Have Encouraged Alaska Attendance? The 4,132 respondents attending school out-of-state were asked what factor could have encouraged them to attend in Alaska. As with those students who switched attendance from in-state to out-of-state, the single most important factor which could have encouraged Alaska attendance was Program Availability. When the respondents were classified by type of institution (Table 12), the results were surprisingly homogenous. Program Availability and Better Quality were the two top factors for all students, regardless of institutional type. For collegiate students, Campus Housing was also an important factor.

TABLE 12

For Those Attending Out-Of-State, What Could Have Encouraged Alaska Attendance? (By Type Of Institution)

Vocational School	Community College	Private Coll/Univ.	Public Coll/Univ.
Program Availability	Program Availability	Program Availability	Program Availability
Better Quality	Better Quality	Better Quality	Better Quality
Nothing	Campus Housing	Campus Housing	Campus Housing
Lower Costs	Nothing	Nothing	Better Weather
Better Weather	Better Weather	Religious Atmosphere	Nothing

Similarly, when the respondents were classified by student level, the same pattern emerged (Table 13). The top five factors for all undergraduate out-of-state borrowers were Program Availability, Better Quality, Campus Housing, Better Reputation, and Nothing (meaning nothing could have encouraged them to attend in Alaska).

TABLE 13

For Those Attending Out-Of-State, What Could Have Encouraged Alaska Attendance? (By Student Level)

Freshman	Sophomore	Junior	Senior	Graduate
Program Avail.	Program Avail.	Program Avail.	Program Avail.	Program Avail.
Better Quality	Better Quality	Better Quality	Better Quality	Better Quality
Campus Housing	Campus Housing	Campus Housing	Campus Housing	Nothing
Nothing	Better Reputation	Better Reputation	Better Reputation	Better Reputation
Better Reputation	Nothing	Nothing	Nothing	Lower Costs

Major Course of Study of Borrowers. All loan recipients were asked to indicate the degree being sought and their major course of study. The top ten majors are summarized by degree level and by in-state or out-of-state attendance in Table 14. Once again, one sees a surprising similarity in responses, particularly at the bachelor's and master's levels, regardless of whether the student is attending in Alaska or out-of-state. Out-of-state doctoral students are largely representative of persons pursuing degrees unavailable in Alaska.

TABLE 14

Top Ten Majors By Degree Level

Associate		Bachelors	
Alaska	Out-of-State	Alaska	Out-of-State
Business	Business	Business	Business
Health Care	Computer Science	Education	Education
Electronics	Arts	Engineering	Engineering
Computer Science	Engineering	Health Care	Biology
Oil Tech	Education	Social Science	Arts
Engineering	Electronics	Biology	Computer Science
Social Science	Health Care	Communications	Health Care
Office Skills	Aviation	Arts	Social Science
Education	Auto/Diesel	Computer Science	Communications
Arts	Travel	Pre-Law	Physical Science

Masters		Doctorate	
Alaska	Out-of-State	Alaska	Out-of-State
Education	Education	Education	Law
Business	Business	Physical Science	Education
Engineering	Engineering	Biology	Medicine
Biology	Health Care	Engineering	Psychology
Psychology	Social Science		Business
Social Science	Arts		Chiropractic
Physical Science	Biology		Social Science
Arts	Communications		Engineering
Communications	Computer Science		Vet. Medicine
Health Care	Theology		Biology

Vocational	
Alaska	Out-of-State
Aviation	Aviation
Cosmetology	Auto/Diesel
Office Skills	Travel
Welding	Health Care
Auto/Diesel	Office Skills
Hairdressing	Electronics
Building Maint.	Marine Technology
Culinary Arts	Welding
Travel	Heating/Air Conditioning
Carpentry	Culinary Arts

Residency Plans After Graduation. Once these Alaskan students complete their programs of study, where do they plan to live? The vast majority (97.0%) say Alaska. Regardless of whether or not they are attending school in-state, nearly all respondents indicate plans of residing in Alaska after schooling. (See Table 15.)

TABLE 15

Location Plans After Completion
Of Program Of Study

Plans After Program Completion	Attending in Alaska		Attending Out-of-State		Total	
	Number	Percent	Number	Percent	Number	Percent
Reside in Alaska	3,274	97.9	3,976	96.2	7,250	97.0
Reside Out-of-State	70	2.1	156	3.8	226	3.0
Total	3,344	100.0	4,132	100.0	7,476	100.0

Why these students plan to return to Alaska is another question asked of the respondents. As can be seen in Table 16, the top reason for those students planning to live in Alaska after degree completion, regardless of whether or not they are currently attending in Alaska or out-of-state, is "Alaska is my home." The second most important reason for those planning Alaska residence is the top reason for those planning out-of-state residence, and that is "Job Availability." Other factors influencing location decisions include loan forgiveness, geographic location/weather/climate, availability of continuing education, and location of friends.

TABLE 16

Top Five Reasons For Location Plans After
Completion Of Program Of Study

Attending in Alaska		Attending Out-of-State	
Alaska Residency	Out-of-State	Alaska Residency	Out-of-State
Alaska is Home	Job Availability	Alaska is Home	Job Availability
Job Availability	Geog/Weather/Climate	Job Availability	Geog/Weather/Climate
Loan Forgiveness	Cont. Educ. Avail.	Loan Forgiveness	Cont. Educ. Avail.
Friends	Friends	Friends	Friends
Geog/Weather/Clim.	Parents/Relatives	Geog/Weath./Clim.	Recreation Avail.

SUMMARY/CONCLUSIONS

1. One of the principal reasons for conducting this survey was to discover if there was an explanation for the reversal of the eight-year trend toward in-state attendance. From the data collected it is a little difficult to single out exactly what caused this phenomena. However, when coupled with knowledge of the Alaska system a hypothesis may be offered.

   Three factors probably have impacted the in-state/out-of-state attendance pattern. First, the state loan program imposed new "good standing" requirements. These were enforced for the first time in 1982-83 and resulted in a large number of students becoming ineligible for continued borrowing. The majority of these ineligible students were students attending in-state, so the pool of in-state students for the current year, 1983-84, was reduced.

   Second, the only public university in the state with campus housing is the University of Alaska, Fairbanks (UAF). Over six months before the current school year began, UAF had filled all its campus housing. More than 300 students who wished campus housing for the 1984-84 year had to be denied.

   Third, the University of Alaska, Anchorage (UAA) has been heavily over-subscribed in a number of classes both this year and last. Many students have indicated that they simply could not get into all the UAA classes they wished for pursuit of their programs.

2. Students believe 5% is an appropriate interest rate for the student loan program.

3. Students believe the $6,000 and $7,000 borrowing maximums are appropriate for the student loan program. However, there is some evidence that graduate students, particularly those attending out-of-state, may be requesting a higher maximum in the near future.

4. Students believe loan forgiveness should be retained at 50%. When asked directly if loan forgiveness influences their decision on where to reside after graduation, only 57.1% indicate that it is. Also, when asked which factors are most important in this determination of where to live after graduation, loan forgiveness falls far behind "Alaska is My Home" and "Job Availability." The argument that forgiveness seems to reward students for what they would do anyway seems to be supported by this survey.

APPENDIX A

Student Loan Questionnaire

ALASKA STUDENT LOAN QUESTIONNAIRE

The Alaska Commission on Postsecondary Education has not surveyed loan recipients in the past, but due to the increased level of proposed program changes, we feel some information from you, the recipients of this program, would be most useful as we enter a new Legislative Session. Please complete this brief questionnaire and return it to us in the envelope provided. All responses are completely anonymous.

1. Check those school years in which you received an Alaska Student Loan

1975-76 _____	1978-79 _____	1981-82 _____
1976-77 _____	1979-80 _____	1982-83 _____
1977-78 _____	1980-81 _____	1983-84 _____

2. Current student level (please check)

Freshman _____	Junior _____	Graduate _____
Sophomore _____	Senior _____	Vocational _____

3. Current attendance (please check)

	In Alaska	Out-of-State
Vocational School	_____	_____
Community College	_____	_____
Private College/University	_____	_____
Public College/University	_____	_____

4. What interest level do you feel is appropriate for these loans?

5% _____	7% _____	9%
6% _____	8% _____	Other _____ (indicate)

5. What loan level do you feel is appropriate for these loans?

$6,000 and $7,000 loan levels should be retained	_____
Loan levels should be reduced	_____
Loan levels should be raised	_____

6. Why did you decide to attend your current institution? (Please number your reasons, with "1" being most important, and limit your choices to no more than four.)

Athletics/recreational activities	____	Availability of program	____
Sororities/fraternities/campus organization	____	Availability of financial aid	____
Geographic location/weather/climate	____	Closeness to home	____
Encouragement of parents/relatives	____	Religious atmosphere	____
Encouragement of teachers/counselors	____	Friends are there	____
Ability to work while attending school	____	School reputation/prestige	____
Availability of campus housing	____	Low tuition/expenses	____

7. If you are attending out-of-state, what single factor could encourage you to attend in-state (what could be changed, if anything)? _____

_____

(Please continue on reverse side)

8. Did you attend a postsecondary education institution in Alaska last year (1982-83)?

Yes _____ No _____

9. What degree or certificate are you seeking and what is your major program of study?

Associate Degree (Major?) _____
Bachelors Degree (Major?) _____
Masters Degree (Major?) _____
Specialist Degree (Major?) _____
Doctorate Degree (Major?) _____
Diploma (Course of Study?) _____
Certificate (Course of Study?) _____

10. Do you plan to live in Alaska when your education is finished?

Yes _____ No _____

11. What factors influenced your response in question 10? (Please number your reasons with "1" being most important, and limit your choices to no more than four.)

Availability of jobs	_____	Encouragement of parents/relatives	_____
Alaska is my home	_____	Availability of continuing education	_____
Friends are there	_____	Recreational activity availability	_____
Student loan forgiveness	_____	Geographic location/weather/climate	_____

12. Does the student loan forgiveness feature influence your decisions on:

a. Whether or not you live in Alaska after schooling? Yes _____ No _____

b. How much you borrow? Yes _____ No _____

13. Should the student loan forgiveness feature be:

a. Discontinued? Yes _____ No _____
b. Reduced? Yes _____ No _____
c. Retained as is? Yes _____ No _____

14. If there were no Alaska State Student Loan Program, would you (check as many as applicable)?

a. Delay your education _____

b. Not attend school at all _____

c. Borrow under a federal loan program _____

d. None of the above _____

Please return to: Alaska Commission on Postsecondary Education
Pouch FP
Juneau, Alaska 99811

Alaska State Legislature
House

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

February 1, 1985

TO: Rep. John Sund
Chairman
Special Committees on Loans

FROM: Rep. Johne Binkley

Re: House Bill 161 "An Act relating to student loans; and providing for an effective date."

Today I have introduced a bill that will amend certain portions of the Post Secondary Commission program that deals with student loans.

The Alaska Student Loan program established in 1971 to provide aid to Alaska residents in the form of low interest loans, is undeniably the most generous such program in the nation. It has provided loans to over 50,000 Alaskans since the inception of the program. It was intended to allow students to leave Alaska to secure an education, and encourage them to return by providing that a portion of the loan would be forgiven for returning and working in the state, which needed trained people in many areas of expertise. Many students in the early days of the program, once they left the state would not return because of lack of opportunities for suitable employment when they returned.

Conditions have changed substantially since then. In a survey done by the Post Secondary Commission of the grant recipients of 1983-84, most students, regardless of whether they had attended school "outside" or not, intended to return to Alaska to live and work for various reasons. Those reasons most often cited by both groups of students were that Alaska was their home and that it provided economic opportunity. Loan forgiveness was not considered a major factor.

The financial climate of the state has changed also. In 1971, Alaskans' incomes ranked fourth in the nation, twenty percent above the per capita national average. Now we rank number one, and our income, per capita, is forty-seven percent above the national average.

There are and will continue to be students in Alaska who will need as much help as we as a state can provide them. In order to help as

many of those needy students as possible, I feel some changes are mandated in the student loan program as it is now constituted.

In this bill, the interest rate on student loans will be raised from its present five percent to eight percent. The rate on defaulted loans will remain the same.

If a student has not applied for admission to the student loan program within six months prior to graduation, or within one year after graduation from high school, the student must show financial need as established by regulation of the Post Secondary Commission. Once a student has applied for a loan, he/she may defer going to school for a cumulative of two years. This allows a student to travel, work one semester while attending schoo the other, or to respond to some emergency situation that might arise.

Once students have applied for, and been accepted into the program, they may continue to apply for and receive the loan as long as they remain a full-time student in a career education, associate, baccalaureate or graduate degree program, and will not have to demonstrate need unless they interrupt their studies for more than two cumulative years.

The intent of the change in the statutes is to limit the program to those who are newly graduated as these students usually have not had the opportunity to establish themselves in the work force. It does not seem to be the function of the state to guarantee an education to persons who are financially able to bear the cost of educating themselves.

Eliminating the "forgiveness" portion of the present loan program would allow the Commission to recover more funds that would then be available to provide loans for more Alaskan students, thus assuring that this will truly be a revolving loan program.

I appreciate your consideration of this bill and I will be available to answer questions on it.

Sincerely,

Johne Binkley
Representative
District 25

Attachments
1. Sectional Analysis House Bill 161
2. Survey of 1983-84 Alaska Student Loan Recipients

SECTIONAL ANALYSIS HOUSE BILL 161

Mary Beth Hilburn

"An Act relating to student loans; and providing for an effective date."

Section 1. AS 14.43.120(f) is amended to increase the interest rate on a student loan from five (5) percent to eight (8) percent.

Section 2. AS 14.43.125 (a) is repealed and reenacted changing the eligibility requirements by requiring a student who meets the established criteria for qualifying and desiring a state loan to apply within six months of graduation, or within a year after graduation, or to establish financial need as determined by regulations to be promulgated by the Post Secondary Commission.

Section 3. AS 14.43.125 adds a new subsection (c) which states that a recipient of a loan under (A) may continue without demonstrating need if the recipient does not interrupt the course of study for more than a cumulative of two years.

Section 4. AS 14.43.640(b) inserts some technical changes that clarify the intent of the section.

Section 5. AS 14.43.640 adds a new subsection that keeps the rate of interest on teachers loans at five (5) percent unless that loan is in default, then the interest is ten (10) percent.

Section 6. AS 14.43.120: (j), (o) and (p) of this section are repealed.

(j) is the portion of the statute that "forgives" up to 50% of the loan if the borrower returns to the state as a resident for varying periods of time.
(o) is the portion of the statute that nullifies the "forgiveness" clause if the loan is in default since it will no longer be needed.
(p) sets out the requirements of residency to qualify for "forgiveness" since it will no longer be applicable.

Section 7. Requires students presently receiving a student loan to meet the new qualification standards of initial application, or financial need.

Associated Students University of Alaska

(907) 474-7355

UNIVERSITY OF ALASKA, FAIRBANKS
Fairbanks, Alaska 99701

A POSITION PAPER: HOUSE BILL NO. 161

As student representatives of the University of Alaska, Fairbanks, the Legislative Council is responsible for bringing the needs of the student body to the state Legislature. An issue of the utmost importance to the students of this university is the introduction of House Bill No. 161, relating to the Alaska Student Loan program. The continuation of the current loan regulations is the primary objective of the Legislative Council this year. We feel we must adamantly oppose this bill for the following reasons:

1. Section (1) of this bill would increase the interest rate of student loans from five to eight percent per year. This in itself is not highly objectionable to the student body, although we are not pleased with the prospect. We do, however, believe that the increased interest rate, when combined with the other proposed changes in this legislation, will place serious financial burdens on many students attending this university. We have no strong objections to the increase in the interest rate to ten percent for defaulters either, but do feel that students intentionally defaulting payment on their student loans will continue to do so, and students in default for financial reasons will only plummet further into debt. We on the Legislative Council do share with the Alaska State Legislature their concerns regarding the default rate of the loan program. We have in the past consistently supported legislation designed to increase the fiscal responsibility of the borrower.

2. Section (2) of this bill would make it manditory that all loan applicants show financial need to be eligible for an initial student loan. ASUA objects to this because most loan programs base financial need solely upon parental income. Many students with financially secure parents would prefer to put themselves through school, as opposed to having their parents pay their way. These students would be rendered ineligible.

3. Section (5) sets a different rate of interest for rural education loans than for other student loans. This would discriminate against all students not wishing to pursue a career in rural education. We find this unacceptable.

4. Section (6) of this bill repeals the forgiveness clause in the current student loan program. It is this section to which we most strongly object. If passed, this would place a much heavier financial burden upon many students needing the loan to

attend school. The forgiveness clause is the one thing that separates the Alaska program from similar student loan programs in other states. It has attracted many Alaskan students back to the state after graduation. The sponsor's statement that this is indeed occuring is the very reason to maintain the status quo and not abolish this most important clause.

It is our opinion that the rural education loan was created to supplement the current student loan program, not replace it. We simply do not see the advantage in sacrificing the benefits of one loan program for another. The Legislative Council and the student body of the University Alaska, Fairbanks, strongly urge Alaska legislators to seriously consider the objections raised in this document. Again, the continuation of the current student loan program is the primary concern of the council, and most definitely, of students all across the great state of Alaska.

A Position Paper: House Bill No. 161

A Statement to the
Fourteenth Legislature

By

Legislative Council,
Associated Students of the University of Alaska

February 4, 1985

A Position Paper: House Bill No. 161

As student representatives of the University of Alaska, Fairbanks, the Legislative Council is responsible for bringing the needs of the students body to the State Legislature. An issue of the utmost importance to the students of this university is the introduction of House Bill No. 161, relating to the Alaska Student Loan Program. The continuation of the current loan regulations is the primary objective of the Legislative Council this year. We feel we must adamantly oppose this bill for the following reasons:

1. Section (1) of this bill would increase the interest rate of student loans from five to eight percent per year. This in itself is not highly objectionable to the student body, although we are not pleased with the prospect. We do, however, believe that the increased interest rate, when combined with the other proposed changes in this legislation, will place serious financial burdens on many students attending this university. We have no strong objections to increasing the interest rate to ten percent per year for loan defaulters either, but do feel that students intentionally defaulting payment of their student loans will continue to do so, and students in default for financial reasons will plummet further into dept. We on the Legislative Council of ASUA do share with the Alaska State Legislature concern over the default rate of student loans. We have in the past consistently supported legislation designed to increase the fiscal responsibility of the borrower.

2. Section (2) of this bill seems to be ambiguous and is very confusing. Any student able to meet the requirement of (2) in this section would also meet the (B) subsection of (3). Therefore, it would seem that (3A), as well as (3B), of this section are unnecessary.

3. Section (5) sets different rates of interests for students pursuing different careers. This section would discriminate against all students not seeking a career in rural education. We find this unacceptable.

4. Section (6) of this bill repeals the forgiveness clause in the current loan program. It is this section which we most strongly object to. If passed, this would place a much heavier financial burden upon students needing the loan to attend school. The forgiveness clause is the one thing that sets the Alaska loan program apart from the loan programs of other states. It has attracted many Alaska residents back to the state after graduation. The sponsor's statement that this is occuring is the very reason to maintain the status quo and not abolish this most important clause.

It is our opinion that the rural education loan was created to suppliment the current student loan program, not to replace it. We simply do not see the advantage in sacrificing the benefits of one loan program for another. The Legislative Council and the

student body of the University of Alaska, Fairbanks, strongly urge Alaska legislators to seriously consider the objections raised in this document. Again, the continuation of the current student loan program is the primary concern of the council, and most definately, of students all across the great state of Alaska.

drh

Associated Students University of Alaska

(907) 474-7355

UNIVERSITY OF ALASKA, FAIRBANKS
Fairbanks, Alaska 99701

February 11, 1985

John Hartle
C/O Representative John Sund
Pouch V
Juneau, AK 99811

Dear Mr. Hartle:

Thank you for taking the time to discuss the Alaska Student Loan Program with me. I am currently making the final revisions on the ASUA Alaska Student Loan Position Paper, and will either send you a copy through the mail, or have Ken Knox, my legislative assistant, drop one off to you when he is in Juneau the 12th, 13th and 14th of this month.

I am enclosing a copy of an article taken from The Chronicle of Higher Education as it may be of interest to you. The article discusses the default rates of various loan programs for students.

Once again, thank you for discussing the Alaska Student Loan Program with me.

Sincerely yours,

Darin Hargraves

Darin Hargraves

ASUA Legislative Coordinator

Enclosure

Rate of Default Declines on Loans to Students, Varies Widely Among States

WASHINGTON

Default rates under the Guaranteed Student Loan program vary dramatically from state to state—from a high of 12.8 per cent in the District of Columbia to zero in North Dakota in fiscal 1983. Rates rose in 31 states from 1981 to 1983, but dropped in 17 others, a survey has found.

The default rate is the amount of money owed on delinquent loans divided by the total amount of money loaned.

The overall national default rate decreased from 10.17 per cent in 1981 to 9.16 per cent in 1983, while the dollar volume of loans in default grew 77 per cent, from $867-million in 1981 to $1.53-billion in 1983, according to a report by Jerry S. Davis, director of research and policy analysis at the Pennsylvania Higher Education Assistance Agency.

"This increasing default volume was expected, as huge volumes of Guaranteed Student Loans made in fiscal 1979, 1980, and 1981 reached maturity," Mr. Davis said.

Alaska Posts Biggest Decrease

The biggest drop occurred in Alaska, where the default rate went down 5.03 percentage points from 1981 to 1983. States where default rates rose the most in the three-year period include Arizona, California, the District of Columbia, Hawaii, Nebraska, Texas, and West Virginia, with increases ranging from 4 to nearly 13 percentage points.

The survey, which was based on data gathered by the Education Department, is of particular interest because paying off defaults in the Guaranteed Student Loan program costs the government about $800-million a year.

Budget pressures are forcing increased scrutiny of the causes of, and possible solutions to, the problems of student-loan defaults.

But the survey indicates that the default problem is not as bad as many people believe it to be, said Mr. Davis.

"Discussions of default rates and soaring default volumes and their costs to the Guaranteed Student Loan Program all too often treat these problems as if they were monolithic among all states," he said.

"The default problem is not the same for all states. These differences suggest that remedies for the problem cannot be couched in terms of national or program-wide solutions, but must recognize the different situations among the states," he continued.

States with long-established student-loan-guarantee agencies generally have better default rates than states with newer agencies. Mr. Davis called agencies "established" if they guaranteed at least 40 per cent of their total loans before fiscal 1981; "new" states guaranteed over 40 per cent since that year.

Default rates dropped in 17 of the 23 states that have "established" guarantee agencies.

Increases in 31 States

State guarantee agencies insure lenders who make Guaranteed Student Loans against default, and the federal government in turn insures state agencies for the loans they back.

Default rates increased in 31 states, largely because they had new agencies with limited experience insuring student loans, Mr. Davis said.

Mr. Davis said the decline in the overall national default rate was due primarily to lower rates in states that guarantee the largest volumes of loans, including Illinois, Massachusetts, New Jersey, New York, and Pennsylvania.

The number and dollar value of loans increased significantly from 1981 to 1983, with a total of $11.7-billion in such loans made during 1982 and 1983, the report says.

"Thus the recent huge increases in numbers of loan dollars guaranteed and reaching maturity has generated a not unexpected large increase in default loan dollar volumes," Mr. Davis said in his report.

—DONNA ENGELGAU

2-Year Change in Student-Loan Default Rates



Default rates by state for fiscal 1983

Alabama	3.2%	Kentucky	4.1%	North Dakota	0.0%
Alaska	1.4%	Louisiana	5.1%	Ohio	0.7%
Arizona	8.9%	Maine	2.9%	Oklahoma	0.5%
Arkansas	1.3%	Maryland	5.2%	Oregon	2.1%
California	9.2%	Massachusetts	2.4%	Pennsylvania	5.0%
Colorado	2.3%	Michigan	2.7%	Rhode Island	5.7%
Connecticut	4.8%	Minnesota	5.2%	South Carolina	0.9%
Delaware	2.0%	Mississippi	3.6%	South Dakota	2.6%
District of Columbia	12.8%	Missouri	6.4%	Tennessee	3.2%
Florida	2.0%	Montana	3.1%	Texas	4.5%
Georgia	4.4%	Nebraska	6.2%	Utah	2.8%
Hawaii	8.0%	Nevada	6.2%	Vermont	2.8%
Idaho	4.8%	New Hampshire	1.5%	Virginia	0.0%
Illinois	2.4%	New Jersey	4.7%	Washington	1.5%
Indiana	2.1%	New Mexico	0.3%	West Virginia	6.3%
Iowa	3.8%	New York	0.4%	Wisconsin	5.4%
Kansas	7.3%	North Carolina	3.5%	Wyoming	3.1%

Note: "Established" states guaranteed at least 40 per cent of their total student loans before fiscal 1981. "New" states guaranteed over 40 per cent of their student loans after that year.

The figures show the change in the default rate from fiscal 1981 to fiscal 1983.
n/a: Not available

SOURCE: JERRY S. DAVIS, PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY

Original sponsor: Binkley

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 161 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the interest rate, forgiveness provisions, eligibility requirements, and conditions of scholarship loans; and providing for an effective date."

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

* Section 1. AS 14.43.120(f) is amended to read:

(f) Interest on a loan given under AS 14.43.090 - 14.43.160 is at the rate of <u>eight</u> [FIVE] percent a year unless the loan is in default. Interest on a loan that is in default is 10 percent a year for the period the loan is in default.

* Sec. 2. AS 14.43.120(k) is amended to read:

(k) Periodic installments of principal shall be deferred, but interest shall accrue and be paid unless the student is eligible for interest payment benefits under (l) of this section during any of the following:

(1) return to student status as provided in (c) of this section;

(2) serving <u>an initial period of up to six years</u> on active duty as a member of the armed forces of the United States;

(3) serving, for up to three years, as a full-time volunteer under the Peace Corps Act;

(4) serving, for up to three years, as a full-time volunteer under the Domestic Volunteer Service Act of 1973;

(5) for a one-time period up to 12 months in which the

borrower is seeking and unable to find employment in the United States; or

(6) if the borrower becomes 50 percent or more disabled as certified by competent medical authority.

* Sec. 3. AS 14.43.125 is repealed and reenacted to read:

Sec. 14.43.125. ELIGIBILITY OF STUDENTS. (a) A person may apply for and obtain a scholarship loan if the person

(1) is

(A) enrolled as a full-time student in a career education, associate, baccalaureate, or graduate degree program; or

(B) a graduate of a high school or the equivalent, or scheduled for graduation from a high school within six months, with sufficient credits to be admitted to a career education program or to an accredited college or university;

(2) is not delinquent or in default on a previously awarded scholarship loan; and

(3) is a resident of the state at the time of application for the loan; for purposes of this section, a person qualifies as a resident of the state if at the time of application for the loan the person

(A) has been physically present in the state for at least two years immediately before the time of application for the loan;

(B) is dependent on a parent or guardian for care, the parent or guardian has been present in the state for at least two years immediately before the time of application for the loan and the person has been present in the state for at least one year of the immediately preceding five years except that the commission may by a two-thirds vote, acting upon a written appeal by the

person, grant an exemption to the requirement that the person has been present in the state for one year of the immediately preceding five years;

(C) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before the applicant was absent from the state and the absence is due solely to

(i) serving an initial period of up to six years on active duty as a member of the armed forces of the United States;

(ii) serving, for up to three years, as a full-time volunteer under the Peace Corps Act;

(iii) serving, for up to three years, as a full-time volunteer under the Domestic Volunteer Service Act of 1973;

(iv) required medical care for the applicant or the applicant's immediate family;

(v) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (iv) of this paragraph; or

(D) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before the applicant or the parent or guardian was absent from the state and the absence is due solely to

(i) participating in a foreign exchange student program recognized by the commission;

(ii) attending a school as a full-time student;

(iii) full-time employment by the state;

(iv) being a member of or employed full-time by the state's congressional delegation;

(v) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (iv) of this paragraph.

(b) A person does not qualify as a resident of the state under this section if the person declares or establishes residence in another state during an absence from Alaska.

* Sec. 4. AS 14.43.120(j), (o), and (p) are repealed.

* Sec. 5. Section 4 of this Act takes effect September 1, 1990.

* Sec. 6. Section 1 of this Act takes effect July 1, 1985.

* Sec. 7. Sections 2 and 3 of this Act take effect immediately in accordance with AS 01.10.070(c).

3/4

COMMITTEE REPORT

HOUSE

HEALTH, EDUCATION & SOCIAL SERVICES

(7)

FURTHER: FINANCE

2/1/85

Date: 3/1/85

The Committee on HOUSE SPECIAL COMMITTEE ON STATE LOANS has had HB 161

"An Act relating to student loans; and providing for an effective date."

under consideration and recommends:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

[X] replace with CS for HB 161 (Loans) [ ] same title [X] new title

and recommends [illegible]

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

[X] reports it back without recommendation individual [ ] Zero Fiscal Note Attached

[ ] referred to the _____ Committee

MEMBERS SIGNING DO PASS

[illegible]

MEMBERS HAVING OTHER RECOMMENDATIONS:

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

CHAIRMAN

HOUSE SPECIAL COMMITTEE
ON STATE LOANS
February 27, 1985
3:30 p.m.

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

COMMITTEE CALENDAR

HB 161 "An Act relating to student loans; and providing for an effective date".

HB 185 "An Act relating to student loans; and providing for an effective date".

HB 197 "An Act relating to maximum loans under the scholarship loan program; and providing for an effective date".

WITNESS REGISTER

Marie Motschman
Government Relations Representative
UAA
3701 Eureka Sp B-1
Anchorage, AK
563-5462
Position Statement: Opposed HB 161, favored HB 185 and HB 197

Bob Menard, UAA student representative
3041 E 42nd St. # 505
Anchorage, AK
541-0804
Position Statement: Opposed HB 161, favored HB 185 and HB 197

Johne Binkley, Representative
Pouch V
Juneau, AK 99811
465-4985
Position Statement: Sponsor and supporter of HB 161

Niilo Koponen, Representative
Pouch V
Juneau, AK 99811
465-4992
Position Statement: Observer

Kerry Romesburg, Executive Director

Postsecondary Education Commission
Pouch FP
Juneau, AK 99811
465-2854
Position Statement: Testified in favor of HB 185, critical of HB 161

PREVIOUS ACTION

Please refer to House Special Committee on State Loans, State-wide Teleconference Minutes of Feb. 26, 1985.

ACTION NARRATIVE

TAPE #9, SIDE ONE

Recording Number 001 — The meeting was called to order by Chairman Sund at 3:35 p.m. Members present were Reps. Cotten, Fuller, Uehling, and Sund. Representative Duncan arrived at 4:15 p.m. Representatives Binkley and Koponen also attended.

Number 033 — Marie Motschman, Government Relations Representative from UAA, testified against HB 161 and in support of HB 185 and HB 197. Speaking on behalf of UAA and ACC students, she objected particularly to the discrimination against non-traditional students inherent in the needs-based section of HB 161. She noted that the average student age at UAA is 26, and at Anchorage Community College it is 27. She said that the students at UAA would be willing to work with the legislature toward a solution to the problem.

Number 084 — There was some discussion about whether all students who do not pass the needs test would be able to afford to pay for their own schooling.

Number 130 — Representative Binkley said that the intent of HB 161 is merely that those students who can afford to pay their own way would be ineligible, and asked Ms. Motschman if she agreed.

Number 180 — Ms. Motschman said that she agreed with Rep. Binkley, but that she was representing a lot of other students and could not speak for

them.

Number 209 — Representative Uehling noted that HB 161 would save the state about $14 million, and asked Ms. Motschman what her suggestions would be as to how to cut back and still offer a good loan program.

Number 230 — Ms. Motschman responded that savings from eliminating the forgiveness clause would not be seen for several years, but added that the students of today don't want to lose their forgiveness, even though only 20% of the students actually use the forgiveness clause. She suggested a gradual elimination of forgiveness at the rate of 10% per year. She added that the lending cap could be lowered from $6000 to $4500 for a more immediate savings.

Number 292 — Bob Menard, representing the Legislative Council from UAA, suggested some alternatives to HB 161. He noted that HB 161 would raise the interest rate for urban students but not for some rural students (Teacher Scholarship Loan Program.)

Number 361 — There was some discussion about the Teacher Scholarship Loan Program for rural students, which offers 5% interest and 100% forgiveness for those students who qualify and who return to rural Alaska to teach.

Number 397 — Chairman Sund pointed out that the only students that would pay back a Teacher Scholarship Loan would be those who do not return to rural Alaska to teach, and that they would still have the advantage of a 5% loan and a $7,500/year loan amount.

Number 410 — Representative Binkley explained that this loan program had been set up as separate and distinct from the Student Loan Program.

Number 420 — Representative Fuller said that he does not favor raising the interest rate for the one loan program and not for the other.

Number 450 — There was some discussion about whether there is a need to save money on the Student Loan Program this year and how to do it.

Number 480 — Ms. Motschman read a resolution by the senate of the ASUAA which advocates

publishing in the local papers the names of individuals in default on student loans.

Number 519

Kerry Romesburg stated that the Postsecondary Education Commission endorses and recommends the continuation and full-funding of the Alaska Student Loan Program. He added that amendments which restrict access by denying loans to groups of Alaskans are vigorously opposed.

He said that nearly 17,000 people have borrowed money this year under the Student Loan Program. He said that $78 million has been loaned out in 1985, and that more than $286 million has been loaned total to date. $20 million has been repayed.

Number 550

Representative Cotten asked Dr. Romesburg when interest starts to accumulate.

Number 560

Dr. Romesburg answered that the interest starts to accumulate one year from the first day of the month after a person ceases to be a full-time student. He added that clamping down on defaults would not add enough money to the program to make a very big difference. He stated that the Commission wants to see the interest rate increased from 5%, to a rate at least as high as the federal and higher than passbook savings. He said that increasing the rate from 5% to 8% would increase the payment by $1.37 per month per $1000 borrowed.

Number 623

Representative Uehling asked what the fiscal effect of such an increase would be.

Number 630

Dr. Romesburg that there would be no impact until 1988, which would increase gradually.

Number 646

Representative Binkley disagreed and expressed th opinion that raising interest and eliminating forgiveness would result in a decreased demand for student loans.

Number 670

Dr. Romesburg said that the Postsecondary Education Commission favors the elimination of forgiveness, since there is no evidence that a high proportion of students return to Alaska in order to get forgiveness. He added that this would result in a savings of $6-$8 million in six or eight years.

CHANGE TAPE #9, SIDE TWO

Number 001 — Dr. Romesburg spoke strongly in favor of HB 185 and said that the Commission has wanted to see such a bill passed for several years. He said that the bill would allow for deferral of student loans to veterans during the first enlistment term only. Another section would define the terms under which a person can be absent from the state and still be eligible for a loan. He said that technically, students attending an out of state institution must return to Alaska for 2 years before getting a student loan for their next year of college. Therefore, the Commission has been breaking the rules by giving loans for consecutive years to these students, and feels uneasy doing so. He said that there would be no fiscal impact. He added that there is also a provision that would give the Commission statutory power to deny a loan to an individual in default on another student loan.

Number 072 — There was committee discussion about the requirement for physical presence in Alaska and possible exceptions.

Number 188 — Dr. Romesburg spoke in favor of HB 197 and said that it would pose no problem in terms of administration. He noted that the purpose of the bill is to allow a senior to obtain a loan in order to complete his/her studies during summer session, rather than returning in the fall.

Number 201 — Rep. Uehling asked if this bill would result in students getting more money than the current maximum during a year.

Number 210 — Dr. Romesburg answered that it would be possible for a student to get $8000 instead of $6000 in a 12 month period, but this would only happen once, since the $2000 for summer school would come out of the next year's loan amount if the student returned to school. He added that there would be no fiscal impact since the $2000 for summer would be taken out of lapsed money from the year before.

Number 288 — Rep. Cotten asked Dr. Romesburg what the average length of residency is for individuals applying for student loans, and

what is the trend (increase or decrease) in the use of forgiveness.

Number 295 — Dr. Romesburg answered that the trend is toward shorter residency, that 55% indicate 3-5 years and 22% indicate 2 years. He also said that there has been some decrease in the use of forgiveness (1/6 of loans get forgiveness,) because first a person must graduate and then must live in Alaska.

Number 340 — Dr. Romesburg told the committee that, in the event of less money available for student loans, the Commission already has a method of prioritizing loans, besides first come first served. Preference is given to those who have borrowed before, to those who are borrowing for a shorter duration, and to in-state borrowers. The two classes of students on the bottom of the priority list are graduate students who have not borrowed before and are going outside Alaska to school, and freshmen students who have not borrowed before and are going outside Alaska to school. He added that there is no need to use this system when there is enough money. He also said that the Board does not favor across the board cuts, giving less money to more borrowers.

Number 370 — Rep. Binkley expressed concern about the impact on rural students of the first come first served rule.

Number 375 — Dr. Romesburg answered that traditionally, rural students tend to apply late and are therefore at a disadvantage.

Number 385 — Rep. Fuller said that school counselors should see that students get their applications in on time.

Number 410 — Rep. Fuller suggested giving the bill back to Rep. Binkley, so that he could work on some of the bill's provisions, and the committee agreed.

Number 450 — Rep. Cotten said that he could go along with raising the interest rate and phasing out the forgiveness, but that he would not favor restricting access to the program.

Number 480 — Chairman Sund said that he would prefer to pass one bill out of committee in place of

HB 161 and HB 185, since both bills address the same section of the statutes.

Number 500 — Dr. Romesburg asked that HB 185 be allowed to go through without combining it with a controversial bill like HB 161, thereby decreasing its chances of passing.

Number 510 — Chairman Sund said that he and Rep. Koponen had agreed that HB 197 could be amended into HB 185. He then announced that the committee would meet again on Friday, March 1. The meeting was adjourned at 4:50 p.m.

HOUSE SPECIAL COMMITTEE
ON STATE LOANS
February 26, 1985
3:30 p.m.

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

COMMITTEE CALENDAR

Statewide teleconference on student loans bills:

HB 161 — Amended Title: "An Act relating to Student Loans; and providing for an effective date".

HB 185 — "An Act relating to Student Loans; and providing for an effective date".

HB 197 — "An Act relating to maximum loan amounts under the Scholarship Loan Program; and providing for an effective date".

WITNESS REGISTER

Johne Binkley, Representative
Pouch V
Juneau, AK 99811
465-4985
Position Statement: Sponsor of HB 161

Kerry Romesburg, Executive Director
Postsecondary Education Commission
Pouch FP
Juneau, AK 99811
465-2854
Position Statement: Testified in favor of HB 185, opposed parts of HB 161.

Lisa McClaren, aide to Representative Koponen
Pouch V
Juneau, AK 99811
465-4992
Position Statement: Spoke in favor of HB 185.

Don Patterson
General Delivery
Wasilla, Alaska 99687
376-0670

Position Statement: Against HB 161
Gretchen Mau
P.O. Box 943
Palmer, AK 99645
745-3849
Position Statement: Question re: HB 197

Frank Haas
P.O. Box 97
Haines, AK 99827
766-2349
Position Statement: Against HB 161

June Haas
P.O. Box 97
Haines, AK 99827
766-2349
Position Statement: Against HB 161

Tanja Lofftus
P.O. Box 2009
Wrangell, AK 99929
874-2116
Position Statement: Question re: income

Michelle Merritt
P.O. Box 912
Wrangell, AK 99929
874-3054
Position Statement: Question about HB 197

Lorna-Lee Arndt
Box 2069
Kodiak, AK 99615
486-6486
Position Statement: Against HB 161

Paul Stubbe
Box 946
Kodiak, AK 99615
486-4161
Position Statement: Against HB 161

Barbara Todd
Box 2235
Kodiak, AK 99615
486-5218
Position Statement: Against HB 161

Nathan Lewis
Box 1065
Kodiak, AK 99615
486-5284
Position Statement: Against HB 161

Peter Smith
Box 3308
Kodiak, AK 99615
486-3613
Position Statement: Against HB 161

Joyce Bergmann
Box 130
Petersburg, AK 99833
772-4525
Position Statement: Question re: income

Tyler Henshaw
Box 69
Petersburg, AK 99833
772-3571
Position Statement: Against HB 161, for HB 185 and HB 197

Darin Hargraves
204 Stevens, UAF
Fairbanks, AK 99701
474-7536
Position Statement: Against HB 161

Kathy Ward
P.O. Box 124
Dillingham, AK 99576
842-2264
Position Statement: Against HB 161

Tony Goforth
Box 486
Unalaska, AK 99692
581-1377
Position Statement: In favor of HB 161, HB 185, HB 197

Chris Tolladay
8944 Blackberry #606
Juneau, AK 99502
786-1205
Position Statement: Against HB 161, in favor of HB 185 and HB 197

Cecilia Meyer
Box 1557
Homer, AK 99603
235-8101 (message)
Position Statement: Against HB 161

Burton Augst
1101 KSawmill creek Road
Sitka, AK 99835
747-6653
Position Statement: Against HB 161

Ron Welsh
P.O. Box 1052
Sitka, AK 99835
747-3017
Position Statement: Against HB 161, in favor of HB 185 and HB 197

Linda Fossen
P.O. Box 97
Valdez, AK 99686
835-2678
Position Statement: Against HB 161, in favor of HB 185 and HB 197

PREVIOUS ACTION

HB 161: Read the first time 02/01/85 and referred to HESS, Finance and Rules. Today Loan reported out W/CS (New Title) 1DP 1DNP 3NR.

HB 185: Read the first time 02/08/85 and referred to HESS, Finance and Rules. Today Loan reported out W/CS (New Title) 5DP with zero fiscal note.

HB 197: Read the first time 02/13/85 and referred to State Loans, HESS, Finance and Rules.

ACTION NARRATIVE

TAPE #8, SIDE ONE
Recording
Number 001

The meeting was called to order by Chairman Sund at 3:35 p.m. Members present were Representatives Cotten, Fuller, Duncan and Sund. Representative Uehling arrived at 3:40 p.m. The teleconference was set up to include about twenty communities around the state.

Number 037

Representative Binkley, sponsor of HB 161, explained the three sections of the bill, which included

(1) raising the interest rate on student loans from 5% to 8%,

(2) eliminating the forgiveness clause, and

(3) limiting the program to students who

apply within 6 months of graduation from high school and start college with 2 years. All other applicants would have to demonstrate financial need.

Number 090 — Lisa McLaren, aide to Representative Koponen, sponsor of HB 185, explained that the bill allows for deferment of student loan payments for military service during the first enlistment term only. She said that HB 185 also clarifies the special conditions and length of time which a student could be out of state and still qualify for a student loan.

Number 145 — Chairman Sund, sponsor of HB 197, explained that the bill makes it possible to apply for a loan for a 4th consecutive quarter which would then be taken out of the next year's loan amount. The purpose of the bill, he said, is to allow graduating seniors to finish school during the summer quarter, rather than having to return in the fall.

Number 176 — Chairman Sund invited participants from around the state to share their views and questions with the committee members and bill sponsors.

Number 176 — Don Patterson of Wasilla testified against HB 197 and against HB 161.

Number 255 — Burt Augst, Director of Student Services at Islands Community College in Sitka, testified against HB 161.

Number 325 — Frank Haas of Haines testified against HB 161.

Number 341 — Tanja Lofftus of Wrangell asked if her parents' income would affect her eligibility for a loan.

Number 355 — Representative Binkley answered no, she would have full access to the program, since she is still in high school.

Number 362 — Lorna-Lee Arndt of Kodiak testified against raising the interest rate on student loans, and complained that her son's loan check had not arrived on time.

Number 425 — Kerry Romesburg, Executive Director of Postsecondary Education, answered that all

students who filed their applications by the deadline had their money on time.

Number 440 — Joyce Bergmann of Petersburg asked a question about the $35,000 income limit.

Number 450 — Dr. Romesburg answered that the income limit refers to federal student loans, and that few Alaskans would qualify under these limits.

Number 460 — Tyler Henshaw of Petersburg testified against HB 161 and in favor of HB 185 and HB 197.

Number 497 — Darin Hargraves of the University of Alaska Fairbanks testified against HB 161.

Number 520 — Kathy Ward of Dillingham testified against HB 161 and asked why the bill provided for forgiveness for rural teachers only.

Number 545 — Representative Binkley answered that the special loan program for rural students going into teaching as a profession was enacted by the legislature last year.

Number 556 — Tony Goforth of Unalaska testified in favor of HB 161, HB 185 and HB 197.

Number 576 — Paul Stubbe, Dean of Kodiak Community College, testified that almost all students there have been out of high school for more than 2 years.

Number 606 — Chris Tolladay of Anchorage Community College testified in favor of HB 185 and 197, and against HB 161 on the grounds that it discriminates against non-traditional students. She also said that she favors a first come first served basis.

CHANGE TAPE #8, SIDE TWO

Number 001 — Representative Uehling said that he favors an increase in the interest to 8%, but that he is not in favor of a needs-based program.

Number 025 — Michelle Merritt of Wrangell testified in favor of an 8% interest rate and against the elimination of forgiveness.

Number 082 — Barbara Todd testified against HB 161, and said that delinquent borrowers should be

charged a higher rate.

Number 115 — Dr. Romesburg answered that when loans are more than 120 days in default, the interest rate increases to 10%, all forgiveness is lost, the loan is turned over to a law firm, and the borrower is issued a summons to appear in court.

Number 148 — Cecilia Meyer of Homer testified against HB 161. She said that she is 36 years old, wants to go back to school, and does not want to sell her house in order to demonstrate need.

Number 252 — Gretchen Mau of Palmer asked if it would be necessary to take 12 credits in one 6-week summer session in order to qualify for a loan under HB 197.

Number 283 — Dr. Romesburg answered that 12 credits can be split between two summer sessions.

Number 399 — June Haas of Haines testified that forgiveness is an important feature of Alaska's student loans, because it encourages people to come back to Alaska to live.

Number 450 — Nathan Lewis of Kodiak testified against HB 161.

Number 460 — Ron Welsh of Sitka testified against HB 161 and in favor of HB 185 and HB 197.

Number 531 — Linda Fossen of Valdez testified against HB 161 and in favor of HB 197 and HB 185.

Number 550 — The teleconference ended and the meeting was adjourned at 5:00 p.m.

HOUSE SPECIAL COMMITTEE
ON STATE LOANS
March 1, 1985
3:30 p.m.

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

COMMITTEE CALENDAR

Loan Capitalization: Presentation by Legislative Finance

HB 161	Amended Title: "An Act relating to student loans; and providing for an effective date".
HB 185	"An Act relating to student loans; and providing for an effective date".
HB 197	"An Act relating to maximum loan amounts under the Scholarship Loan Program; and providing for an effective date".

WITNESS REGISTER

P.S. Dhillon, Fiscal Analyst
Legislative Finance Division
Pouch WF
Juneau, AK 99811
465-3795
Position Statement: Overview of capitalization of DCED loan programs

Mike Greany, Director
Legislative Finance Division
Pouch WF
Juneau, AK 99811
465-3795
Position Statement: Explanation of cash balances in loan funds.

John Hartle
Professional Assistant to Representative Sund
Pouch V
Juneau, AK 99811
465-4919
Position Statement: Explanation of current status of loan programs.

Al Adams, Representative

Pouch V
Juneau, AK 99811
465-3706
Position Statement: Observer

Lisa McLaren
Aide to Representative Koponen
Pouch V
Juneau, AK 99811
465-4992
Position Statement: Explanation of CSHB 185

Johne Binkley, Representative
Pouch V
Juneau, AK 99811
465-4985
Position Statement: Explanation and support of CSHB 161

PREVIOUS ACTION

Please refer to House Special Committee on State Loans,-State-wide Teleconference for HB 161, HB 185 and HB 197 Minutes for 2/26/85 and 2/27/85.

HB 161 returned to sponsor for revisions (see HSCSL minutes for 2/27/85.)

HB 197 and HB 185 combined to make CSHB 185 (see HSCSL minutes for 2/27/85.)

ACTION NARRATIVE

TAPE #10, SIDE ONE
Recording
Number 001

The meeting was called to order at 3:35 p.m.by Chairman Sund. Members present were Representatives Uehling and Sund. Representatives Duncan and Fuller arrived at 4:15 p.m.

Chairman Sund announced that P.S. Dhillon and John Hartle were present to provide information on the different loan accounts, e.g. how much cash is in accounts, the expected demand, etc.

Number 045

Mr. P.S. Dhillon, fiscal analyst for Legislative Finance, discussed cash balances in the various loan programs as of 6/30/84 and 1/31/85. He said that Legislative Audit Division had identified some over-

capitalization of the loan funds, after which Legislative Finance followed up by looking at some of the demand projections and comparing their findings with those of DCED. They also looked at one loan program in the Dept. of Revenue, the Fisheries Products Revolving Loan Fund.

Number 090 — Mr. Mike Greany, Director of Legislative Finance, explained that there are two reasons why there is a cash balance in some of the loan programs:

(1) Some of the programs are starting to see a significant payback; and

(2) Because interest rates are different now than they were when the programs were started, it is now more attractive for some borrowers to go to the commercial market. He added that the departments had verified the figures in the cases where there a cash surplus was found to exist.

Number 120 — Chairman Sund asked if the Governor had any appropriation in his FY 86 budget for the Mining Loan Fund.

Number 125 — Mr. Hartle answered that no, the governor had no appropriation for the Mining Loan Fund in the budget.

Number 130 — Mr. Dhillon explained that the Small Business Loan Fund and Tourism Revolving Loan Fund are not applicable because the balance in those funds is automatically transferred into the general fund at the end of the fiscal year. He went on to explain that the Veteran's Loan Fund is no longer being used to make new loans, but there is $8.8 million in the fund now that could be reappropriated. About $5 million more will be added to the fund as the remaining loans are paid off.

Number 235 — Mr. Dhillon went onto discuss the Residential Energy Loan Fund, which is expected to have a cash surplus of about $7 million at the end of FY 86.

Number 250 — Mr. Hartle made the point that none of the loan funds on the list (showing a surplus) are in the Governor's budget for this year.

Number 255 — Mr. Dhillon said that Commercial Fish, Fish Enhancement, and Alternative Technology show a deficit and are included in the Governor's budget.

Number 320 — Chairman Sund asked Mr. Dhillon to explain the fact that the Power Development Loan Fund shows a $12 million surplus.

Number 325 — Mr. Dhillon explained that $210 million was appropriated in 1984 for the Four Dam Pool. APA has a loan for $198 million from the DCED. The balance is $12 million, and to date there is no known use for the money. He added that future demand for the money would depend on the outcome of the Four Dam Pool negotiations.

Number 380 — Mr. Dhillon explained that $4 million in the Power Projects Fund relates to an appropriation (1981) for a loan to the City of Fairbanks Municipal Utility, but that, since the utility is not authorized to incur any debt, there has been no loan application. The legislature would have to take action in order to lapse the money.

Number 400 — Mr. Dhillon discussed the fact that there is a $38.5 million surplus in the Fish Product Revolving Loan Fund, with no new loan applications pending.

Number 450 — There was some discussion about taking a look at loan programs in the future.

Number 565 — Chairman Sund opened the meeting for consideration of student loan bills.

Number 568 — Representative Binkley explained the changes that had been made to HB 161 as follows: Sec. 1 remains the same, with interest rates going to 8%; Sec. 2 incorporates the language from HB 185, and the needs-based portion of the section has been deleted; and Sec. 3 phases out forgiveness over the next 5 years.

Number 630 — Representative Uehling suggested that it would be more fair to the current student loan recipients to eliminate forgiveness all at once at a future date (possibly 1989), since they started school with the belief that they would be able to get forgiveness.

Number 645 — Representative Fuller said that the Alaska Student Loan Program is one of the finest in the nation, and that it is time to stop rewarding people for coming back to Alaska.

CHANGE TAPE #10, SIDE TWO

Number 040 — Representative Duncan said that he was not in favor of eliminating the forgiveness clause, because the problems would outweigh the cost savings. He said it would cause concern among students and parents.

Number 060 — Representative Binkley said that the big savings would be that students would no longer have the idea that the more they borrow, the more the state will subsidize their education.

Number 083 — Chairman Sund asked Representative Uehling to clarify his concerns regarding the elimination of forgiveness.

Number 090 — Representative Uehling said that, although the state has no contract guaranteeing students forgiveness in upcoming years, he would prefer to see forgiveness eliminated after the students that are in school now have had a chance to finish.

Number100 — Representative Binkley said that student loans are made on a year to year basis, with no guarantee that the money will be available next year.

Number 127 — Representative Duncan said that he agrees with Representative Uehling, and that it would be better administratively to eliminate forgiveness all at once in 1989 than to phase it out over several years.

Number 148 — Representative Binkley said that Dr. Romesburg had indicated to him that a gradual phase-out of forgiveness would not be that difficult to do.

Number 200 — Chairman Sund asked the committee to set aside CSHB 161 in order to act first on CSHB 185, for which an amendment had been written. He went on to explain that Sections 1 and 2 of CSHB 185 are the identical language that was in HB 197. Section 3 is the original HB 185, and the proposed amendment limits the time period

after which a person leaves Alaska, that she/he can still apply for a loan.

Number 290 — Lisa McLaren explained some of the language in the amendment.

Number 320 — Representative Uehling moved and asked unanimous consent that the committee adopt CSHB 185. There were no objections and CSHB 185 was adopted.

Number 330 — Amendment number 1 for CSHB 185 was moved and adopted.

Number 335 — A motion was made to move CSHB 185 as amended, with individual recommendations. There were no objections.

Number 340 — Representative Uehling moved and asked unanimous consent that the committee adopt CSHB 161. There were no objections.

Number 390 — Representative Uehling moved and asked unanimous consent that amendment number 1 for CSHB 161 be adopted and inserted in Section 2, page 1. There were no objections.

Number 400 — Representative Duncan moved that Section 3 of CSHB 161 be eliminated, and in Section 6 change the reference to number 3 to number 2. which would have the effect of eliminating the forgiveness all at once in 1990.

Number 410 — There was some committee discussion regarding the motion.

Number 415 — The committee voted 3 to 1 to adopt amendment number 2.

Number 460 — Representative Uehling moved and asked unanimous consent the the committee pass out CSHB 161, as amended. There were several objections.

Representative Uehling withdrew his motion.

Number 480 — Representative Duncan introduced an amendment that would keep the interest rate at 5% for the first three years of repayment and raise it to 8% for the remainder. The intent, he said, is to encourage people to repay their loans quickly.

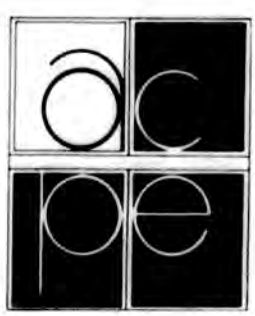
Number 500	There was discussion regarding Representative Duncan's amendment.
Number 530	Representative Duncan withdrew the amendment.
Number 535	Representative Uehling moved and asked unanimous consent that CSHB 161 be passed out of committee, with amendments 1 and 2 as adopted, with individual recommendations.
Number 538	Representative Duncan objected.
Number 540	The committee voted 3 to 1 in favor of the motion.
Number 545	The meeting was adjourned at 5:00 p.m.

STATE OF ALASKA

STUDENT FINANCIAL AID PROGRAMS

ANNUAL REPORT
1983-1984

Alaska Commission on Postsecondary Education
Pouch FP, 400 Willoughby Avenue
Juneau, Alaska 99811



STATE OF ALASKA

S T U D E N T

F I N A N C I A L A I D

P R O G R A M S

ANNUAL REPORT
1983-84

Document Number 85-1

Alaska Commission on Postsecondary Education
Pouch FP, 400 Willoughby Avenue
Juneau, Alaska 99811

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

Mr. Gordon Evans, Chairman (Juneau)
Ms. Patricia Abney (Anchorage)
Ms. Ruth Burnett (Fairbanks)
Ms. Patricia Clark (Fairbanks)
Mr. Lee Demmert (Sitka)
Ms. Susan Greene (Talkeetna)
Ms. Ernestine Griffin (Sitka)
Mr. Richard Helms (Anchorage)
Senator Joe Josephson (Anchorage)
Representative Terry Martin (Anchorage)
Ms. Barbara Thompson (Juneau)
Mrs. Blanche Walters (Nome)
Mr. Walter Ward (Soldotna)

COMMISSION OFFICE

Dr. Kerry D. Romesburg
Executive Director
Alaska Commission on Postsecondary Education
Pouch FP, 400 Willoughby Avenue
Juneau, Alaska 99811
(907) 465-2854, 465-2962

ALASKA STUDENT LOAN PROGRAM

Ms. Billie Jean Hall Loan Awards Officer	Ms. Julie Bennett GSL/DP Liaison	Ms. Linda Landvik Repayment Officer
Ms. Carol Barril Collections Officer	Mr. Kevin Hanon Accounting Supervisor	Ms. Peggy Corazza Records Officer

WICHE STUDENT EXCHANGE AND STATE EDUCATIONAL INCENTIVE GRANT PROGRAMS

Ms. Jane Byers Maynard Director, Special Programs	Ms. Robin Stephens Program Assistant

PREFACE

The Annual Report on Alaska Student Financial Aid Programs for 1983-84 is hereby transmitted to the Governor and the Legislature of the State of Alaska. The Student Loan Program is administered by the Alaska Commission on Postsecondary Education with advice and guidance of the Student Financial Aid Advisory Committee. Membership of this advisory committee for 1983-84 included:

Ms. Patricia Abney, Chairman (Anchorage)
Ms. Patricia Clark (Fairbanks)
Ms. Ida Greiner (Fairbanks)
Ms. Carol Johnsen (Sitka)
Ms. Marie MacKenzie (Anchorage)
Dr. Ed Nichols (Anchorage)

The Commission and staff wish to express their gratitude for the work of this advisory committee.

Kerry D. Romesburg
Executive Director

August 1984
(Date)

TABLE OF CONTENTS

	Page
LIST OF TABLES	v
LIST OF FIGURES	vi
INTRODUCTION	1
ALASKA STUDENT LOAN PROGRAM	
PROGRAM SUMMARY	2
LOAN AWARD AMOUNTS	3
UNDERGRADUATE LOANS	6
GRADUATE LOANS	11
LOAN REPAYMENTS	16
DEFAULT	18
STATISTICAL DATA	18
WICHE STUDENT EXCHANGE PROGRAM	
EXCHANGE FIELDS	19
SUPPORT FEES	20
PARTICIPATION RATES	20
STATE EDUCATIONAL INCENTIVE GRANT (SEIG) PROGRAM	
PARTICIPATION RATES	23
APPENDIX: ALASKA STUDENT LOAN PROGRAM - ADDITIONAL DATA	25

LIST OF TABLES

Table		Page
1	MEAN LOAN AMOUNT PER RECIPIENT BY IN-STATE/OUT-OF-STATE STUDENT LEVEL, 1980-81 through 1983-84	5
2	TEN TOP STATES OF ATTENDANCE FOR ALASKANS WITH UNDER-GRADUATE LOANS, 1979-80 through 1983-84	7
3	IN-STATE/OUT-OF-STATE ATTENDANCE BY STUDENT LEVEL, 1982-83 through 1983-84	9
4	TEN TOP STATES OF ATTENDANCE FOR ALASKANS WITH GRADUATE LOANS, 1979-80 through 1983-84	13
5	DISTRIBUTION OF BORROWERS BY FOREIGN COUNTRY OF ATTENDANCE, 1983-84	15
6	ANNUAL DEFAULT RATES OF ALASKA STATE STUDENT LOANS, 1971-72 through 1983-84	18
7	WICHE STUDENT EXCHANGE PROGRAM SUPPORT COSTS, 1976-77 through 1983-84	20
8	WICHE EXCHANGE STUDENTS BY FIELD, 1977-78 through 1983-84	21
9	WICHE SUPPORT COSTS BY FIELD OF STUDY, 1983-84	22
10	DISTRIBUTION OF STUDENTS RECEIVING STATE EDUCATIONAL INCENTIVE GRANTS, 1978-79 through 1983-84	24
11	TWELVE-YEAR SUMMARY, 1971-72 through 1983-84	26
12	YEARLY SUMMARY OF UNDERGRADUATE STUDENT LOANS	27
13	YEARLY SUMMARY OF GRADUATE STUDENT LOANS	28
14	YEARLY SUMMARY OF ALL STUDENT LOANS	29
15	MEAN LOAN AMOUNT PER RECIPIENT, BY IN-STATE/ OUT-OF-STATE INSTITUTIONAL ATTENDANCE	30
16	DISTRIBUTION OF ALASKA STATE LOANS FOR STUDENTS ATTENDING IN ALASKA, 1983-84 Loans	31
17	INSTITUTIONS AT WHICH AT LEAST FIFTY ALASKA STUDENT LOAN BORROWERS ATTENDED, 1983-84 Loans	33

LIST OF FIGURES

Figure		Page
1	MEAN LOAN AMOUNT FOR ALL LOANS IN-STATE, OUT-OF-STATE, AND COMBINED	4
2	PERCENT OF UNDERGRADUATE LOANS USED IN ALASKA	8
3	GEOGRAPHIC DISTRIBUTION OF ALASKANS UTILIZING STATE LOANS FOR UNDERGRADUATE EDUCATION IN 1983-84	10
4	PERCENT OF GRADUATE LOANS USED IN ALASKA	12
5	GEOGRAPHIC DISTRIBUTION OF ALASKANS UTILIZING STATE LOANS FOR GRADUATE EDUCATION IN 1983-84	14
6	STUDENT LOAN COLLECTIONS AND FORGIVENESS BENEFITS . .	17

INTRODUCTION

The State of Alaska provides student financial assistance for postsecondary study through three programs: the Alaska Student Loan Program, the WICHE Student Exchange Program, and the State Educational Incentive Grant (SEIG) Program. The three programs provide Alaskans with access to postsecondary education which otherwise might not be available. Through the loan and grant programs direct financial assistance is awarded to students in an effort to remove or lessen financial barriers to postsecondary education. Through the student exchange program, Alaskans have access to graduate, professional, and highly specialized fields which are unavailable in-state.

This report briefly summarizes each of these programs and the participation levels for 1983-84. The Student Loan Program will be discussed first, then the WICHE Student Exchange Program, and finally, the Incentive Grant Program.

ALASKA STUDENT LOAN PROGRAM

The Alaska Student Loan Program is one of the most successful programs offered by the State of Alaska. Its purpose is to provide low-interest loans to Alaskans wishing to pursue education and training at a postsecondary level. The program has grown from serving just over 1,000 Alaskans, in 1971-72, to the current 1983-84 level of serving nearly 15,000 Alaskans.

The Alaska Student Loan Program had its origin in a program of scholarship loans established by the 1968 Alaska State Legislature. This program was amended in 1970 and completely restructured in 1971, when the Legislature established the loan program generally as it exists at present. In the twelve years of operation since then, nearly 63,000 student loans have been awarded to Alaskan residents, for a total of nearly $150 million.

Educational loans of up to $6,000 and $7,000 per year for undergraduate and graduate study, respectively, are provided to eligible state residents. These loans, to be used only to offset the costs of tuition, room, board, and books, offer the borrower a ten-year repayment period at an annual interest rate of five percent. The loans may be used for full-time attendance at any accredited or approved college, university, or vocational-technical program. An incentive of up to fifty percent cancellation is offered to those borrowers who reside in Alaska after completion of their programs of study.

Program Summary

During the 1983-84 school year over 16,000 loans were awarded, and 14,785 were finalized and used for postsecondary attendance. Of these 14,785 loans, 50.5 percent were for attendance in Alaska, and 49.5 percent were for attendance out-of-state.

Undergraduate loans continue to dominate the loan volume, with only 13.2 percent of the 1983-84 loans going for graduate study. The largest single group of loans were for freshman borrowers, who accounted for 27.7 percent of all the 1983-84 loans.

Alaskans use these loans for study throughout the United States, and in a number of foreign countries. During the 1983-84 loan year, students from Alaska used state loans for attendance in every state in the Union and in seventeen foreign countries. The most frequent choice continues to be Alaska by more than a four-to-one margin over any other state.

Loan Award Amounts

The average loan award continued to rise slightly in 1983-84, following the dramatic rise in 1981-82 when the borrowing maximums were raised. For 1983-84, an undergraduate average loan was $4,171 while the average graduate loan was $5,097. Out-of-state student loans continue to be higher, on the average, than in-state loans, due largely to non-resident tuition fees. This is graphically presented in Figure 1. It is anticipated that the trend toward higher average loans will continue in the years ahead as tuition rates continue to increase.

Table 1 contains average loan amounts by student level for the last three years, 1981-82, 1982-83, and 1983-84. In general all loans, regardless of level, have steadily increased, for students attending in-state, and have leveled, or even dropped slightly, for those attending out-of-state. The out-of-state borrower averages a higher loan amount than the in-state borrower for every classification other than vocational.

FIGURE 1
MEAN LOAN AMOUNT FOR ALL LOANS
IN-STATE, OUT-OF-STATE, AND COMBINED

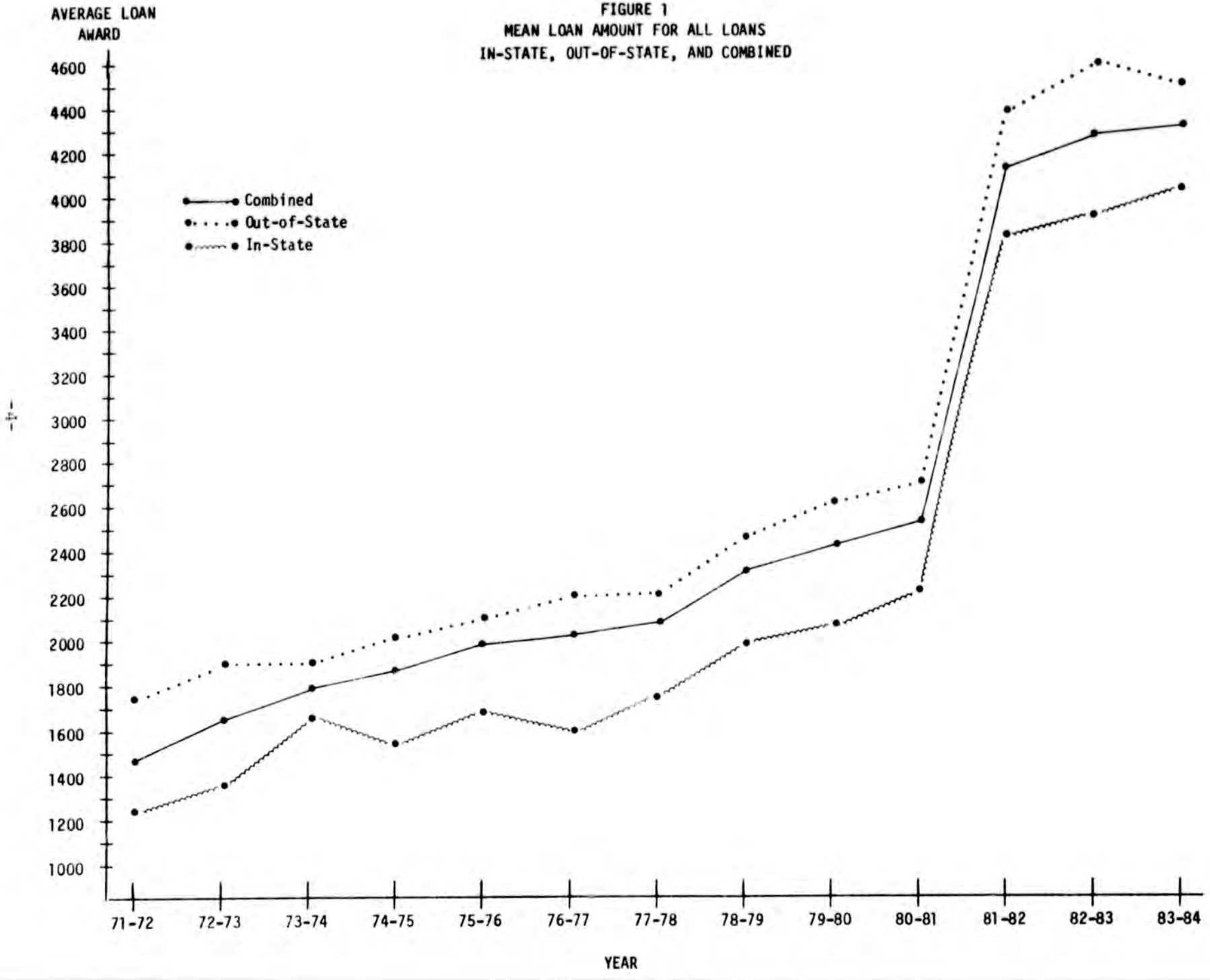


TABLE 1
MEAN LOAN AMOUNT PER RECIPIENT BY
IN-STATE/OUT-OF-STATE AND STUDENT LEVEL
1980-81 thru 1983-84

Student Level	In Alaska			Out-of-State			Combined		
	81-82	82-83	83-84	81-82	82-83	83-84	81-82	82-83	83-84
Freshman	$3,485	$3,236	$3,275	$3,985	$4,322	$4,166	$3,727	$3,739	$3,681
Sophomore	3,782	3,693	3,687	4,056	4,371	4,377	3,925	4,046	4,045
Junior	3,758	3,705	3,889	4,200	4,503	4,541	4,000	4,143	4,249
Senior	3,722	3,745	3,920	4,041	4,480	4,450	3,897	4,140	4,180
Vocational	4,645	5,076	5,224	4,925	4,769	4,544	4,812	4,996	5,028
Undergraduate	3,751	3,847	3,992	4,180	4,432	4,377	3,977	4,122	4,171
Graduate	4,630	4,454	4,527	5,401	5,336	5,257	5,218	5,129	5,097
TOTAL	$3,796	$3,872	$4,013	$4,345	$4,558	$4,502	$4,098	$4,213	$4,255

Undergraduate Loans

The number of undergraduate students receiving loans under the state program has increased greatly over the past twelve years. In 1971-72, 990 undergraduates received assistance, while in 1983-84, the number has grown to 13,449. Of these 13,449 loan recipients, 53.3 percent used their loans for attendance in Alaska, and 46.7 percent used their loans out-of-state. The states most frequently chosen by undergraduates in 1983-84 are presented in Table 2.

The consistency of student choice over the past few years is quite high. Alaska remains the most frequent choice for undergraduate attendance this year, as it has been in the past, followed by Washington, Oregon and California.

The average loan amount increased in almost every case, with the most pronounced increase in loans for attendance in Arizona, Colorado, and Alaska. Hawaii continues to be one of the states for which undergraduate loan amounts are the lowest, ($3,426), and two of the top ten states of attendance have lower average loans than does Alaska.

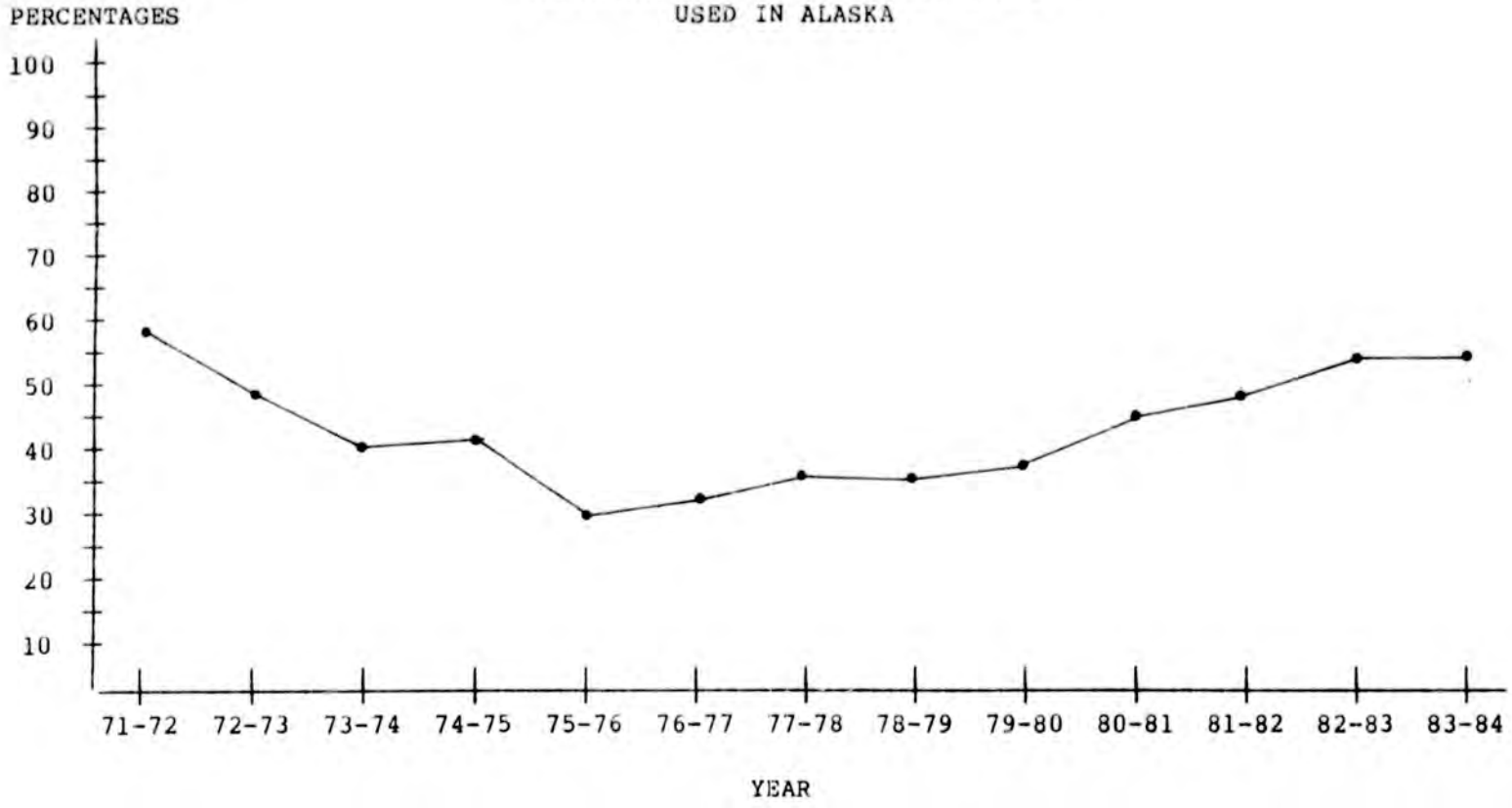
The percent of undergraduates using their loans for attendance in Alaska increased slightly this year. In fact, as can be seen in Figure 2, the 1983-84 rate of 53.3 percent is the highest in-state rate since 1971-72.

The increasing drawing power of Alaskan institutions is hypothesized to be the result of a number of factors including the maturation of Alaska's schools and the accompanying wider array of offerings, as well as the increased cost of attendance at schools outside of Alaska.

TABLE 2
TEN TOP STATES OF ATTENDANCE
FOR ALASKANS WITH
UNDERGRADUATE LOANS
1978-79 through 1983-84

	NUMBER					AVERAGE LOAN				
STATE	79-80	80-81	81-82	82-83	83-84	79-80	80-81	81-82	82-83	83-84
Alaska	1,245	2,606	4,225	6,305	7,175	$1,983	$2,137	$3,751	$3,847	$3,992
Washington	479	700	1,045	1,314	1,549	2,394	2,495	4,091	4,610	4,511
Oregon	372	500	746	908	949	2,360	2,506	4,242	4,756	4,590
California	191	280	373	556	664	2,517	2,519	4,268	4,858	4,919
Colorado	157	151	280	372	408	2,549	2,502	4,584	5,050	5,233
Arizona	104	142	206	352	404	2,261	2,413	4,344	4,444	4,717
Idaho	94	125	199	265	253	2,217	2,407	3,826	3,866	4,002
Hawaii	89	79	160	258	248	1,888	2,076	3,463	3,514	3,426
Utah	53	85	153	202	209	2,091	2,029	3,564	3,664	3,763
Texas	45	93	114	153	187	2,219	2,331	4,003	4,189	4,227
Remaining U.S.	613	1,000	1,442	1,184	1,369	N.A.	N.A.	N.A.	N.A.	N.A.
Foreign	N.A.	N.A.	N.A.	26	34	N.A.	N.A.	N.A.	4,101	4,234
TOTAL	3,448	5,751	8,935	11,879	13,449	$2,393	$2,319	$3,977	$4,139	$4,171

FIGURE 2
PERCENTAGE OF UNDERGRADUATE LOANS
USED IN ALASKA



The wide geographic distribution of Alaskans pursuing undergraduate education is shown most vividly in Figure 3, with Alaskan undergraduates attending institutions in every state of the Union. The predominance of the West and Northwest is quite evident, with only Alaska, Washington, Oregon, California, Colorado, Arizona, Idaho, Hawaii and Utah, receiving over 200 Alaskan undergraduates on state loans. Of the thirteen western states comprising the WICHE compact (Western Interstate Commission for Higher Education), only Wyoming received fewer than 35 Alaska undergraduates on state loans. In fact, the WICHE states account for 90.1 percent of the undergraduate loan recipients.

Under the state loan program, Alaskans may pursue their educational goals in whatever setting seems most appropriate for them. The freedom of choice which this provides is quite evident by the wide geographic distribution of our students.

As can be seen in Table 3, Alaska attendance accounts for a very high percentage of vocational borrowers (71.2% in 1983-84). Also, more than half (54.4%) of the freshman borrowers elected to attend in Alaska in 1983-84. There seems to be an increased tendency toward attendance out-of-state as student level increases, however this could be due to a number of factors including the changing attendance patterns the last few years and the propensity to remain in school rather than stop-out or drop-out. Hence, caution should be used in drawing inferences from these data.

TABLE 3
IN-STATE/OUT-OF-STATE ATTENDANCE
BY STUDENT LEVEL
1982-83 through 1983-84

STUDENT LEVEL	1982-83				1983-84			
	Alaska		Out-of-State		Alaska		Out-of-State	
	No.	%	No.	%	No.	%	No.	%
Freshman	2,041	53.8	1,756	46.2	2,229	54.4	1,868	45.6
Sophmore	1,255	47.9	1,364	52.1	1,331	48.1	1,439	51.9
Junior	871	45.0	1,063	55.0	956	44.8	1,176	55.2
Senior	793	46.3	918	53.7	850	44.5	1,060	55.5
Vocational	1,334	74.0	468	26.0	1,809	71.2	731	28.8
TOTAL	6,294	53.1	5,569	46.9	7,175	53.3	6,274	46.7

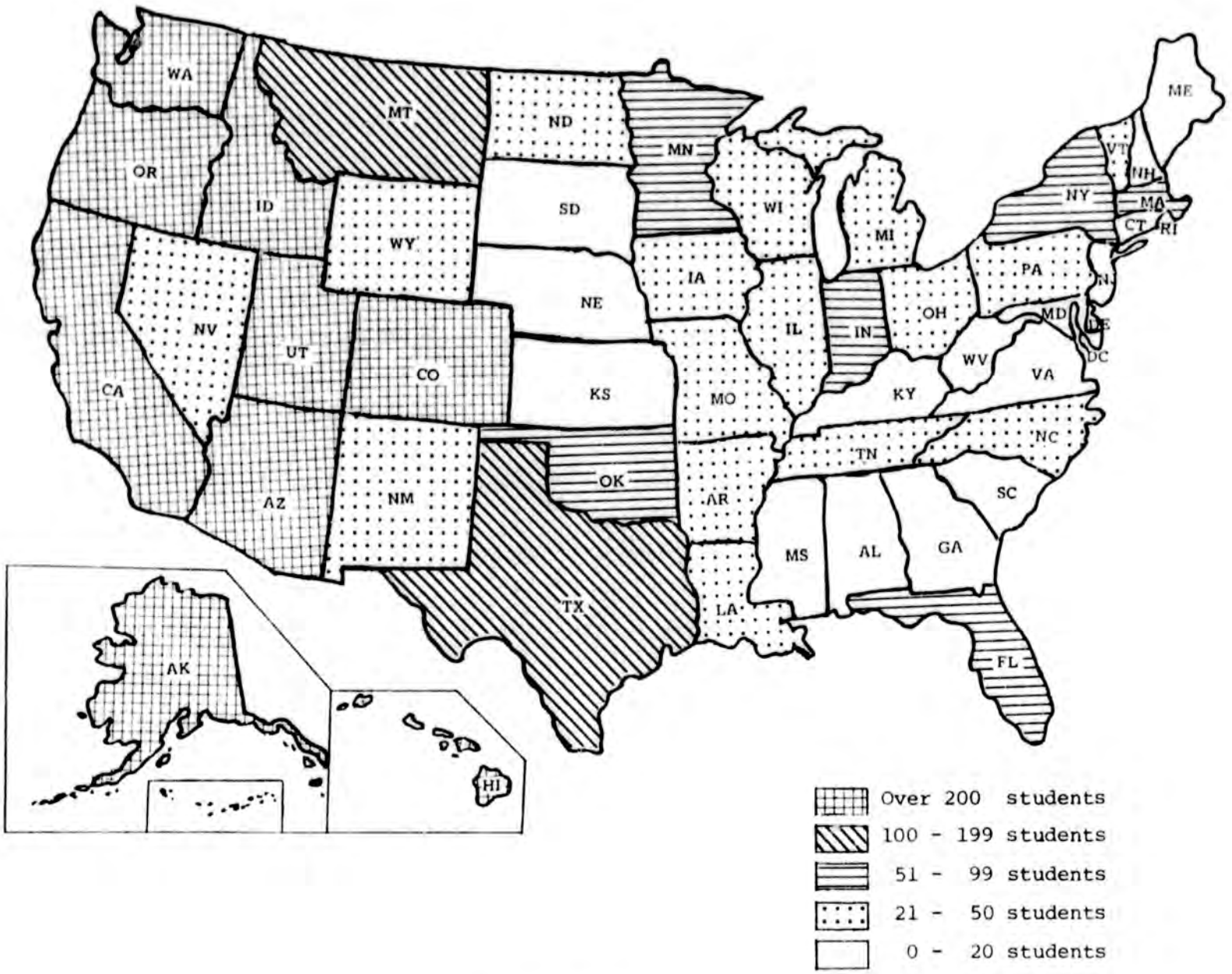


FIGURE 3
GEOGRAPHIC DISTRIBUTION OF ALASKANS UTILIZING
STATE LOANS FOR UNDERGRADUATE EDUCATION IN 1983-84

Graduate Loans

The number of Alaskans receiving loans for graduate study has increased nearly twelve fold since the program began in 1971-72. This year 1,336 students received assistance for the pursuit of graduate study. Of these 1,336, 78.1 percent used their loans for attendance outside of Alaska, while 21.9 percent used them for attending school in-state. The percentage of graduate loan recipients attending school in Alaska has been relatively stable the last few years, after decreasing steadily from 1971-72 through 1977-78. This trend is presented in Figure 4, and is probably largely due to the increased availability of programs in Alaska.

The states most frequently chosen by graduate students from Alaska in 1983-84 are presented in Table 4. Again, as with undergraduates, the students' preference is quite stable.

The average loan award for 1983-84 increased for some states and decreased for others, with the largest increases for students attending graduate institutions in Hawaii and California.

Alaskans pursuing graduate educational goals are also distributed quite widely across the nation, with Alaskan graduate loan recipients attending institutions in all but four of the fifty states. The predominance of the West, and particularly the West Coast, is readily apparent in Figure 5.

Only Alaska, Washington, California, and Oregon received more than 100 Alaskan graduate students on state loans. The thirteen states comprising the WICHE compact account for 74.5 percent of all the graduate Alaskan loan recipients for 1983-84.

FIGURE 4
PERCENT OF GRADUATE LOANS
USED IN ALASKA

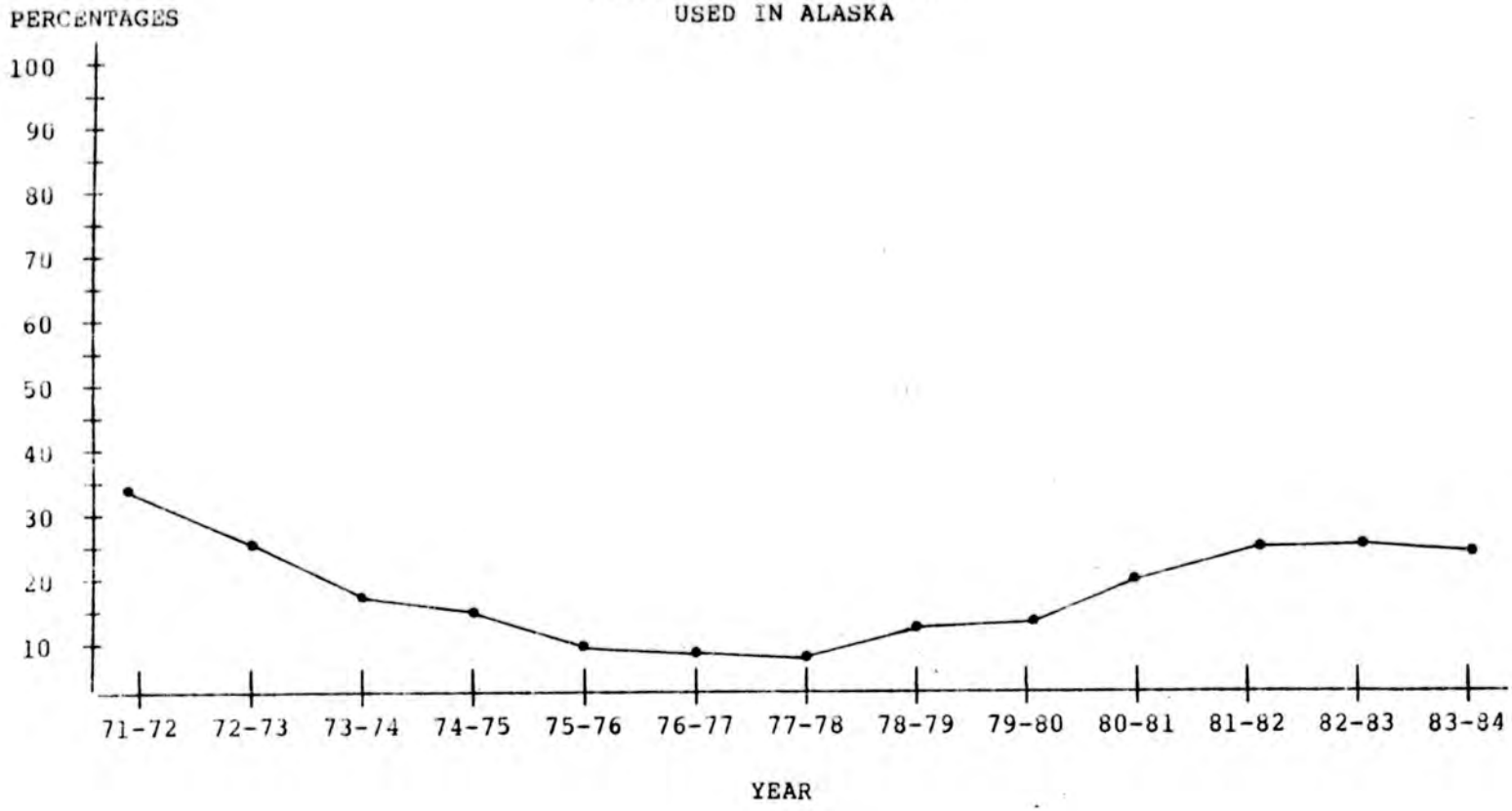


TABLE 4
TEN TOP STATES OF ATTENDANCE
FOR ALASKANS WITH
GRADUATE LOANS
1979-80 through 1983-84

STATE	NUMBER					AVERAGE LOAN				
	79-80	80-81	81-82	82-83	83-84	79-80	80-81	81-82	82-83	83-84
Alaska	58	127	229	276	292	$2,906	$3,086	$4,630	$4,454	$4,527
California	73	90	113	183	237	3,441	3,937	5,693	5,599	5,783
Washington	77	129	148	161	164	3,847	3,848	5,740	5,447	5,535
Oregon	49	75	91	127	143	3,526	4,011	5,103	5,351	4,682
Colorado	18	19	27	35	42	3,972	4,149	5,303	5,369	5,210
Massachusetts	9	18	25	32	33	3,911	4,953	5,927	6,217	6,404
Arizona	9	17	18	29	32	3,586	3,041	4,408	4,822	4,950
Hawaii	8	19	21	26	30	2,988	3,393	5,079	3,909	4,457
Texas	3	10	20	23	28	3,600	3,204	4,445	4,830	4,971
Utah	4	7	10	22	28	3,200	3,426	4,858	4,710	4,644
Remaining U.S.	162	193	261	265	284	N.A.	N.A.	N.A.	N.A.	N.A.
Foreign	N.A.	N.A.	N.A.	14	23	N.A.	N.A.	N.A.	5,084	4,410
TOTAL	470	709	963	1,179	1,336	$3,646	$3,746	$5,218	$5,151	$5,097

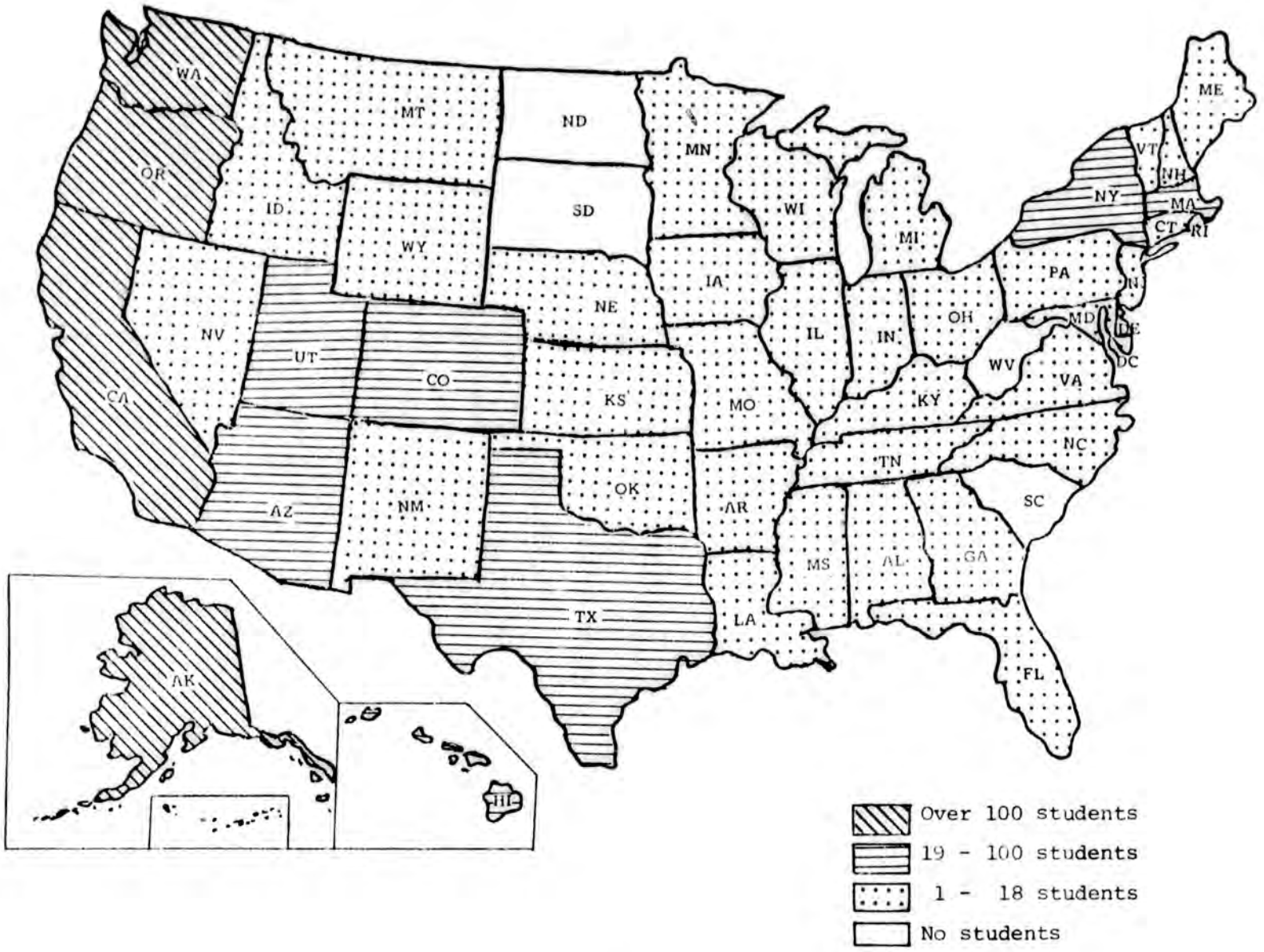


FIGURE 5
GEOGRAPHIC DISTRIBUTION OF ALASKANS UTILIZING
STATE LOANS FOR GRADUATE EDUCATION IN 1983-84

Foreign Study

Alaskans used state loans for study in forty different institutions in seventeen foreign countries in 1983-84. The distribution of these students by country of attendance is presented in Table 5. Not too surprisingly, Canada is the most popular foreign country for attendance of Alaskan students.

TABLE 5
DISTRIBUTION OF BORROWERS
BY FOREIGN COUNTRY OF ATTENDANCE
1983-84

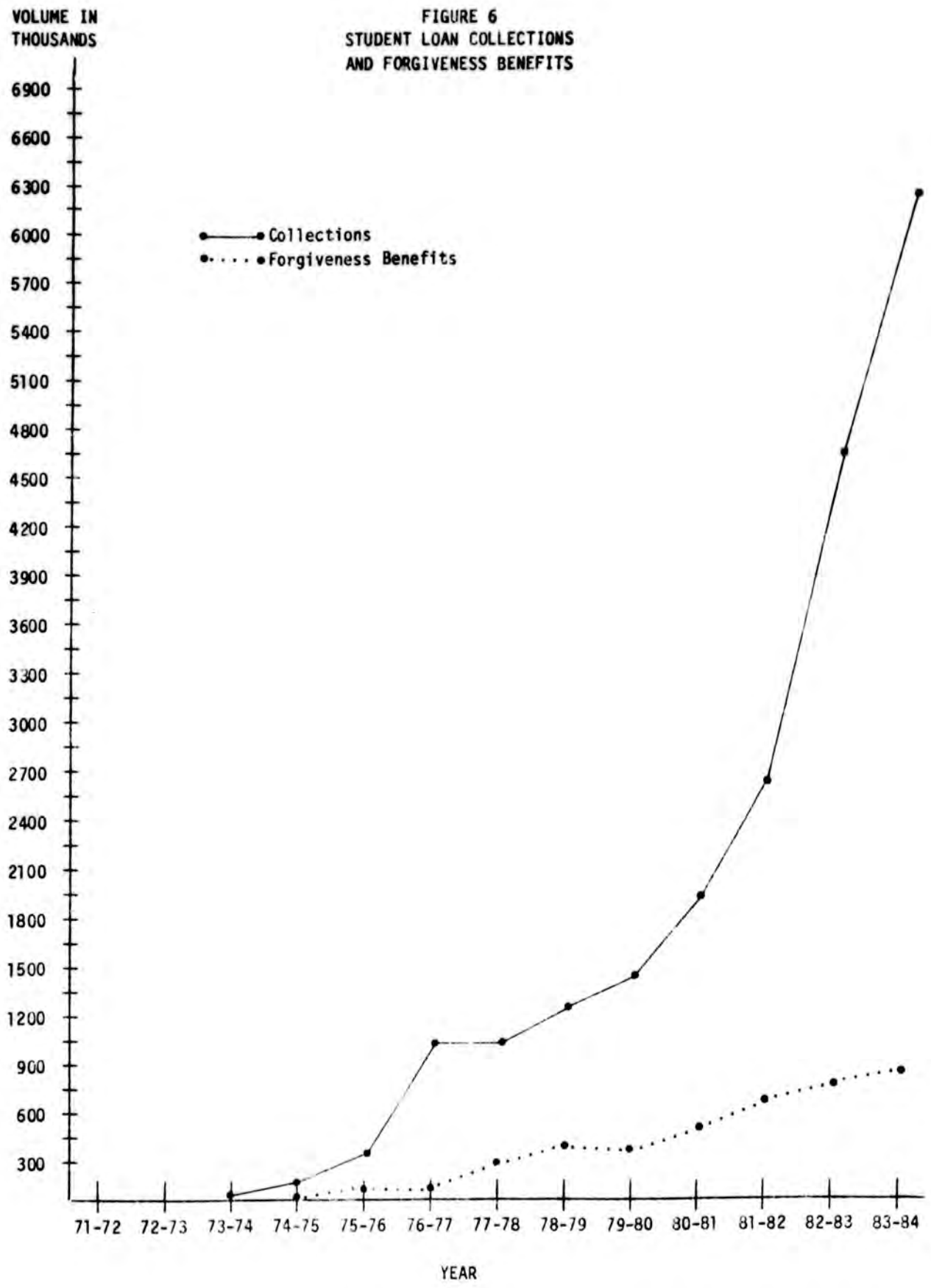
FOREIGN COUNTRY	UNDERGRADUATE		GRADUATE	
	Number	Average Loan	Number	Average Loan
Austria	1	$3,000	--	$ -0-
Australia	2	3,700	1	7,000
Belgium	--	-0-	1	2,100
Canada	12	4,980	12	4,250
Denmark	3	2,850	--	-0-
England	2	3,150	5	4,006
Finland	1	3,550	--	-0-
France	3	4,500	2	5,550
Ireland	1	4,400	--	-0-
Japan	2	6,000	2	5,100
Mexico	1	3,000	--	-0-
New Zealand	1	4,150	--	-0-
Norway	1	4,900	--	-0-
Philippines	1	1,050	--	-0-
Scotland	1	3,000	--	-0-
Spain	1	6,000	--	-0-
Sweden	1	1,700	--	-0-
TOTAL	34	$4,402	23	$4,410

Loan Repayments

The student loan program is based upon a revolving fund with the students' loan repayments being re-utilized for future student loans. Since 1971-72 (actually 1974-75, since there were no repayments received the first few years), Alaskans have repaid over $22 million on their educational loans. The volume of these revolving funds now contribute a significant portion of the loan account, and as can be seen in Figure 6, these repayments are rapidly increasing each year.

Also presented in Figure 6 is a representation of the forgiveness history of the student loan program. Students who reside in Alaska after completion of their course of study are eligible to have up to 50 percent of their loans forgiven. Beginning with the first such forgiveness in 1974-75, the total amount of loan funds (including interest) which the State of Alaska has forgiven has generally shown large annual increases, with the exception of 1979-80 when forgiveness benefits temporarily leveled. During 1983-84 nearly 2,500 Alaskans received partial forgiveness of their student loans. Increases are projected to continue over the next few years as larger numbers of students complete their educational programs.

FIGURE 6
STUDENT LOAN COLLECTIONS
AND FORGIVENESS BENEFITS



Default

Nationally, student loans have a notoriously high default rate, and, unfortunately, Alaska's program also has experienced problems with loan collections. Although the Alaska program had been doing considerably better than the federal loan programs, the default rate has begun to rise during 1983-84. As can be seen in Table 6, the default rate had been steadily decreasing since the concerted effort began in 1975-76 to pursue these bad debts. However, during 1983-84 default volumes outstripped available manpower and the rate rose dramatically. It is anticipated that the use of private collection agencies during 1984-85 will bring the default rate back down.

TABLE 6
ANNUAL DEFAULT RATES OF
ALASKA STATE STUDENT LOANS
1971-72 through 1983-84

LOAN YEAR	DEFAULT RATE* (June 30)
1971-72	N.A.
1972-73	N.A.
1973-74	N.A.
1974-75	80.0%
1975-76	44.6%
1976-77	24.9%
1977-78	22.3%
1978-79	19.3%
1979-80	14.5%
1980-81	11.5%
1981-82	9.2%
1982-83	9.1%
1983-84	13.5%

*Default is 120+ days past due.

Statistical Data

In the Appendix are Tables 11-17 containing data on the Alaska Student Loan Program from 1971-72 through 1983-84. Information on the number and amounts of loans made annually to undergraduate and graduate students attending in-state and out-of-state is presented in Tables 11-14. Table 15 contains summaries of the average size loan awarded each year, and Tables 16 and 17 contain data on institutions most frequently attended by Alaska Student Loan borrowers.

WICHE STUDENT EXCHANGE PROGRAM

Through its participation in the thirteen-state Western Interstate Commission for Higher Education (WICHE), Alaska provides residents with access to sixteen fields of professional education not available in-state. The WICHE Student Exchange Program provides access to these sixteen fields at participating institutions throughout the compact states, and makes these programs available at a reduced tuition rate to the out-of-state WICHE students. These reduced rates usually amount to the normal in-state tuition rate at public colleges and universities and one-third the regular tuition rate at private colleges and universities. Alaskans certified for participation in this exchange program may also expect preferential admissions consideration by the schools to which they apply. For this, Alaska pays the college or university in which the Alaskan exchange student enrolls a set fee for a particular field of study. This fee, the support fee, covers the non-resident portion of the tuition and a portion of the institution's operating costs. The student does not receive any direct payment under this program.

Exchange Fields

The WICHE exchange fields in which Alaska would support students for the 1983-84 year included:

Architecture	Occupational Therapy
Dentistry	Optometry
Forestry	Osteopathy
Graduate Library Studies	Pharmacy
Graduate Nursing	Physical Therapy
Law	Podiatry
Maritime Technology	Public Health
Medicine	Veterinary Medicine

A student eligible for state certification in any of these fields must apply for and gain admission to the program of study. The admission decision rests solely with the receiving institution.

Support Fees

The amount of the support fee to be paid for each field of study is set annually by the WICHE Commission, with membership from all thirteen member states. These fees have increased more or less steadily over the last six years, and at the same time, Alaska's participation level has also steadily increased. As can be seen in Table 7, the total support fees exceeded $1.5 million.

TABLE 7
WICHE STUDENT EXCHANGE PROGRAM SUPPORT COSTS
1976-77 through 1983-84

Academic Year	Total Students	Total Fees
1976-77	114	$ 368,473
1977-78	134	634,114
1978-79	171	639,244
1979-80	209	853,959
1980-81	232	956,509
1981-82	269	1,223,091
1982-83	300	1,498,232
1983-84	284	1,591,440
TOTAL	1,713	$7,770,062

Participation Rates

Law continues to be the most popular field for Alaskan students. In 1982-83 Law students accounted for 60.0 percent of the students supported under the exchange program. In 1983-84, Law represented 58.1 percent of the exchange students. The growth fields for 1983-84 were Architecture, Graduate Nursing, Occupational Therapy, Veterinary Medicine, and Osteopathy. For the first time, Law experienced an appreciable decline. These data are listed in Table 8.

TABLE 8
WICHE EXCHANGE STUDENTS BY FIELD
1976-77 through 1983-84

Field of Study	77-78	78-79	79-80	80-81	81-82	82-83	83-84
Architecture	6	9	7	9	15	17	18
Dental Hygiene*	1	1	1	0	1	0	0
Dentistry	11	13	13	15	18	15	15
Forestry	4	10	9	7	6	6	6
Graduate Library	2	5	2	11	8	7	9
Graduate Nursing	1	1	2	6	3	4	7
Law	64	75	100	142	155	180	165
Maritime Technology	N.A.	N.A.	N.A.	N.A.	7	7	4
Medicine	12	11	8	6	11	11	11
Occupational Therapy	3	1	1	3	3	4	6
Optometry	4	7	7	5	5	4	3
Osteopathy	N.A.	N.A.	N.A.	N.A.	3	6	10
Pharmacy	3	4	3	5	3	5	3
Physical Therapy	4	3	2	2	6	9	4
Podiatry	0	2	2	3	4	2	1
Public Health	1	2	1	10	14	11	7
Veterinary Medicine	7	8	8	8	7	12	15
TOTAL	123	152	166	232	269	300	284

*Discontinued as an exchange field in 1981-82.

The cost of the student exchange for 1983-84 is detailed in Table 9. It can be seen that because of the relatively low support fee for Law, Law exchange students accounted for only 40.0 percent of the total exchange cost (as opposed to accounting for 58.1 percent of the students).

TABLE 9
WICHE SUPPORT COSTS BY FIELD OF STUDY
1983-84

Field of Study	Support Fee	Total Students	Total Costs
Architecture	$ 3,200	18	$ 57,600
Dentistry	10,500	15	185,500
Forestry	3,000	6	16,550
Graduate Library	4,000	9	42,600
Graduate Nursing	5,800	7	31,900
Law	3,800	165	619,030
Maritime Technology	7,300	4	24,334
Medicine	20,000	11	220,000
Occupational Therapy	3,500	6	19,250
Optometry	5,600	3	16,800
Osteopathy	9,000	10	90,000
Pharmacy	4,400	3	15,400
Physical Therapy	4,100	4	19,134
Podiatry	6,200	1	6,200
Public Health	4,900	7	30,626
Veterinary Medicine	13,100	15	196,500
TOTAL	N.A.	284	$1,591,440

STATE EDUCATIONAL INCENTIVE GRANT (SEIG) PROGRAM

The State Educational Incentive Grant (SEIG) Program provides need-based grants to eligible Alaskans enrolled in undergraduate programs. Grant awards range from a minimum of $100 to a maximum of $1,500 each, depending upon demonstrated need. One-half of each grant is federally funded and one-half is provided by the State. Grants are awarded to eligible applicants in order of greatest financial need as measured by a standard need analysis.

Participation Rates

1983-34 was the sixth year of operation of the SEIG Program in Alaska. Over 2,000 Alaskans applied for grant funds in 1983-84, but because of fund limitations, only 126 grants were awarded. As can be seen in Table 10, this is a decrease from 1982-83 when 161 grants were awarded. The decline is the result of reductions in funds at the federal level. The grant funds available in 1983-84 were 13.0 percent less than the previous year.

Also listed in Table 10 are the awards for in-state and out-of-state attendance and an institutional listing of the in-state awards. As in the past, University of Alaska, Anchorage students received the most SEIG awards.

TABLE 10
DISTRIBUTION OF STUDENTS RECEIVING STATE
EDUCATIONAL INCENTIVE GRANTS
1978-79 through 1983-84

Institution	Number of Grants						Award Totals					
	78-79	79-80	80-81	81-82	82-83	83-84	78-79	79-80	80-81	81-82	82-83	83-84
U of Alaska, Anchorage	87	85	84	43	29	17	$ 61,225	$119,219	$118,511	$ 55,750	$ 41,500	$ 25,500
U of Alaska, Fairbanks	42	12	24	25	20	12	30,464	12,357	28,500	36,500	27,000	25,500
U of Alaska, Juneau	11	6	1	2	6	2	6,082	6,798	1,500	3,000	7,500	3,000
Anchorage CC	*	*	35	18	23	17	*	*	52,500	22,744	34,000	25,500
Kenai Peninsula CC	*	5	4	5	10	1	*	7,500	6,000	6,000	14,250	1,500
Mat-Su CC	*	*	3	1	3	2	*	*	4,500	1,500	4,500	3,000
Tanana Valley CC	**	**	0	1	0	0	**	**	0	2,250	0	0
Sheldon Jackson College	46	8	5	6	11	4	26,753	12,000	7,500	9,750	14,250	6,000
Alaska Pacific University	4	0	2	0	1	0	2,265	0	3,000	0	750	0
Alaska Business College	0	0	0	0	1	1	0	0	0	0	1,500	1,500
Kuskokwim Community College	0	0	0	0	1	0	0	0	0	0	1,500	0
Islands Community College	0	0	0	0	0	3	0	0	0	0	0	4,500
Ketchikan Community College	0	0	0	0	0	2	0	0	0	0	0	3,000
Prince William Sound	0	0	0	0	0	1	0	0	0	0	1,500	1,500
Gordon's Aviation	0	0	0	0	0	1	0	0	0	0	1,500	1,500
Total In-State	190	116	158	101	110	68	$126,789	$157,874	$222,011	$136,994	$146,750	$102,000
Total Out-of-State	3	61	80	73	51	58	$ 2,323	$ 82,731	$116,909	$102,030	$ 70,500	$ 87,000
TOTAL	193	177	238	174	161	126	$129,112	$240,605	$338,920	$239,024	$217,250	$189,000

*Reported in UAA totals.
**Reported in UAF totals.

APPENDIX

ALASKA STUDENT LOAN PROGRAM
ADDITIONAL DATA

ALASKA STUDENT LOAN PROGRAM
(1971-72 through 1983-84)

TABLE 11
THIRTEEN-YEAR SUMMARY
(1971-72 through 1983-84)

	STUDENTS ATTENDING IN-STATE				STUDENTS ATTENDING OUT-OF-STATE				TOTAL	
STUDENT LEVEL	Number of Loans	Percent of Total	Loan Amount	Percent of Total	Number of Loans	Percent of Total	Loan Amount	Percent of Total	Number of Loans	Loan Amount
Under-graduate	26,591	47.2	$84,586,275	45.9	29,782	52.8	$ 99,728,023	54.1	56,373	$184,314,298
Graduate	1,245	19.5	$ 4,858,054	17.4	5,152	80.5	$ 23,045,685	82.6	6,397	$ 27,903,739
TOTAL	27,836	44.3	$89,444,329	42.1	34,934	55.7	$122,773,708	57.9	62,770	$212,218,037

TABLE 12
YEARLY SUMMARY
OF
UNDERGRADUATE STUDENT LOANS

	STUDENTS ATTENDING IN-STATE				STUDENTS ATTENDING OUT-OF-STATE				TOTAL	
ACADEMIC YEAR	Loan Recipients	Percent of Total	Loan Amount	Percent of Total	Loan Recipients	Percent of Total	Loan Amount	Percent of Total	Loan Recipients	Loan Amount
1971-72	570	57.6	$ 680,351	50.1	470	42.4	$ 666,536	49.5	990	$ 1,346,887
1972-73	761	48.7	965,274	42.1	801	51.3	1,326,975	57.9	1,562	2,292,249
1973-74	585	40.1	913,284	38.8	874	59.9	1,438,990	61.2	1,459	2,352,274
1974-75	528	41.5	764,872	36.4	745	58.5	1,336,279	63.6	1,273	2,101,151
1975-76	456	30.5	747,112	27.9	1,041	69.5	1,927,334	72.1	1,497	2,674,446
1976-77	561	33.1	858,139	28.6	1,132	66.9	2,143,458	71.4	1,693	3,001,597
1977-78	713	35.9	1,211,203	32.7	1,272	64.1	2,496,063	67.3	1,985	3,707,266
1978-79	861	35.1	1,664,246	31.7	1,591	64.9	3,581,002	68.3	2,452	5,245,248
1979-80	1,245	36.1	2,469,354	32.2	2,203	63.9	5,191,236	67.8	3,448	7,660,590
1980-81	2,606	45.3	5,568,580	41.8	3,145	54.7	7,766,597	58.2	5,751	13,335,177
1981-82	4,225	47.3	15,846,331	44.6	4,710	52.7	19,688,486	55.4	8,935	35,534,817
1982-83	6,305	53.1	24,254,812	49.5	5,574	46.9	24,705,330	50.5	11,879	48,960,142
1983-84	7,175	53.3	28,642,717	51.1	6,274	46.7	27,459,737	48.9	13,449	56,102,454
TOTAL	26,591	47.2	$84,586,275	45.9	29,782	52.8	$99,728,023	54.1	56,373	$184,314,298

TABLE 13
YEARLY SUMMARY
OF
GRADUATE STUDENT LOANS

	STUDENTS ATTENDING IN-STATE				STUDENTS ATTENDING OUT-OF-STATE				TOTAL	
ACADEMIC YEAR	Loan Recipients	Percent of Total	Loan Amount	Percent of Total	Loan Recipients	Percent of Total	Loan Amount	Percent of Total	Loan Recipients	Loan Amount
1971-72	31	34.1	$ 74,613	29.1	60	65.9	$ 181,658	70.9	91	$ 256,271
1972-73	48	25.8	113,990	19.7	138	74.2	464,145	80.3	186	578,135
1973-74	37	18.0	107,988	17.0	169	82.0	525,914	83.0	206	633,902
1974-75	31	16.8	86,266	15.4	153	83.2	472,390	84.6	184	558,656
1975-76	25	11.3	61,424	8.7	197	88.7	647,127	91.3	222	708,551
1976-77	23	10.1	69,8[illegible]3	8.2	205	89.9	779,077	91.8	228	848,910
1977-78	27	9.6	63,919	7.1	253	90.4	832,982	92.9	280	896,901
1978-79	41	12.0	108,130	9.2	302	88.0	1,063,024	90.8	343	1,171,154
1979-80	58	12.3	168,519	9.8	412	87.7	1,544,840	90.2	470	1,713,359
1980-81	127	17.9	391,885	14.8	582	82.1	2,264,218	85.2	709	2,656,103
1981-82	229	23.8	1,060,365	21.1	734	76.2	3,964,317	78.9	963	5,024,682
1982-83	276	23.4	1,229,172	20.3	903	76.6	4,818,081	79.7	1,179	6,047,253
1983-84	292	21.9	1,321,950	19.4	1,044	78.1	5,487,912	80.6	1,336	6,809,862
TOTAL	1,245	19.5	$4,858,054	17.4	5,152	80.5	$23,045,685	82.6	6,397	$27,903,739

TABLE 14
YEARLY SUMMARY
OF
ALL STUDENT LOANS

	STUDENTS ATTENDING IN-STATE				STUDENTS ATTENDING OUT-OF-STATE				TOTAL	
ACADEMIC YEAR	Loan Recipients	Percent of Total	Loan Amount	Percent of Total	Loan Recipients	Percent of Total	Loan Amount	Percent of Total	Loan Recipients	Loan Amount
1971-72	601	55.6	$ 754,964	47.1	480	44.4	$ 848,194	52.9	1,081	$ 1,603,158
1972-73	809	46.3	1,079,264	37.6	939	53.7	1,791,120	62.4	1,748	2,870,384
1973-74	622	37.4	1,021,272	34.2	1,043	62.6	1,964,904	65.8	1,665	2,986,176
1974-75	559	38.4	851,138	32.0	898	61.6	1,808,669	68.0	1,457	2,659,807
1975-76	481	28.0	808,536	23.9	1,238	72.0	2,574,461	76.1	1,719	3,382,997
1976-77	584	30.4	927,972	24.1	1,337	69.6	2,922,535	75.9	1,921	3,850,507
1977-78	740	32.7	1,275,122	27.7	1,525	67.3	3,329,045	72.3	2,265	4,604,167
1978-79	902	32.3	1,772,376	27.6	1,893	67.7	4,644,026	72.4	2,795	6,416,402
1979-80	1,303	33.3	2,637,873	28.1	2,615	66.7	6,736,076	71.9	3,918	9,373,949
1980-81	2,733	42.3	5,960,465	37.3	3,727	57.7	10,030,815	62.7	6,460	15,991,280
1981-82	4,454	45.0	16,906,695	41.7	5,444	55.0	23,652,804	58.3	9,898	40,559,499
1982-83	6,581	50.4	25,483,984	46.3	6,477	49.6	29,523,411	53.7	13,058	55,007,395
1983-84	7,467	50.5	29,964,667	47.6	7,318	49.5	32,947,649	52.4	14,785	62,912,316
TOTAL	27,836	44.3	$89,444,329	42.1	34,934	55.7	$122,773,708	57.9	62,770	$212,218,037

TABLE 15
MEAN LOAN AMOUNT PER RECIPIENT
BY
IN-STATE/OUT-OF-STATE INSTITUTIONAL ATTENDANCE

	STUDENTS ATTENDING IN-STATE			STUDENTS ATTENDING OUT-OF-STATE			TOTAL		
ACADEMIC YEAR	Number of Loan Recipients	Total Amount Loaned	Mean Loan per Recipient	Number of Loan Recipients	Total Amount Loaned	Mean Loan per Recipient	Number of Loan Recipients	Total Amount Loaned	Mean Loan per Recipient
1971-72	601	$ 754,964	$1,256	480	$ 848,194	$1,767	1,081	$ 1,603,158	$1,483
1972-73	809	1,079,264	1,334	939	1,791,120	1,907	1,748	2,870,384	1,642
1973-74	622	1,021,272	1,642	1,043	1,964,904	1,884	1,665	2,986,176	1,793
1974-75	559	851,138	1,523	898	1,808,669	2,014	1,457	2,659,807	1,826
1975-76	481	808,536	1,681	1,238	2,574,461	2,080	1,719	3,382,997	1,968
1976-77	584	927,972	1,589	1,337	2,922,535	2,186	1,921	3,850,507	2,004
1977-78	740	1,275,122	1,723	1,525	3,329,045	2,183	2,265	4,604,167	2,033
1978-79	902	1,772,376	1,965	1,893	4,644,026	2,453	2,795	6,416,402	2,296
1979-80	1,303	2,637,873	2,024	2,615	6,736,076	2,576	3,918	9,373,949	2,393
1980-81	2,733	5,960,465	2,181	3,727	10,030,815	2,691	6,460	15,991,280	2,475
1981-82	4,454	16,906,695	3,796	5,444	23,652,804	4,345	9,898	40,559,499	4,098
1982-83	6,581	25,483,984	3,872	6,477	29,523,411	4,558	13,058	55,007,395	4,213
1983-84	7,467	29,964,667	4,013	7,318	32,947,649	4,502	14,785	62,912,316	4,255
TOTAL	27,836	$89,444,329	$3,213	34,934	$122,773,708	$3,514	62,770	$212,218,037	$3,381

TABLE 16
DISTRIBUTION OF ALASKA STATE LOANS
FOR STUDENTS ATTENDING IN ALASKA
(1983-84 Loans)

Institution	1983-84	
	No.	Amount
University of Alaska, Fairbanks	1,999	$ 6,777,050
University of Alaska, Anchorage	1,264	4,393,700
Anchorage Community College	1,262	4,572,700
Kenai Peninsula Community College	283	1,097,950
University of Alaska, Juneau	233	759,950
New Anchorage Beauty School	231	1,233,000
Testing Institute of Alaska	199	1,085,250
Alaska Pacific University	176	615,150
Alaska Vocational-Technical Center	171	504,200
Tanana Valley Community College	157	545,800
Gordon Aviation, Inc.	149	855,050
Sheldon Jackson College	135	470,650
Alaska Business College	131	753,900
Matanuska-Susitna Community College	111	468,100
North Pacific Business Institute	102	556,200
Wilburs Flight Operation	88	497,650
Aero Tech Flight School	73	405,700
Fort Richardson Flying Club	68	376,850
Trend Setters School of Beauty	61	319,000
World Security Police Academy	56	174,350
Hutchison Career Center	50	180,500
Anchorage Alaska School of Barbering	49	271,250
Academy of Hair Design	49	247,550
Alaska Masonry School	46	275,450
Bookkeeping Concepts	46	193,650
Headquarters Barber & Beauty Academy	44	219,000
Ketchikan Community College	44	165,300
Clerical Skills Training	39	224,650
Alaska Computer Institute of Technology	38	217,050
Islands Community College	30	114,400
Prince William Sound Community College	29	99,050
Flight Training Devices	28	148,050
Peninsula Hair Styling Academy	27	123,400
A.I.R. Center	24	132,750
Elmendorf Aero Club	24	134,500
Larry's Flying Service	19	111,000
Fairbanks Beauty School	16	81,250
St. Herman's Theological Seminary	16	67,950
Kodiak Community College	14	47,100
Alaska Bible College	13	43,650
New Concepts Beauty School	11	43,600
Kotzebue Technical Center	10	52,900

TABLE 16
(Continued)

Institution	1983-84	
	No.	Amount
Alaska Air Academy	9	$ 53,000
Peninsula Institute of Welding Technology	9	50,700
Air Cushion Technologies	9	40,900
Chapman College	8	33,800
Delta Greely Rural Educational Center	7	26,200
Alaska Vocational School	6	23,450
University of LaVerne	5	20,900
Kuskokwim Community College	5	9,900
People Count, Inc.	3	14,000
Scruples II, Action School of Broadcasting	3	8,850
University of Alaska, Rural Education	3	8,550
American Pacific Aviation	2	12,000
Alaska Native Training Institute	2	10,650
Northwest Community College	2	3,050
Eielson AFB Aero Club	1	5,500
Far North Bible College	1	5,150
Abbott Loop Bible College	1	3,000
Far West Travel Services	1	1,700
TOTAL	7,692	$29,987,650

TABLE 17
INSTITUTIONS AT WHICH AT LEAST FIFTY ALASKA
STUDENT LOAN BORROWERS ATTENDED
(1983-84 Loans)

Institution	1983-84	
	No.	Amount
*University of Alaska, Fairbanks	1,999	$6,777,050
*University of Alaska, Anchorage	1,264	4,393,700
*Anchorage Community College	1,262	4,572,700
*Kenai Peninsula Community College	283	1,097,950
University of Oregon	233	1,054,900
*University of Alaska, Juneau	233	759,950
*New Anchorage Beauty School	231	1,233,000
University of Washington	221	1,015,250
Oregon State University	216	1,042,000
*Testing Institute of Alaska	199	1,085,250
Western Washington University	188	738,400
*Alaska Pacific University	176	615,150
*Alaska Vocational-Technical Center	171	504,200
Brigham Young University (UT)	166	572,600
*Tanana Valley Community College	157	545,800
*Gordon Aviation, Inc.	149	855,050
International Air Academy (WA)	135	521,550
*Sheldon Jackson College	135	470,650
Arizona State University	134	677,500
*Alaska Business College	131	753,900
Washington State University	122	591,750
*Matanuska-Susitna Community College	111	468,100
University of Puget Sound (WA)	108	572,000
*North Pacific Business Institute	102	556,200
University of Hawaii, Manoa	102	372,650
Gonzaga University (WA)	93	527,650
Willamette University (OR)	91	476,050
University of Idaho	91	358,450
Northern Arizona University	90	375,900
Pacific Lutheran University (WA)	89	438,350
*Wilbur's Flight Operation	88	497,650
Central Washington University	87	413,150
University of Arizona	82	358,850
Seattle Pacific University (WA)	80	354,300
Montana State University	78	267,350
University of Hawaii, Hilo	77	241,750
*Aero Tech Flight School	73	405,700
*Fort Richardson Flying Club	68	376,850
Lewis and Clark College (OR)	68	336,900
Seattle University (WA)	62	287,350
*Trend Setters School of Beauty	61	319,000

*Alaskan Schools

TABLE 17
(Continued)

Institution	1983-84	
	No.	Amount
American Diesel and Automotive School (CO)	59	$ 298,800
University of Montana	59	221,100
Highline Community College (WA)	59	196,800
Colorado State University	58	305,350
University of Colorado, Boulder	56	291,000
Linfield College (OR)	56	276,350
*World Security Police Academy	56	174,350
Eastern Washington University	55	243,800
*Hutchison Career Center	50	180,500

*Alaskan School

SCOMM

#50:23

HB 185

330

BILL SHEFFIELD, GOVERNOR

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

POUCH FP
JUNEAU, ALASKA 99811
PHONE: (907) 465-2854

M E M O R A N D U M

TO: Sheila Peterson
Legislative Assistant to
Senator Dick Eliason

FROM: Kerry D. Romesburg
Executive Director

DATE: February 4, 1985

Following is the language which we discussed concerning amending the loan law to provide for more discretion in the awarding of student loans.

Amend AS 14.43.125 (b) by adding a new paragraph (4), to read:

(4) has been granted an exemption from this section as the result of at least a two-thirds vote of the Commission acting upon written appeal of the applicant.

Sitka Seventh-day Adventist Church
BOX 1540 SITKA, ALASKA 99835
TELEPHONE 747-8131



May 17, 1984

Senator Richard Eliason
State Capitol
Juneau, Ak

Dear Senator Eliason,

This letter is in response to recently learned information regarding the student loan program. I believe the law as it now reads is quite unfair to those students who choose to attend Christian secondary schools outside Alaska.

As in the case of my children, James and Diana, who are now attending a Seventh-Day Adventist College in College Place, Washington, we moved to Sitka, Alaska in June, 1980. James and Diana came with us and in the fall of 1980, they enrolled in a Seventh-Day Adventist boarding school for secondary students in Spangle, Washington, from which they graduated in 1981 and 1983, respectively. They returned home to Sitka each summer and Christmas vacation to work here in Sitka. As the law now reads, they are ineligible to receive any student loan money for their college expenses because they were unable to be physically present for one full year in Alaska. I can't understand why they are considered Alaska residents and receive the permanent fund dividend, yet are unable to receive the student loan appropriations. It seems to me that some provision should be made for those students who with their parents are Alaska residents and choose to attend such schools outside because of religious preference, especially since there are no such schools available in Alaska.

I would hope this will be presented to the Senate.

Cordially,

James Ball

Pastor James Ball
Seventh-Day Adventist Church
Sitka

Introduced: 2/8/85
Referred: House Special Committee on State Loans, Health, Education & Social Services and Finance

Need CONTRIBUTIONS

BY KOPONEN, GOLL, SUND, TAYLOR, HURLEY, NAVARRE, GRUENBERG, DAVIS AND BOUCHER

IN THE HOUSE

HOUSE BILL NO. 185

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to student loans; and providing for an effective date."

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

* Section 1. AS 14.43.120(k) is amended to read:

(k) Periodic installments of principal shall be deferred, but interest shall accrue and be paid unless the student is eligible for interest payment benefits under (1) of this section during any of the following:

(1) return to student status as provided in (c) of this section;

(2) serving an initial period of up to six years on active duty as a member of the armed forces of the United States;

(3) serving, for up to three years, as a full-time volunteer under the Peace Corps Act;

(4) serving, for up to three years, as a full-time volunteer under the Domestic Volunteer Service Act of 1973;

(5) for a one-time period up to 12 months in which the borrower is seeking and unable to find employment in the United States; or

(6) if the borrower becomes 50 percent or more disabled as certified by competent medical authority.

* Sec. 2. AS 14.43.125 is repealed and reenacted to read:

Sec. 14.43.125. ELIGIBILITY OF STUDENTS. (a) A person may apply for and obtain a scholarship loan if the person

(1) is

(A) enrolled as a full-time student in a career education, associate, baccalaureate, or graduate degree program; or

(B) a graduate of a high school or the equivalent, or scheduled for graduation from a high school within six months, with sufficient credits to be admitted to a career education program or to an accredited college or university;

(2) is not delinquent or in default on a previously awarded scholarship loan; and

(3) is a resident of the state at the time of application for the loan; for purposes of this section, a person qualifies as a resident of the state if at the time of application for the loan the person

(A) has been physically present in the state for at least two years immediately before the time of application for the loan;

(B) is dependent on a parent or guardian for care, the parent or guardian has been present in the state for at least two years immediately before the time of application for the loan and the person has been present in the state for at least one year of the immediately preceding five years; or

(C) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before being absent from the state and the absence is due solely to

(i) military service;

(ii) volunteer service under the Peace Corps Act;

(iii) volunteer service under the Domestic Volunteer Service Act of 1973;

(iv) participating in a foreign exchange student program recognized by the commission;

(v) attending a school as a full-time student;

(vi) full-time employment by the state;

(vii) being a member of or employed full-time by the state's congressional delegation;

(viii) required medical care for the applicant or the applicant's immediate family; or

(ix) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (viii) of this paragraph.

(b) A person does not qualify as a resident of the state under this section if the person declares or establishes residence in another state during an absence from Alaska.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 185

Title: RE: Student Loans

Sponsor: Koponen, Goll, Sund, et al.

Requestor: Koponen

Date of Request: 2/19/85

FISCAL DETAIL

Agency Affected: Education

Program Category Affected: Postsecondary Education Commission

BRU, Program or Subprogram(s) Affected: Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	N.A.	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	N.A.	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: Kerry D. [illegible], Executive Director Phone: 465-2854

Division: Alaska Commission on Postsecondary Education Date: 2/19/85

Approved by Commissioner: _____ Date: _____

Agency: _____

Distribution (by Agency preparing fiscal note):

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

7/1/84

Alaska State Legislature

Representative Niilo Koponen

FAIRBANKS
Box 252
Fairbanks, Alaska 99707
479-6782

JUNEAU
Pouch V
Juneau, Alaska 99811
465-4992

HOUSE BILL 185

House Bill 185 is legislation requested by the Postsecondary Commission. Last year it was introduced as SB 385. HB 185 is a shortened version of the final version of SB 385 (CSSB 385(Fin) am).

This bill deals with two sections of AS 14.43. The first (AS 14.43.120(k)), deals with "Conditions of Loans" - specifically deferral of repayment. The second section (AS 14.43.125) deals with eligibility for the student loan program.

DEFERRAL OF REPAYMENT - This bill defines a maximum length of time (6 years) for which a person can have repayment of their student loan deferred because they are on active duty as a member of the armed forces of the United States.

SB 385 originally had a deferral period of 4 years. This was increased to 6 years in the Senate Finance amended version after discussion in committee of initial service periods which last 6 years rather than 4.

ELIGIBILITY - Language is added making certain provisions by which a person could have been out of state within the last two years and still be eligible for a student loan. These provisions include required medical care, attendance school outside of Alaska as a fulltime student etc. Currently, military service is one of the only allowable absences.

At present the Postsecondary Commission has no statuatory authority to grant Alaska Student Loan eligibility to anyone who has been out of the state in the 2 years immediately prior to applying for a student loan. There is a Postseondary Commission regulation to allow absences out of state of not more than 8 consecutive weeks or no more than 16 total weeks, but even students who have been receiving Alaska student loans and who have been going to school fulltime outside the state are not, under current statute made clearly eligible for the Alaska Student Loan program.

In Section 3 (B) a dependent must have been present in the state for at least one year of the immediately preceeding 5 years because that is a requirement Senate Judiciary included in the omnibus residence bill (HB323). (Now AS 14.43.125)

I have included a copy of the referenced existing statutes for your convenience.

Revisor's notes. — AS 14.43.125 was substituted for AS 14.40.765 to conform to the renumbering of that section by the revisor of statutes under AS 01.05.031.

Effect of amendments. — The 1981 amendment substituted "$7,000" for "$5,000" following "not to exceed."

Sec. 14.43.120. Conditions of loans. (a) Proceeds from scholarship loans may only be used for books, tuition and required fees, and for room and board.

(b) The loans may only be used to attend a career education program or a college or university approved by the commission, and, if the loans are federally insured, by the United States Commissioner of Education.

(c) To maintain a loan the student must continue to be enrolled as a full-time student in good standing in a career education program, college or university designated under (b) of this section. The commission shall adopt regulations defining "good standing" for purposes of this subsection.

(d) Scholarship loans may not be made to a student

(1) for more than five years of undergraduate study;

(2) for more than five years of graduate study;

(3) for more than a total of eight years of undergraduate and graduate study.

(e) Loans are interest bearing while a student is enrolled under (c) of this section or is receiving a deferment of payments under (k) of this section; however, a student is entitled to have a portion of the interest paid in accordance with (1) of this section.

(f) Interest on a loan given under AS 14.43.090 — 14.43.160 is at the rate of five per cent a year.

(g) Repayment of the principal and interest on the loan begins no later than one year after the borrower's studies are terminated. The loan shall provide for repayment of the total amount owed in periodic installments in not more than 10 years from the commencement of repayment, except as provided in (k) and (m) of this section. If the commission and the borrower agree to a different repayment schedule, the borrower shall repay the loan in accordance with the agreement. A borrower may make payments earlier than required by this subsection.

(h) Security may not be required for the loans; however, provision shall be made for payment of attorney fees and costs of court if either or both are incurred in collection of the amount owed on the loan.

(i) If a loan is in default, the commission shall notify the borrower that repayment of the remaining balance is accelerated and due by sending the borrower a notice by registered or certified mail.

(j) A portion of a loan shall be paid on behalf of the borrower by the state if, upon completion of the course of study for which the loan was granted, the borrower is a resident of the state for at least two years. The portion of the loan that shall be paid by the state is the following percentages of the total loan received plus interest up to a total of 50 percent of the total loan:

(1) two — three years residence in the state, 10 percent;

(2) three — four years residence in the state, an additional 10 percent;

(3) four — five years residence in the state, an additional 10 percent;

(4) five — six years residence in the state, an additional 10 percent;

(5) over six years residence in the state, an additional 10 percent.

(k) Periodic installments of principal shall be deferred, but interest shall accrue and be paid unless the student is eligible for interest payment benefits under (1) of this section during any of the following:

(1) return to student status as provided in (c) of this section;

(2) serving on active duty as a member of the armed forces of the United States;

(3) serving, for up to three years, as a full-time volunteer under the Peace Corps Act;

(4) serving, for up to three years, as a full-time volunteer under the Domestic Volunteer Service Act of 1973;

(5) for a one-time period up to 12 months in which the borrower is seeking and unable to find employment in the United States; or

(6) if the borrower becomes 50 percent or more disabled as certified by competent medical authority.

(*l*) The state will pay the interest on that portion of a loan that is not federally insured during

(1) the period before the beginning of the repayment period of the loan; and

(2) deferments under (k) of this section.

(m) In case of hardship, the committee may extend repayment of a loan for an additional period of up to five years in increments no longer than 12 months each.

(n) Repealed by § 11 ch 89 SLA 1981.

(o) The provisions of (j) of this section do not apply to a loan to a borrower named in a complaint as a defendant in an action by the state or by the commission to secure payment of the unpaid balance of a loan made under AS 14.43.110 or 14.43.115.

(p) For purposes of this section, a person qualifies as a resident if the person is physically present in the state with the intent to remain permanently in the state or, if not physically present in the state, the person intends to return to the state and is absent due to military service. (§ 1 ch 98 SLA 1971; am § 4 ch 156 SLA 1972; am § 6 ch 78 SLA 1974; am § 8 ch 136 SLA 1974; am §§ 1—4 ch 99 SLA 1977; am §§ 3 — 8 ch 87 SLA 1979; am §§ 3 — 9, 11 ch 89 SLA 1981; AS 14.40.763)

Revisor's notes. — In ch. 98, SLA 1971, AS 14.43.120(j)(2) read "four — five years . . ." This was a typographical error occurring for the first time in the enrolled version of the bill (CSHB 415 [Finance am S] and has been corrected here.

Effect of amendments. — The 1979 amendment deleted "approved by the commission" following "career education program" and substituted the language

beginning "approved by the commission" for "accredited by the accreditation association for the region in which the college or university is located" in subsection (b), substituted "interest" for "non-interest" in subsection (e), added the language beginning "however, a student shall be entitled" to the end of subsection (e), rewrote subsection (g), and in subsection (j), substituted "paid on behalf of the borrower by the state" for "considered a grant," "borrower" for "grantee," and "three years" for "two years" in the first sentence, substituted "paid by the state" for "regarded as a grant" and "interest for up to a total of 40 percent" for "accrued interest" in the introductory language of the second sentence, and substituted "an additional 10 percent" for "20 percent" in paragraph (2), for "30 percent" in paragraph (3), and for "40 percent" in paragraph (4). The amendment also rewrote subsection (k) and added subsections (*l*), (m), and (n).

The 1981 amendment, added the second sentence of subsection (c). In subsection (d), the amendment added paragraphs (1) and (2) and in paragraph (3), substituted "a total of eight" for "six" preceding "years" and added "of undergraduate and graduate study" following "years." In subsection (i), the amendment substituted "shall" for "may" and "borrower" for "student." In subsection (m), the amendment substituted "12" for "six" preceding "months" and deleted "within the 15-year requirement of (g) of this section" following "months each." The amendment also rewrote subsections (g) and (j), added subsections (o) and (p) and repealed subsection (n) which read "Each year spent attending a college or university in Alaska qualifies as a year of employment and residency under (j) of this section, if the borrower resides no less than three years in Alaska after completion of the course for which the loan was granted, and has a total Alaskan residency of ten years time."

Editor's notes. — This section was redrafted by the revisor of statutes to remove personal pronouns in conformity with AS 01.-5.031(c) and § 4, Chapter 58, SLA 1982.

Section 8, ch. 99, SLA 1977 provides: "The change in the repayment period of student loans set out in AS 14.40.763(g) [now 14.43.120(g)] as amended by sec. 3 of this Act and the additional basis for granting a deferment of repayment of a student loan set out in AS 14.40.763(k) [now 14.43.120(k)] as enacted by sec. 4 of this Act shall, upon request of the loan recipient, be applied retroactively to the outstanding balance of principal of and accrued interest on loans made under AS 14.40.751 — 14.40.806 [now 14.43.090 — 14.43.160] as they read before the effective date of this Act."

Section 12 of ch. 89, SLA 1981, provides: "The reenactment of AS 14.40.763(j) [now 14.43.120(j)] in sec. 7 of this Act applies to any student who has obtained a scholarship loan under AS 14.40.751 — 14.40.806 [now 14.43.090 — 14.43.160] since July 1, 1971."

Legislative history reports. — For a report of legislative intent concerning the loan forgiveness provisions of ch. 89, SLA 1981 (FCCSSB 120), see 1981 Senate Journal p. 1560, 1580; 1981 House Journal p. 2289.

Sec. 14.43.125. Eligibility of students. (a) A person may apply for and obtain a scholarship loan if the person

(1) is a resident of the state at the time of application for a scholarship loan;

(2) meets the requirements of (b) of this section; and

(3) is

(A) enrolled as a full-time student in a career education or associate or baccalaureate or graduate degree program; or

(B) a graduate of a high school, or scheduled for graduation from a high school within six months, with sufficient credits to be admitted to a career education program or to an accredited college or university.

(b) In addition to the requirements of (a) of this section, to obtain a scholarship loan a person must have been a resident of the state for at least two years at the time of application for the loan. For purposes of

this subsection, a person qualifies as a resident of the state if at the time of application for the loan the person

(1) has been present in the state for at least two years unless an absence from the state during any part of the two years was due to military service; or

(2) is a person who is dependent on a parent or guardian for care, and the parent or guardian has been present in the state for at least two years. (§ 1 ch 98 SLA 1971; am § 10 ch 89 SLA 1981; AS 14.40.765)

Effect of amendments. — The 1981 amendment rewrote this section.

Editor's notes. — This section was redrafted by the revisor of statutes to remove personal pronouns in conformity with AS 01.05.031(c) and § 4, ch. 58, SLA 1982.

Sec. 14.43.130. Selection criteria. (a) The selection committee shall grant loans based on total point accumulations under the subsection with priority going to those applicants with the highest point accumulations, except as provided in (b) of this section for loan applications completed before May 15 of each year. Points shall be awarded to applicants based upon student status and continuous Alaskan residency, according to the following schedule:

(1) student status:

(A) continuing undergraduate and graduate students with existing Alaska scholarship loans . . . . . 4 points

(B) continuing undergraduate and graduate students without existing Alaska scholarship loans . . . . . 3 points

(C) freshmen . . . . . 2 points

(D) new graduate students without existing Alaska scholarship loans . . . . . 1 point

(2) continuous Alaskan residency:

(A) students with continuous Alaskan residency of 10 years or more . . . . . 3 points

(B) students with continuous Alaskan residency of at least 5 years and less than 10 years . . . . . 2 points

(C) students with continuous Alaskan residency of more than 2 years and less than 5 years . . . . . 1 point

(3) students attending Alaska colleges or universities . . 1 point

(b) In awarding loans the selection committee shall award loans to applicants based upon the earliest date of completed applications if

(1) the applicant has accumulated at least 5 points under (a) of this section; and

(2) the applicant has filed a completed application not later than May 15 of the year for which the loan is requested. (§ 1 ch 98 SLA 1971; am § 2 ch 87 SLA 1979; AS 14.40.767)

Effect of amendments. — The 1979 amendment rewrote this section.

Editor's notes. — Section 1, ch. 87, SLA 1979 provides: "The legislature determines that

"(1) there are no incentives in the

COPY

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907 465 3800

MEMORANDUM

February 18, 1985

SUBJECT: Sectional analysis of HB 185 (student loans)

TO: Representative Niilo Koponen
Chairman, Health, Education and Social Services Committee

FROM: Keith B. Levy
Legislative Counsel

The following is a sectional analysis of HB 185, relating to the student loan program.

Section 1. Existing law allows a deferral of the repayment of student loans for certain activities including service on active duty as a member of the armed forces. This section limits the military service deferral to an initial period of service of up to six years (AS 14.43.120(k)).

Section 2. This section rewrites the eligibility requirements for a student loan (AS 14.43.125). To be eligible, a person must meet three requirements. First, the person must either be enrolled as a full-time student in a career education, associate, baccalaureate, or graduate program, or a high school graduate, or scheduled for graduation from high school within six months. Second, the person may not be deliquent or in default on a previously awarded loan. Third, the person must be a resident of the state at the time of application. To qualify as a resident, the person must either (1) have been physically present in the state for two years before applying; (2) have been present in the state for one year of the preceding five and be dependent on a parent or guardian who has been present in the state for two years before the application; or (3) have been present in the state for two years or be dependent on a parent or guardian who has been present in the state for two years before the person was absent from the state if the absence was due solely to one of the justifications listed in the statute. The justifications for absence include

military service, Peace Corps service, volunteer service under the Domestic Volunteer Service Act of 1973, participating in a foreign exchange student program, attending school as a full-time student, full-time employment by the state, working as or being employed full-time by the state's congressional delegation, medical care for the applicant or the applicant's immediate family, and accompanying a spouse who qualifies under these provisions. A person does not qualify as a resident if that person establishes residence in another state during the absence.

Section 3. This section provides for an immediate effective date.

KBL:mkr
110:WKJ11

Alaska State Legislature

Representative Niilo Koponen

FAIRBANKS
Box 252
Fairbanks, Alaska 99707
479-6782

JUNEAU
Pouch V
Juneau, Alaska 99811
465-4992

M E M O R A N D U M

TO: Representative Sund

FROM: Representative Niilo Koponen

RE: Student Loans Legislation

DATE: February 5, 1985

You will find find a copy of legislation pertaining to the Alaska Student Loan program attached. I intend to introduce this legislation on Friday, February 4. You may wish to co-sponsor this legislation.

This bill deals with two sections of AS 14.43. The first (AS 14.43.120(k)), deals with "Conditions of Loans" - specifically deferral of repayment. The second section (AS 14.43.125) deals with eligibility for the student loan program.

DEFERRAL OF REPAYMENT - This bill defines a maximum length of time (6 years) for which a person can have repayment of their student loan deferred because they are on active duty as a member of the armed forces of the United States.

ELIGIBILITY - Language is added making certain provisions by which a person could have been out of state within the last two years and still be eligible for a student loan. These provisions include required medical care, attendance school outside of Alaska as a fulltime student etc. Currently, military service is the ~~only~~ allowable ~~absence~~.

one of only absences in statute.

I have included a copy of the referenced existing statutes for your convenience. Please contact my staff person, Lisa McLaren, if you wish to be added as a co-sponsor.

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 197

Title: RE: Maximum Student Loans

Sponsor: Sund, et al.

Requestor: Sund

Date of Request: 2/19/85

FISCAL DETAIL

Agency Affected: Education

Program Category Affected: Postsecondary Education Commission

BRU, Program or Subprogram(s) Affected: Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	N.A.	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	N.A.	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: Kerry D. Romesburg, Executive Director Phone: 465-2854

Division: Alaska Commission on Postsecondary Education Date: 2/19/85

Approved by Commissioner: _____ Date: _____

Agency: _____

Distribution (by Agency preparing fiscal note):

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

7/1/84

March 29, 1985

To: The Chairman and Members of the House Finance Committee

From: Ronald D. Martinson, 3220 Briarcliff Dr. Anchorage, AK 99508 338-2481, 277-1622

Re: House Bill No. 185 and House Bill No. 197 (Student Loans)

I am writing to urge you to pass on to the House as swiftly as possible the two Bills mentioned above. I would hope that this might be done so that the Full House might act on them and process them on through the Legislature and Governor so that they might become law during this session.

I request this for the following reasons: (1) I have discovered the shortcomings of the law(s) regarding the present rules on the student loan program through a lengthy appeal process in behalf of our daughter, Anne. (2) I discovered that the requirements for residency to enter the loan program as stated on the 1984-1985 forms were not what the law(s) read. This created confusion and frustration for an applicant who was denied, as well as for the Commission on Postsecondary Education as it sought to work under the law(s). (3) I have read carefully House Bill No. 185 and I am in full agreement with it. It covers all of the concerns I raised in the appeal process regarding the law(s) presently in effect, i.e., absence due to being in college out of State, the power of the Commission to act (by 2/3 majority) to admit persons to the loan program when there are unusual circumstances affecting their entrance into the program, loss of use of the program when a person becomes a resident of another state during absence from Alaska. (4) The change in the law made in 1983 which required one year in the last five of personal presence in the State might have seemed to be generous; however, it gave a person four years after leaving the State to continue in the loan program and denied a person who moved here with her family and left for college in the fall the opportunity to enter it. It also would have eliminated a person who attended four years of college and one year of graduate school outside of the State from continued use of the program, if the "letter of the law" had been enforced. The law preserved a person's right to use the program but made it difficult to enter it. (5) This Bill will allow the goals of the Alaska Student Loan Program to be met; and (6) I have read the rules for eligibility regarding residency as printed in the forms for use in 1985-1986 and they will need the passage of House Bill No. 185 to match the law(s) of the State of Alaska.

We have an excellent Student Loan Program in the State of Alaska. The passage of these two bills will clarify several issues which need legal clarification if the program is to continue to be fair and just.

I would hope that no changes would be made to these Bills as they proceed toward law. Some may want to limit the program to recent high school graduates. I believe that would be a mistake, and it would open the program to legal battles which could destroy it. It would prevent persons from getting a loan who need further education to continue their work or who need to change work because of injury or changes in economic conditions or of unemployment in their chosen field. Interest may need to be increased and the forgiveness provision may need to be re-examined, but the whole program should not be changed. In an effort to save money for the State we may be looking at areas which should be left alone. I would hope that we could increase our efforts to collect from those who use the program and default in their payments. Thank you for listening to my concerns.

Sincerely,

Ronald D. Martinson

Ronald D. Martinson

cc Dr. Kerry Romesburg
Other Members of the House and Senate

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date: 3/5/85

REQUEST

Bill/Resolution No.: CS HB 185

Title: Conditions of Student Loans

Sponsor: Koponen, Goll, Sund, Et Al.

Requestor: House Loan Comm.

Date of Request: 3/4/85

FISCAL DETAIL

Agency Affected: Education

Program Category Affected: Postsecondary Education

BRU, Program or Subprogram(s) Affected: Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	N.A.	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	N.A.	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: Kerry D. Romesburg, Executive Director Phone: 465-2854

Division: Alaska Commission on Postsecondary Education Date:

Approved by Commissioner: Date:

Agency:

Distribution (by Agency preparing fiscal note):

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

7/1/84

3/4

COMMITTEE REPORT

HOUSE

HEALTH, EDUCATION AND SOCIAL SERVICES

(5)

FURTHER: FINANCE

2/8/85

Date: 3/1/85

Mr. Speaker:

The Committee on HOUSE SPECIAL COMMITTEE ON STATE LOANS has had HB 185

"An Act relating to student loans; and providing for an effective date."

under consideration and reports it back as follows:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

[X] replace with CS for H3185 (Loans) [ ] same title [X] new title

and recommends do pass

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

[ ] reports it back without recommendation

[ ] referred to the _____ Committee

MEMBERS SIGNING DO PASS	MEMBERS HAVING OTHER RECOMMENDATIONS:
Duncan	
[illegible]	
[illegible]	
[illegible]	
[illegible]	
Collins	

CHAIRMAN

H 60

(C) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before the applicant was absent from the state and the absence is due solely to

(i) serving an initial period of up to six years on active duty as a member of the armed forces of the United States;

(ii) serving, for up to three years, as a full-time volunteer under the Peace Corps Act;

(iii) serving, for up to three years, as a full-time volunteer under the Domestic Volunteer Service Act of 1973;

(iv) required medical care for the applicant or the applicant's immediate family;

(v) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (iv) of this paragraph; or

(D) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before the applicant or the parent or guardian was absent from the state and the absence is due solely to

(i) participating in a foreign exchange student program recognized by the commission;

(ii) attending a school as a full-time student;

(iii) full-time employment by the state;

(iv) being a member of or employed full-time by the state's congressional delegation;

(v) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (iv) of this paragraph.

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 161

Title: Re: Student Loans

Sponsor: Binkley

Requestor: Binkley

Date of Request: 2/4/85

FISCAL DETAIL

Agency Affected: Education

Program Category Affected: Postsecondary Education Commission

BRU, Program or Subprogram(s) Affected: Student Loan Revolving Fund

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	N.A.					
CAPITAL	N.A.	(14,243.8)	(16,202.9)	(19,083.1)	(23,199.8)	(26,602.7)
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	(14,243.8)	(16,202.9)	(19,083.1)	(23,199.8)	(26,602.7)
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	N.A.	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

See Attached

Prepared By: Kerry D. Romberg, Executive Director Phone: 465-2854

Division: Alaska Commission on Postsecondary Education Date: 2/5/85

Approved by Commissioner: Date:

Agency:

Distribution (by Agency preparing fiscal note):

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

7/1/84

HB 161
Analysis of Fiscal Impact

Assumptions

(1) % of borrowers entering repayment:

Percent	Years after borrowing
0.0	one year
22.4	two years
21.3	three years
21.8	four years
32.3	five years
2.2	six or more years
100.0	

(2) Borrowing averages will be:

FY86	$4,775	FY89	$5,725
FY87	$5,050	FY90	$5,900
FY88	$5,400		

(3) Loan volumes are at current projection levels and program is fully funded. Adjustments made will be the result of program changes.

Impacts

(1) Increasing loan interest from 5% to 8% (Section 1 of the bill).
(a) The increase will not affect loan volume.
(b) Increased interest will impact the fund over time in the following manner:

Year of Impact	Borrowing Year FY86	FY87	FY88	FY89	Total New Revenue
FY86	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
FY87	-0-	-0-	-0-	-0-	-0-
FY88	56.7	-0-	-0-	-0-	56.7
FY89	108.2	60.7	-0-	-0-	168.9
FY90	168.5	118.5	62.3	-0-	349.3
FY91	247.9	177.6	121.6	58.5	605.6
FY92	253.5	265.1	182.3	114.2	815.1
FY93	253.5	271.1	272.2	171.1	967.9
FY94	253.5	271.1	278.3	255.5	1,058.4

(2) Eliminating the forgiveness benefits (Section 6 of the bill)

(a) Elimination of forgiveness will not affect loan volume
(b) The impact of eliminating forgiveness will be realized over time, in the following manner:

Year	Principal	Interest	Total Additional Revenue
FY86	$ -0-	$ -0-	$ -0-
FY87	-0-	-0-	$ -0-
FY88	378.7	94.7	$ 473.4
FY89	1,143.2	285.8	$1,429.0
FY90	1,648.8	412.2	$2,061.0
FY91	3,814.0	953.5	$4,767.5

(3) Changing eligibility requirements (Section 2 of the bill)

(a) Requiring graduation from an Alaska high school would greatly reduce the number of borrowers eligible for the loan program. Based upon high school enrollment projections provided by the Department of Education, and based upon attendance patterns, the potential number of borrowers would be:

Year	Potential New Borrowers	Total Reduction in Borrowers
FY86	3,517	3,977
FY87	3,664	4,278
FY88	3,753	4,581
FY89	4,402	5,031
FY90	4,805	5,288

The fiscal savings of this requirement would be:

Year	Reduction in Borrowers	Savings
FY86	3,977	$18,990.2
FY87	4,278	$21,603.9
FY88	4,581	$24,737.4
FY89	5,031	$28,802.5
FY90	5,288	$31,992.2

(b) Providing aid on a need-based system would allow some borrowers, excluded by the high school requirement, to borrow. We have no good estimate on the number of students qualifying for need on a need-test analysis. The estimate is that only about one in four could qualify. Hence, the reduction in borrowers would be decreased by about 25%.

The fiscal impact of the needs analysis would be:

Year	Qualifying Borrowers	Cost
FY86	994	$ 4,746.4
FY87	1,070	$ 5,401.0
FY88	1,145	$ 6,184.4
FY89	1,258	$ 7,200.6
FY90	1,322	$ 7,799.8

(c) Therefore, the total fiscal impact of the two factors (high school graduation and a needs test) would be:

Year	Savings
FY86	$14,243.8
FY87	$16,202.9
FY88	$18,553.0
FY89	$21,601.9
FY90	$24,192.4

(4) Combining all changes would result in the following:

Year	Savings (including Revenue)
FY86	$14,243.8
FY87	$16,202.9
FY88	$19,083.1
FY89	$23,199.8
FY90	$26,602.7

Additional Notes

(1) Loan processing would be slowed greatly the first year, due to imposing the new requirements and needing to handle all loans a number of times.

(2) Grandfathering those current borrowers from the needs test requirement was assumed in the projected fiscal impact.

(3) Additional staff may be required to administer the needs test verification, but this is unknown until the whole process is actually finalized.

Levy-

#3

A M E N D M E N T

Offered in the HOUSE

TO: CSHB 161(Loans)

Page 1, delete section 1 of the bill and insert:

"* Section 1. AS 14.43.120(f) is amended to read:

(f) Interest on a loan given under AS 14.43.090 - 14.43.160 is at the rate of five percent a year <u>for the first three years of repayment, and eight percent a year for the remainder</u> unless the loan is in default. Interest on a loan that is in default is 10 percent a year for the period the loan is in default."

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 161 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to student loans; and providing for an effective date."

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

* Section 1. AS 14.43.120(f) is amended to read:

(f) Interest on a loan given under AS 14.43.090 - 14.43.160 is at the rate of <u>eight</u> [FIVE] percent a year unless the loan is in default. Interest on a loan that is in default is 10 percent a year for the period the loan is in default.

* Sec. 2. AS 14.43.125 is repealed and reenacted to read:

Sec. 14.43.125. ELIGIBILITY OF STUDENTS. (a) A person may apply for and obtain a scholarship loan if the person

(1) is

(A) enrolled as a full-time student in a career education, associate, baccalaureate, or graduate degree program; or

(B) a graduate of a high school or the equivalent, or scheduled for graduation from a high school within six months, with sufficient credits to be admitted to a career education program or to an accredited college or university;

(2) is not delinquent or in default on a previously awarded scholarship loan; and

(3) is a resident of the state at the time of application for the loan; for purposes of this section, a person qualifies as a resident of the state if at the time of application for the loan the person

(A) has been physically present in the state for at least two years immediately before the time of application for the loan;

(B) is dependent on a parent or guardian for care, the parent or guardian has been present in the state for at least two years immediately before the time of application for the loan and the person has been present in the state for at least one year of the immediately preceding five years; or

(C) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before the applicant was absent from the state and the absence is due solely to

(i) military service;

(ii) volunteer service under the Peace Corps Act;

(iii) volunteer service under the Domestic Volunteer Service Act of 1973;

(iv) participating in a foreign exchange student program recognized by the commission;

(v) attending a school as a full-time student;

(vi) full-time employment by the state;

(vii) being a member of or employed full-time by the state's congressional delegation;

(viii) required medical care for the applicant or the applicant's immediate family; or

(ix) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (viii) of this paragraph.

(b) A person does not qualify as a resident of the state under

this section if the person declares or establishes residence in another state during an absence from Alaska.

* Sec. 3. Notwithstanding AS 14.43.120(j), the maximum portion of a scholarship loan that may be repaid by the state is 40 percent for a loan made for the school year beginning in 1986, 30 percent for 1987, 20 percent for 1988, and 10 percent for 1989.

* Sec. 4. AS 14.43.120(j), (o), and (p) are repealed.

* Sec. 5. Section 4 of this Act takes effect September 1, 1990.

* Sec. 6. Sections 1 - 3 of this Act take effect July 1, 1985.

See 3 delete

See 6 renumber 2

Amend #2

Alaska State Legislature

Representative Niilo Koponen

FAIRBANKS
Box 252
Fairbanks, Alaska 99707
479-6782

JUNEAU
Pouch V
Juneau, Alaska 99811
465-4992

M E M O R A N D U M

TO: Representative Sund

FROM: Representative Niilo Koponen

RE: Student Loans Legislation

DATE: February 5, 1985

You will find find a copy of legislation pertaining to the Alaska Student Loan program attached. I intend to introduce this legislation on Friday, February 4. You may wish to co-sponsor this legislation.

This bill deals with two sections of AS 14.43. The first (AS 14.43.120(k)), deals with "Conditions of Loans" - specifically deferral of repayment. The second section (AS 14.43.125) deals with eligibility for the student loan program.

DEFERRAL OF REPAYMENT - This bill defines a maximum length of time (6 years) for which a person can have repayment of their student loan deferred because they are on active duty as a member of the armed forces of the United States.

ELIGIBILITY - Language is added making certain provisions by which a person could have been out of state within the last two years and still be eligible for a student loan. These provisions include required medical care, attendance school outside of Alaska as a fulltime student etc. Currently, military service is the ~~only~~ allowable ~~absence~~.
one of only absences in statute.
I have included a copy of the referenced existing statutes for your convenience. Please contact my staff person, Lisa McLaren, if you wish to be added as a co-sponsor.

COPY

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 18, 1985

SUBJECT: Sectional analysis of HB 185 (student loans)

TO: Representative Niilo Koponen
Chairman, Health, Education and Social Services Committee

FROM: Keith B. Levy
Legislative Counsel

The following is a sectional analysis of HB 185, relating to the student loan program.

Section 1. Existing law allows a deferral of the repayment of student loans for certain activities including service on active duty as a member of the armed forces. This section limits the military service deferral to an initial period of service of up to six years (AS 14.43.120(k)).

Section 2. This section rewrites the eligibility requirements for a student loan (AS 14.43.125). To be eligible, a person must meet three requirements. First, the person must either be enrolled as a full-time student in a career education, associate, baccalaureate, or graduate program, or a high school graduate, or scheduled for graduation from high school within six months. Second, the person may not be deliquent or in default on a previously awarded loan. Third, the person must be a resident of the state at the time of application. To qualify as a resident, the person must either (1) have been physically present in the state for two years before applying; (2) have been present in the state for one year of the preceding five and be dependent on a parent or guardian who has been present in the state for two years before the application; or (3) have been present in the state for two years or be dependent on a parent or guardian who has been present in the state for two years before the person was absent from the state if the absence was due solely to one of the justifications listed in the statute. The justifications for absence include

military service, Peace Corps service, volunteer service under the Domestic Volunteer Service Act of 1973, participating in a foreign exchange student program, attending school as a full-time student, full-time employment by the state, working as or being employed full-time by the state's congressional delegation, medical care for the applicant or the applicant's immediate family, and accompanying a spouse who qualifies under these provisions. A person does not qualify as a resident if that person establishes residence in another state during the absence.

Section 3. This section provides for an immediate effective date.

KBL:mkr
110:WKJ11

Alaska State Legislature

Representative Niilo Koponen

FAIRBANKS
Box 252
Fairbanks, Alaska 99707
479-6782

JUNEAU
Pouch V
Juneau, Alaska 99811
465-4992

HOUSE BILL 185

House Bill 185 is legislation requested by the Postsecondary Commission. Last year it was introduced as SB 385. HB 185 is a shortened version of the final version of SB 385 (CSSB 385(Fin) am).

This bill deals with two sections of AS 14.43. The first (AS 14.43.120(k)), deals with "Conditions of Loans" - specifically deferral of repayment. The second section (AS 14.43.125) deals with eligibility for the student loan program.

DEFERRAL OF REPAYMENT - This bill defines a maximum length of time (6 years) for which a person can have repayment of their student loan deferred because they are on active duty as a member of the armed forces of the United States.

SB 385 originally had a deferral period of 4 years. This was increased to 6 years in the Senate Finance amended version after discussion in committee of initial service periods which last 6 years rather than 4.

ELIGIBILITY - Language is added making certain provisions by which a person could have been out of state within the last two years and still be eligible for a student loan. These provisions include required medical care, attendance school outside of Alaska as a fulltime student etc. Currently, military service is one of the only allowable absences.

At present the Postsecondary Commission has no statuatory authority to grant Alaska Student Loan eligibility to anyone who has been out of the state in the 2 years immediately prior to applying for a student loan. There is a Postseondary Commission regulation to allow absences out of state of not more than 8 consecutive weeks or no more than 16 total weeks, but even students who have been receiving Alaska student loans and who have been going to school fulltime outside the state are not, under current statute made clearly eligible for the Alaska Student Loan program.

In Section 3 (B) a dependent must have been present in the state for at least one year of the immediately preceeding 5 years because that is a requirement Senate Judiciary included in the omnibus residence bill (HB323). (Now AS 14.43.125)

I have included a copy of the referenced existing statutes for your convenience.

Revisor's notes. — AS 14.43.125 was substituted for AS 14.40.765 to conform to the renumbering of that section by the revisor of statutes under AS 01.05.031.

Effect of amendments. — The 1981 amendment substituted "$7,000" for "$5,000" following "not to exceed."

Sec. 14.43.120. Conditions of loans. (a) Proceeds from scholarship loans may only be used for books, tuition and required fees, and for room and board.

(b) The loans may only be used to attend a career education program or a college or university approved by the commission, and, if the loans are federally insured, by the United States Commissioner of Education.

(c) To maintain a loan the student must continue to be enrolled as a full-time student in good standing in a career education program, college or university designated under (b) of this section. The commission shall adopt regulations defining "good standing" for purposes of this subsection.

(d) Scholarship loans may not be made to a student

(1) for more than five years of undergraduate study;

(2) for more than five years of graduate study;

(3) for more than a total of eight years of undergraduate and graduate study.

(e) Loans are interest bearing while a student is enrolled under (c) of this section or is receiving a deferment of payments under (k) of this section; however, a student is entitled to have a portion of the interest paid in accordance with (1) of this section.

(f) Interest on a loan given under AS 14.43.090 — 14.43.160 is at the rate of five per cent a year.

(g) Repayment of the principal and interest on the loan begins no later than one year after the borrower's studies are terminated. The loan shall provide for repayment of the total amount owed in periodic installments in not more than 10 years from the commencement of repayment, except as provided in (k) and (m) of this section. If the commission and the borrower agree to a different repayment schedule, the borrower shall repay the loan in accordance with the agreement. A borrower may make payments earlier than required by this subsection.

(h) Security may not be required for the loans; however, provision shall be made for payment of attorney fees and costs of court if either or both are incurred in collection of the amount owed on the loan.

(i) If a loan is in default, the commission shall notify the borrower that repayment of the remaining balance is accelerated and due by sending the borrower a notice by registered or certified mail.

(j) A portion of a loan shall be paid on behalf of the borrower by the state if, upon completion of the course of study for which the loan was granted, the borrower is a resident of the state for at least two years. The portion of the loan that shall be paid by the state is the following percentages of the total loan received plus interest up to a total of 50 percent of the total loan:

(1) two — three years residence in the state, 10 percent;

(2) three — four years residence in the state, an additional 10 percent;

(3) four — five years residence in the state, an additional 10 percent;

(4) five — six years residence in the state, an additional 10 percent;

(5) over six years residence in the state, an additional 10 percent.

(k) Periodic installments of principal shall be deferred, but interest shall accrue and be paid unless the student is eligible for interest payment benefits under (1) of this section during any of the following:

(1) return to student status as provided in (c) of this section;

(2) serving on active duty as a member of the armed forces of the United States;

(3) serving, for up to three years, as a full-time volunteer under the Peace Corps Act;

(4) serving, for up to three years, as a full-time volunteer under the Domestic Volunteer Service Act of 1973;

(5) for a one-time period up to 12 months in which the borrower is seeking and unable to find employment in the United States; or

(6) if the borrower becomes 50 percent or more disabled as certified by competent medical authority.

(*l*) The state will pay the interest on that portion of a loan that is not federally insured during

(1) the period before the beginning of the repayment period of the loan; and

(2) deferments under (k) of this section.

(m) In case of hardship, the committee may extend repayment of a loan for an additional period of up to five years in increments no longer than 12 months each.

(n) Repealed by § 11 ch 89 SLA 1981.

(o) The provisions of (j) of this section do not apply to a loan to a borrower named in a complaint as a defendant in an action by the state or by the commission to secure payment of the unpaid balance of a loan made under AS 14.43.110 or 14.43.115.

(p) For purposes of this section, a person qualifies as a resident if the person is physically present in the state with the intent to remain permanently in the state or, if not physically present in the state, the person intends to return to the state and is absent due to military service. (§ 1 ch 98 SLA 1971; am § 4 ch 156 SLA 1972; am § 6 ch 78 SLA 1974; am § 8 ch 136 SLA 1974; am §§ 1—4 ch 99 SLA 1977; am §§ 3 — 8 ch 87 SLA 1979; am §§ 3 — 9, 11 ch 89 SLA 1981; AS 14.40.763)

Revisor's notes. — In ch. 98, SLA 1971, AS 14.43.120(j)(2) read "four — five years ...." This was a typographical error occurring for the first time in the enrolled version of the bill (CSHB 415 [Finance am S] and has been corrected here.

Effect of amendments. — The 1979 amendment deleted "approved by the commission" following "career education program" and substituted the language

beginning "approved by the commission" for "accredited by the accreditation association for the region in which the college or university is located" in subsection (b), substituted "interest" for "non-interest" in subsection (e), added the language beginning "however, a student shall be entitled" to the end of subsection (e), rewrote subsection (g), and in subsection (j), substituted "paid on behalf of the borrower by the state" for "considered a grant," "borrower" for "grantee," and "three years" for "two years" in the first sentence, substituted "paid by the state" for "regarded as a grant" and "interest for up to a total of 40 percent" for "accrued interest" in the introductory language of the second sentence, and substituted "an additional 10 percent" for "20 percent" in paragraph (2), for "30 percent" in paragraph (3), and for "40 percent" in paragraph (4). The amendment also rewrote subsection (k) and added subsections (*l*), (m), and (n).

The 1981 amendment, added the second sentence of subsection (c). In subsection (d), the amendment added paragraphs (1) and (2) and in paragraph (3), substituted "a total of eight" for "six" preceding "years" and added "of undergraduate and graduate study" following "years." In subsection (i), the amendment substituted "shall" for "may" and "borrower" for "student." In subsection (m), the amendment substituted "12" for "six" preceding "months" and deleted "within the 15-year requirement of (g) of this section" following "months each." The amendment also rewrote subsections (g) and (j), added subsections (o) and (p) and repealed subsection (n) which read "Each year spent attending a college or university in Alaska qualifies as a year of employment and residency under (j) of this section, if the borrower resides no less than three years in Alaska after completion of the course for which the loan was granted, and has a total Alaskan residency of ten years time."

Editor's notes. — This section was redrafted by the revisor of statutes to remove personal pronouns in conformity with AS 01.-5.031(c) and § 4, Chapter 58, SLA 1982.

Section 8, ch. 99, SLA 1977 provides: "The change in the repayment period of student loans set out in AS 14.40.763(g) [now 14.43.120(g)] as amended by sec. 3 of this Act and the additional basis for granting a deferment of repayment of a student loan set out in AS 14.40.763(k) [now 14.43.120(k)] as enacted by sec. 4 of this Act shall, upon request of the loan recipient, be applied retroactively to the outstanding balance of principal of and accrued interest on loans made under AS 14.40.751 — 14.40.806 [now 14.43.090 — 14.43.160] as they read before the effective date of this Act."

Section 12 of ch. 89, SLA 1981, provides: "The reenactment of AS 14.40.763(j) [now 14.43.120(j)] in sec. 7 of this Act applies to any student who has obtained a scholarship loan under AS 14.40.751 — 14.40.806 [now 14.43.090 — 14.43.160] since July 1, 1971."

Legislative history reports. — For a report of legislative intent concerning the loan forgiveness provisions of ch. 89, SLA 1981 (FCCSSB 120), see 1981 Senate Journal p. 1560, 1580; 1981 House Journal p. 2289.

Sec. 14.43.125. Eligibility of students. (a) A person may apply for and obtain a scholarship loan if the person

(1) is a resident of the state at the time of application for a scholarship loan;

(2) meets the requirements of (b) of this section; and

(3) is

(A) enrolled as a full-time student in a career education or associate or baccalaureate or graduate degree program; or

(B) a graduate of a high school, or scheduled for graduation from a high school within six months, with sufficient credits to be admitted to a career education program or to an accredited college or university.

(b) In addition to the requirements of (a) of this section, to obtain a scholarship loan a person must have been a resident of the state for at least two years at the time of application for the loan. For purposes of

this subsection, a person qualifies as a resident of the state if at the time of application for the loan the person

(1) has been present in the state for at least two years unless an absence from the state during any part of the two years was due to military service; or

(2) is a person who is dependent on a parent or guardian for care, and the parent or guardian has been present in the state for at least two years. (§ 1 ch 98 SLA 1971; am § 10 ch 89 SLA 1981; AS 14.40.765)

Effect of amendments. — The 1981 amendment rewrote this section.

Editor's notes. — This section was redrafted by the revisor of statutes to remove personal pronouns in conformity with AS 01.05.031(c) and § 4, ch. 58, SLA 1982.

Sec. 14.43.130. Selection criteria. (a) The selection committee shall grant loans based on total point accumulations under the subsection with priority going to those applicants with the highest point accumulations, except as provided in (b) of this section for loan applications completed before May 15 of each year. Points shall be awarded to applicants based upon student status and continuous Alaskan residency, according to the following schedule:

(1) student status:

(A) continuing undergraduate and graduate students with existing Alaska scholarship loans . . . . . 4 points

(B) continuing undergraduate and graduate students without existing Alaska scholarship loans . . . . . 3 points

(C) freshmen . . . . . 2 points

(D) new graduate students without existing Alaska scholarship loans . . . . . 1 point

(2) continuous Alaskan residency:

(A) students with continuous Alaskan residency of 10 years or more . . . . . 3 points

(B) students with continuous Alaskan residency of at least 5 years and less than 10 years . . . . . 2 points

(C) students with continuous Alaskan residency of more than 2 years and less than 5 years . . . . . 1 point

(3) students attending Alaska colleges or universities . . 1 point

(b) In awarding loans the selection committee shall award loans to applicants based upon the earliest date of completed applications if

(1) the applicant has accumulated at least 5 points under (a) of this section; and

(2) the applicant has filed a completed application not later than May 15 of the year for which the loan is requested. (§ 1 ch 98 SLA 1971; am § 2 ch 87 SLA 1979; AS 14.40.767)

Effect of amendments. — The 1979 amendment rewrote this section.

Editor's notes. — Section 1, ch. 87, SLA 1979 provides: "The legislature determines that

"(1) there are no incentives in the

Official Business

COMMITTEE: House Special Comm. on Loans

DATE: 2/26/85

Subject of meeting: HB 161, HB 185, HB 195 Student Loan Bills

SIGN-IN

Please Print

NAME	ADDRESS	PHONE	REPRESENTING	DO YOU WANT TO TESTIFY?
#1 Marie Matchinson	3701 Eureka Sp B-1 Anch. AK	563-5462	UA Anchorage - students + admin	Yes
#1 Bob Menard	3041 E 42nd St #505	541-0804	UAA students + admin	Yes
Dave Hays	510B W 12th St Juneau AK	789 4567 ~~586 4~~	UAJ	yes.
JOHNE BINKLEY	POUCH V		HB 161	YES

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
(907) 465-4920

AGENDA

TUESDAY, 2/26/85, 3:30 p.m.
Room 124 (House Judiciary)
THIS MEETING WILL BE A STATE-WIDE TELECONFERENCE re. the following bills and related student loan topics.

* HB 161 "An Act relating to student loans; and providing for an effective date."

* HB 185 "An Act relating to student loans; and providing for an effective date."

* HB 197 "An Act relating to maximum loan amounts under the scholarship loan program; and providing for an effective date."

WEDNESDAY, 2/27/85, 3:30 p.m.
Room 519 (House Finance)

Continued consideration of student loan bills: HB 161, HB 185, and HB 197.

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

* Indicates first public hearing.

Levy
3/1/85

Original sponsors: Koponen, Goll,
Sund, et al

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE
ON STATE LOANS

CS FOR HOUSE BILL NO. 185 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the maximum loan amounts, eligibility requirements, and conditions of scholarship loans; and providing for an effective date."

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

* Section 1. AS 14.43.110 is amended to read:

Sec. 14.43.110. UNDERGRADUATE LOANS. The committee may make a loan, not to exceed $6,000 in any one school year, to an undergraduate student eligible under AS 14.43.125. <u>The committee may make a loan for a summer term, even if the total loan for the school year exceeds the $6,000 maximum, if the loan for the summer term is counted against the $6,000 maximum for the following school year.</u>

* Sec. 2. AS 14.43.115 is amended to read:

Sec. 14.43.115. GRADUATE LOANS. The committee may make a loan, not to exceed $7,000 in any one school year, to a graduate student who is eligible under AS 14.43.125 and is pursuing an advanced degree. <u>The committee may make a loan for a summer term, even if the total loan for the school year exceeds the $7,000 maximum, if the loan for the summer term is counted against the $7,000 maximum for the following school year.</u>

* Sec. 3. AS 14.43.120(k) is amended to read:

(k) Periodic installments of principal shall be deferred, but interest shall accrue and be paid unless the student is eligible for interest payment benefits under (1) of this section during any of the following:

(1) return to student status as provided in (c) of this section;

(2) serving an initial period of up to six years on active duty as a member of the armed forces of the United States;

(3) serving, for up to three years, as a full-time volunteer under the Peace Corps Act;

(4) serving, for up to three years, as a full-time volunteer under the Domestic Volunteer Service Act of 1973;

(5) for a one-time period up to 12 months in which the borrower is seeking and unable to find employment in the United States; or

(6) if the borrower becomes 50 percent or more disabled as certified by competent medical authority.

* Sec. 4. AS 14.43.125 is repealed and reenacted to read:

Sec. 14.43.125. ELIGIBILITY OF STUDENTS. (a) A person may apply for and obtain a scholarship loan if the person

(1) is

(A) enrolled as a full-time student in a career education, associate, baccalaureate, or graduate degree program; or

(B) a graduate of a high school or the equivalent, or scheduled for graduation from a high school within six months, with sufficient credits to be admitted to a career education program or to an accredited college or university;

(2) is not delinquent or in default on a previously awarded scholarship loan; and

(3) is a resident of the state at the time of application for the loan; for purposes of this section, a person qualifies as a resident of the state if at the time of application for the loan the person

(A) has been physically present in the state for at least two years immediately before the time of application for the loan;

(B) is dependent on a parent or guardian for care, the parent or guardian has been present in the state for at least two years immediately before the time of application for the loan and the person has been present in the state for at least one year of the immediately preceding five years except that the commission may by a two-thirds vote, acting upon a written appeal by the person, grant an exemption to the requirement that the person has been present in the state for one year of the immediately preceding five years; or

(C) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before the applicant was absent from the state and the absence is due solely to

(i) military service;

(ii) volunteer service under the Peace Corps Act;

(iii) volunteer service under the Domestic Volunteer Service Act of 1973;

(iv) participating in a foreign exchange student program recognized by the commission;

(v) attending a school as a full-time student;

(vi) full-time employment by the state;

(vii) being a member of or employed full-time by the state's congressional delegation;

(viii) required medical care for the applicant or the applicant's immediate family; or

(ix) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (viii) of this paragraph.

(b) A person does not qualify as a resident of the state under this section if the person declares or establishes residence in another state during an absence from Alaska.

* Sec. 5. AS 14.43.160 is amended by adding a new paragraph to read:

(9) "summer term" means the period from June 1 - August 31.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Levy
2/28/85 ✓

Original sponsors: Koponen, Goll,
Sund, et al

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE
ON STATE LOANS

CS FOR HOUSE BILL NO. 185 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the maximum loan amounts, eligibility requirements, and conditions of scholarship loans; and providing for an effective date."

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

* Section 1. AS 14.43.110 is amended to read:

Sec. 14.43.110. UNDERGRADUATE LOANS. The committee may make a loan, not to exceed $6,000 in any one school year, to an undergraduate student eligible under AS 14.43.125. <u>The committee may make a loan for a summer term, even if the total loan for the school year exceeds the $6,000 maximum, if the loan for the summer term is counted against the $6,000 maximum for the following school year.</u>

* Sec. 2. AS 14.43.115 is amended to read:

Sec. 14.43.115. GRADUATE LOANS. The committee may make a loan, not to exceed $7,000 in any one school year, to a graduate student who is eligible under AS 14.43.125 and is pursuing an advanced degree. <u>The committee may make a loan for a summer term, even if the total loan for the school year exceeds the $7,000 maximum, if the loan for the summer term is counted against the $7,000 maximum for the following school year.</u>

* Sec. 3. AS 14.43.120(k) is amended to read:

(k) Periodic installments of principal shall be deferred, but interest shall accrue and be paid unless the student is eligible for interest payment benefits under (1) of this section during any of the following:

(1) return to student status as provided in (c) of this section;

(2) serving an initial period of up to six years on active duty as a member of the armed forces of the United States;

(3) serving, for up to three years, as a full-time volunteer under the Peace Corps Act;

(4) serving, for up to three years, as a full-time volunteer under the Domestic Volunteer Service Act of 1973;

(5) for a one-time period up to 12 months in which the borrower is seeking and unable to find employment in the United States; or

(6) if the borrower becomes 50 percent or more disabled as certified by competent medical authority.

* Sec. 4. AS 14.43.125 is repealed and reenacted to read:

Sec. 14.43.125. ELIGIBILITY OF STUDENTS. (a) A person may apply for and obtain a scholarship loan if the person

(1) is

(A) enrolled as a full-time student in a career education, associate, baccalaureate, or graduate degree program; or

(B) a graduate of a high school or the equivalent, or scheduled for graduation from a high school within six months, with sufficient credits to be admitted to a career education program or to an accredited college or university;

(2) is not delinquent or in default on a previously awarded scholarship loan; and

(3) is a resident of the state at the time of application for the loan; for purposes of this section, a person qualifies as a resident of the state if at the time of application for the loan the person

(A) has been physically present in the state for at least two years immediately before the time of application for the loan;

(B) is dependent on a parent or guardian for care, the parent or guardian has been present in the state for at least two years immediately before the time of application for the loan and the person has been present in the state for at least one year of the immediately preceding five years except that the commission may by a two-thirds vote, acting upon a written appeal by the person, grant an exemption to the requirement that the person has been present in the state for one year of the immediately preceding five years; or

(C) has been physically present in the state, or is a dependent of a parent or guardian who has been physically present in the state, for at least two years immediately before the person [or the parent or guardian] was absent from the state and the absence is due solely to

(i) military service;

(ii) volunteer service under the Peace Corps Act;

(iii) volunteer service under the Domestic Volunteer Service Act of 1973;

(iv) participating in a foreign exchange student program recognized by the commission;

(v) attending a school as a full-time student;

(vi) full-time employment by the state;

(vii) being a member of or employed full-time by the state's congressional delegation;

(viii) required medical care for the applicant or the applicant's immediate family; or

(ix) being a person who otherwise qualifies as a resident and is accompanying a spouse who qualifies as a resident under (i) - (viii) of this paragraph.

(b) A person does not qualify as a resident of the state under this section if the person declares or establishes residence in another state during an absence from Alaska.

* Sec. 5. AS 14.43.160 is amended by adding a new paragraph to read:

(9) "summer term" means the period from June 1 - August 31.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.-10.070(c).

SCOMM

#50:24

Introduced: 2/13/85
Referred: House Special Committee
on State Loans, Health, Education &
Social Services and Finance

BY SUND, GRUSSENDORF
KOPONEN AND TAYLOR

IN THE HOUSE

HOUSE BILL NO. 197

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to maximum loan amounts under the scholarship loan program; and providing for an effective date."

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

* Section 1. AS 14.43.110 is amended to read:

Sec. 14.43.110. UNDERGRADUATE LOANS. The committee may make a loan, not to exceed $6,000 in any one school year, to an undergraduate student eligible under AS 14.43.125. The committee may make a loan for a summer term, even if the total loan for the school year exceeds the $6,000 maximum, if the loan for the summer term is counted against the $6,000 maximum for the following school year.

* Sec. 2. AS 14.43.115 is amended to read:

Sec. 14.43.115. GRADUATE LOANS. The committee may make a loan, not to exceed $7,000 in any one school year, to a graduate student who is eligible under AS 14.43.125 and is pursuing an advanced degree. The committee may make a loan for a summer term, even if the total loan for the school year exceeds the $7,000 maximum, if the loan for the summer term is counted against the $7,000 maximum for the following school year.

* Sec. 3. AS 14.43.160 is amended by adding a new paragraph to read:

(9) "summer term" means the period from June 1 - August 31.

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

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 197

Title: RE: Maximum Student Loans

Sponsor: Sund, et al.

Requestor: Sund

Date of Request: 2/19/85

FISCAL DETAIL

Agency Affected: Education

Program Category Affected: Postsecondary Education Commission

BRU, Program or Subprogram(s) Affected: Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	N.A.	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	N.A.	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	N.A.	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: Kerry D. Rongstad, Executive Director Phone: 465-2854

Division: Alaska Commission on Postsecondary Education Date: 2/19/85

Approved by Commissioner: _____ Date: _____

Agency: _____

Distribution (by Agency preparing fiscal note):

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

7/1/84

2/15/85

MEMORANDUM

TO:
FROM: Representative John Sund

RE: HB 197

Sectional analysis of proposed Student Loans legislation:

The purpose of this bill is to give undergraduate and graduate students the opportunity to apply loan money, promised to them for the upcoming school year, toward their summer quarter tuition.

The present Alaska Statutes will not allow students to attend more than three quarters or two semesters at full loan funding.($2,000 quarter/$3,000 semester) As a result, students who require more than four years to graduate must travel home for the summer and re-register in the fall for their remaining units. For a student going out of state and living off campus, the cost or travel and the trouble of relocating an apartment can be overwhelming.

This bill amends AS 14.43.110 - the statute setting loan terms in the Dept. of Education.

Section 1
This section provides that the committee may make a loan to a student for a summer term even if the total loan for the school year exceeds the $6,000 maximum. The loan for the summer term will be counted against the $6,000 maximum for the following school year.

To do this a student would present his loan promissory note to the school financial aid office and they would allow him to register for the summer and pay tuition with his first loan disbursement in September.

Section 2
This section provides that the committee may make a loan to a graduate student for a summer term, even if the loan for the school year exceeds the $7,000 maximum, if the loan for the summer term is counted against the $7,000 maximum for the following school year.

Section 3
This section amends AS 14.43.160 by adding a new paragraph that defines "summer term". The period from June 1, to August 31 is used, as it includes the dates that a school would provide for a summer term.

This bill would directly save undergraduate and graduate students time and money while creating no new cost for the state.

SCOMM

#50:25

COMMITTEE REPORT

HOUSE

(5) FURTHER: JUDICIARY

2/20/85

Date: 3/14/85

Mr. Speaker:

The Committee on HOUSE SPECIAL COMMITTEE ON STATE LOANS has had HB 217

"An Act relating to interest rates; and providing for an effective date."

under consideration and reports it back as follows:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

[ ] replace with CS for HB217 (Lee) [ ] same title [ ] new title

and recommends _____

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

[X] reports it back without recommendation

[ ] referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

CHAIRMAN

H 60

Introduced: 1/30/85
Referred: House Special Committee
on State Loans, Health,Education &
Social Services and Finance

IN THE HOUSE BY FURNACE AND COLLINS

HOUSE BILL NO.146

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to housing loans for the permanently disabled."

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

* Section 1. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.102. LOANS FOR THE PERMANENTLY DISABLED. (a) The corporation shall establish a residencial housing loan program for the **permanently disabled under the special mortgage loan purchase** program (AS 18.56.098). A loan may be made under this section to an individual who is eligible under (e) of this section, or to a parent or guardian of the individual if the parent or guardian is living with the individual.

17,650

(b) A loan made under this section shall be at a fixed annual interest rate of **six percent**. The loan amount may not exceed the maximum loan amount for a single family residence under the special mortgage loan purchase program, and the appraised value of the residence may not exceed the loan amount by more than **25 percent**. The corporation may not require a borrower to make a down payment toward purchase of a residence under this section.

(c) The value of the equity in a residence purchased with a loan under this section may not be **used to deny the borrower state benefits to which the borrower may be otherwise entitled**.

(d) The corporation may require a borrower under this section to prove present and future financial ability to repay the loan. However, a loan may not be denied solely because of circumstances caused

by the disability under which the borrower became eligible for the loan.

(e) For an individual or a parent or guardian of the individual to be eligible for a loan under this section, the individual must

(1) provide a written statement from a physician stating that the nature of the individual's disability is permanent;

(2) establish that the individual has a specialized housing need; and

(3) establish that the individual is severely disabled, through

(A) a statement from the federal Veterans Administration indicating that the individual is at least 70 percent disabled;

(B) proof of eligibility as a blind or disabled person under the federal supplemental security income program (42 U.S.C. 1381 - 1385) or the federal disability insurance benefits program (42 U.S.C. 423);

(C) a statement of eligibility from the Board of Vocational Rehabilitation (AS 23.15.010); or

(D) a statement of disability from the division of public health, family health section.

Bannister
3/13/85

Original sponsors: Duncan, Pearce,
Ringstad and Boucher

IN THE HOUSE

BY THE HOUSE SPECIAL
COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 217 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to interest rates; and providing for an effective date."

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

* Section 1. AS 06.20.320(a) is amended to read:

(a) A licensee or lender who, in the making or collection of a loan contract, does any act <u>that</u> [WHICH] violates AS 06.20.230 - 06.20.260 or 06.20.280 - 06.20.310 shall at the option of the commissioner reimburse the portion of the interest and charges in excess of that provided in those sections, or, in the case of repeated violations of those sections by the licensee, the commissioner may, upon a hearing, require the licensee to adjust the loan contract interest or other charges down to <u>10.5 percent a year</u> [THE CONTRACT INTEREST LIMITATION SPECIFIED IN AS 45.45.010(a)].

* Sec. 2. AS 06.40.160(a) is amended to read:

(a) A lender who, in the making of any contract, loan or premium finance agreement or the collection of interest or charges, does any act <u>that</u> [WHICH] violates AS 06.40.010, 06.40.020, 06.40.090, or 06.40.110 - 06.40.130 shall at the option of the commissioner reimburse that portion of the interest and charges in excess of that provided in those sections, or, in the case of repeated violations of those sections by the lender, the lender shall adjust the contract, loan, or premium finance agreement interest and other charges down to <u>10.5 percent a year</u> [THE CONTRACT INTEREST LIMITATION SPECIFIED IN AS 45.45.010(a)].

* Sec. 3. AS 06.45.060(5)(A)(vi) is amended to read:

(vi) the rate of interest may not exceed [THE GREATER OF] 15 percent a year [OR THE RATE SPECIFIED BY AS 45.45.010(b)];

* Sec. 4. AS 45.10.120(c) is repealed and reenacted to read:

(c) A seller or holder of a retail charge agreement, revolving charge agreement or other retail charge agreement may charge, receive and collect a service charge at a rate of 1.5 percent a month computed on the outstanding balance from month to month. If the service charge so computed is less than $1 for any month, then the service charge is $1. The service charge may be computed on a schedule of fixed amounts if as so computed it is applied to all amounts of outstanding balances equal to the fixed amount minus a differential of not more than $5 provided that it is also applied to all amounts of outstanding balances equal to the fixed amount plus at least the same differential.

* Sec. 5. AS 45.45.010(b) is repealed and reenacted to read:

(b) Parties to a contract or loan commitment may charge by express agreement a rate of interest that does not exceed 24 percent a year. A contract or loan commitment in which the principal amount exceeds $25,000 is exempt from the limitation of this subsection.

* Sec. 6. AS 44.33.020(11) is repealed.

* Sec. 7. This Act takes effect July 1, 1985.

MOST FAVORED LENDERS DOCTRINE

* Sec. . AS 45.45.010(b) is amended to read:

(b) No interest may be charged by express agreement of the parties in a contract or loan commitment which is more than eight [FIVE] percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District on the day on which the contract or loan commitment is made. A contract or loan commitment in which the principal amount exceeds $25,000 is exempt from the limitation of this subsection.

RETAIL

* Sec. 4. AS 36.90.001(b) is amended to read:

(b) If the state fails to make a payment due the contractor under this section within 30 days after receiving a contractor's billing, the state shall pay interest to the contractor [UNDER AS 45.45.010(a)] on the amount due at the following rate of interest: (1) 10.5 percent a year except as provided in (2) and (3) of this subsection; (2) if expressly agreed by the parties to a contract that has a principal amount of $25,000 or less, a rate that is no more than five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District on the day when the contract is made; (3) if expressly agreed by the parties to a contract that has a principal amount of more than $25,000, any rate.

* Sec. 5 AS 36.90.001 (c) is amended to read:

(c) The state or a political subdivision of the state is liable to a contractor registered under AS 08.18 for interest [AT THE RATE PROVIDED IN AS 45.45.010(a)] on retainage on a contract for public works or public construction. Interest on retainage accrues from the date of approval of a pay estimate until the date of payment to the contractor. A contract provision purporting to waive the interest provisions of this subsection is void as contrary to public policy. The interest rate to be paid on the retainage is (1) 10.5 percent a year except as provided in (2) and (3) of this subsection; (2) if expressly agreed by the parties to a contract that has a principal amount of $25,000 or less, a rate that is no more than five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District on

the day when the contract is made; (3) if expressly agreed by the parties to a contract that has a principal amount of more than $25,000, any rate.

Bannister

AMENDMENT

Offered in the HOUSE By Duncan

TO: HB 217

Page 2, line 10, following "(2)":

Insert "and (3)"

Page 2, line 11, following "parties,":

Insert "to a contract that has a principal amount of $25,000 or less,"

Page 2, lines 14 and 15, delete the last sentence of the section and following "made":

Insert "; (3) if expressly agreed by the parties to a contract that has a principal amount of more than $25,000, any rate."

Page 2, line 25, following "(2)":

Insert "and (3)"

Page 2, line 26, following "parties,":

Insert "to a contract that has a principal amount of $25,000 or less,"

Page 2, line 28 through page 3, line 1 delete the last sentence of the section and following "made":

Insert "(3) if expressly agreed by the parties to a contract that has a principal amount of more than $25,000, any rate."

Credit Card Rates for Loans over $1,000

Group 1: No Limit
Arizona, Delware, Idaho, Illinois, Montana, Nebraska, Nevada, New Mexico, New York, Oregon, South Carolina, South Dakota, Virginia

Group 2: 30%
New Jersey

Group 3: 36% up to $1,400.
27% $1,400 - $4,000
Louisiana

Group 4: 24%
D.C., Maryland

Group 5: 21%
Colorado, Indiana, Kentucky, Mississippi, Oklahoma, Rhode Island Utah, Wyoming

Group 6: 18%
Alabama, Connecticut, Flordia, Georgia, Hawaii, Iowa, Wisconsin West Virginia, Washington, Vermont, Texas, Tennessee, Pennsylvania, Ohio, Massschusetts, Maine, Michigan, Montana, New Hampshire, North Carolina, North Dakota.

Federal Express employees work "the sort" separating packages coming into the state on the firm's free package promotional deal to businesses that has swamped their Anchorage headquarters.

Bill would hike loan interest to 24%

By JIM ERICKSON
Daily News business reporter

Alaska bankers are seeking changes to state law that would allow lenders to charge more for small loans and consumer credit plans, such as charge cards.

But a state consumers group said this week some banks are already charging far more for certain loans than state law allows though a federal loophole in banking law.

Maureen Kennedy, executive director of the Alaska Public Interest Research Group (AKPIRG), said she found it "appalling" that the Alaska Bankers Association is lobbying for a measure now before a House committee that would allow lenders to charge up to 24 percent interest annually for loans of $25,000 or less.

The current cap for the so-called "consumer loans," such as car or boat loans, is 13.5 percent.

The bill was introduced by Rep. Jim Duncan, D-Juneau, Drue Pearce, R-Anchorage, John Ringstad, R-Fairbanks, and H.A. "Red" Boucher, D-Anchorage. Pearce is a former employee of the Alaska Bank of the North.

At the same time bankers are pushing for the bill, "they are ignoring state law and implementing wholesale increases in interest rates on consumer loans," she said.

For example, she said, First Interstate Bank is now charging 22 percent interest on loans under $2,500.

"The smaller borrower, the one that can least afford it, is being hit hardest by the bank's belligerence," she said. Interest rates on loan amounts of more than $25,000 are not regulated.

Derrell Smith, president of the Alaska Bankers Association, said at least one Alaska bank began exceeding state limits about five years ago. Others are increasingly following suit.

That's because a federal banking law known as the "most favored lenders doctrine" allows federally-chartered banks to charge as much as other Alaska lenders, such as small loan companies, Smith said.

Under the state's Small Loan Act, national banks based in Alaska can charge up to 36 percent annual interest on loans of $850 or less, and 24 percent annual interest on the principle balance of a loan between $850 and $10,000, said Dave Lawer, a local lawyer whose firm recently reviewed how the most favored lenders doctrine applies in in Alaska.

The doctrine extends to state-charted banks as well, said Willis Kirkpatrick, director of the state Division of Banking.

The state's largest bank, National Bank of Alaska, last year began charging 15 percent annual interest on auto loans and 17.5 percent on other consumer loans. The rate of small loans from Alaska Statebank increased two weeks ago to 14.5 percent, from 13 percent.

Kennedy said AKPIRG is considering a court test of the legality of the most favored lenders doctrine — and whether Alaska banks can use it to circumvent state law.

AKPIRG this week asked the

See Page D-4, BILL

remarks.

Valdez could not be reached for comment Wednesday.

At issue are statements made by Valdez to the Fairbanks Daily News-Miner, which were published in an Associated Press article that appeared last week in the Anchorage Daily News.

In July 1983, J.H. Moneymaker Construction Inc. and Hub City Construction Inc., owned by Andrews, were contracted by ASHA to build the 40-unit senior citizen housing project in Fairbanks. The project was shut down later that year and again in 1984 because of structural design deficiencies, the lawsuit said.

Moneymaker and Andrews eventually terminated their contract with ASHA because of the prolonged shutdowns and other problems with the design of the structure, Moneymaker officials said recently.

Moneymaker-Hub City's dispute with ASHA over the project is the subject of a separate mulitmillion dollar lawsuit that is pending in Anchorage Superior Court.

Meanwhile, the Fairbanks newspaper began an investi-

See Page D-2, ASHA

Reorganized North Pacific to fly again

By HAL BERNTON
Daily News business reporter

A reorganized North Pacific Airlines plans to resume commuter flight service later this month, according to a spokesman for the carrier's owner, Nondalton Native Corp.

North Pacific suspended all flight service on Feb. 14, 10 days after one of its commuter planes crashed near Soldotna and killed nine people.

Bill Bellows, a public relations officer representing Nondalton, said details of the reorganization plan will be released within

Luxury line fights to stay airborne

The Associated Press

WASHINGTON — Regent Air, the "all-frills airline" that offers everything from an in-flight beauty parlor to private compartments, is struggling to stay airborne — in part because of government concern over alleged links between its founders and organized crime.

The Transportation Department said Wednesday it has told the airline it could fly for



Bill would allow lenders to hike loan interest to 24 percent

Continued from Page D-1

Consumer Protection Section of the state Attorney General's Office to investigate the matter, she said.

According to state and federal officials, the state usuary laws are not enforced by regulators. In most instances, consumers must press action in court if they feel a bank has violated the law.

"We don't step into the shoes of the borrower," said Debra Chong, a senior attorney for the Comptroller of the Currency in San Francisco. "The borrower has to sue on their own."

Smith said the apparent increasing willingness by banks to charge more than state law allows "puts a different complexion on the bill."

Although "we'd feel comfortable using the most favored lenders doctrine" without changes to state law, Smith said, the provision does not go far enough.

"My personal preference is to completely deregulate," he said.

Raising the lending cap to 24 percent is a good compromise, he said.

"Obviously, (bankers) are trying to get the law changed so there is never any hint of them being in violation of state law," said Gary Jenkins, director of governmental relations for the National Federation of Independent Business/Alaska.

The 3,000-member federation opposed the bill, because small businessmen fear banks would begin charging more for small business loans of $25,000 or less.

The measure is backed by the Alaska Bankers Association, the state Chamber of Commerce, and the Alaska Retail Association.

A hearing on the bill was held Tuesday by the House Special Committee on State Loans. Another hearing is scheduled for 3:30 p.m. today in Juneau. The hearing is not going to be teleconferenced.

The buill has been referred on to the House Judiciary Committee.

Bank officials say national deregulation has forced them to pay more for deposits. But Alaska's "usury" law prevents corresponding increases in loan charges and cut profit margins.

"Although banks have been profitable the last few years, the next few years don't look so good unless we try to match revenue to expenses," Smith said.

Alaska retailers and bankers have been lobbying to raise or eliminate interest rate caps since 1980, because of the increasing costs of servicing small loans.

Besides raising the ceiling on small loans, the bill introduced this year also would raise allowable interest rates for credit card account balances above $1,000 from 10.5 percent to 18 percent.

Without the changes, banks are not willing to make small consumer loans, according to lenders.

Alaska's usury laws are among the most restrictive in the nation, bankers said. Almost all states have limits of 18 percent or higher; 13 states have eliminated caps entirely.

The industry argues that consumer credit would be more available if restrictions were eased.

However, Kennedy of AKPIRG said that "has clearly not been the case" in states where deregulation has occured.



Alyeska al

Continued from Page

problems with high wa
tent in the oil.

Another independent
Anita L. Hartman of t
bolt frim, said she
actually see where sam
oil came from. But, sh
she didn't think it pos
substitute samples with
knowledge.

Two employees of
Petroleum Inc., which
the refinery at North
rebutted testimony
former MAPCO chemi
indicated high water le
found in oil delivered
refinery.

James H. Boltz, man
the refinery, said the
content was high at o
But Alyeska officials

ALASKA BUSINES
EXECUTIVE DEVELOPMENT

DON
LET IRS TAKE
SHELT
WITH
TAX STRATEGIES TH

March 14, 19
Hotel Captain Cook

ALASKA PUBLIC INTEREST RESEARCH GROUP
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

March 13, 1985

Rep. John Sund
Chair, House Special Committee on Loans
Pouch V
Juneau, AK 99811

Dear Rep. Sund:

I wanted to follow up my earlier letter regarding HB 217. In the last year or so, additional information has become available bolstering our arguments that the Committee should not pass HB 217 out.

Will competition keep rates down?

New York state senator Franz Leichter completed a study in 1983 evaluating the effects of deregulation of the banking industry in New York in 1980. This study follows up the work done by the NY Banking Dept. in 1981. Leichter's study, entitled, Deregulation of Consumer Lending in New York: The Rates Went up but Never Came Back Down, concludes exactly that.

In 1980, at deregulation, the prime rate was 17.7%, and the interest rate on an unsecured loan averaged 13.21%. In January of 1981, the prime was at 20.50% while the average interest rate on an unsecured loan had climbed up to 18.21%. In November of 1982, however, the prime declined by nearly 50% to 12%, but interest rates inched up to 18.35%. By February of 1983, the prime dropped further to 10.5%, yet loan interest rates continued to increase up to 19%. Credit card rates followed roughly the same pattern. The pattern to be drawn is not that interest rates vary with the cost of money, but that regardless of what happens to the prime, interest rates will trend upward in a deregulated market (or effectively deregulated market, as we are proposing here).

Will increased rates increase availability of credit?

I have not seen any additional information addressing the credit availability issue. On the other hand, I have not heard any bankers resorting to that argument in the last year either.

Nevertheless, in 1981, the NY Banking Dept. study concluded that increased rates did not transfer into increased availability. In fact, 93% of banks increased their rates substantially just after deregulation, but did not loosen new-borrower standards.

Are bank profits being squeezed unfairly in today's market?

There has been much discussion recently of record bank profits. In April of 1984, the Daily News reported that 4 Alaskan banks placed among the 10 most profitable in the nation. An article within the last 3 months reemphasized the banks' profitability.

Leichter's study also addresses the cost of money issue:

> ...(I)t is true that money is costing the banks more than it once did, but it is also true that the rates on most of the major sources of borrowed funds has declined considerably during the past several months (this is mid-'83). Commercial paper (60 day) was at an 8.5% rate in early March, several points below the year earlier level, and another major source of funds, "federal funds" was at 8.35% on March 14th as compared with 14.2% one year earlier. Two year Treasury notes yielded 9.66% on March 16th, down from 14.14% a year earlier. Generally, the overall cost of all the long-term and short-term money the banks borrow has been under 10% for several months, and with most consumer lending at 17% and above, the difference between the cost of the money borrowed by the bank and the money lent to the consumer by the bank has been from 7% to 10%. Traditionally, this gap has been around 4% or 5%.

The report also notes that, "(t)he spread between the cost of funds and the prime rate is larger than normal, according to a February 24, 1983 American Banker article, which found that, 'over the past six years that spread has almost doubled.'"

A Newsweek article of a year ago pointed out that banks are bringing in additional revenues through miscellaneous charges and fees. Our own Anchorage Guide to Banking Services bears this out. Security National now charges $25 for a stop payment order, up from $15 a year ago. Alaska Pacific Bank charges up to $50 for overdrafts, up from $15 a year ago. Minimum balances are increasing, monthly fees and per check charges are increasing. Consumers are paying the price and the banks are earning record profits.

Finally, banks are violating the state interest rate ceiling right now. In doing research on HB 217, I found that NBA has been charging more than the specified 13.5% rate on consumer loans for a year and a half, and several other banks in town have just this week begun charging the higher rates. They are relying on the federal "most favored lender" doctrine and a 1981 state AG opinion in doing so. The move is subject to legal challenge, and our attorneys are examining the issue.

I find it particularly offensive that the banking industry is asking the legislature to authorize an increase in the cap at the same moment it is violating the cap previously set by the legislature.

If I can answer any questions, please be sure to give me a call.

Sincerely,

Maureen Kennedy

Maureen Kennedy
Director

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 217

Title: An Act relating to interest rates

Sponsor: Duncan, et al.

Requestor: House Special Committee on Loans

Date of Request:

FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.

Program Category Affected: Public Protection

BRU, Program or Subprogram(s) Affected: Banking and Securities

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	+- FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: Attach a separate page if necessary

Prepared By: N. T. Lusk Phone: 465-2521

Division: Banking, Securities and Corporations Date:

Approved by Commissioner: Loren H. Lounsbury Date: 3/7/85

Agency: Commerce and Economic Development

Distribution (by Agency preparing fiscal note):

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

7/1/84

1736Wa22285a

ALASKA PUBLIC INTEREST RESEARCH GROUP
Post Office Box 1093/Anchorage, Alaska 99510/(907) 278-3661

March 10, 1985

Rep. John Sund
Chair, Special Committee on Loans
Pouch V
Juneau, AK 99811

Dear Rep. Sund:

I understand that HB 217 will come before your committee on Tuesday. Although the new bill is a vast improvement over last year's deregulation bill, AkPIRG continues to be opposed to the final section.

As I understand it, the first two sections embody housekeeping changes, in that the contract interest limitation specified in AS 45.45.010 IS 10.5% a year.

Sections 4 and 5 seem reasonable. We are not opposed to Section 6, which would increase the interest rate on balances above $1,000 from 10.5% up to 18%. Although passage of such a change will entail additional costs to consumers, we feel that consumers eligible for credit cards carrying a monthly balance over $1,000 should be sophisticated enough to "know what they're getting into." This section is also a vast improvement over last year's bid to increase credit card rates from 18% to 24% across the board.

Section 7, however, is a problem. The current cap on interest rates is so far below the proposed 24% cap that we are, in effect, not raising the cap but deregulating interest rates again. And in that case, the arguments we put forth last year apply to this year's bill as well.

Rates will go up. Studies in states around the country that have deregulated or increased ceilings indicate that rates increase 3 or 4%. An ABA study published early in 1983 examined installment credit increases in Montana, Mississippi, NJ and Ohio. Just after deregulation, rates increased between 1/2% (Ohio) and 3 3/4% (NJ).

The bankers argue that rates later came down, so its "not the end

of the world for consumers." But by late '82, rates were still between 1/2% and 2 3/4% above their original levels.
The prime averaged 10.81% through '82, down from a high of 20.5% in mid '81. Overall interest rates in NJ increased between 6 and 7% just after ceilings were lifted in 1981--they hadn't come down by mid 1983. In Maryland, interest rates on credit cards went up and stayed up 3% after the ceiling was lifted in '82. In NY, rates on credit cards increased nearly 6% shortly after deregulation. By late '82, rates on other types of loans increased as much a 6 1/2%.

Consumers will suffer. Extrapolating from conservative national figures, Alaskan consumers will pay $6.4 million more to banks for each 1% increase in interest rates on installment credit alone. Assuming rates go up 3%, we're talking about a $19.2 million transfer from Alaskan borrowers to lenders--just on installment credit. As I've already demonstrated, banks will not compete, thereby keeping rates in check. A "pack mentality" is at work, and even bankers say that increased ceilings "give us something to shoot for."

Consumers will not gain greater access to credit under HB 217. The NY State Banking Dept. study found that 93% of commercial banks increased rates substantially, but did not loosen new-borrower standards. Eighty three percent did not increase access to their own customers. The study indicates similar behavior for credit unions, finance companies, S&Ls and retailers.

Bankers will needlessly increase their profits. Business Week reported last August that banking nationwide was the 10th best profitmaking industry with a 34% increase in profits over 1982. In December, the magazine reported a 15.2% increase in earnings per share for banks. Consumer installment credit increased by $1 billion between March of '82 and March of '83. Closer to home, Alaska Business reported that the six largest Alaskan banks had profit to earnings ratios ranging from 4.73 to 12.00. All the state's banks increased earnings through 1982; many posted record earnings. Total assets and deposits increased more than 25% according to the June issue; Security National doubled its assets while it's deposits increased by 137%. The bankers I've spoken with agree that regulatory relief is not necessary now--they want to hedge their bets against a repetition of 1980's economic conditions.

Careful adjustments to interest rate laws are appropriate when economic conditions demand them. For instance, last year, several witnesses at the hearing in Anchorage testified that it might be appropriate to widen the margin between the discount rate and the interest rate limit (i.e., the limit might be equal to 8 percentage points above the discount rate rather than only 5). We feel we have not yet reached that point.

We urge you not to pass HB 217 out of committee at this time. I found out about today's hearing by chance this morning and have not yet had time to look at the bill extensively or in research new developments since last spring.

Sincerely,

Maureen Kennedy

Maureen Kennedy
Director



Monday marketplace

Minneapolis Star and Tribune

Monday
January 28/1985 1M

DEPT. 766 W
FEB 25 1985



Dick Youngblood

Credit sales are a cost for retailers

I've been a union man most of my working life, but dagnab it, there are times when I think that no one can ignore economic reality with more contrary, wrongheaded predictability than a labor leader bent on saving us all from corporate greed.

One of those times came a few days ago when Minnesota's major retailers asked the Legislature to raise the interest-rate ceiling on consumer credit from 16 percent, lowest in the nation, to 18 percent a year.

Far from trying to swell their profits on charge accounts, the retailers said, what they'd sort of like to do is cut down a mite on the millions of dollars in losses they post on consumer credit each year.

Their blandishments didn't faze Bernard Brommer, secretary-treasurer of the powerful Minnesota AFL-CIO, whose knees began to jerk almost immediately: "We've opposed (a higher rate ceiling) historically," he grumped. "Increasing interest rates for consumers and working people . . . I just don't think it's very wise."

The way he sees it, apparently, retailers can afford to absorb those credit losses a whole lot easier than us working stiffs. Unfortunately, this is yet another example of Big Labor's enduring effort to rewrite the economics textbooks, which assure us that there is no such thing as a free lunch.

There sure isn't: My exhaustive investigation uncovered no retailing executives who are taking pay cuts to offset their employers' losses on consumer credit. Ditto for shareholder dividends.

Instead, the credit losses are being translated into higher retail prices paid by the very working people the AFL-CIO aims to protect, including the 20 to 30 percent of us who rarely or never use credit cards.

Actually, Brommer isn't the only one jerking his knees. Our resident populist, who manages at times to overcome his rather extensive economics training, began muttering about the avarice of retailers who try to raise interest rates even as a declining prime rate cuts their cost of money.

"What about the poor guy who has to buy on credit?" he demanded.

Let's go through this economics lesson just once more: Just as Social Security isn't designed to lift the elderly out of poverty and commodity programs cannot save the small farmer, retailers shouldn't be expected to solve the problem of the low-income consumer. These are issues best addressed by sharply focused programs that eliminate as many middlemen as possible.

My colleague had a point about timing, however — interest rates have fallen a couple of points in the past year. I sought an explanation from Dayton Hudson Corp., a solid corporate citizen with a reputation for sensitivity to the needs of the consumer. (It has a no-questions-asked policy on merchandise returns, and its Target chain spends $750,000 a year testing toys and other products for safety.)

What I got from James Diriam, vice president of credit sales at Dayton's, were some impressive numbers: In Minnesota during 1983, the combined credit operation of Dayton's and Target spent $8.3 million for operating expenses (payroll, postage, supplies), $2.7 for bad debts and $17 million for interest on the cash used to finance accounts receivable.

Customer finance charges raised just $18.4 million, however, leaving their Minnesota credit operations $9.6 million in the red!

Even if the interest ceiling had been 18 percent instead of 16, Diriam said, the increased revenue from finance charges would have trimmed the loss only to $7.3 million.

Moreover, the 1983 loss was calculated on the basis of a 12 percent interest rate on the cash used in credit operations, he said. Even if the rate had been 10 percent, one-half point below the current prime rate, the loss still would have been about $4.5 million.

That strikes me as quite a lot to ask a retailer to pay for the privilege of granting us credit.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

RECEIVED
FEB 14 1985

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

MEMORANDUM February 14, 1985

SUBJECT: Interest rates
(Work Order No. 14-0378)

TO: Representative Jim Duncan

FROM: Theresa L. Bannister TB
Legislative Counsel

You has requested this office to prepare a sectional analysis of Work Order 14-0378, relating to interest rates.

Section 1 of the bill sets 10.5% as the annual interest rate to which the Commissioner of Commerce and Economic Development can reduce the contracts of small loan licenses that violate the interest and charges provisions of the Alaska Small Loans Act. (AS 06.20.010 - .920).

Section 2 of the bill sets 10.5% as the annual interest rate to which the Commissioner of Commerce and Economic Development can reduce the contracts of premium financing lenders that violate the licensing, advertising, disclosure, contents, interest, prepayment and delinquency charge provisions of the Premium Financing Act (AS 06.40.010 - .190). That act covers the financing of loans to purchase insurance policies.

Section 3 sets at 15% per year the maximum interest rate that a state-chartered credit union can charge for loans to members.

Section 4 of the bill amends AS 36.90.001(b) to maintain the present interest rate that the state must pay to a public construction contractor on late payments. The present rate is 10.5% a year or, if expressly agreed to by the parties, up to 5 percentage points above a floating Federal Reserve rate.

Section 5 of the bill amends AS 36.90.001(c) to maintain the present interest rate that the state must pay to a

public construction contractor on the retainage on a public construction contract. (The present rate is the same given in Section 4 of this analysis.)

Section 6 of the bill sets at 18% per year the maximum interest rate that sellers can charge on a charge account.

Section 7 of the bill sets at 24% per year the maximum interest rate that parties to a contract or loan agreement for less than $25,000 can set by express agreement. (Over $25,000, there is no limit.)

Section 8 of the bill deletes the requirement that the Department of Commerce and Economic Development furnish certain organizations such as banks, with the maximum annual interest rate allowed under AS 45.45.010(b) each quarter.

Section 9 of the bill makes the bill effective July 1, 1985.

TLB:ojb
J11/096

MEMORANDUM State of Alaska

TO: Julius Brecht
Banking & Securities
Dept. of Commerce and Economic Development

DATE: January 2, 1981

FILE NO: ~~J-66-052-81~~ J66-946-81

TELEPHONE NO: 465-3675

FROM: WILSON L. CONDON
ATTORNEY GENERAL

SUBJECT: Depository Institutions Deregulation and Monetary Act of 1980.

By: Leslie J. Ludtke
Leslie J. Ludtke
Assistant Attorney General

You have requested this department's opinion regarding interest rates applicable to state chartered credit unions under the Depository Institutions Deregulation and Monetary Control Act of 1980. (Public Law 96-221) You have asked whether 12 U.S.C. §1757(5)(A)(vi) (1980 Deregulation and Monetary Control Act §310) applies to state chartered credit unions. We conclude that it does not.

Section 1757 of the federal Credit Union Act applies only to federally chartered credit unions. 12 U.S.C. § 1757 states that "A federal credit union . . . shall have power." The term "federal credit union" is defined under 12 U.S.C. § 1752 as "a cooperative association organized in accordance with the provisions of this chapter . . ." Therefore, the provisions of 12 U.S.C. § 1757 do not apply to state chartered credit unions. 12 U.S.C. § 1757(5)(A)(vi) provides in part:

> (vi) the rate of interest may not exceed 15 per centum per annum on the unpaid balance inclusive of all finance charges, except that the Board may establish
> (I) after consultation with the appropriate committees of the Congress, the Department of Treasury, and the Federal financial institution regulatory agencies, an interest rate ceiling exceeding such 15 per centum per annum rate, for periods not to exceed 18 months, if it determines that money market interest rates have risen over the preceding six-month period and that prevailing interest rate levels threaten the safety and soundness of individual credit unions as evidenced by adverse trends in liquidity, capital, earnings, and growth;

Recently, the National Credit Union Administration (NCUA) Board raised the interest rates under this section to 21 percent. This rate supercedes the otherwise applicable rate established in 12 U.S.C. § 1785(g)(1) (1980 Deregulation and Monetary Control Act § 523). In relevant part, this section states:

> (g)(1) If the applicable rate prescribed in this subsection exceeds the rate an insured credit union would be permitted to charge in the absence of this subsection, such credit union may, notwithstanding any State constitution or statute which is hereby preempted for the purposes of this subsection, take, receive, reserve, and charge on any loan, interest at a rate of not more than 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where such insured credit union is located or at the rate allowed by the laws of the State, territory, or district where such credit union is located, whichever may be greater.

Additionally § 528 of the 1980 Deregulation and Monetary Control Act provides that if one or more provision of the Act, or of any other law, applies to the same loan, the loan may be made at the highest applicable interest rate. The issue raised is therefore whether state chartered credit unions may charge 21 percent interest as authorized by 12 U.S.C. §1757(5)(A)(vi) or whether state chartered credit unions are limited to the rate set by 12 U.S.C. § 1785 when federally chartered credit unions are permitted to charge a higher rate under 12 U.S.C. § 1757(5)(A)(vi). Our conclusion that state chartered credit unions are not permitted to charge the higher rate established by the NCUA Board under 12 U.S.C. § 1757(5)(A)(vi) is based on three factors.

First, 12 U.S.C. § 1757 is not directly applicable to state chartered credit unions. This section sets out the powers which a federal credit union may exercise. The NCUA regulates the activities of federal credit unions by adopting rules to carry out this section. The activities of state chartered credit unions are not regulated by the NCUA and state chartered credit unions are not subject to the limitations nor are they granted the powers of federal credit unions under 12 U.S.C. § 1757. The conference report on the 1980 Deregulation and Monetary Control Act reinforces the conclusion that state chartered credit unions are not subject to 12 U.S.C. §1757.

The report states in part:

> The conferees adopted a provision which would allow federal credit unions to raise their loan rates up to an annual rate of 15 percent subject to rules issued by the National Credit Union Administration. The legislation would also permit the National Credit Union Administration to raise the loan ceiling above 15 percent for periods not to exceed 18 months, after consultation with appropriate Congressional committees, the Department of Treasury, and the other federal financial regulator agencies. 1980 Deregulation and Monetary Control Act. CCH Reports, paragraph 2036, pg. 211.

State chartered credit unions are, however, subject to regulation under 12 U.S.C. § 1785 which sets out the requirements governing federally insured credit unions. State chartered credit unions are federally insured. The Conference Report on 12 U.S.C. § 1785, 1980 Deregulation and Monetary Control Act § 523, states in part:

> State usury ceilings on all loans made by Federally insured depository institutions (except national banks), and small business investment companies will be permanently preempted...

Because state chartered credit unions are federally insured depository institutions, the preemptive interest rate set out in 12 U.S.C. § 1785(g)(1) applies.

Secondly, 12 U.S.C. § 1785(g)(1) permits state chartered credit unions to charge interest at a rate of "not more than 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve bank in the Federal Reserve district where such insured credit union is located or at the rate allowed by the laws of the State...where such union is located..." The phrase "at the rate allowed by the laws of the State" has been interpreted to mean at the highest rate allowed by the state to be charged by any lender for a particular type of loan.

For example, small loan licensees are permitted to charge a higher rate of interest under AS 06.20 for loans under $25,000 than other financial institutions may charge for these same loans.

Therefore, 12 U.S.C. § 1785(g)(1) would permit a federally insured state chartered credit union to charge the same rate as the small loan licensee for a loan under $25,000. 1/

The phrase "at the rate allowed by the laws of the State" is derived from the National Bank Act, 12 U.S.C. § 85, and is commonly referred to as the "most favored lender" doctrine. This doctrine originally was established to ensure parity between national banks and state chartered financial institutions. It allows a national bank, or in this instance a federally insured, state chartered credit union, to charge the same interest rate as any state chartered or licensed financial institution would be permitted to charge on a particular type of loan. 2/ The national bank, or state chartered credit institution, is granted parity by being permitted to charge the highest rate allowed for the state's most favored lender. The doctrine therefore focuses on the type of loan offered rather than establishing parity with the same type of financial institution. 12 U.S.C. § 1785(g)(i) incorporates this concept of most favored lender. It does not, however, establish a state chartered credit union's right to parity with a federally chartered credit union.

1/ The fact that a credit union is not licensed under AS 06.20 would not alter this result. See n.2, below.

2/ In Marquette Nat'l Bank v. First of Omaha Corp., 439 U.S. 299, 314 (1978) the Court stated that the "most favored lender" doctrine had "been interpreted for over a century to 'give advantages to National banks over their state competitors'." 12 C.F.R. § 7.7310 incorporates the "most favored lender doctrine", as expressed by case law, into the regulations of the Comptroller of the Currency. 12 C.F.R. § 7.7310 reads:

> §7.7310 Charging interest at rates permitted competing institutions . . .
>
> (a) A national bank may charge interest at the maximum rate permitted by State law to any competing State-chartered or licensed lending institution. If State law permits a higher interest rate on a specified class of loans, a national bank making such loans at such higher rate is subject only to the provisions of State law relating to such class of loans that are material to the determination of the interest rate. For example, a national bank may lawfully charge the highest rate permitted to be charged by a State-licensed small loan company or morris plan bank, without being so licensed.

The "most favored lender" doctrine refers to the highest permissible rate under state law. The authority to charge 21 percent on loans, under 12. u.s.c. § 1757(5)(A)(vi) is not a right granted by state law, but a right given by federal law. No law of Alaska specifically allows any financial institution to charge on a lona. Nor does state law incorporate any maximum rates set under federal law in establishing allowable state maximums. Therefore, although the concept of most favored lender is incorporated into 12 U.S.C. § 1785(g)(i), state chartered credit unions are not granted parity with federal credit unions. To construe the phrase "at the rate allowed by the laws of the State" to include the rate permitted by 12 U.S.C. 1757(5)(A)(vi) would constitute a misapplication of the "most favored lender" doctrine.

Third, Section 528 of the 1980 Deregulation and Monetary Control Act does not authorize state chartered credit unions to charge the rate set by the NCUA Board under 12 U.S.C. § 1757 (5)(A)(vi). This section reads:

> Sec. 528. In any case in which one or more provisions of, or amendments made by, this title, section 529 of the National Housing Act, or any other provision of law, including section 5197 of the Revised Statutes (12 U.S.C. 85) apply with respect to the same loan, mortgage, credit sale, or advance, such loan, mortgage, credit sale, or advance may be made at the highest applicable rate.

This section permits financial institutions to charge interest at the "highest applicable rate". Because we have concluded that 12 U.S.C. §1757(5)(A)(vi) does not apply to state chartered credit unions, Section 528 does not by its terms permit state chartered credit unions to charge a higher rate of interest than what would otherwise be permitted by 12 U.S.C. § 1785(g)(1). Section 528 authorizes the lender to charge the higher rate only when "one or more provisions. . .apply with respect to the same loan". 12 U.S.C. § 1757(5)(A)(vi) does not apply to loans made by state chartered credit unions.

It is our conclusion that state chartered credit unions are limited to charging the maximum interest rate established by 12 U.S.C. § 1785(g)(1). Although this provision incorporates the "most favored lender" doctrine, it does not grant state chartered credit unions most favored lender status with regard to interest rates set by federal law.

Additionally, it should be noted that the reference to state interest ceilings in 12 U.S.C. § 1785(g)(1) incorporates the relevant state law as to how interest may be computed and what charges are considered interest. 3/

LJL:wjp

3/ See First National Bank in Mena v. Nowlin, 509 F.2d 872 (8th Cir. 1975)

Section 1 amends Chapter 20, Alaska Small Loans Act. of the Banks and Financial Institutions Statutes.

AS 06.20.320 Civil and Criminal Penalties is amended by changing the penalty for violations of:

AS 06.20.230. Maximum Interest Permitted
AS 06.20.250. Computation and Payment of Interest
AS 06.20.260. Charges Prohibited
AS 06.20.280. Maximum Charge by Licensee
AS 06.20.285. Open-end Loans
AS 06.20.287. Credit Insurance on Open-ended loans
AS 06.20.290. Purchase of Wages for $25,000 or less
AS 06.20.300. Maximum Charges By nonlicensee on Loans
AS 06.20.310. Illegal Interest Rate

Currently repeat violators of the above sections may be required by the Commissioner to Adjust the loan contract interest or other charges down to the 12th Federal Reserve rate plus five percentage points. The amendment will fix the rate at 10.5 percent a year.

Section 2 amends Chapter 40. Premium Financing Act. of the Banks and Financial Institutions Statutes.

AS 06.40.160. Civil and Criminal Penalties is amended by changing the penalty for violations of:

AS 06.40.010. License Required
AS 06.40.020. Applicability
AS 06.40.090. Advertising of Misleading Statements Prohibited; Disclosure of Interest
AS 06.40.110. Contents of Premium Finance Agreement
AS 06.40.120. Maximum Interest Permitted: Prepayment, Refund
AS 06.40.130. Delinquency Charge

Currently repeat violators of the above sections shall at the option of the Commissioner adjust the contract, loan, or premium finance agreement interest and other charges down to the 12th Federal Reserve rate plus five percentage points. The amendment will fix the rate at 10.5 percent a year.

Section 3 amends Chapter 45. Alaska Credit Union Act. of the Banks and Financial Institution Statutes.

AS 06.45.060. Powers of a Credit Union is amended by changing the maximum rate of interest.

Currently the rate of interest may not exceed the greater of 15 percent a year or the 12th Federal Reserve rate plus five percentage points. The amendment will fix the rate at 15 percent per year.

Sections 4 and 5 amend Chapter 90 Miscellaneous Provisions. of the Public Contracts Statutes.

AS 36.90.001. Public Construction Contract Payments is amended to avoid changing the rate of interest the state currently pays contractors on amounts not paid within 30 days of receiving a contractors billing and the rate paid by the state or a political subdivision on retainage on a contract for public works or public construction.

Section 6 amends Chapter 10. Alaska Retail Installment Sales Act. of the Trade and Commerce Statutes.

AS 45.10.120. Extent of Service Charge is amended by changing the rate of interest that my be charged on retail charge agreements, revolving charge agreements or other retail charge agreements.

Currently the interest that may be charged on outstanding balances of less than $1000. is 1.5 percent per month but on balances exceeding $1000. the rate is one twelfth of the annual 12th Federal Reserve rate plus five percentage points on that portion over $1000. The amendment will fix the rate at 1.5 percent a month on the outstanding balance from month to month.

Section 7 amends Chapter 45 Trade Practices. of the Trade and Commerce Statutes.

AS 45.45.010 Legal Rate of Interest is amended by changing the maximum rate of interest charged by express agreement of the parties in a contract or loan commitment on principal amounts up to $25,000.

Currently the rate is the 12th Federal Reserve rate plus five percentage points. The amendment will make the maximum rate 24 percent a year on principal amounts up to $25,000.

Section 8 Repeals the requirement for the Department of Commerce and Economic Development to notify lending institutions, title insurance companies, mortgage companies and clerks of the respective superior courts of the 12th Federal Reserve District discount rate that is to be used during that calendar quarter for computing the maximum rate of interest. Section 7 will amend the rate to a fixed 24 percent a year.

SCOMM

#50:24

ALASKA POWER AUTHORITY
FOUR DAM POOL
OBJECTIVES IN NEGOTIATIONS

1) Form the foundation for a statewide energy program for Alaska;

2) Establish debt service so that rate shock is not experienced by the communities;

3) Establish entry rates for the communities at no higher than their avoided cost; and

4) Establish long-term rates which benefit the communities as well as provide a return to the state.

3/4/85

MEMORANDUM

TO: Rep. John Sund, Chair,
House Special Committee on Loans

FROM: John Hartle, AA JH

RE: Analysis of HB 219 (Hydro)

The purpose of this bill is to set out in law, terms for the $196 million loan from the Department of Commerce and Economic Development to the Alaska Power Authority which was appropriated last year to take out the short term bonds issued to complete construction of the four dam pool hydroelectric projects. The Department currently has broad discretion to set the terms of loans from the Power Development Revolving Loan Fund, but agreement has not been reached with the four dam pool communities.

The bill is based on the power sales proposal from the communities and will lead to long term power sales agreements if enacted. It adds a new subsection to AS 44.33.620 (attached) - terms for Power Development Loans. This subsection specifically addresses loan terms only for the initial project (as described in AS 44.83.398(a), "initial project" is the four dam pool).

The bill does not constrain the Department of Commerce's flexibility now in law for setting terms for future projects (Bradley, Susitna, etc.). In HB 219 we avoid interfering with the Department's discretion in setting the terms of loans for those projects.

Sectional Analysis:

Section 1: This section expands the definition of "qualified utility" to include joint operating agencies. A joint operating agency is an instrumentality of two public utilities owned and operated by municipalities. The primary purpose of this section is to allow Wrangel and Petersburg to jointly operate the Tyee Hydroelectric Project, without subjecting them to economic regulation by the APUC. There may be other communities in the state with the same needs.

Section 2: This section just adds the words "Except as provided in (d) of this section." It also shows current law setting loan terms.

Section 3: The new subsection. (1) Sets the loan terms to provide for an interest rate not to exceed four percent, fifty-year maximum term, forty-year amortization period.

(2) Sets the payment rate per kilowatt hour for the debt service component of electric rates. The rate is based on spreading the debt service payment over the total amount of electricity offered by the

project for sale. This will produce a fixed debt service rate for the life of the loan, subject to the "ramping" provision in (3).

(3) Allows repayment to be adjusted during the first five years to provide a "ramp up" in rates, avoiding a severe rate shock. Interest deferred during the first five years is added to the principal balance and scheduled for full repayment in later years.

(4) Provides that any principal not paid under subsection (2) be paid off, with interest, during the last ten years of the loan terms.

Section 4: Adds regional electric authority to the definition of "Qualified Utility" for APUC certification. (Same purpose as section 1.)

FOUR-DAM POOL DEBT SERVICE

ALASKA POWER AUTHORITY

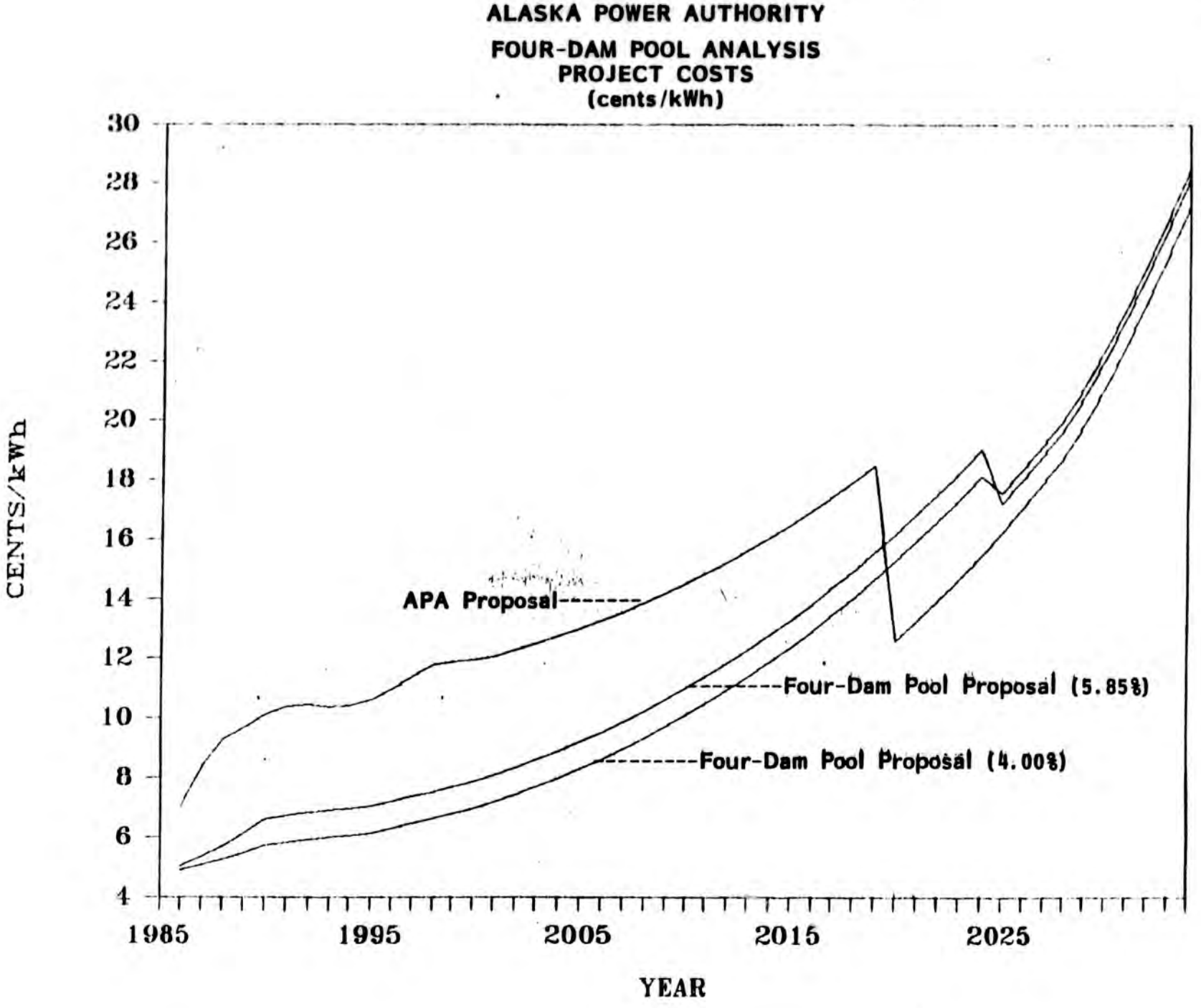
VERSUS

PARTICIPANTS' PROPOSAL

Comparison of Major Issues
Alaska Power Authority Proposal vs. 4-Dam Pool Proposal

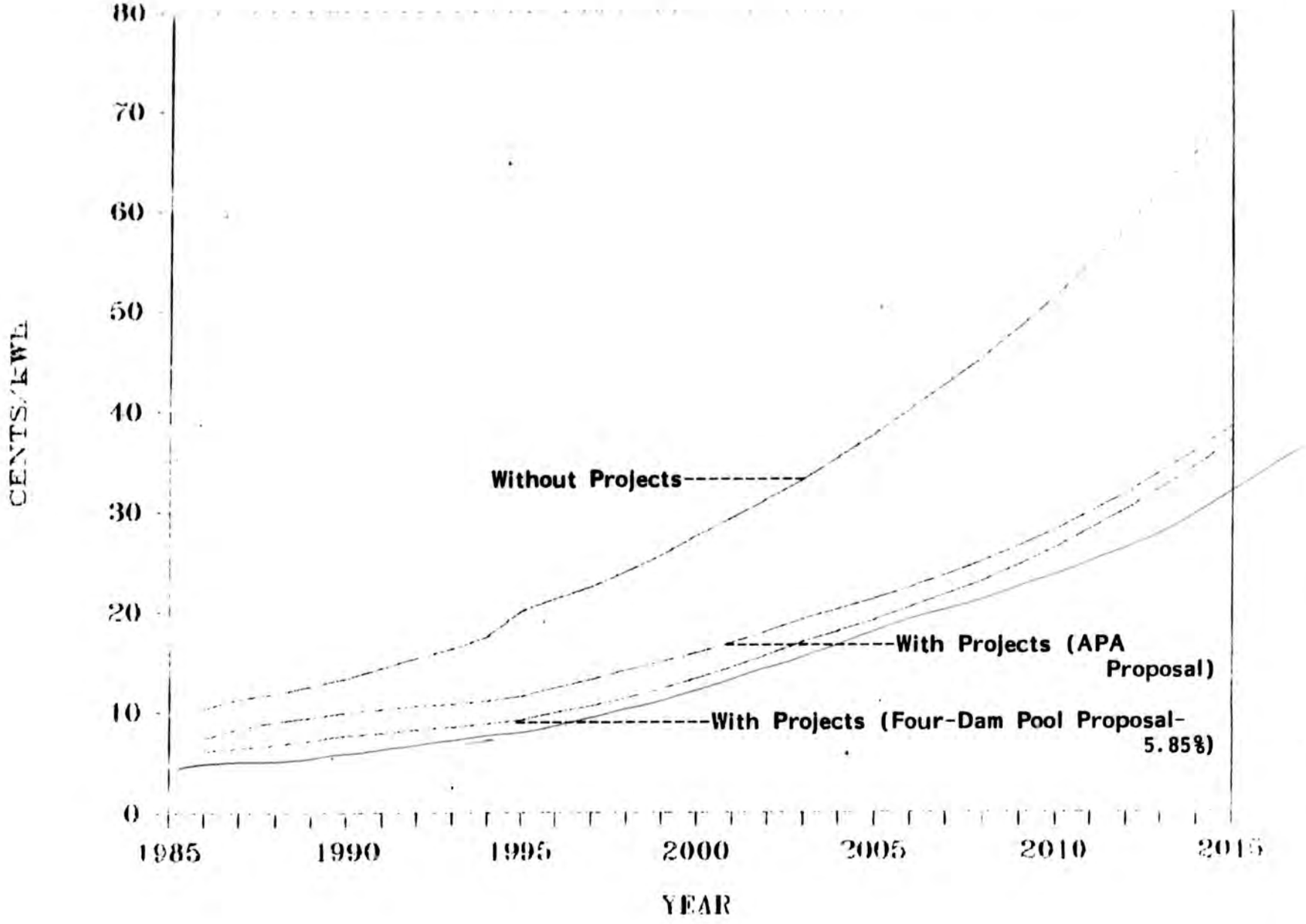
HB-219

Issue	Alaska Power Authority	4-Dam Pool — 4%
Interest Rate	- 8% Yield on Total Loan	- 5.8% (3.3% Yield on Total Loan)
Amortization Period	- 35 Years	- 40 years
Annual Debt Service	- Level Debt Service With Ramp Features. WHAT IS "WOW"!	- Level debt service with Purchasers to pay amount in proportion to energy usage; Ramp features included.
Ramp Features	- Initially 2¢/KWH below alternative cost (2.5¢ for CVEA) decreasing to 0¢ at the point where Project costs without ramp and alternative costs cross.	- Defer part of principal and interest payments in years 1-5 and repay, with interest, in years 6-40.
Deferred Payments	- All payments deferred in Ramp features are repayed with interest by the end of 35 years.	- Principal amount deferred due to unused Project capability is repaid, without interest, in years 41-50. Principal and interest deferred due to ramp features is repayed, with interest, in years 6-40.


ALASKA POWER AUTHORITY
FOUR-DAM POOL ANALYSIS
PROJECT COSTS
(cents/kWh)
CENTS/kWh
30
28
26
24
22
20
18
16
14
12
10
8
6
4
1985
1995
2005
2015
2025
YEAR
APA Proposal
Four-Dam Pool Proposal (5.85%)
Four-Dam Pool Proposal (4.00%)

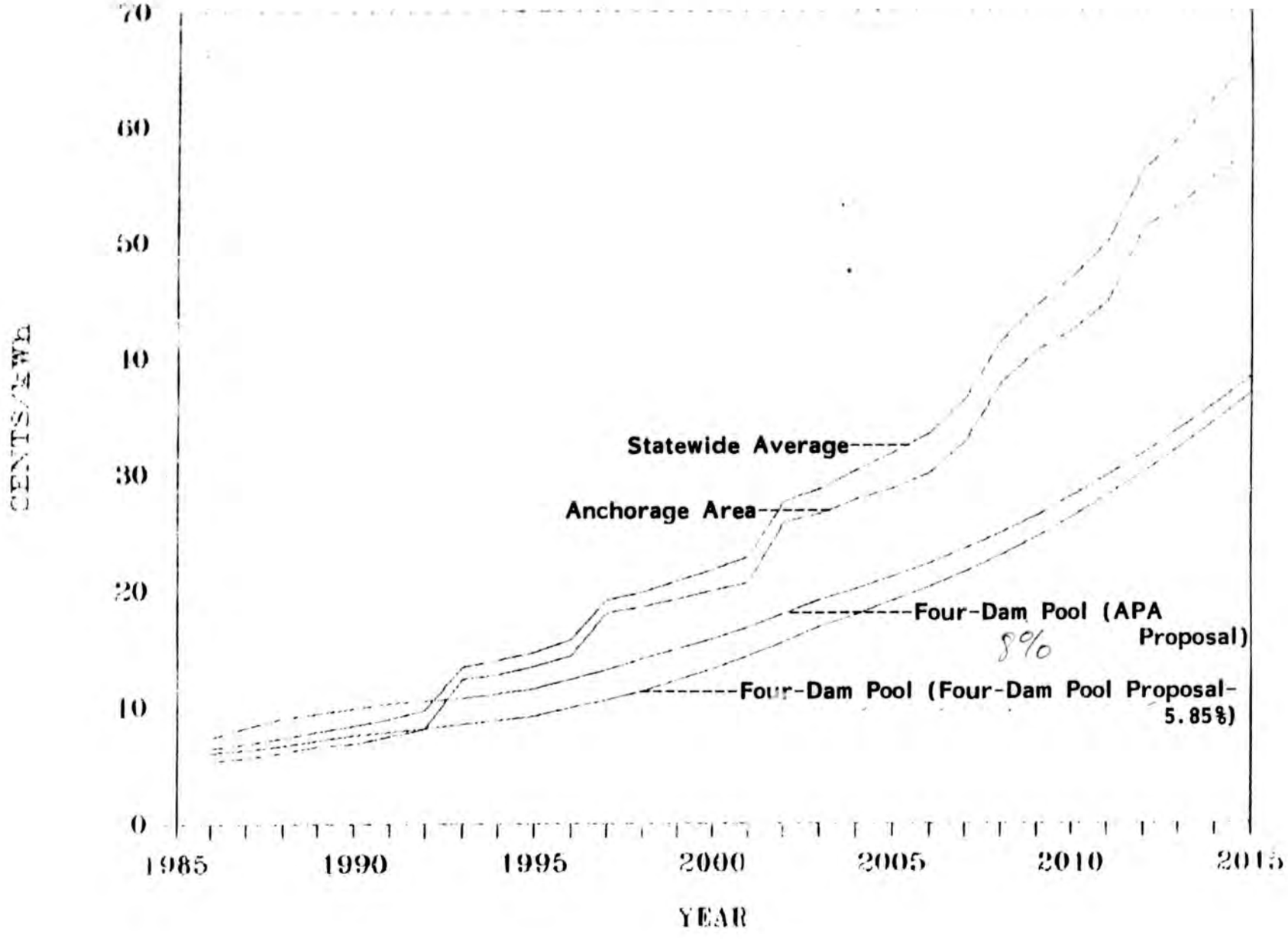
ALASKA POWER AUTHORITY

FOUR-DAM POOL ANALYSIS
PARTICIPANT PRODUCTION COSTS
WITH AND WITHOUT PROJECTS
(cents/kWh)



ALASKA POWER AUTHORITY

FOUR-DAM POOL ANALYSIS
PRODUCTION COSTS
(cents/kWh)



	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
	APA PROPOSAL					FOUR-DAM POOL PROPOSAL - 5.85%					W/O PROJECT						******PROJECT COSTS ONLY****** FOUR-DAM POOL PROPOSAL - 4.00%			
YEAR	DEBT SERVICE ($000)	O & M ($000)	OTHER COSTS ($000)	TOTAL NOMINAL (C/kWh)	TOTAL 1986$ (C/kWh)	DEBT SERVICE (c/kWh)	O & M ($000)	OTHER COSTS ($000)	TOTAL NOMINAL (C/kWh)	TOTAL 1986$ (C/kWh)	W/O EXIST DS & OTHR (c/kWh)	OTHER ($000)	TOTAL (c/kWh)	1986$ (C/kWh)	GENERATION (GWh)	PROJ SALES (GWh)	DEBT SERVICE ($000)	DEBT SERVICE (C/KWH)	O&M ($000)	PROJ COSTS (C/KWH)
1986	7713	5027	8513	7.4	7.4	4079	5027	8513	6.1	6.1	9.7	1882	10.3	10.3	287.6	181.5	3850	2.12	5027	4.9
1987	10622	5354	8865	8.3	7.8	4835	5354	8865	6.4	6.0	10.7	1840	11.3	10.6	290.9	191.4	4306	2.25	5354	5.0
1988	12810	5702	9459	9.0	8.0	5653	5702	9459	6.7	5.9	11.2	1778	11.8	10.4	309.9	199.2	4751	2.39	5702	5.3
1989	13882	6072	10186	9.4	7.8	6571	6072	10186	7.1	5.9	12.0	1758	12.6	10.4	319.6	206.0	5212	2.53	6072	5.5
1990	15096	6467	11055	9.9	7.7	7633	6467	11055	7.6	5.9	12.8	1754	13.3	10.4	329.1	213.0	5714	2.68	6467	5.7
1991	15902	6887	12021	10.3	7.5	7851	6887	12021	7.9	5.8	13.9	1756	14.4	10.5	337.7	219.1	5877	2.68	6887	5.8
1992	16351	7335	13109	10.6	7.3	8132	7335	13109	8.2	5.6	14.8	1766	15.3	10.5	347.4	226.9	6088	2.68	7335	5.9
1993	16660	7812	14245	10.8	7.0	8464	7812	14245	8.5	5.5	15.8	1694	16.3	10.5	358.4	236.2	6336	2.68	7812	6.0
1994	17320	8320	15770	11.2	6.7	8812	8320	15770	8.9	5.4	17.0	1867	17.5	10.6	370.8	245.9	6597	2.68	8320	6.1
1995	18248	8860	17488	11.6	6.6	9154	8860	17488	9.2	5.2	19.6	1455	20.0	11.3	384.8	255.4	6853	2.68	8860	6.1
1996	19189	9436	20838	12.4	6.6	9338	9436	20838	9.9	5.3	20.9	1336	21.3	11.3	398.7	268.6	6991	2.68	9436	6.3
1997	20211	10850	24148	13.2	6.6	9529	10850	24148	10.6	5.3	22.2	1197	22.5	11.2	412.3	285.9	7134	2.68	10850	6.5
1998	21316	10783	28285	14.1	6.6	9729	10783	28285	11.4	5.4	23.7	1153	24.0	11.3	426.5	271.5	7283	2.68	10783	6.6
1999	21646	11399	33068	15.0	6.6	9939	11399	33068	12.3	5.4	25.3	1138	25.6	11.3	440.7	277.3	7441	2.68	11399	6.8
2000	21774	12140	38485	15.9	6.6	10159	12140	38485	13.3	5.5	27.3	1058	27.5	11.4	455.8	283.5	7606	2.68	12140	7.0
2001	21882	12929	44707	16.9	6.6	10329	12929	44707	14.4	5.6	29.1	1052	29.3	11.4	471.0	288.2	7732	2.68	12929	7.2
2002	21882	13769	51763	18.0	6.6	10394	13769	51763	15.6	5.7	31.0	1054	31.2	11.4	485.0	290.0	7781	2.68	13769	7.4
2003	21882	14664	59761	19.2	6.6	10462	14664	59761	17.0	5.8	33.0	1053	33.2	11.4	500.8	291.9	7832	2.68	14664	7.7
2004	21882	15617	66687	20.2	6.5	10532	15617	66687	18.0	5.8	35.1	1053	35.3	11.4	516.2	293.9	7885	2.68	15617	8.0
2005	21882	16632	74484	21.2	6.4	10605	16632	74484	19.1	5.8	37.4	1053	37.6	11.4	532.1	295.9	7939	2.68	16632	8.3
2006	21882	17713	82995	22.3	6.3	10682	17713	82995	20.3	5.8	39.8	1053	40.0	11.4	548.6	298.1	7997	2.68	17713	8.6
2007	21882	18865	92564	23.6	6.3	10761	18865	92564	21.6	5.8	42.4	1053	42.6	11.4	565.5	300.3	8056	2.68	18865	9.0
2008	21882	20091	103215	24.9	6.2	10844	20091	103215	23.0	5.8	45.2	1053	45.4	11.4	583.0	302.6	8118	2.68	20091	9.3
2009	21882	21397	115448	26.4	6.2	10931	21397	115448	24.6	5.8	48.1	1053	48.3	11.3	601.0	305.0	8183	2.68	21397	9.7
2010	21882	22788	129066	28.0	6.2	11021	22788	129066	26.3	5.8	51.2	1053	51.4	11.3	619.6	307.5	8251	2.68	22788	10.1
2011	21882	24269	144245	29.8	6.2	11115	24269	144245	28.1	5.8	54.6	1053	54.7	11.3	638.8	310.2	8321	2.68	24269	10.5
2012	21882	25846	161151	31.7	6.2	11213	25846	161151	30.1	5.9	58.1	1053	58.3	11.3	658.6	312.9	8395	2.68	25846	10.9
2013	21882	27526	179978	33.8	6.2	11315	27526	179978	32.2	5.9	61.9	1053	62.1	11.3	679.1	315.8	8471	2.68	27526	11.4
2014	21882	29316	200939	36.0	6.2	11422	29316	200939	34.5	5.9	65.9	1053	66.1	11.3	700.1	318.7	8559	2.68	29316	11.9
2015	21882	31221	224272	38.4	6.2	11533	31221	224272	37.0	6.0	70.2	1053	70.4	11.3	721.9	321.8	8634	2.68	31221	12.4
2016	21882	33250	238858	39.5	6.0	11649	33250	238858	38.1	5.8	74.8	1053	74.9	11.3	744.3	325.1	8721	2.68	33250	12.9
2017	21882	35412	254375	40.6	5.8	11769	35412	254375	39.3	5.6	79.6	1053	79.8	11.3	767.3	328.4	8811	2.68	35412	13.5
2018	21882	37713	270909	41.8	5.6	11895	37713	270909	40.5	5.4	84.8	1053	84.9	11.3	791.1	331.9	8905	2.68	37713	14.0
2019	21882	40165	288518	43.0	5.4	12026	40165	288518	41.2	5.2	90.3	1053	90.5	11.3	815.7	335.6	9003	2.68	40165	14.6
2020	0	42776	307272	41.6	4.9	12163	42776	307272	43.1	5.1	96.2	1053	96.3	11.3	840.9	339.4	9106	2.68	42776	15.3
2021	0	45556	327245	43.0	4.7	12305	45556	327245	44.4	4.9	102.4	1053	102.6	11.3	867.0	343.4	9212	2.68	45556	15.9
2022	0	48517	348516	44.4	4.6	12454	48517	348516	45.8	4.7	109.1	1053	109.2	11.3	893.9	347.5	9323	2.68	48517	16.6
2023	0	51671	371169	45.9	4.5	12609	51671	371169	47.2	4.6	116.2	1053	116.3	11.3	921.6	351.8	9439	2.68	51671	17.4
2024	0	55029	395295	47.4	4.3	12778	55029	395295	48.7	4.5	123.8	1053	123.9	11.3	950.2	356.3	9560	2.68	55029	18.1
2025	0	58606	420989	49.0	4.2	3522	58606	420989	49.3	4.2	131.8	1053	131.9	11.3	979.6	361.0	4826	1.34	58606	17.6
2026	0	62416	448354	50.6	4.1	3522	62416	448354	50.9	4.1	140.4	1053	140.5	11.3	1010.0	365.9	4826	1.32	62416	18.4
2027	0	66473	477497	52.2	4.0	3522	66473	477497	52.6	4.0	149.5	1053	149.6	11.3	1041.3	371.0	4826	1.30	66473	19.2
2028	0	70793	508534	54.0	3.8	3522	70793	508534	54.3	3.9	159.2	1053	159.3	11.3	1073.6	376.3	4826	1.28	70793	20.1
2029	0	75395	541589	55.7	3.7	3522	75395	541589	56.1	3.7	169.6	1053	169.6	11.3	1106.9	378.6	4826	1.27	75395	21.2
2030	0	80296	576792	57.6	3.6	3522	80296	576792	57.9	3.6	180.6	1053	180.7	11.3	1141.2	378.6	4826	1.27	80296	22.5
2031	0	85515	614283	59.5	3.5	3522	85515	614283	59.8	3.5	192.3	1053	192.4	11.3	1176.6	378.6	4826	1.27	85515	23.9
2032	0	91073	654212	61.4	3.4	3522	91073	654212	61.7	3.4	204.8	1053	204.9	11.3	1213.0	378.6	4826	1.27	91073	25.3
2033	0	96993	696736	63.5	3.3	3522	96993	696736	63.7	3.3	218.1	1053	218.2	11.3	1250.6	378.6	4826	1.27	96993	26.9
2034	0	103298	742823	65.6	3.2	3522	103298	742823	65.8	3.2	232.3	1053	232.4	11.3	1289.4	378.6	4826	1.27	103298	28.6

N O T E S

Column No.	Explanation
(1)	Debt sevice per Commerce Loan Agreement.
(2)	**Estimated by APA and inflated at the assumed general inflation rate (6.5% per year).**
(3)	Other power production costs of the Participants including diesel generation and transmission (estimated by R. W. Beck and Associates).
(4)	(Col.(1)+Col.(2)+Col.(3))/Col.(15)/10. Total production costs with the Projects.
(5)	Discounted at 6.5% per year.
(6)	Per January 23, 1985, memorandum from the Four-Dam Pool to the APA Board of Directors - Tab D.
(7)	Same as Col.(2).
(8)	Same as Col.(3).
(9)	(Col.(6)+Col.(7)+Col.(8))/Col.(15)/10. Total production costs with the Projects.
(10)	Same as Col.(5).
(11)	Weighted average "avoided cost" of Participants and includes some fixed costs. Estimated by R. W. Beck and Associates.
(12)	Existing debt service of Participants. Estimated by R. W. Beck.
(13)	Col.(12)/Col.(15)/10 + Col.(11). Total production costs without the Projects.
(14)	Same as Col.(5).
(15)	Total generation of Participants including the Projects and other generation. Estimated by R. W. Beck.
(16)	Generation of Projects utilized by the Participants. Estimated by the Participants.
(17)	Per proposal by the Participants utilizing 4.0% interest on loans.
(18)	Col.(17)/Col.(16)/10.
(19)	Same as Col.(2).
(20)	(Col.(17)+Col.(19))/Col.(16)/10. Project costs only and CANNOT be compared with Cols. (4), (9), and (13).

PARTICIPANTS' TOTAL PRODUCTION COSTS

YEAR	APA PROPOSAL NOMINAL (C/kWh)	APA PROPOSAL 1986$ (C/kWh)	4 DP PROPOSAL NOMINAL (C/kWh)	4 DP PROPOSAL 1986$ (C/kWh)	ALT. COSTS NOMINAL (C/kWh)	ALT. COSTS 1986$ (C/kWh)	SW AVG (C/kWh)	ANCHORAGE (C/kWh)
1985								
	7.4	7.4	6.1	6.1	10.3	10.3	6.5	5.4
	8.3	7.8	6.4	6.0	11.3	10.6	6.9	5.7
	9.0	8.0	6.7	5.9	11.8	10.4	7.4	6.1
	9.4	7.8	7.1	5.9	12.6	10.4	7.9	6.6
1990	9.9	7.7	7.6	5.9	13.3	10.4	8.4	6.9
	10.3	7.5	7.9	5.8	14.4	10.5	9.0	7.5
	10.6	7.3	8.2	5.6	15.3	10.5	9.7	8.1
	10.8	7.0	8.5	5.5	16.3	10.5	13.4	12.4
	11.2	6.7	8.9	5.4	17.5	10.6	14.0	12.8
1995	11.6	6.6	9.2	5.2	20.0	11.3	14.7	13.5
	12.4	6.6	9.9	5.3	21.3	11.3	15.8	14.4
	13.2	6.6	10.6	5.3	22.5	11.2	19.2	18.1
	14.1	6.6	11.4	5.4	24.0	11.3	19.9	18.6
	15.0	6.6	12.3	5.4	25.6	11.3	20.9	19.2
2000	15.9	6.6	13.3	5.5	27.5	11.4	21.8	20.0
	16.9	6.6	14.4	5.6	29.3	11.4	22.9	20.7
	18.0	6.6	15.6	5.7	31.2	11.4	27.7	25.9
	19.2	6.6	17.0	5.8	33.2	11.4	28.8	26.6
	20.2	6.5	18.0	5.8	35.3	11.4	30.4	27.9
2005	21.2	6.4	19.1	5.8	37.6	11.4	31.8	28.8
	22.3	6.3	20.3	5.8	40.0	11.4	33.5	30.1
	23.6	6.3	21.6	5.8	42.6	11.4	36.5	32.8
	24.9	6.2	23.0	5.8	45.4	11.4	41.4	37.8
	26.4	6.2	24.6	5.8	48.3	11.3	44.5	40.6
2010	28.0	6.2	26.3	5.8	51.4	11.3	46.9	42.3
	29.8	6.2	28.1	5.8	54.7	11.3	49.9	44.8
	31.7	6.2	30.1	5.9	58.3	11.3	56.3	51.3
	33.8	6.2	32.2	5.9	62.1	11.3	59.0	53.1
	36.0	6.2	34.5	5.9	66.1	11.3	62.5	55.8
2015	38.4	6.2	37.0	6.0	70.4	11.3	65.7	58.0
	39.5	6.0	38.1	5.8	74.9	11.3		
	40.6	5.8	39.3	5.6	79.8	11.3		
	41.8	5.6	40.5	5.4	84.9	11.3		
	43.0	5.4	41.8	5.2	90.5	11.3		
2020	41.6	4.9	43.1	5.1	96.3	11.3		
	43.0	4.7	44.4	4.9	102.6	11.3		
	44.4	4.6	45.8	4.7	109.2	11.3		
	45.9	4.5	47.2	4.6	116.3	11.3		
	47.4	4.3	48.7	4.5	123.9	11.3		
2025	49.0	4.2	49.3	4.2	131.9	11.3		
	50.6	4.1	50.9	4.1	140.5	11.3		
	52.2	4.0	52.6	4.0	149.6	11.3		
	54.0	3.8	54.3	3.9	159.3	11.3		
	55.7	3.7	56.1	3.7	169.6	11.3		
2030	57.6	3.6	57.9	3.6	180.7	11.3		
	59.5	3.5	59.8	3.5	192.4	11.3		
	61.4	3.4	61.7	3.4	204.9	11.3		
	63.5	3.3	63.7	3.3	218.2	11.3		
	65.6	3.2	65.8	3.2	232.4	11.3		
2035								

PROJECT COSTS ONLY

APA	4-DP (5.85%)	4-DP (4.88%)
7.0	5.0	4.9
8.3	5.3	5.0
9.3	5.7	5.3
9.7	6.1	5.5
10.1	6.6	5.7
10.4	6.7	5.8
10.4	6.8	5.9
10.4	6.9	6.0
10.4	7.0	6.1
10.6	7.1	6.1
11.0	7.2	6.3
11.4	7.4	6.5
11.8	7.5	6.6
11.9	7.7	6.8
12.0	7.9	7.0
12.1	8.1	7.2
12.3	8.3	7.4
12.5	8.6	7.7
12.8	8.9	8.0
13.0	9.2	8.3
13.3	9.5	8.6
13.6	9.9	9.0
13.9	10.2	9.3
14.2	10.6	9.7
14.5	11.0	10.1
14.9	11.4	10.5
15.3	11.8	10.9
15.6	12.3	11.4
16.1	12.8	11.9
16.5	13.3	12.4
17.0	13.8	12.9
17.4	14.4	13.5
18.0	14.9	14.0
18.5	15.6	14.6
12.6	16.2	15.3
13.3	16.9	15.9
14.0	17.5	16.6
14.7	18.3	17.4
15.4	19.0	18.1
16.2	17.2	17.6
17.1	18.0	18.4
17.9	18.9	19.2
18.8	19.7	20.1
19.9	20.8	21.2
21.2	22.1	22.5
22.6	23.5	23.9
24.1	25.0	25.3
25.6	26.5	26.9
27.3	28.2	28.6

3/4/85

MEMORANDUM

TO: Rep. John Sund, Chair
House Special Committee on Loans

FROM: J. Hartle, AA JH

RE: Electric power rates for four dam pool communities (HB 219)

	KEA	CVEA	KPU	Petersburg	Wrangell
Operations and Maintenance	2.0	2.76	2.91	4.59	4.59
Debt Service	2.68	2.68	2.68	2.68	2.68
Total APA	4.68	5.44	5.59	7.27	7.27
Retail Rate*	16.6	19.1** 15.1**	10.0	11.1	14.9

* Per KWH at 750 KWH/Month, as of 2/16/85

** 19.1 = Copper River; 15.1 = Valdez

KEA = Kodiak
CVEA = Copper Valley
KPU = Ketchikan

LETTER OF UNDERSTANDING

The negotiating team representing APA, Ketchikan, Copper Valley Electric Association, Kodiak Electric Association, Petersburg and Wrangell have agreed on the terms and conditions of a power sales agreement incorporating the following:

1. The written and oral understandings of the parties heretofore reached shall be placed in writing in agreed final form, and remaining comments of the parties will be mutually and expeditiously resolved and also incorporated in the agreement.

2. A rate stabilization fund shall be established as proposed in the communities' 17 point proposal funded in part by a State appropriation of $49,000,000.

3. The system increment proposal of the communities shall also be incorporated in such agreement.

We mutually recognize that certain statutory amendments are required to implement the agreements reached to date.

We expect to conclude draft O & M agreements and interconnection agreements following a mutual review of proposed contract revisions.

We will recommend to our respective boards and councils that the agreements be adopted and that we be authorized to execute them and to assist in the steps necessary to complete the financing.

DATED March 20, 1984

ALASKA POWER AUTHORITY
By: Larry D Crawford

CITY OF KETCHIKAN
By:

COPPER VALLEY ELECTRIC ASSOCIATION
By J. A. Fillingames

CITY OF WRANGELL
By:

KODIAK ELECTRIC ASSOCIATION
By

CITY OF PETERSBURG
By Dan Kaerigs

SENATE FINANCE COMMITTEE
MAY 26, 1984
9:20 A.M.

CALL TO ORDER

CO-CHAIRMAN DON BENNETT CONVENED THE MEETING AT APPROXIMATELY 9:20 A.M.

PRESENT MEMBERS PRESENT: SENATORS BENNETT, FERGUSON, MULCAHY, SACKETT, AND V. FISCHER. SENATORS JOSEPHSON AND FAIKS CAME IN LATER.
OTHERS PRESENT: MIKE GREANY, DIRECTOR, LEGISLATIVE FINANCE; P.S. DHILLON, REVENUE ANALYST, LEGISLATIVE FINANCE; MILT BARKER, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE; COMMISSIONER HEATH, DEPARTMENT OF REVENUE; COMMISSIONER LYON, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT; REPRESENTATIVE HURLBERT; SENATOR KERTTULA; RICH UNDERKOFLER, CITY MANAGER, CITY OF PETERSBURG; DON KOENIGS, MAYOR, CITY OF PETERSBURG; KURT DZINICH, SENIOR ADVISOR, SENATOR ADVISORY COUNCIL; SUSAN WHITE, EXECUTIVE ASSISTANT, ALASKA POWER AUTHORITY; MARTHA FOX, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW; TERRY ELDER, DEPUTY COMMISSIONER, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT; AND STAFF FROM STATE OFFICES AND LEGISLATIVE OFFICES.

SUMMARY INFO

CSHB 684(FIN) AM AN ACT MAKING SPECIAL APPROPRIATIONS TO THE ALASKA POWER AUTHORITY; AND PROVIDING FOR AN EFFECTIVE DATE. DISCUSSION AND HELD IN COMMITTEE.

SENATOR FERGUSON WALKED THE COMMITTEE THROUGH THE PROPOSED SCS FOR CS FOR HB 684(FINANCE). HE THEN ASKED MR. LARRY CRAWFORD AND BILL BATT TO COME FORWARD AND DISCUSS THE PROPOSAL WITH THE COMMITTEE.

LARRY CRAWFORD

MR. LARRY CRAWFORD, EXECUTIVE DIRECTOR OF THE ALASKA POWER AUTHORITY CAME FORWARD TO TESTIFY AND INTRODUCED MR. BILL BATT, DIRECTOR OF FINANCE. SENATOR MULCAHY ASKED WHAT THE INTENT WAS OF THE ALASKA POWER AUTHORITY WITH REGARD TO SECTION 1, THE $210,000,000 AND THE POWER CONTRACTS. MR. CRAWFORD SAID THE INTENT OF THE POWER AUTHORITY WAS TO USE THE RENEGOTIATED AGREEMENTS AS THE BASIS FOR THE LOAN AND THE COMMUNITIES WOULD HAVE RATES BASED ON THOSE RENEGOTIATED AGREEMENTS. HE SAID THE ONLY TIME THEY WOULD ENFORCE THE EXISTING AGREEMENT WOULD BE WHERE THEY DID NOT HAVE A NEW RENEGOTIATED AGREEMENT.

SENATOR MULCAHY ASKED ABOUT CLARIFICATION ON SECTION 1. HE FELT THE APPROACH BEING TAKEN WOULD DO AWAY WITH THE RATE STABILIZATION APPROPRIATION THAT HAD BEEN LOOKED AT BEFORE WHEN GOING OUT TO THE BOND MARKET. HE SAID IT WAS HIS UNDERSTANDING THAT THE RATE STABILIZATION APPROPRIATION WOULD NOT BE NEEDED BECAUSE OF THE USE OF GENERAL FUNDS AND BECAUSE THE LANGUAGE IN THE AUTHORIZING BILL IS SUCH THAT THE INTEREST RATE CAN BE "BACKED IN."

MR. CRAWFORD SAID THIS WAS CORRECT, THAT THEY ARE LOOKING AT WHAT THE DEBT SERVICE PAYMENTS WOULD HAVE BEEN UNDER THE RENEGOTIATED AGREEMENT AND THEN THEY WILL BE RETURNING THE MONEY TO THE STATE IN ACCORDANCE WITH THOSE DEBT SERVICE PAYMENTS. THE INTEREST RATE IS THE DERIVED NUMBER AND LOOKS TO BE ABOUT AN 8% YIELD TO THE STATE ON THE $210,000,000 OVER THE LIFE OF THE LOAN. HE SAID THE PAYMENTS IN THE EARLY YEARS WILL BE LESS THAN IN THE LATER YEARS AND THEY CAN DO AWAY WITH THE RATE STABILIZATION FUND.

SCS FOR CSHB 587(FINANCE)

SENATOR FERGUSON WALKED THE COMMITTEE THROUGH THIS LEGISLATION. SECTIONS 1 THROUGH 3, CREATE THE POWER DEVELOPMENT REVOLVING FUND FOR THE PURPOSE OF IMPLEMENTING THE $210,000,000 LOAN FOR THE FOUR-DAM POOL PAY OUT. SECTION 4 ALLOWS THE CREATION FOR THE FOUR-DAM POOL.

MEMORANDUM

TO: House Special Committee on State Loans

FROM: Richard D. Newland, Utilities Manager
Ketchikan Public Utilities

RE: Wholesale Power Cost Comparison

DATE: March 5, 1985

Attached you will find a tabulation, accompanied by a graphic presentation, showing projected wholesale power costs for the City of Ketchikan under three alternative scenarios. The generation of power from the Swan Lake Hydroelectric Project is compared under HB 219 and the package proposed by the Alaska Power Authority (APA); we also project the costs of a like amount of power generated by diesel.

Several points should be emphasized regarding these numbers. First, these are wholesale rates. Rates to the customer would be considerably greater than what is presented here. Second, these are "marginal" rates, i.e., rates for power generated by the Swan Lake Project or by diesel generation used in lieu of Swan Lake. Their effect on Ketchikan's retail rates, up or down, is mitigated by Ketchikan's other sources of power, including other hydroelectric generation. Third, these rates do not account for needed generation in the future. Swan Lake is projected to meet Ketchikan's needs for approximately the next ten years, after which we will need to rely on new generation. Our future rates will therefore continue to be affected by changes in the energy program for Alaska.

In constructing these projections, we have relied on the following sources:

1. Load forecasts were developed by the APA.

2. Swan Lake operation and maintenance costs are from our current budget. They are inflated annually at the assumed inflation rate.

3. Diesel operation and maintenance costs are from the studies used to develop our most recent proposed rate ordinance. They are also inflated annually.

4. Diesel operation and maintenance costs are divided into fixed and variable costs. The fixed costs have been included under the Swan Lake projections because the diesels will be used as reserves.

5. APA debt service costs are from their projection of February 12, 1985.

6. Diesel fuel projections are from the Alaska Department of Revenue Mean Forecast of World Oil Price (Saudi Medium), calculated in 1983 dollars and then inflated at the assumed inflation rate.

7. Each of our cases uses different assumptions about 1985 diesel costs and about the rate of inflation. These assumptions are printed on the tables. The base case (Case 1), uses a 1985 diesel cost of 71¢ per gallon, computed from information provided by Chuck Logsden, Petroluem Economist for the Department of Revenue. The base inflation rate is 5% per year.

I would like to thank the Committee for the opportunity to present this information.

WHOLESALE POWER COST COMPARISON

Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 1

	1985	1986	1987	1988	1989	1990	1991	1992
Generation in MWH	28,880	37,764	41,423	44,140	46,872	49,663	52,516	55,430
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,155,000	1,212,750	1,273,388	1,337,057	1,403,910	1,474,105	1,547,810
Diesel Reserve Cost (Dollars)	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.00	2.12	2.25	2.39	2.53	2.68	2.68	2.68
Principal (Dollars)	0	19,250	76,048	145,561	229,132	329,246	363,052	399,759
Interest (Dollars)	577,600	781,347	855,969	909,385	956,730	1,001,723	1,044,376	1,085,765
TOTAL - HB 219 ALTERNATIVE	2,064,592	2,361,938	2,571,426	[illegible],325	2,993,310	3,228,789	3,400,140	3,577,871
HB 219 ALTERNATIVE (Cents/KWh)	7.15	6.25	6.21	6.29	6.39	6.50	6.47	6.45
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,155,000	1,212,750	1,273,388	1,337,057	1,403,910	1,474,105	1,547,810
Diesel Reserve Cost (Dollars)	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	2.19	3.39	4.40	5.41	6.30	7.28	7.66	7.40
Debt Service (Dollars)	632,000	1,281,000	1,824,000	2,386,000	2,951,000	3,613,000	4,024,000	4,101,000
TOTAL - APA ALTERNATIVE	2,118,992	2,842,342	3,463,409	4,107,379	4,758,448	5,510,820	6,016,711	6,193,347
APA ALTERNATIVE (Cents/KWH)	7.34	7.53	8.36	9.31	10.15	11.10	11.46	11.17
DIESEL ALTERNATIVE:								
O & M:								
Variable	291,688	400,487	461,255	516,085	575,429	640,178	710,802	787,755
Fixed	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
Fuel	1,428,906	1,859,868	2,042,655	2,232,376	2,520,082	2,816,192	3,116,427	3,473,113
Lube Oil	43,320	59,478	68,503	76,646	85,460	95,076	105,565	116,993
TOTAL - DIESEL ALTERNATIVE	2,150,906	2,726,175	2,999,072	3,273,100	3,651,362	4,045,357	4,451,400	4,922,398
DIESEL ALTERNATIVE (Cents/KWH)	7.45	7.22	7.24	7.42	7.79	8.15	8.48	8.88

ASSUMPTIONS:

Inflation:	1.0500
Diesel (1985 Values):	
Variable O & M (Cents/KWH)	1.0100
Fuel (Cents/Gallon)	71.0000
KWH per Gallon of Diesel	14.3500

SOURCES:

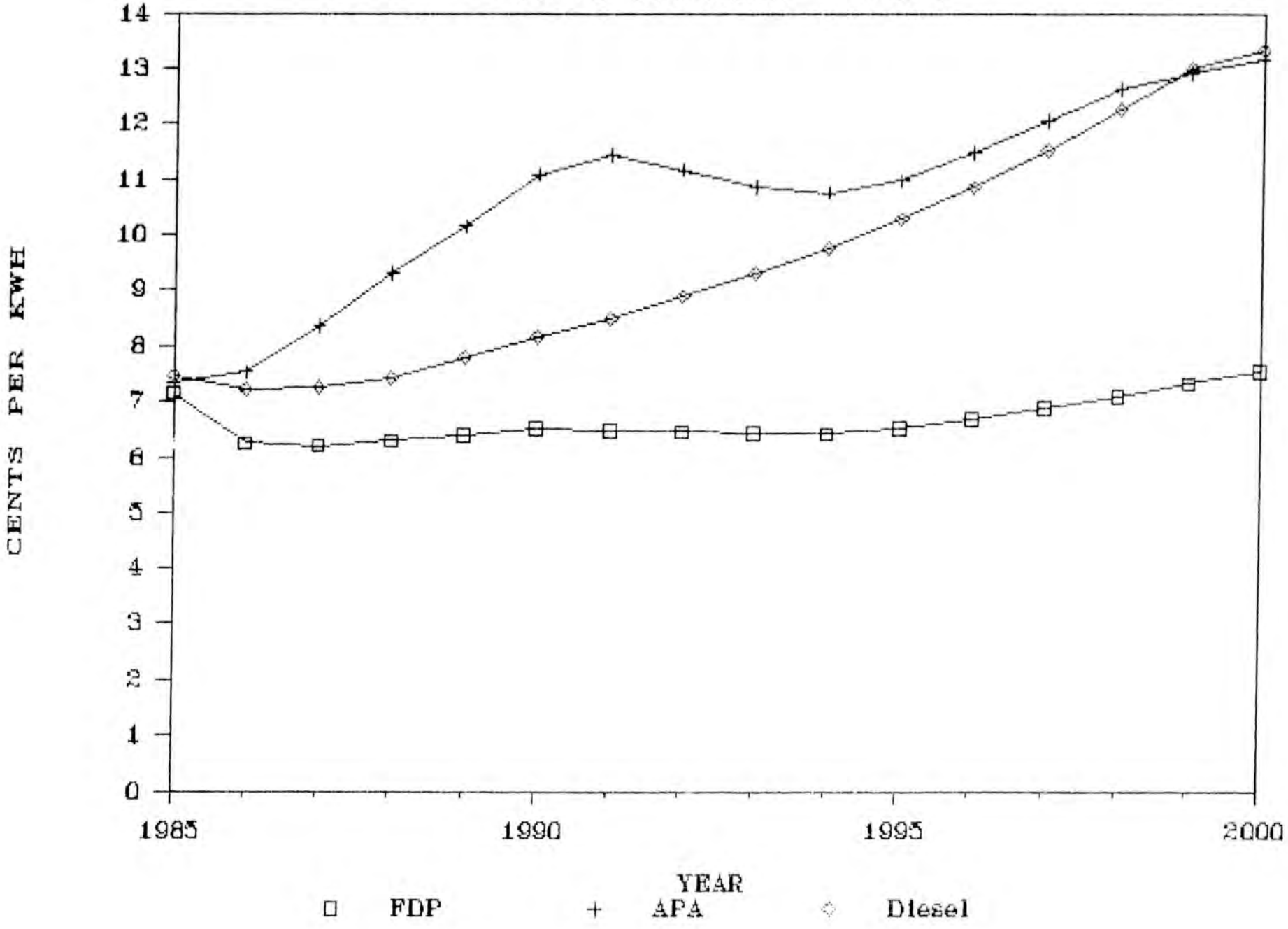
Diesel Fuel Cost Projections: DREV
Generation Requirements: APA
O & M Cost Projections: Based on KPU Historical Data

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 1

	1993	1994	1995	1996	1997	1998	1999	2000
Generation in MWH	58,418	61,682	63,365	63,365	63,365	63,365	63,365	63,365
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,625,201	1,706,461	1,791,784	1,881,373	1,975,442	2,074,214	2,177,925	2,286,821
Diesel Reserve Cost (Dollars)	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Principal (Dollars)	439,582	484,152	518,594	540,010	562,273	585,423	609,493	634,518
Interest (Dollars)	1,126,020	1,168,925	1,179,588	1,158,172	1,135,909	1,112,759	1,088,689	1,063,664
TOTAL - HB 219 ALTERNATIVE	3,762,567	3,959,890	4,120,335	4,241,443	4,368,606	4,502,127	4,642,324	4,789,532
HB 219 ALTERNATIVE (Cents/KWh)	6.44	6.42	6.50	6.69	6.89	7.11	7.33	7.56
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,625,201	1,706,461	1,791,784	1,881,373	1,975,442	2,074,214	2,177,925	2,286,821
Diesel Reserve Cost (Dollars)	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	7.11	7.03	7.16	7.48	7.84	8.21	8.29	8.29
Debt Service (Dollars)	4,152,000	4,337,000	4,535,000	4,742,000	4,965,000	5,205,000	5,253,000	5,251,000
TOTAL - APA ALTERNATIVE	6,348,964	6,643,813	6,957,153	7,285,261	7,635,424	8,008,945	8,197,142	8,342,350
APA ALTERNATIVE (Cents/KWH)	10.87	10.77	10.98	11.50	12.05	12.64	12.94	13.17
DIESEL ALTERNATIVE:								
O & M:								
Variable	871,731	966,459	1,042,471	1,094,594	1,149,324	1,206,790	1,267,129	1,330,486
Fixed	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
Fuel	3,868,973	4,317,809	4,688,043	4,959,980	5,292,433	5,651,642	6,033,542	6,120,134
Lube Oil	129,465	143,534	154,822	162,563	170,692	179,226	188,188	197,597
TOTAL - DIESEL ALTERNATIVE	5,441,933	6,028,153	6,515,705	6,879,025	7,307,430	7,767,390	8,255,077	8,452,746
DIESEL ALTERNATIVE (Cents/KWH)	9.32	9.77	10.28	10.86	11.53	12.26	13.03	13.34

WHOLESALE POWER COST ALTERNATIVES

CITY OF KETCHIKAN - CASE 1



WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 2

	1985	1986	1987	1988	1989	1990	1991	1992
Generation in MWH	28,880	37,764	41,423	44,140	46,872	49,663	52,516	55,430
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	1,275,201	1,313,458	1,352,861
Diesel Reserve Cost (Dollars)	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.00	2.12	2.25	2.39	2.53	2.68	2.68	2.68
Principal (Dollars)	0	19,250	76,048	145,561	229,132	329,246	363,052	399,759
Interest (Dollars)	577,600	781,347	855,969	909,385	956,730	1,001,723	1,044,376	1,085,765
TOTAL - HB 219 ALTERNATIVE	2,064,592	2,332,199	2,509,567	2,679,822	2,859,484	3,054,800	3,182,975	3,314,337
HB 219 ALTERNATIVE (Cents/KWh)	7.15	6.18	6.06	6.07	6.10	6.15	6.06	5.98
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	1,275,201	1,313,458	1,352,861
Diesel Reserve Cost (Dollars)	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	2.19	3.39	4.40	5.41	6.30	7.28	7.66	7.40
Debt Service (Dollars)	632,000	1,281,000	1,824,000	2,386,000	2,951,000	3,613,000	4,024,000	4,101,000
TOTAL - APA ALTERNATIVE	2,118,992	2,812,602	3,401,550	4,010,876	4,624,623	5,336,831	5,799,546	5,929,813
APA ALTERNATIVE (Cents/KWH)	7.34	7.45	8.21	9.09	9.87	10.75	11.04	10.70
DIESEL ALTERNATIVE:								
O & M:								
Variable	291,688	392,859	443,851	487,153	532,824	581,488	633,339	688,536
Fixed	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
Fuel	1,428,906	1,824,442	1,965,581	2,107,226	2,333,492	2,558,008	2,776,799	3,035,669
Lube Oil	43,320	58,345	65,918	72,349	79,132	86,360	94,060	102,258
TOTAL - DIESEL ALTERNATIVE	2,150,906	2,674,248	2,885,910	3,089,605	3,381,011	3,674,485	3,966,287	4,302,414
DIESEL ALTERNATIVE (Cents/KWH)	7.45	7.08	6.97	7.00	7.21	7.40	7.55	7.76

ASSUMPTIONS:

Inflation:	1.0300
Diesel (1985 Values):	
Variable O & M (Cents/KWH)	1.0100
Fuel (Cents/Gallon)	71.0000
KWH per Gallon of Diesel	14.3500

SOURCES:

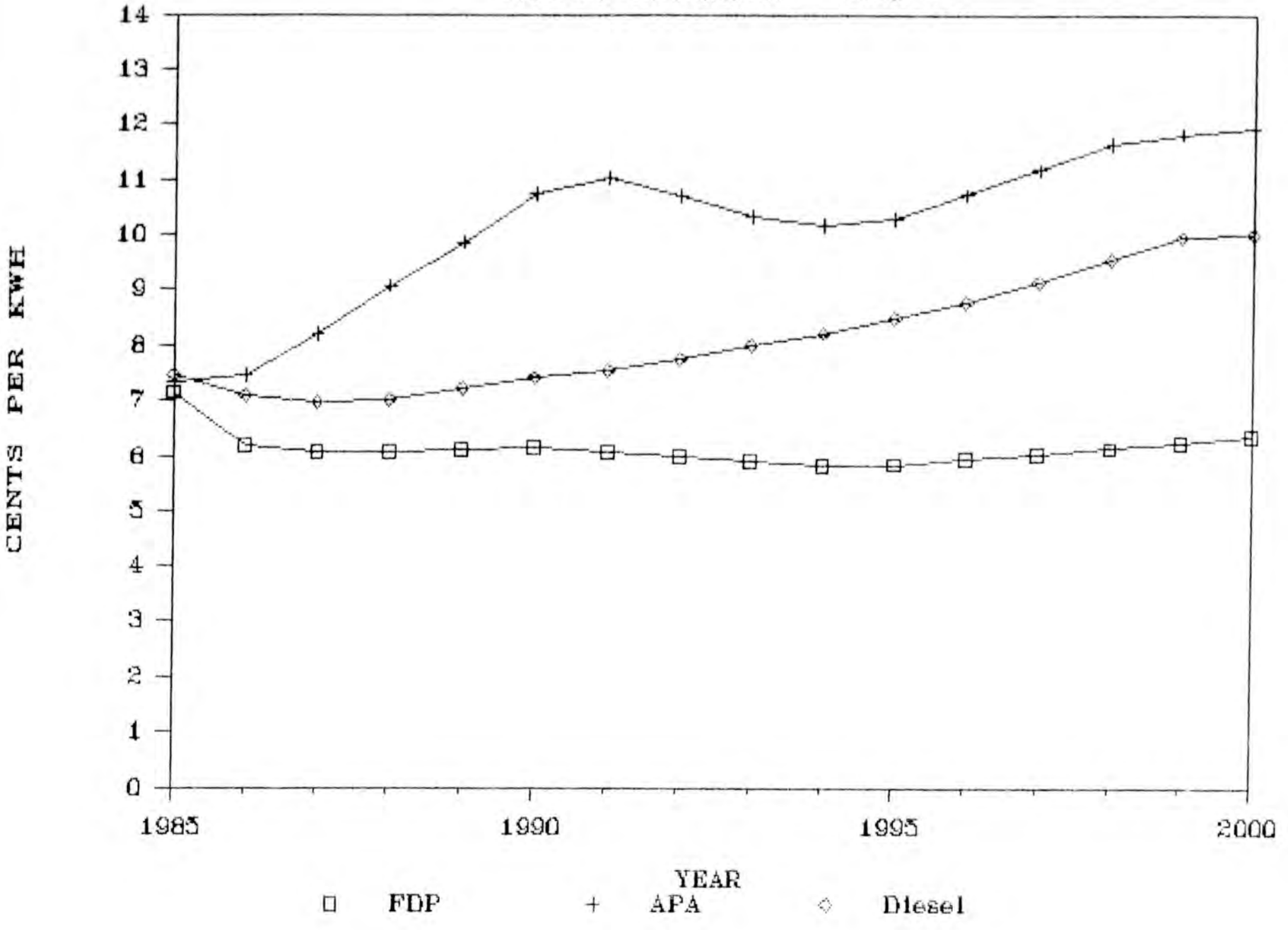
Diesel Fuel Cost Projections: DREV
Generation Requirements: APA
O & M Cost Projections: Based on KPU Historical Data

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 2

	1993	1994	1995	1996	1997	1998	1999	2000
Generation in MWH	58,418	61,682	63,365	63,365	63,365	63,365	63,365	63,365
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,393,447	1,435,251	1,478,308	1,522,657	1,568,337	1,615,387	1,663,849	1,713,764
Diesel Reserve Cost (Dollars)	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Principal (Dollars)	439,582	484,152	518,594	540,010	562,273	585,423	609,493	634,518
Interest (Dollars)	1,126,020	1,168,925	1,179,588	1,158,172	1,135,909	1,112,759	1,088,689	1,063,664
TOTAL - HB 219 ALTERNATIVE	3,449,279	3,593,265	3,696,575	3,756,527	3,818,277	3,881,880	3,947,391	4,014,867
HB 219 ALTERNATIVE (Cents/KWh)	5.90	5.83	5.83	5.93	6.03	6.13	6.23	6.34
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,393,447	1,435,251	1,478,308	1,522,657	1,568,337	1,615,387	1,663,849	1,713,764
Diesel Reserve Cost (Dollars)	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	7.11	7.03	7.16	7.48	7.84	8.21	8.29	8.29
Debt Service (Dollars)	4,152,000	4,337,000	4,535,000	4,742,000	4,965,000	5,205,000	5,253,000	5,251,000
TOTAL - APA ALTERNATIVE	6,035,677	6,277,187	6,533,393	6,800,345	7,085,095	7,388,698	7,502,209	7,567,685
APA ALTERNATIVE (Cents/KWH)	10.33	10.18	10.31	10.73	11.18	11.66	11.84	11.94
DIESEL ALTERNATIVE:								
O & M:								
Variable	747,422	812,858	860,088	885,891	912,468	939,842	968,037	997,078
Fixed	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
Fuel	3,317,257	3,631,573	3,867,861	4,014,275	4,201,752	4,401,470	4,609,388	4,586,484
Lube Oil	111,003	120,722	127,736	131,568	135,515	139,580	143,768	148,081
TOTAL - DIESEL ALTERNATIVE	4,665,912	5,070,089	5,375,770	5,567,421	5,801,493	6,049,203	6,306,553	6,334,564
DIESEL ALTERNATIVE (Cents/KWH)	7.99	8.22	8.48	8.79	9.16	9.55	9.95	10.00

WHOLESALE POWER COST ALTERNATIVES

CITY OF KETCHIKAN – CASE 2



WHOLESALE POWER COST COMPARISON

Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 3

	1985	1986	1987	1988	1989	1990	1991	1992
Generation in MWH	28,880	37,764	41,423	44,140	46,872	49,663	52,516	55,430
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,155,000	1,212,750	1,273,388	1,337,057	1,403,910	1,474,105	1,547,810
Diesel Reserve Cost (Dollars)	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.00	2.12	2.25	2.39	2.53	2.68	2.68	2.68
Principal (Dollars)	0	19,250	76,048	145,561	229,132	329,246	363,052	399,759
Interest (Dollars)	577,600	781,347	955,969	909,385	956,730	1,001,723	1,044,376	1,085,765
TOTAL - HB 219 ALTERNATIVE	2,064,592	2,361,938	2,571,426	2,776,325	2,993,310	3,228,789	3,400,140	3,577,871
HB 219 ALTERNATIVE (Cents/KWh)	7.15	6.25	6.21	6.29	6.39	6.50	6.47	6.45
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,155,000	1,212,750	1,273,388	1,337,057	1,403,910	1,474,105	1,547,810
Diesel Reserve Cost (Dollars)	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	2.19	3.39	4.40	5.41	6.30	7.28	7.66	7.40
Debt Service (Dollars)	632,000	1,281,000	1,824,000	2,386,000	2,951,000	3,613,000	4,024,000	4,101,000
TOTAL - APA ALTERNATIVE	2,118,992	2,842,342	3,463,409	4,107,379	4,758,448	5,510,820	6,016,711	6,193,347
APA ALTERNATIVE (Cents/KWH)	7.34	7.53	8.36	9.31	10.15	11.10	11.46	11.17
DIESEL ALTERNATIVE:								
O & M:								
Variable	291,688	400,487	461,255	516,085	575,429	640,178	710,802	787,755
Fixed	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
Fuel	1,690,537	2,200,407	2,416,662	2,641,121	2,981,505	3,331,833	3,687,040	4,109,035
Lube Oil	43,320	59,478	68,503	76,646	85,460	95,076	105,565	116,993
TOTAL - DIESEL ALTERNATIVE	2,412,537	3,066,714	3,373,080	3,681,844	4,112,786	4,560,997	5,022,013	5,558,321
DIESEL ALTERNATIVE (Cents/KWH)	8.35	8.12	8.14	8.34	8.77	9.18	9.56	10.03

ASSUMPTIONS:

Inflation:	1.0500
Diesel (1985 Values):	
Variable O & M (Cents/KWH)	1.0100
Fuel (Cents/Gallon)	84.0000
KWH per Gallon of Diesel	14.3500

SOURCES:

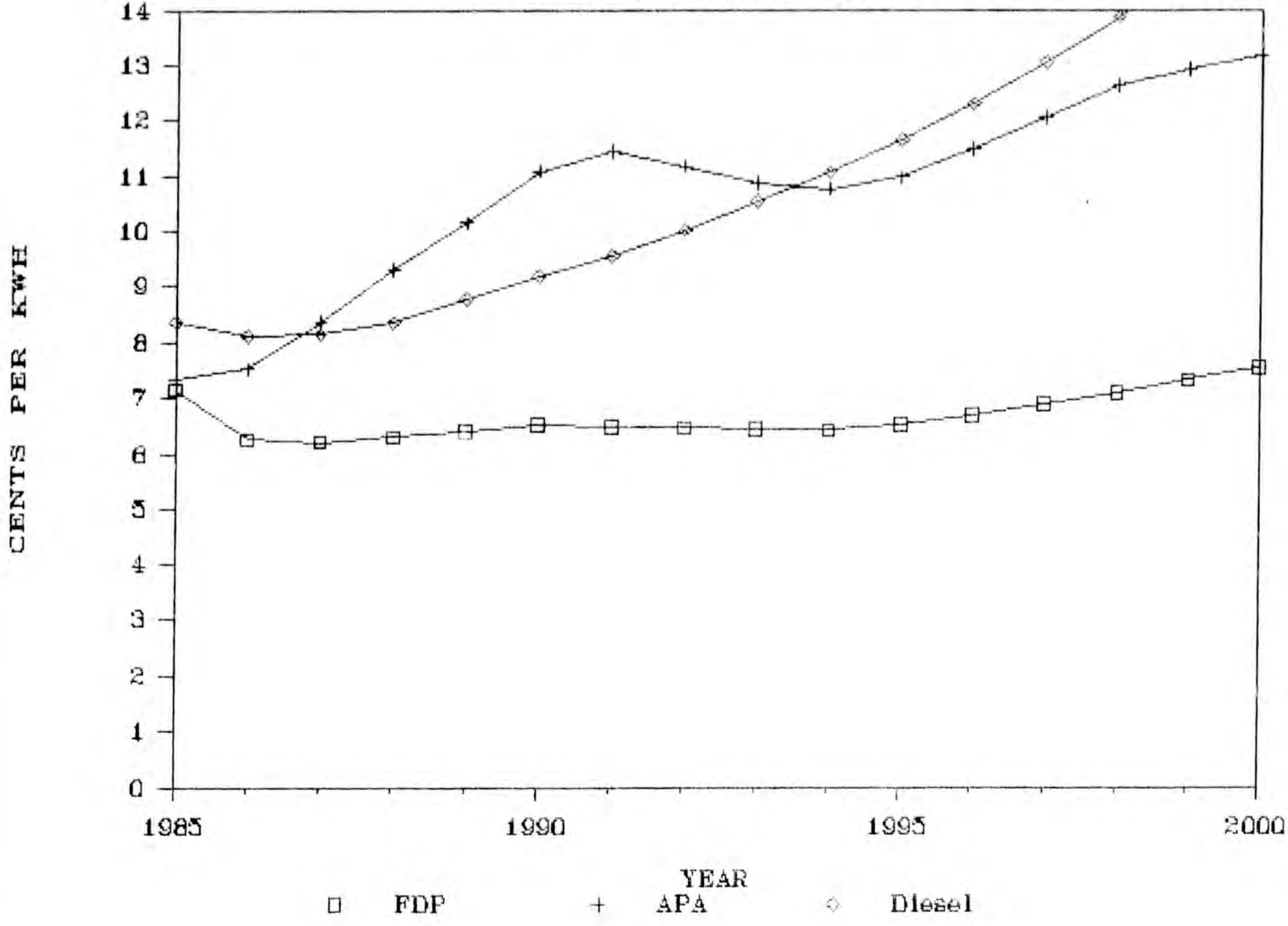
Diesel Fuel Cost Projections: DREV
Generation Requirements: APA
O & M Cost Projections: Based on KPU Historical Data

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 3

	1993	1994	1995	1996	1997	1998	1999	2000
Generation in MWH	58,418	61,682	63,365	63,365	63,365	63,365	63,365	63,365
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,625,201	1,706,461	1,791,784	1,881,373	1,975,442	2,074,214	2,177,925	2,286,821
Diesel Reserve Cost (Dollars)	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Principal (Dollars)	439,582	484,152	518,594	540,010	562,273	585,423	609,493	634,518
Interest (Dollars)	1,126,020	1,168,925	1,179,588	1,158,172	1,135,909	1,112,759	1,088,689	1,063,664
TOTAL - HB 219 ALTERNATIVE	3,762,567	3,959,890	4,120,335	4,241,443	4,368,606	4,502,127	4,642,324	4,789,532
HB 219 ALTERNATIVE (Cents/KWh)	6.44	6.42	6.50	6.69	6.89	7.11	7.33	7.56
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,625,201	1,706,461	1,791,784	1,881,373	1,975,442	2,074,214	2,177,925	2,286,821
Diesel Reserve Cost (Dollars)	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	7.11	7.03	7.16	7.48	7.84	8.21	8.29	8.29
Debt Service (Dollars)	4,152,000	4,337,000	4,535,000	4,742,000	4,965,000	5,205,000	5,253,000	5,251,000
TOTAL - APA ALTERNATIVE	6,348,964	6,643,813	6,957,153	7,285,261	7,635,424	8,008,945	8,197,142	8,342,350
APA ALTERNATIVE (Cents/KWH)	10.87	10.77	10.98	11.50	12.05	12.64	12.94	13.17
DIESEL ALTERNATIVE:								
O & M:								
Variable	871,731	966,459	1,042,471	1,094,594	1,149,324	1,206,790	1,267,129	1,330,486
Fixed	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
Fuel	4,577,377	5,108,394	5,546,417	5,868,145	6,261,469	6,686,450	7,138,275	7,240,722
Lube Oil	129,465	143,534	154,822	162,563	170,692	179,226	188,188	197,597
TOTAL - DIESEL ALTERNATIVE	6,150,336	6,818,738	7,374,079	7,787,190	8,276,467	8,802,197	9,359,810	9,573,334
DIESEL ALTERNATIVE (Cents/KWH)	10.53	11.05	11.64	12.29	13.06	13.89	14.77	15.11

WHOLESALE POWER COST ALTERNATIVES

CITY OF KETCHIKAN - CASE 3



WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 4

	1985	1986	1987	1988	1989	1990	1991	1992
Generation in MWH	28,880	37,764	41,423	44,140	46,872	49,663	52,516	55,430
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	1,275,201	1,313,458	1,352,861
Diesel Reserve Cost (Dollars)	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.00	2.12	2.25	2.39	2.53	2.68	2.68	2.68
Principal (Dollars)	0	19,250	76,048	145,561	229,132	329,246	363,052	399,759
Interest (Dollars)	577,600	781,347	855,969	909,385	956,730	1,001,723	1,044,376	1,085,765
TOTAL - HB 219 ALTERNATIVE	2,064,592	2,332,199	2,509,567	2,679,822	2,859,484	3,054,800	3,182,975	3,314,337
HB 219 ALTERNATIVE (Cents/KWh)	7.15	6.18	6.06	6.07	6.10	6.15	6.06	5.98
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	1,275,201	1,313,458	1,352,861
Diesel Reserve Cost (Dollars)	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	2.19	3.39	4.40	5.41	6.30	7.28	7.66	7.40
Debt Service (Dollars)	632,000	1,281,000	1,824,000	2,386,000	2,951,000	3,613,000	4,024,000	4,101,000
TOTAL - APA ALTERNATIVE	2,118,992	2,812,602	3,401,550	4,010,876	4,624,623	5,336,831	5,799,546	5,929,813
APA ALTERNATIVE (Cents/KWH)	7.34	7.45	8.21	9.09	9.87	10.75	11.04	10.70
DIESEL ALTERNATIVE:								
O & M:								
Variable	291,688	392,859	443,851	487,153	532,824	581,488	633,339	688,536
Fixed	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
Fuel	1,690,537	2,158,494	2,325,476	2,493,056	2,760,751	3,026,375	3,285,227	3,591,496
Lube Oil	43,320	58,345	65,918	72,349	79,132	86,360	94,060	102,258
TOTAL - DIESEL ALTERNATIVE	2,412,537	3,008,300	3,245,805	3,475,435	3,808,270	4,142,852	4,474,715	4,858,241
DIESEL ALTERNATIVE (Cents/KWH)	8.35	7.97	7.84	7.87	8.12	8.34	8.52	8.76

ASSUMPTIONS:

Inflation:	1.0300
Diesel (1985 Values):	
Variable O & M (Cents/KWH)	1.0100
Fuel (Cents/Gallon)	84.0000
KWH per Gallon of Diesel	14.3500

SOURCES:

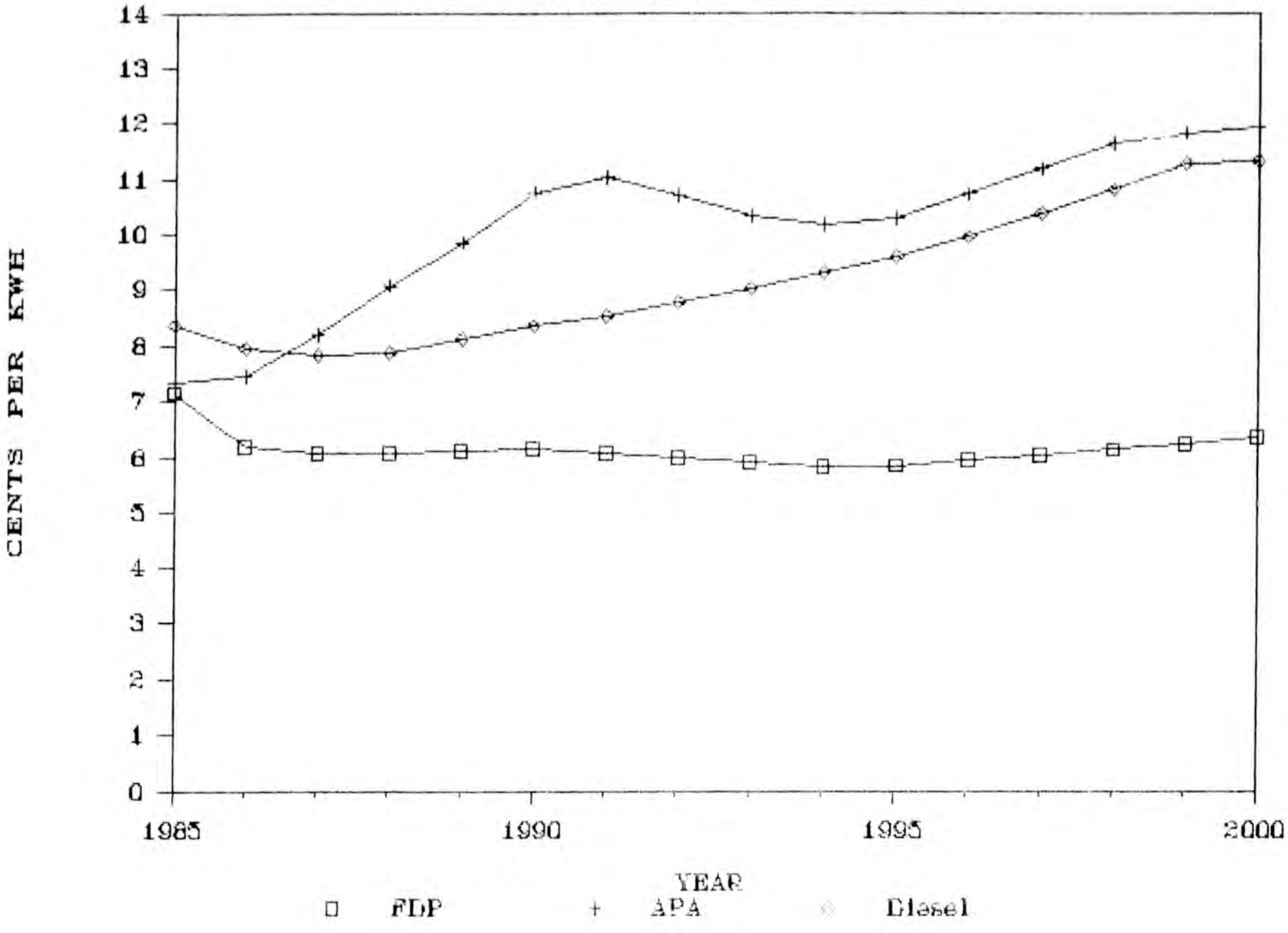
Diesel Fuel Cost Projections: DREV
Generation Requirements: APA
O & M Cost Projections: Based on KPU Historical Data

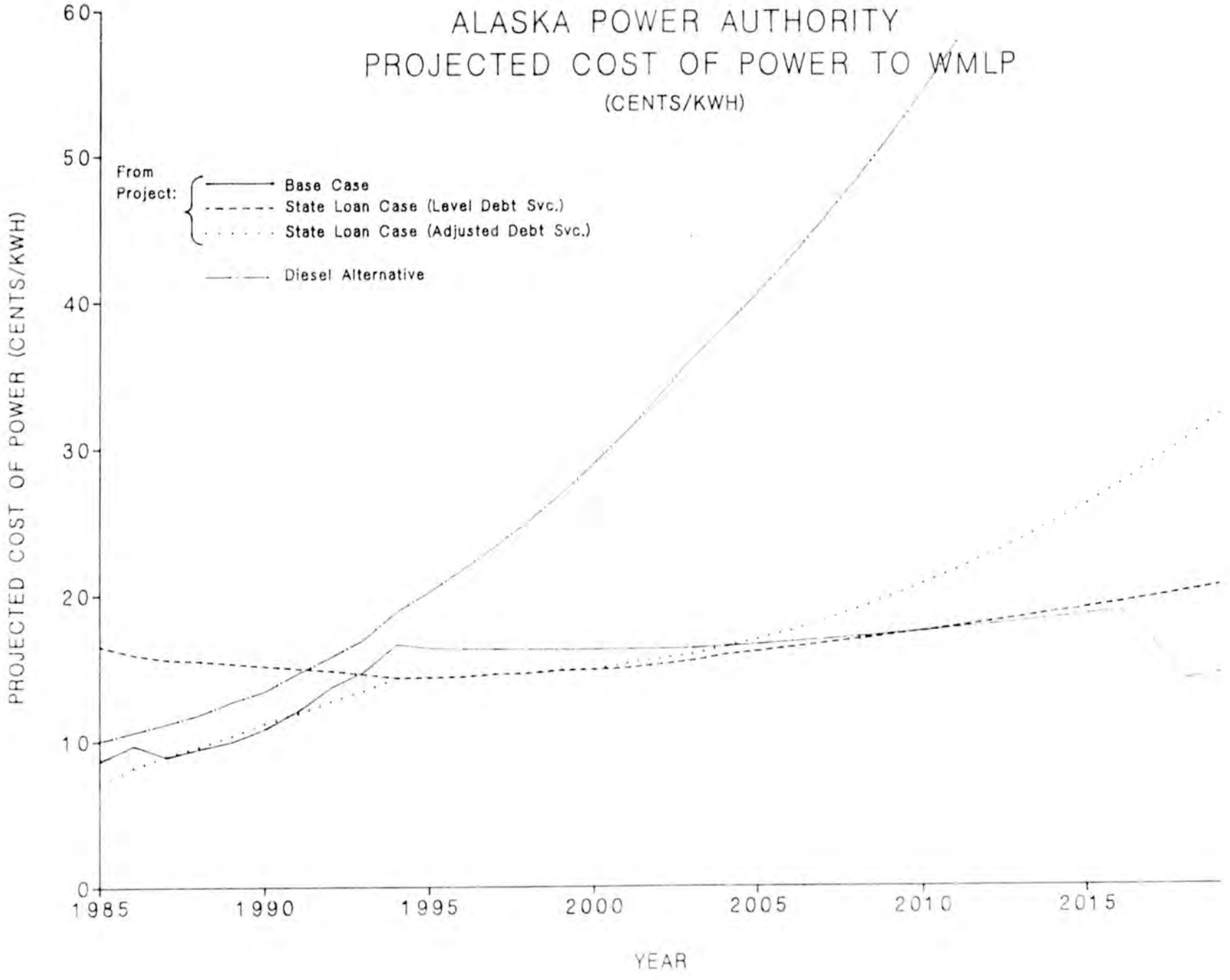
WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 4

	1993	1994	1995	1996	1997	1998	1999	2000
Generation in MWH	58,418	61,682	63,365	63,365	63,365	63,365	63,365	63,365
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,393,447	1,435,251	1,478,308	1,522,657	1,568,337	1,615,387	1,663,849	1,713,764
Diesel Reserve Cost (Dollars)	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Principal (Dollars)	439,582	484,152	518,594	540,010	562,273	585,423	609,493	634,518
Interest (Dollars)	1,126,020	1,168,925	1,179,588	1,158,172	1,135,909	1,112,759	1,088,689	1,063,664
TOTAL - HB 219 ALTERNATIVE	3,449,279	3,593,265	3,696,575	3,756,527	3,818,277	3,881,880	3,947,391	4,014,867
HB 219 ALTERNATIVE (Cents/KWh)	5.90	5.83	5.83	5.93	6.03	6.13	6.23	6.34
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,393,447	1,435,251	1,478,308	1,522,657	1,568,337	1,615,387	1,663,849	1,713,764
Diesel Reserve Cost (Dollars)	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	7.11	7.03	7.16	7.48	7.84	8.21	8.29	8.29
Debt Service (Dollars)	4,152,000	4,337,000	4,535,000	4,742,000	4,965,000	5,205,000	5,253,000	5,251,000
TOTAL - APA ALTERNATIVE	6,035,677	6,277,187	6,533,393	6,800,345	7,085,095	7,388,698	7,502,209	7,567,685
APA ALTERNATIVE (Cents/KWH)	10.33	10.18	10.31	10.73	11.18	11.66	11.84	11.94
DIESEL ALTERNATIVE:								
O & M:								
Variable	747,422	812,858	860,088	885,891	912,468	939,842	968,037	997,078
Fixed	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
Fuel	3,924,642	4,296,509	4,576,060	4,749,283	4,971,087	5,207,372	5,453,361	5,426,262
Lube Oil	111,003	120,722	127,736	131,568	135,515	139,580	143,768	148,081
TOTAL - DIESEL ALTERNATIVE	5,273,297	5,735,025	6,083,970	6,302,429	6,570,828	6,855,105	7,150,526	7,174,342
DIESEL ALTERNATIVE (Cents/KWH)	9.03	9.30	9.60	9.95	10.37	10.82	11.28	11.32

WHOLESALE POWER COST ALTERNATIVES

CITY OF KETCHIKAN – CASE 4




ALASKA POWER AUTHORITY
PROJECTED COST OF POWER TO WMLP
(CENTS/KWH)
From Project:
Base Case
State Loan Case (Level Debt Svc.)
State Loan Case (Adjusted Debt Svc.)
Diesel Alternative
PROJECTED COST OF POWER (CENTS/KWH)
0
10
20
30
40
50
60
1985
1990
1995
2000
2005
2010
2015
YEAR

196

5.8% 4.0%

RAILBELT

9¢

Introduced: 2/20/85
Referred: House Special Committee on State Loans, Resources and Finance

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

HOUSE BILL NO. 219

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

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

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and regional electric authorities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state, none of whose utilities is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

* Sec. 2. AS 44.33.620(a) is amended to read:

(a) Except as provided in (d) of this section, a [A] loan from the fund must be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) the market rate of interest for a loan of comparable size and duration at the time the loan is made; and

2.68 D. Sewick

(2) the estimated costs of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund.

* Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

(d) A loan from the fund to finance the initial project, as described in AS 44.83.398(a), shall be subject to the following terms:

(1) the loan must be amortized based on an annual interest rate not to exceed four percent, a term not to exceed 50 years, and a 40-year amortization period;

(2) the annual debt service payment per kilowatt hour for energy purchased by utilities from the initial project equals the total annual payment needed to amortize the loan on the terms set out in (1) of this subsection divided by the long-term average annual kilowatt hour capability of the initial project;

(3) repayment may be adjusted so that the debt service payment per kilowatt hour, as determined under (2) of this subsection, increases gradually over the first five years of the loan and remains fixed over the next 35 years; and

(4) deferred principal shall be repaid with interest in equal annual installments during the last 10 years of the loan.

* Sec. 4. AS 44.83.425(5) is amended to read:

(5) "qualified utility" means an electric utility or a regional electric authority established as an instrumentality of two or more electric utilities [THAT IS] certified by the Alaska Public Utilities Commission to serve all or part of a market area that is served or will be served by the power project, [AND] that the authority determines is capable of operating and maintaining the power project.

KETCHIKAN PUBLIC UTILITIES

334 FRONT STREET KETCHIKAN, ALASKA 99901 TELEPHONE 907-225-3111

MUNICIPALLY OWNED
ELECTRIC WATER PHONE

November 27, 1984

ANALYSIS
FOUR DAM POOL PROPOSAL

The Four Dam Pool proposal addresses, within existing law, several problems of the energy Program as currently structured and administered. I emphasize that these problems arise largely out of the statutory framework within which the APA operates. All prior contract negotiations with the APA have attempted to deal with these statutory structures. I believe our proposal simply does so more effectively than prior proposals. The problems we encounter are as follows:

- Uncertainty Under the Energy Program, we do not know the cost of power before we buy. Because power is priced according to the amount sold, a reduction or termination anywhere in the system could raise the price of power and force us to "true up" our bill after the fact.

- Unbearable Risks Unless otherwise limited, the Program makes each Purchaser jointly and severally responsible for the entire debt of the APA. A longterm contract on these terms could lock a small community into a fifty-year, open-ended obligation to pay off billions of dollars in debt.

- Guaranteed Inflation In order to pay for projects that are too big and too expensive for the communities' current needs, the APA has had to borrow money and accept a repayment schedule that includes "negative amortization" and periodic increases in debt service. These increases are purportedly based on predicted increases in the cost of diesel fuel. Even if these predictions were accurate, which we dispute, how can we benefit from hydropower if we aim for the diesel price? In fact, while diesel prices have been dropping, the only certainty about the APA's payment obligation is that it will increase.

- Unequal Benefits The Energy Program has been based on the idea that each community would pay according to the cost of APA facilities available to serve it. This formula ignores other variables such as whether the facilities are entirely necessary to that community and

whether such costs would result in large disparities between the retail rates of that and other communities. Anomalies result. For example, one community could end up paying a "system increment" increase in order to subsidize a project in another community that already enjoys lower rates. Likewise, a community could find itself ultimately worse off by gaining the "benefits" of hydropower and thereby losing its power cost assistance entitlement.

- Out-of-Reach Prices No matter how theoretically elegant, a power cost formula fails if ratepayers cannot afford the power. In the best of circumstances, prices under the current Program are projected at or just above what the communities estimate they can afford to pay without suffering serious economic dislocation. If assumptions underlying the projections are wrong -- if loads do not materialize, for example -- the results could be disastrous.

- Uncontrollable Costs Finally the existing Program gives the purchasers of power little ability to learn about, much less to control, the debt service obligations and operations, maintenance, and administrative overhead costs incurred by the APA. Yet these costs are passed directly through to the purchasers. Such unanticipated costs can add substantially to the unpredictability discussed above. Since utilities cannot easily recover previously incurred costs from their ratepayers, the result could be extremely disruptive to a utility's ability to plan. As I have emphasized before, long-term planning is essential to the proper management of an electric utility.

The Four Dam Pool proposal is aimed at overcoming the problems described above, without the need for statutory change. The principles behind our proposal are applicable to the Energy Program state-wide, although possibly not without new legislation. Those principles are as follows:

- Certainty The creation of a Power Development Revolving Loan Fund enables the APA to borrow money upon very flexible terms from the Department of Commerce and Economic Development. We propose terms that would permit the APA to charge a fixed rate for power. Purchasers would thereby know the price of power before they buy.

- Acceptable Risks Our proposal is that debt service

on the state loan be related to project usage, with power priced as though projects were fully utilized. This would place the risks of over-capacity and reduction in sales upon the State. Such a risk allocation is appropriate, since excess electric capacity is part of the infrastucture used to promote economic development throughout the State.

- Flat Rates Except for a brief initial "ramp up" to ease the rate shock for some utilities, we propose that debt service costs be flat throughout the contract period. This would assure that the benefits of hydropower are passed on to the citizens of the State, and that utilities would achieve a measure of predictability necessary for long-term planning.

- Equity Our proposal entails equal debt service costs for each member of the Four Dam Pool. Applied statewide, this principle might mean equality per kilowatthour for debt service, wholesale power costs, or total system revenue requirements.

- Affordability The ultimate wholesale power rate proposed by the Four Dam Pool was derived from what the communities believe they can afford. In most cases, that amount results in rates to the consumer at or near what those rates are today. We believe that no community in the State should be forced beyond its means to purchase power.

- Cost Control The role of the APA should be limited to helping finance the Energy Program. The only way operations and maintenance costs can be held in check is if they are placed within the control of those who must ultimately pay them. All APA borrowing, expenditures, and administrative overhead should be subject to strict audit, and should be governed at least in part with the active participation of the power purchasers.

Very truly yours,

KETCHIKAN PUBLIC UTILITIES

Richard D. Newland
Utilities Manager

RDN:bll
030/4E

Table 6. Hydroelectric Projects Operating in Alaska

REGION	SERVICE AREA	PROJECT	INSTALLED CAPACITY (MW)	AVERAGE ANNUAL GENERATION (MWh)	DATE CONSTRUCTED
South Central	Anchorage	Cooper Lake	15.0	42,000	1961
	Anchorage	Eklutna	30.0	147,875	1955
	Kodiak	*Terror Lake	20.0	139,700	1984
	Valdez	*Solomon Gulch	12.0	55,000	1982
Southeast	Juneau	Annex Creek	3.5	27,500	1915
	Juneau	Gold Creek	1.6	6,000	1904
	Juneau	Snettisham	46.7	211,000	1973
	Juneau	Upper Salmon Creek	2.8	14,000	1914
	Ketchikan	Beaver Falls	5.4	36,200	1947
	Ketchikan	Ketchikan Lakes	4.2	16,400	1957
	Ketchikan	Silvis	2.2	11,000	1974
	Ketchikan	*Swan Lake	22.0	88,000	1984
	Metlakatla	Purple Lake	3.0	15,800	1956
	Pelican	Pelican Creek	0.5	2,500	1940
	Petersburg	Crystal Lake	1.6	11,000	1956
	Petersburg/ Wrangell	*Tyee Lake	20.0	133,000	1984
	Sitka	Blue Lake	8.0	39,800**	1961
	Sitka	Green Lake	18.5	46,500**	1982
	Skagway	Dewey Lakes	0.7	700	1909

* APA Projects.
** Firm energy rather than average annual generation.

Table 1
Electric Rates and Production Costs For Selected Utilities
1983

Utility	Production Cost (cents/kwh)	Retail Rate (cents/kwh)	Difference (Rate-Cost)
Regulated			
Alaska Electric (AEL&P)	3.5	5.9	2.4
Alaska Power (AP&T)	12.4	16.1	3.7
Alaska Villages (AVEC)	29.6	44.8	15.2
Anchorage (AML&P)	3.6	5.5	1.9
Aniak (APC)	28.3	33.9	5.6
Barrow (BU&EC)	2.7	9.0	6.3
Bethel (BUC)	15.7	18.1	2.4
Bettles (BL&P)	25.5	49.1	23.6
Chugach Electric (CEA)*	3.0	6.5	3.5
Cold Bay (NP&E)	16.4	19.3	2.9
Copper Valley (CVEA)	8.3	13.3	5.0
Ft. Yukon (FYU)	24.5	34.3	9.8
Galena (M&DE)	30.2	38.1	7.9
Golden Valley (GVEA)	6.4	10.0	3.6
Haines (HL&P)	13.7	16.4	2.7
Kodiak (KdEA)	12.1	16.4	4.3
Kotzebue (KtEA)	18.0	23.4	5.4
McGrath (MGL&P)	24.5	32.0	7.5
Northway (NP&L)	18.9	26.5	7.6
Pelican (PUC)	8.3	10.6	2.3
Sandpoint (PUC)	15.5	17.3	1.8
Tanana (TPC)	24.6	31.8	7.2
Tlingit-Haida (THREA)	25.3	38.4	13.1
Yakutat (YPI)	13.3	18.1	4.8
Unregulated			
Cordova (CEC)	14.6	20.4	5.8
Fairbanks (FMU)	6.6	7.5	.9
Glacier Highway (GHEA)	5.2	11.1	5.9
Ketchikan (KPU)	5.9	9.0	3.1
Metlakatla (MP&L)	5.6	8.2	2.6

Table 1 (continued)
Electric Rates and Production Costs For Selected Utilities
1983

Utility	Production Cost (cents/kwh)	Retail Rate (cents/kwh)	Difference (Rate-Cost)
Naknek (NEA)	14.7	22.8	8.1
Nome (NTUB)	17.7	20.4	2.7
Petersburg (PMP&L)	10.4	13.3	2.9
Sitka (SED)†	8.0	6.8	-1.2
Wrangell (WML&P)	10.5	14.6	4.1

* Homer Electric Association, Matanuska Electric Association and the City of Seward are combined with Chugach Electric. Seward is an unregulated utility.

† According to John McCracken, Finance Director for the City and Borough of Sitka, the utility did show a paper loss of approximately $69,000 in 1983; however, this does not account for the large negative difference between the retail rate and the production cost. This difference is the result of not counting substantial income from interest on cash reserves and on overlapping financing, while apportioning the interest expense of this financing to production costs.

Source: Alaska Power Authority, Advisory Committee Report on Statewide Power Production Costs, December 15, 1984.

Table prepared by the House Research Agency, February 1985.

Initial Loan Principal	$196,000,000	Ramp Period (Years)	5		4-DAM POOL
Loan Interest Rate	4.00%	D. S. Entry Rate (c/kW.h)	2.20	LOAN REPAYMENT SCHEDULE	
Loan Term (Years)	40	Entry Rate Annual Escalation	6.05%		
Total Energy Capability (GW.h/yr)	378,607	D. S. Rate Ceiling (c/kW.h)	2.682840		CASE 4-A

Year	DEBT SERV COMPONENT (c/kW.h)	PAYMENT FROM ELEC REVENUE	ENERGY SALES (GW.h)	UTILIZ-ATION	CURRENT PRINCIPAL BALANCE	INTEREST DUE FROM 4-DAM POOL	ACTUAL PAY-MENT LESS INT. DUE	PRINCIPAL REPAYMENT DEFERRED	DEFERRED PRINCIPAL BALANCE
1985	2.00	3,104,120	155,206	40.99%	196,000,000	3,213,926	(109,806)	1,217,061	1,217,061
1986	2.12	3,849,550	181,496	47.94%	194,892,746	3,756,990	92,561	1,116,790	2,333,851
1987	2.25	4,306,077	191,437	50.56%	193,683,395	3,954,721	351,356	1,102,865	3,436,735
1988	2.39	4,751,347	199,181	52.61%	192,229,154	4,095,758	655,589	1,099,544	4,536,279
1989	2.53	5,212,398	206,042	54.42%	190,474,021	4,205,259	1,007,139	1,093,799	5,630,078
1990	2.68	5,714,288	212,994	56.26%	188,367,083	4,300,727	1,413,561	1,097,712	6,733,790
1991	2.68	5,877,217	219,067	57.86%	185,855,810	4,361,163	1,516,054	1,099,757	7,833,547
1992	2.68	6,087,552	226,907	59.93%	183,239,999	4,449,374	1,638,178	1,087,542	8,921,089
1993	2.68	6,336,412	236,183	62.38%	180,514,278	4,557,384	1,779,108	1,061,884	9,982,973
1994	2.68	6,596,916	245,893	64.95%	177,673,286	4,664,816	1,932,100	1,029,068	11,012,041
1995	2.68	6,853,020	255,439	67.47%	174,712,118	4,760,231	2,092,789	993,250	12,005,291
1996	2.68	6,990,569	260,566	68.82%	171,626,080	4,767,619	2,222,950	989,981	12,995,272
1997	2.68	7,133,591	265,897	70.23%	168,413,149	4,771,637	2,361,954	983,082	13,978,354
1998	2.68	7,283,428	271,482	71.71%	165,068,112	4,772,574	2,510,854	971,743	14,950,097
1999	2.68	7,440,669	277,343	73.25%	161,585,516	4,770,144	2,670,525	955,320	15,905,417
2000	2.68	7,605,529	283,488	74.88%	157,959,671	4,763,757	2,841,772	933,243	16,838,660
2001	2.68	7,732,481	288,220	76.13%	154,184,656	4,725,569	3,006,912	922,288	17,760,948
2002	2.68	7,781,390	290,043	76.61%	150,255,456	4,633,629	3,147,761	939,834	18,700,782
2003	2.68	7,831,907	291,926	77.11%	146,167,861	4,536,187	3,295,720	956,646	19,657,428
2004	2.68	7,884,572	293,889	77.62%	141,915,495	4,433,170	3,451,401	972,381	20,629,809
2005	2.68	7,939,463	295,935	78.16%	137,491,713	4,324,285	3,615,257	986,853	21,616,662
2006	2.68	7,996,661	298,067	78.73%	132,889,602	4,208,891	3,787,770	999,859	22,616,521
2007	2.68	8,056,300	300,290	79.31%	128,101,973	4,086,822	3,969,478	1,011,153	23,627,674
2008	2.68	8,118,488	302,606	79.93%	123,121,342	3,957,546	4,160,942	1,020,474	24,648,147
2009	2.68	8,183,279	305,023	80.56%	117,939,925	3,820,549	4,362,730	1,027,568	25,675,716
2010	2.68	8,250,833	307,541	81.23%	112,549,627	3,675,330	4,575,503	1,032,102	26,707,818
2011	2.68	8,321,231	310,165	81.92%	106,942,022	3,521,308	4,799,922	1,033,753	27,741,570
2012	2.68	8,394,633	312,901	82.65%	101,108,347	3,357,895	5,036,738	1,032,125	28,773,696
2013	2.68	8,471,148	315,753	83.40%	95,039,483	3,184,428	5,286,719	1,026,818	29,800,514
2014	2.68	8,550,882	318,725	84.18%	88,725,946	3,000,199	5,550,683	1,017,397	30,817,911
2015	2.68	8,634,023	321,824	85.00%	82,157,866	2,804,469	5,829,554	1,003,334	31,821,245
2016	2.68	8,720,652	325,053	85.85%	75,324,978	2,596,405	6,124,247	984,130	32,805,376
2017	2.68	8,810,983	328,420	86.74%	68,216,601	2,375,152	6,435,831	959,147	33,764,523
2018	2.68	8,905,124	331,929	87.67%	60,821,622	2,139,753	6,765,371	927,769	34,692,291
2019	2.68	9,003,262	335,587	88.64%	53,128,483	1,889,200	7,114,062	889,265	35,581,556
2020	2.68	9,105,559	339,400	89.64%	45,125,156	1,622,397	7,483,162	842,864	36,424,421
2021	2.68	9,212,202	343,375	90.69%	36,799,130	1,338,166	7,874,035	787,707	37,212,128
2022	2.68	9,323,352	347,518	91.79%	28,137,388	1,035,234	8,288,118	722,882	37,935,010
2023	2.68	9,439,197	351,836	92.93%	19,126,387	712,229	8,726,968	647,379	38,582,389
2024	2.68	9,559,978	356,338	94.12%	9,752,041	367,680	9,192,299	560,052	39,142,441
2025	1.34	4,825,870	361,030	95.36%	(310)	1,565,685	3,260,185		35,881,945
2026	1.32	4,825,870	365,921	96.65%		1,435,278	3,390,592		32,491,353
2027	1.30	4,825,870	371,019	98.00%		1,299,654	3,526,216		28,965,137
2028	1.28	4,825,870	376,334	99.40%		1,158,605	3,667,265		25,297,872
2029	1.27	4,825,870	378,607	100.00%		1,011,915	3,813,955		21,483,917
2030	1.27	4,825,870	378,607	100.00%		859,357	3,966,514		17,517,403
2031	1.27	4,825,870	378,607	100.00%		700,696	4,125,174		13,392,229
2032	1.27	4,825,870	378,607	100.00%		535,689	4,290,181		9,102,048
2033	1.27	4,825,870	378,607	100.00%		364,082	4,461,788		4,640,260
2034	1.27	4,825,870	378,607	100.00%		185,610	4,640,260		(0)
TOTALS		347,628,986	15,046,933			151,628,986	196,000,000	39,142,441	

The following exchange illustrates the point made earlier that Congress' primary concern was only that the overall revenue derived from rates be sufficient to repay the Federal investment in the power project.

> "Mr. KING. There may be some provision in the bill, but I have failed to discover any--and I may say that I have had the bill which passed the House, instead of the Senate committee bill--which will provide for reimbursement to the Government of the United States of the enormous sums which are to be appropriated under the provisions of the bill. I ask the Senator whether or not it is contemplated that the Government is to be reimbursed, and what provisions are found in the bill to effectuate that purpose?
>
> "Mr. McNARY. Mr. President, that is a very natural question. On page 12 the bill provides:
>
> > 'Rate schedules shall be drawn having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric facilities at Bonneville project) of the cost of producing and transmitting such electric energy, including the amortization of the capital investment over a reasonable period of years. . . .'
>
> "Mr. ELLENDER. While the Senator is considering section 7 of this bill will he explain the meaning of the language which appears in parenthesis on lines 18 and 19, page 12?
>
> "Beginning at line 18, I find this language in parenthesis:
>
> > 'Upon the basis of the application of such rate schedules to the capacity of the electric facilities of Bonneville project.'
>
> "Mr. STEIWER. Mr. President, there is some language included in the parenthesis on page 12, line 18, to which the Senator from Louisiana directs attention, and with the permission of my colleague I will undertake to answer the question by saying that in figuring the amortization of the capital investment it is necessary, of course, to have a formula of revenue. That formula consists of the rate multiplied by the amount of energy which presumably will be offered for sale.

"Mr. ELLENDER. Will that take into consideration the cost of the entire project?

"Mr. STEIWER. Ultimately it will. The parenthesis is merely to state the formula. It uses the words 'upon the basis of the application of such rate schedules to the capacity of the electric facilities of Bonneville project.'

"Mr. ELLENDER. Suppose the capacity of the plant is not used; how will the rate then be fixed so as to amortize the entire cost of the project in a given period?

"Mr. STEIWER. The rate will be figured on the capacity. It necessarily must be so, or we never could initiate the use of that power. The rate will be figured on the capacity; but, of course, the amortization will proceed more slowly, for the project is only partly completed, and only part of the energy is being sold.

"Mr. ELLENDER. Suppose the time for amortization is fixed. How would that language then be applicable? Am I to understand that the rate is fixed on a basis of the full capacity of the entire plant?

14

"Mr. STEIWER. That is correct.

"Mr. ELLENDER. Suppose the entire production is not sold and the time for amortization has been fixed. Would not the number of years in which the cost of the plant is to be repaid be changed, or would it not be necessary to increase the rates?

"Mr. STEIWER. It would have the practical effect of doing what the Senator first suggested, because the rate, being a fixed amount, if less capacity than anticipated should develop, of course, it would tend to postpone the time of complete repayment to the Treasury.

"Mr. ELLENDER. Does the Senator from Oregon understand from the language in section 7 that the Government will eventually get back operating expenses and also the entire amount of money spent for erecting the plant?

"Mr. STEIWER. Yes, the Government would get the entire amount, less the charge-off for navigation. Our government never recovers money expended for the building of rivers and harbors. The amount charged off for navigation, therefore, will not be recovered; but the amount that is charged for the development of hydroelectric power will be recovered eventually.

016891

The rate of recovery, of course, will be dependent upon the market and the amount of energy sold." 81 Cong. Rec. 8524 (1937).

One final argument conclusively refutes the California utilities' contention that BPA's NF-2 rate must be cost-based, and that is that one of the Act's primary objectives would not have been achieved had the rates been required to have been cost-based.

The Bonneville Project Act emphasized the objective "to encourage the widest possible use of all electric power . . ." The widespread use policy appears three times in sections of the Act authorizing building of transmission lines, requiring preference for public and cooperative systems, and as guidance for setting wholesale rates (Sections 2, 4, and 6).

Widely debated during the drafting of the bill was whether a postage stamp or uniform rate would encourage widespread use more than a zone rate, which is lowest at the dam and increases with distance.

A zone rate reflects the actual power and transmission costs associated with a particular user while the uniform rate does not. It was thought at the time that if zone rates were charged, those domestic and rural consumers farthest from the dam would not be able to afford the actual cost of service, and thus the objective of widespread use would not be attained.

As explained by the following exchange in the House Hearings on H.R. 7642, Congress was concerned that rates not reflect the actual cost of providing service, for to do so would price out those farthest from the dam and allow big industry to locate near the dam and buy up all the available power:

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
(907) 465-4920

AGENDA

MONDAY, 3/4/85, 3:30 p.m.
Room 124 (House Judiciary)

* HB 219 "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

TUESDAY, 3/5/85, 3:30 p.m.
Room 124 (House Judiciary)

Continuation of HB 219.

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

* Indicates first public hearing.

3/5/85

MEMORANDUM

TO: Rep. John Sund, Chair
House Special Committee on Loans

FROM: John Hartle, AA JH

RE: Questions for the APA

1. The single most critical assumption in all the forecasts of future electric rates is that of oil prices. WHY does the APA insist on using different forcasts than those made by the Department of Revenue?

[The importance of this cannot be stressed too much. The difference is so significant in all the APA forecasts. EXAMPLE: (see attaached) In the year 2000, measured in 1983 dollars
Dept of Revenue = $25.42/bbl; APA = $40.00/bbl
Virtually everything the APA does depends on the price of oil for comparison - the financial feasibility of dams, comparing four dam pool electric rates to those of the rest of the state, etc.

Again: Why not use the official State of Alaska forcasts?

2. Will the APA charge different debt service component rates per killowatt hour for each of the communities? WHY? Is this legal? (I was under the impression we were talking about pooling those rates.)

3. To the proposed one-year hold-everything-and-study-some-more plan: Steve Sealey, (Wrangell mill owner), and others like him, can't wait that long to make their decisions - they will generate their own power by then - this would mean the difference between a 36% useage of Tyee and the current 18% useage.

ALASKA POWER AUTHORITY

334 WEST 5th AVENUE - ANCHORAGE, ALASKA 99501

Phone: (907) 277-7641
(907) 276-0001

February 25, 1985

RECEIVED
FEB 27 1985
DOUGLAS H. ROSENBERG

Doug Rosenberg
2000 IBM Bldg
P. O. Box 2927
Seattle, Washington 98111

Subject: Oil Price Forecasts

Dear Mr. Rosenberg:

Attached are the two oil price forecasts that we discussed by telephone on February 19:

1) Alaska Department of Revenue mean forecast, issued December 1984;

2) Sherman H. Clark Associates "no supply disruption" forecast (adopted by the Power Authority as the base case for Susitna), issued August 1984.

Sincerely,

Richard Emerman
Senior Economist

RE/amh

8378/350/1

1984 SHCA NSD Forecast*
World Oil Price -- "Marker Crude"
($1983/bbl)

Year	Forecast
1985	$ 26.30
1986	26.30
1987	26.30
1988	26.30
1989	27.09
1990	27.90
1995	32.50
2000	40.00
2005	50.00
2010	60.00
2020	80.00
2030	90.00
2040	100.00
2050	110.00

* Sherman H. Clark Associates "no supply disruption" forecast. Extracted from "Alaska Power Authority Comments on the Federal Energy Regulatory Commission Draft Environmental Impact Statement of May 1984, Volume 3, Appendix I"; August 1984; p. 2-6.

Alaska Department of Revenue Mean Forecast
World Oil Price -- Saudi Medium
($1983/bbl)

Fiscal Year	December 1984 Forecast
1985	$25.70
1986	24.36
1987	23.24
1988	22.81
1989	22.71
1990	23.08
1991	22.99
1992	23.13
1993	23.28
1994	23.43
1995	23.60
1996	23.76
1997	24.16
1998	24.56
1999	24.99
2000	25.42
2001	25.86

Alaska State Legislature

House of Representatives

REPRESENTATIVE
JOHN L. SUND

Box 6440
KETCHIKAN, ALASKA 99901
(907) 225-5552

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4919

CHAIR, HOUSE SPECIAL COMMITTEE ON LOANS
VICE-CHAIR, JUDICIARY COMMITTEE
MEMBER, SPECIAL COMMITTEE ON OIL AND GAS
MEMBER, RESOURCES COMMITTEE

4/12/85

MEMORANDUM

TO: Members, House Finance Committee

FROM: Rep. John Sund

RE: HB 219 (Four dam pool)

The subcommittee and the representatives of the four dam pool communities have been unable to agree on provisions for a Finance Committee CS for HB 219. I would appreciate your support for a version of the original bill.

The difference between the two proposed committee substitutes is one of approach:

The subcommittee bill sets guidelines for the APA and the communities to negotiate power sales.

The original bill actually sets the terms of the loan. This is in response to two years of negotiations. We have added a new provision for a price reopener to be included 15 years into any contract for power sales.

Initial Loan Principal	$196,000,000	Ramp Period (Years)	5		4-DAM POOL
Loan Interest Rate	4.00%	D. S. Entry Rate (c/kW.h)	2.00	LOAN REPAYMENT SCHEDULE	
Loan Term (Years)	40	Entry Rate Annual Escalation	6.05%		
Total Energy Capability (GW.h/yr)	378,607	D. S. Rate Ceiling (c/kW.h)	2.682840		CASE 4-A

Year	DEBT SERV COMPONENT (c/kW.h)	PAYMENT FROM ELEC REVENUE	ENERGY SALES (GW.h)	UTILIZ-ATION	CURRENT PRINCIPAL BALANCE	INTEREST DUE FROM 4-DAM POOL	ACTUAL PAY-MENT LESS INT. DUE	PRINCIPAL REPAYMENT DEFERRED	DEFERRED PRINCIPAL BALANCE
1985	2.00	3,104,120	155,206	40.99%	196,000,000	3,213,926	(109,806)	1,217,061	1,217,061
1986	2.12	3,849,550	181,496	47.94%	194,892,746	3,756,990	92,561	1,116,790	2,333,851
1987	2.25	4,306,077	191,437	50.56%	193,683,395	3,954,721	351,356	1,102,885	3,436,735
1988	2.39	4,751,347	199,181	52.61%	192,229,154	4,095,758	655,589	1,099,544	4,536,279
1989	2.53	5,212,398	206,042	54.42%	190,474,021	4,205,259	1,007,139	1,099,799	5,636,078
1990	2.68	5,714,288	212,994	56.26%	188,367,883	4,300,727	1,413,561	1,097,712	6,733,790
1991	2.68	5,877,217	219,067	57.86%	185,855,810	4,361,163	1,516,054	1,099,757	7,833,547
1992	2.68	6,087,552	226,907	59.93%	183,239,999	4,449,374	1,638,178	1,087,542	8,921,089
1993	2.68	6,336,412	236,183	62.38%	180,514,278	4,557,304	1,779,108	1,061,884	9,982,973
1994	2.68	6,596,916	245,893	64.95%	177,673,286	4,664,816	1,932,100	1,029,068	11,012,041
1995	2.68	6,853,020	255,433	67.47%	174,712,118	4,760,231	2,092,789	993,250	12,005,291
1996	2.68	6,990,569	260,566	68.82%	171,625,060	4,767,619	2,222,950	989,981	12,995,272
1997	2.68	7,133,591	265,897	70.23%	168,413,149	4,771,637	2,361,954	983,082	13,978,354
1998	2.68	7,283,428	271,482	71.71%	165,068,112	4,772,574	2,510,854	971,743	14,950,097
1999	2.68	7,440,669	277,343	73.25%	161,585,516	4,770,144	2,670,525	955,320	15,905,417
2000	2.68	7,605,529	283,488	74.88%	157,959,671	4,763,757	2,841,772	933,243	16,838,660
2001	2.68	7,732,481	288,220	76.13%	154,184,656	4,725,569	3,006,912	922,288	17,760,948
2002	2.68	7,781,390	290,043	76.61%	150,255,456	4,633,629	3,147,761	933,834	18,700,782
2003	2.68	7,831,907	291,926	77.11%	146,167,861	4,536,197	3,295,720	956,646	19,657,428
2004	2.68	7,884,572	293,889	77.62%	141,915,495	4,433,170	3,451,401	972,381	20,629,809
2005	2.68	7,939,463	295,935	78.16%	137,491,713	4,324,205	3,615,257	986,853	21,616,662
2006	2.68	7,996,661	298,067	78.73%	132,889,602	4,208,891	3,787,770	999,859	22,616,521
2007	2.68	8,056,300	300,290	79.31%	128,101,973	4,086,822	3,969,478	1,011,153	23,627,674
2008	2.68	8,118,488	302,608	79.93%	123,121,342	3,957,546	4,160,942	1,020,474	24,648,147
2009	2.68	8,183,279	305,023	80.56%	117,939,925	3,820,549	4,362,730	1,027,568	25,675,716
2010	2.68	8,250,833	307,541	81.23%	112,549,627	3,675,330	4,575,503	1,032,102	26,707,818
2011	2.68	8,321,231	310,165	81.92%	106,942,022	3,521,308	4,799,922	1,033,753	27,741,570
2012	2.68	8,394,633	312,901	82.65%	101,108,347	3,357,895	5,036,738	1,032,125	28,773,696
2013	2.68	8,471,148	315,753	83.40%	95,039,483	3,184,428	5,286,719	1,026,818	29,800,514
2014	2.68	8,550,882	318,725	84.18%	88,725,946	3,000,199	5,550,683	1,017,397	30,817,911
2015	2.68	8,634,023	321,824	85.00%	82,157,866	2,804,469	5,829,554	1,003,334	31,821,245
2016	2.68	8,720,652	325,053	85.85%	75,324,978	2,596,405	6,124,247	984,130	32,805,376
2017	2.68	8,810,983	328,420	86.74%	68,216,601	2,375,152	6,435,831	959,147	33,764,523
2018	2.68	8,905,124	331,929	87.67%	60,821,622	2,139,753	6,765,371	927,769	34,692,291
2019	2.68	9,003,262	335,587	88.64%	53,128,483	1,889,200	7,114,062	889,265	35,581,556
2020	2.68	9,105,559	339,400	89.64%	45,125,156	1,622,397	7,483,162	842,864	36,424,421
2021	2.68	9,212,202	343,375	90.69%	36,799,130	1,338,166	7,874,035	787,707	37,212,128
2022	2.68	9,323,352	347,518	91.79%	28,137,388	1,035,234	8,288,118	722,882	37,935,010
2023	2.68	9,439,197	351,836	92.93%	19,126,387	712,229	8,726,968	647,379	38,582,389
2024	2.68	9,559,378	356,338	94.12%	9,752,041	367,680	9,192,299	560,052	39,142,441
2025	1.34	4,825,870	361,030	95.36%	(310)	1,565,665	3,260,185		35,881,945
2026	1.32	4,825,870	365,921	96.65%		1,435,278	3,390,592		32,491,353
2027	1.30	4,825,870	371,019	98.00%		1,299,654	3,526,216		28,965,137
2028	1.28	4,825,870	376,334	99.40%		1,158,605	3,667,265		25,297,872
2029	1.27	4,825,870	378,607	100.00%		1,011,915	3,813,955		21,483,917
2030	1.27	4,825,870	378,607	100.00%		859,357	3,966,514		17,517,403
2031	1.27	4,825,870	378,607	100.00%		700,696	4,125,174		13,[illegible]9
2032	1.27	4,825,870	378,607	100.00%		535,689	4,290,181		9,102,048
2033	1.27	4,825,870	378,607	100.00%		364,082	4,461,788		4,640,260
2034	1.27	4,825,870	378,607	100.00%		185,610	4,640,260		(0)
TOTALS		347,628,986	15,046,933			151,628,986	196,000,000	39,142,441	

MEMORANDUM OF UNDERSTANDING

Between the Alaska Power Authority
and
Representatives of the Four Dam Pool Communities
governing
Power Sales Contracts for the Four Dam Pool

Representatives of the APA and the Four Dam Pool utilities (Ketchikan, Kodiak, Copper Valley, Wrangell, and Petersburg) have reached agreement in principle on the terms and conditions of a power sales contract for the sale of power from the Solomon Gulch, Swan Lake, Lake Tyee, and Terror Lake hydroelectric projects (the "Initial Project"). Although the specific details of such a contract must still be resolved and drafted, the undersigned representatives hereby agree to recommend to their governing bodies the approval of power sales contracts embodying, among other things, the principles set forth in this Memorandum.

1. The Alaska Power Authority ("APA") and the purchasing utilities of the Four-Dam Pool communities ("Purchasing Utilities") agree to enter into a power sales agreement that will run for 50 years, subject to periodic renegotiations and other conditions set forth below.

2. At the end of the contract period, there will be no debt service component of the wholesale rate charged by the APA for power from the four projects. Debt service payments that may be required to pay for additions and expansions of the four projects that are made subsequent to the execution of these agreements will be governed by future agreements.

3. The Purchasing Utilities agree to pay a wholesale rate for energy purchased from the APA that is generated by the four projects that has a debt service component, and a component relevant to all other annual costs.

4. The annual costs exclusive of the debt service component shall include costs of on-site operations and maintenance, safety inspections and investigations, insurance, project-specific administrative and general expenses, and renewals and replacements.

5. Annual costs referred to in Section 4 will be based on prudent utility practice, and will be subject to mutual agreement arrived at through an annual process that establishes an operating budget for the coming year. An O&M

oversight committee composed of all parties to the agreement will be established. In the event disputes over these annual costs cannot be resolved by the parties, the matter will be referred to arbitration by a certified engineer mutually agreeable to the parties.

6. All annual costs referred to in Section 4 will be pooled and divided by the total annual sales from the four projects, so that all Purchasing Utilities pay the same annual cost component of the wholesale rate.

7. The debt service component of the wholesale rate has two elements: an element paid for energy shown in Schedule A as "forecast sales," and an element paid for energy in addition to the "forecast sales," which is referred to as "additional sales."

8. The "additional sales" debt service element in Schedule A will be charged only after the total annual sales from all four projects exceed the "forecast sales" for that year; that is, the distinction between "forecast sales" and "additional sales" applies to the entire four dam system (as configured at the time this agreement is executed).

9. The purchasing utilities will schedule the energy produced by the projects into their load ahead of energy from other sources, except from existing hydroelectric projects.

10. Upon the initiation of either party, the debt service rates shown in Schedule A may be renegotiated after 15 years. The contract shall require reasonable notice of intent to renegotiate rates, and the contract may direct the parties to consider certain factors and conditions in establishing a new rate schedule.

11. The parties to this agreement do not expect that the composite wholesale rate that results from this agreement will be less than the composite wholesale rate charged by the APA for energy produced from the Bradley Lake hydroelectric project.

12. The APA shall bear the risk of uninsured project failures, substandard project performance, and failure of any Purchasing Utility to make payments required by the contract.

DATED May 8, 1985

ALASKA POWER AUTHORITY

By: [signature]

CITY OF KETCHIKAN

By: [signature]

WORK33:APA

COPPER VALLEY ELECTRIC ASSOCIATION

By: _____

KODIAK ELECTRIC ASSOCIATION

By: _____

CITY OF WRANGELL

By: _____

CITY OF PETERSBURG

By: _____

WORK33:APA

SCHEDULE A

YEAR	FORECAST SALES (MWH)	DEBT SERVICE RATE FOR FORECAST SALES (CENTS/KWH)	DEBT SERVICE RATE FOR ADDITIONAL SALES (CENTS/HWH)
1986	181,496	2.6	1.6
1987	191,437	2.8	1.8
1988	199,181	3.2	2.2
1989	206,042	3.5	2.5
1990	212,994	4.0	3.0
1991	219,067	4.0	3.0
1992	226,907	4.0	3.0
1993	236,183	4.0	3.0
1994	245,893	4.0	3.0
1995	255,439	4.0	3.0
1996	260,533	4.0	3.0
1997	265,897	4.0	3.0
1998	271,482	4.0	3.0
1999	277,343	4.0	3.0
2000	283,488	4.0	3.0
2001	288,220	4.0	3.0
2002	290,043	4.0	3.0
2003	291,926	4.0	3.0
2004	293,889	4.0	3.0
2005	295,935	4.0	3.0
2006	298,067	4.0	3.0
2007	300,290	4.0	3.0
2008	302,608	4.0	3.0
2009	305,023	4.0	3.0
2010	307,541	4.0	3.0
2011	310,165	4.0	3.0
2012	312,901	4.0	3.0
2013	315,753	4.0	3.0
2014	318,725	4.0	3.0
2015	321,824	4.0	3.0
2016	325,053	4.0	3.0
2017	328,420	4.0	3.0
2018	331,929	4.0	3.0
2019	335,587	4.0	3.0
2020	339,400	4.0	3.0
2021	343,375	4.0	3.0
2022	347,518	4.0	3.0
2023	351,836	4.0	3.0
2024	356,338	4.0	3.0
2025	361,030	4.0	3.0
2026	365,921	4.0	3.0
2027	371,019	4.0	3.0

YEAR	FORECAST SALES (MWH)	DEBT SERVICE RATE FOR FORECAST SALES (¢1 KWH)	DEBT SERVICE RATE FOR ADDITIONAL SALES (¢1 KWH)
2028	376,334	4.0	3.0
2029	378,607	4.0	3.0
2030	378,607	4.0	3.0
2031	378,607	4.0	3.0
2032	378,607	4.0	3.0
2033	378,607	4.0	3.0
2034	378,607	4.0	3.0
2035	378,607	4.0	3.0
2036	378,607	4.0	3.0
2037	378,607	4.0	3.0

M E M O R A N D U M

TO: John Hartle DATE: May 2, 1985

FROM: Eric Redman and Doug Rosenberg ER & DR

SUBJECT: What Happened In Your Absence

1. The filthy lawyers fed at the public trough for hours and hours, with no one but the cleaning person here to restrain them.

2. There's good news about your diskette LOANS2! It's been liberated from its unpromising childhood here in Juneau, adopted by two terrific daddies from Seattle, and will grow up amid the joys of the Pacific Northwest. (We couldn't find another diskette onto which to duplicate our documents. But we did duplicate your document SB 186 INTENT onto diskette LOANS, and since that was the only document besides ours on the diskette, all you've lost is the value of one diskette.) If you begin a custody fight for LOANS2, we may relent and return it, even though it will never really be happy here.

3. Attached please find the fruits of our labors:

(a) A one-page draft of a Memorandum of Understanding, not yet shown to anyone and eager to retain that status. Short, sweet, clever.

(b) A one-page Exhibit A for same, showing the wholesale power rate schedule and its components, including the scheduled debt service component, with notes. (This, incidentally, is H-2 without additional loads, otherwise known as the H-2 base case.)

(c) A print-out of Exhibit B for same, showing the internal rate of return to the state and all the data (well, most of the data) used to derive it. This shows both the H-2 base case and the H-2 additional sales case.

4. On Friday, May 3rd, Doug will transmit copies of all the foregoing to each of the Four Dam Pool communities in preparation for next week's meeting. We will also try to reach Heath and/or Harrison to tell them:

(a) That we are trying for an MOU approach, and why we are doing so; and

(b) To emphasize that we now hope to have the Four Dam Pool signed off on a draft of the MOU on the 7th, with meeting with Heath and Harrison set for the 8th, in the hope that by the evening of the 8th Heath can tell Sen. Faiks and Sen. Halford that an MOU is in hand, and that it will produce a respectable rate of return to the state.

Draft
5/2/85

MEMORANDUM OF UNDERSTANDING

Between the Alaska Power Authority
and
Representatives of the Four Dam Pool Communities
governing
Power Sales Contracts for the Four Dam Pool

Representatives of the APA and the Four Dam Pool utilities (Ketchikan, Kodiak, Copper Valley, Wrangell, and Petersburg) will recommend that their governing boards approve power sales contracts that embody the principles set forth below:

1. Rates: Subject to a rate reopener provision (below), the purchasers will pay in each year a wholesale power rate consisting of three components:

(a) Debt service: 4¢ per kwh for all purchases except for purchases in excess of current forecasts and purchases during the 5-year "ramp" period. See Exhibit A.

(b) Operations & Maintenance (O&M): Actual O&M costs for the Pool divided by actual power sales to the Pool, expressed in cents per kwh. See Exhibit A for estimates.

(c) Renewals & Replacement Fund (R&R): $500,000 per year to fund the project R&R capital account.

2. Projected Rate Of Return To State: The wholesale power rate schedule is projected to produce a return to the state of 6+ percent under the "additional sales" forecasts and 5+ percent under conservative forecasts. See Exhibit B. The parties regard these forecasts as reasonable.

3. Rate reopeners: APA may give a 7-year notice of rate increases at any time after the 8th contract year. Increased rates may not produce average wholesale power costs for Four Dam Pool communities in excess of average wholesale power costs projected for Railbelt utilities at that time. Purchasers may reduce or eliminate purchases of APA power when increased rates take effect or at any time after 15th contract year.

4. O & M responsibilities: The purchasers must pool and pay all on-site O&M expenses. An O&M oversight committee will provide supervision. APA will perform inspections and investigations, buy insurance, and include those costs in O&M.

5. Sharing of risks: Purchasers will bear the risk of increased rates caused by project failure, poor performance, and deviations in actual O&M costs or actual power sales from forecasts, up to a limit of 0.5¢ per kwh increase over the forecasted base case rates shown in Exhibit A.

6. Commerce Department loan to APA: The power sales contracts shall take effect when the terms of the loan have been modified in a manner that permits the contracts to be effective in accordance with the principles of this Memorandum.

EXHIBIT A: WHOLESALE POWER RATE SCHEDULE
Alaska Power Authority--Four Dam Pool
Memorandum of Understanding

YEAR	SCHEDULED DEBT SERVICE (CENTS/KWH)	ESTIMATED O & M COST (CENTS/KWH)	PROJECTED WHOLESALE POWER RATE (CENTS/KWH)
--A--	----B-----	----C-----	----D-----
1986	2.60	2.72	5.32
1987	2.80	2.72	5.52
1988	3.20	2.76	5.96
1989	3.50	2.81	6.31
1990	4.00	2.87	6.87
1991	4.00	2.94	6.94
1992	4.00	3.00	7.00
1993	4.00	3.04	7.04
1994	4.00	3.08	7.08
1995	4.00	3.13	7.13
1996	4.00	3.24	7.24
1997	4.00	3.36	7.36
1998	4.00	3.47	7.47
1999	4.00	3.59	7.59
2000	4.00	3.72	7.72
2001	4.00	3.86	7.86
2002	4.00	4.06	8.06
2003	4.00	4.27	8.27
2004	4.00	4.48	8.48
2005	4.00	4.71	8.71
2006	4.00	4.94	8.94
2007	4.00	5.19	9.19
2008	4.00	5.45	9.45
2009	4.00	5.72	9.72
2010	4.00	6.01	10.01
2011	4.00	6.30	10.30
2012	4.00	6.61	10.61
2013	4.00	6.94	10.94
2014	4.00	7.28	11.28
2015	4.00	7.63	11.63
2016	4.00	8.00	12.00
2017	4.00	8.38	12.38
2018	4.00	8.78	12.78
2019	4.00	9.20	13.20
2020	4.00	9.63	13.63
2021	4.00	10.08	14.08
2022	4.00	10.55	14.55
2023	4.00	11.04	15.04
2024	4.00	11.54	15.54
2025	4.00	12.07	16.07
2026	4.00	12.61	16.61
2027	4.00	13.18	17.18
2028	4.00	13.76	17.76
2029	4.00	14.50	18.50
2030	4.00	15.36	19.36
2031	4.00	16.27	20.27
2032	4.00	17.24	21.24
2033	4.00	18.27	22.27
2034	4.00	19.35	23.35
2035	4.00	20.51	24.51

Notes:

1. O & M based on forecast loads without Additional Sales.

2. O & M includes $500,000 per year capital cost for Renewals and Replacements.

3. O & M inflation assumed to be 6% per year.

4. Additional Sales to be charged for Debt Service at 1 Cent/kWh less than Scheduled Debt Service.

Case Number 2
Loan Principal ($=000's) $196,000
O&M Cost Inflation Rate 6.00%

EXHIBIT B: PROJECTED OPERATING RESULTS AND RATES OF RETURN
Alaska Power Authority--Four Dam Pool
Memorandum of Understanding

Average Rate of Return:
Without Additional Sales 5.47%
With Additional Sales 6.10%

		PROJECTED					OPERATIONS & MAINTENANCE			
YEAR	SCHEDULED DEBT SVC. (CENTS/KWH)	O & M COST (CENTS/KWH)	WHLS. POWER RATE (CENTS/KWH)	SALES (MWH)	GROSS REVENUES ($=000's)	NET REVENUES ($=000's)	ADMIN ($=000's)	ON-SITE ($=000's)	R & R ($=000's)	TOTAL O & M ($=000's)
	-B-	-C-	-D-	-E-	-F-	-G-	-H-	-I-	-J-	-K-
1986	2.60	2.72	5.32	181,496	9,658	5,219	863	3,576	500	4,939
1987	2.80	2.72	5.52	191,437	10,566	5,860	915	3,791	500	5,205
1988	3.20	2.76	5.96	199,181	11,861	6,874	970	4,018	500	5,488
1989	3.50	2.81	6.31	206,042	12,998	7,711	1,028	4,259	500	5,787
1990	4.00	2.87	6.87	212,994	14,624	9,020	1,090	4,515	500	6,104
1991	4.00	2.94	6.94	219,067	15,203	9,263	1,155	4,785	500	6,440
1992	4.00	3.00	7.00	226,907	15,873	9,576	1,224	5,073	500	6,797
1993	4.00	3.04	7.04	236,183	16,622	9,947	1,298	5,377	500	7,175
1994	4.00	3.08	7.08	245,893	17,411	10,336	1,375	5,700	500	7,575
1995	4.00	3.13	7.13	255,439	18,217	10,718	1,458	6,042	500	8,000
1996	4.00	3.24	7.24	260,533	18,871	10,921	1,546	6,404	500	8,450
1997	4.00	3.36	7.36	265,897	19,562	11,136	1,638	6,788	500	8,927
1998	4.00	3.47	7.47	271,482	20,291	11,359	1,737	7,196	500	9,432
1999	4.00	3.59	7.59	277,343	21,062	11,594	1,841	7,627	500	9,968
2000	4.00	3.72	7.72	283,488	21,876	11,840	1,951	8,085	500	10,536
2001	4.00	3.86	7.86	288,220	22,667	12,029	2,068	8,570	500	11,138
2002	4.00	4.06	8.06	290,043	23,378	12,102	2,192	9,084	500	11,777
2003	4.00	4.27	8.27	291,926	24,130	12,177	2,324	9,629	500	12,453
2004	4.00	4.48	8.48	293,889	24,926	12,256	2,463	10,207	500	13,170
2005	4.00	4.71	8.71	295,935	25,768	12,337	2,611	10,820	500	13,931
2006	4.00	4.94	8.94	298,067	26,659	12,423	2,768	11,469	500	14,736
2007	4.00	5.19	9.19	300,290	27,602	12,512	2,934	12,157	500	15,591
2008	4.00	5.45	9.45	302,608	28,600	12,604	3,110	12,886	500	16,496
2009	4.00	5.72	9.72	305,023	29,657	12,701	3,296	13,659	500	17,456
2010	4.00	6.01	10.01	307,541	30,775	12,802	3,494	14,479	500	18,473
2011	4.00	6.30	10.30	310,165	31,958	12,907	3,704	15,348	500	19,552
2012	4.00	6.61	10.61	312,901	33,211	13,016	3,926	16,269	500	20,695
2013	4.00	6.94	10.94	315,753	34,537	13,130	4,162	17,245	500	21,906
2014	4.00	7.28	11.28	318,725	35,940	13,249	4,411	18,279	500	23,191
2015	4.00	7.63	11.63	321,824	37,425	13,373	4,676	19,376	500	24,552
2016	4.00	8.00	12.00	325,053	38,997	13,502	4,957	20,539	500	25,995
2017	4.00	8.38	12.38	328,420	40,662	13,637	5,254	21,771	500	27,525
2018	4.00	8.78	12.78	331,929	42,424	13,777	5,569	23,077	500	29,147
2019	4.00	9.20	13.20	335,587	44,289	13,923	5,903	24,462	500	30,865
2020	4.00	9.63	13.63	339,400	46,263	14,076	6,258	25,930	500	32,687
2021	4.00	10.08	14.08	343,375	48,354	14,235	6,633	27,485	500	34,619
2022	4.00	10.55	14.55	347,518	50,566	14,401	7,031	29,135	500	36,666
2023	4.00	11.04	15.04	351,836	52,909	14,573	7,453	30,883	500	38,836
2024	4.00	11.54	15.54	356,338	55,389	14,754	7,900	32,736	500	41,136
2025	4.00	12.07	16.07	361,030	58,015	14,941	8,374	34,700	500	43,574
2026	4.00	12.61	16.61	365,921	60,795	15,137	8,877	36,782	500	46,158
2027	4.00	13.18	17.18	371,019	63,739	15,341	9,409	38,989	500	48,898
2028	4.00	13.76	17.76	376,334	66,855	15,553	9,974	41,328	500	51,802
2029	4.00	14.50	18.50	378,607	70,024	15,644	10,572	43,808	500	54,880
2030	4.00	15.36	19.36	378,607	73,287	15,644	11,206	46,436	500	58,143
2031	4.00	16.27	20.27	378,607	76,745	15,644	11,879	49,222	500	61,601
2032	4.00	17.24	21.24	378,607	80,411	15,644	12,592	52,176	500	65,267
2033	4.00	18.27	22.27	378,607	84,297	15,644	13,347	55,306	500	69,153
2034	4.00	19.35	23.35	378,607	88,417	15,644	14,148	58,624	500	73,272
2035	4.00	20.51	24.51	378,607	92,783	15,644	14,997	62,142	500	77,639

YEAR	ADDITIONAL SALES (MWH)	GROSS REVENUE ($=000'S)	DEBT SVC. TRUE-UP ($=000'S)	O & M TRUE-UP ($=000's)	NET REVENUE ($=000's)	MELDED RATE (CENTS/KWH)	YEAR
	ADDITIONAL SALES TRUE-UP CALCULATION						
----A-----	----L-----	----M-----	----N-----	----O-----	----P-----	----Q-----	----R-----
1986	10,828	10,234	108	295	5,392	5.11	1986
1987	21,656	11,761	217	589	6,250	5.14	1987
1988	32,484	13,796	325	895	7,588	5.43	1988
1989	42,312	15,668	423	1,188	8,769	5.66	1989
1990	54,140	18,341	541	1,552	10,644	6.08	1990
1991	54,140	18,960	541	1,592	10,887	6.16	1991
1992	54,140	19,660	541	1,622	11,200	6.23	1992
1993	54,140	20,432	541	1,645	11,572	6.28	1993
1994	54,140	21,244	541	1,668	11,960	6.34	1994
1995	54,140	22,078	541	1,696	12,342	6.41	1995
1996	54,140	22,792	541	1,756	12,546	6.51	1996
1997	54,140	23,546	541	1,818	12,760	6.62	1997
1998	54,140	24,338	541	1,881	12,983	6.73	1998
1999	54,140	25,173	541	1,946	13,218	6.84	1999
2000	54,140	26,053	541	2,012	13,464	6.96	2000
2001	54,140	26,925	541	2,092	13,653	7.10	2001
2002	54,140	27,742	541	2,198	13,726	7.26	2002
2003	54,140	28,605	541	2,310	13,801	7.44	2003
2004	54,140	29,518	541	2,426	13,880	7.63	2004
2005	54,140	30,482	541	2,549	13,962	7.82	2005
2006	54,140	31,501	541	2,677	14,047	8.03	2006
2007	54,140	32,579	541	2,811	14,136	8.25	2007
2008	54,140	33,717	541	2,951	14,229	8.47	2008
2009	54,140	34,921	541	3,098	14,325	8.71	2009
2010	54,140	36,193	541	3,252	14,426	8.96	2010
2011	54,140	37,537	541	3,413	14,531	9.22	2011
2012	54,140	38,957	541	3,581	14,640	9.49	2012
2013	54,140	40,458	541	3,756	14,754	9.78	2013
2014	54,140	42,045	541	3,939	14,873	10.07	2014
2015	54,140	43,721	541	4,130	14,997	10.39	2015
2016	53,554	45,422	536	4,283	15,109	10.72	2016
2017	50,187	46,876	502	4,206	15,142	11.14	2017
2018	46,678	48,390	467	4,099	15,177	11.58	2018
2019	43,020	49,966	430	3,957	15,214	12.04	2019
2020	39,207	51,608	392	3,776	15,252	12.53	2020
2021	35,232	53,315	352	3,552	15,292	13.05	2021
2022	31,089	55,090	311	3,280	15,333	13.60	2022
2023	26,771	56,935	268	2,955	15,377	14.19	2023
2024	22,269	58,851	223	2,571	15,422	14.81	2024
2025	17,577	60,840	176	2,121	15,469	15.46	2025
2026	12,686	62,903	127	1,600	15,517	16.16	2026
2027	7,588	65,042	76	1,000	15,568	16.90	2027
2028	2,273	67,259	23	313	15,622	17.68	2028
2029	0	70,024	0	0	15,644	18.50	2029
2030	0	73,287	0	0	15,644	19.36	2030
2031	0	76,745	0	0	15,644	20.27	2031
2032	0	80,411	0	0	15,644	21.24	2032
2033	0	84,297	0	0	15,644	22.27	2033
2034	0	88,417	0	0	15,644	23.35	2034
2035	0	92,783	0	0	15,644	24.51	2035

Note: Rates of Return are based upon Net Revenues (columns G and P), which include Debt Service payments and capital contributions to the Renewals and Replacements Fund, plus interest on reserves.

STATE OF ALASKA

OFFICE OF THE GOVERNOR

OFFICE OF MANAGEMENT AND BUDGET

DIVISION OF STRATEGIC PLANNING

BILL SHEFFIELD, GOVERNOR

POUCH AD
JUNEAU, ALASKA 99811
PHONE: (907) 465-3568

May 10, 1985

The Honorable Jan Faiks
Co-Chair
Senate Finance Committee
Pouch V
Juneau, AK 99811

Dear Senator Faiks:

For you and the other members of the Senate Finance Committee to have some perspective on the effect of the power sales agreement that would result from the Memorandum of Understanding of May 8, I have prepared the analysis that is enclosed. The numbers are based on our most current computer simulations of the contract. The avoided cost analysis is very crude, but I believe it presents a reasonably accurate estimate of the range of effects we can expect. We will continue to refine and revise the numbers shown here, but overall they reflect our best view of the impacts of the proposed contracts on wholesale power rates from the Four Dam Pool projects .

Sincerely,

Gordon S. Harrison

Gordon S. Harrison
Associate Director

GSH/dmc/85F-255

Enclosures

cc: Senate Finance Committee

01 A34LH

Comparative Analysis, Wholesale Rates (¢/kwh)

	4 Dam Pool		Bradley Lake	
	$196 million loan, 4% inflation; $100,000/yr. R&R		$200 million; 4% inflation;	
	Additional Sales		Revenue Bond Financing	
Year	0	35 MWH	10%	12%
1986	5.1	4.5		
1987	5.3	4.7		
1988	5.7	5.1		
1989	6.0	5.5		
1990	6.5	6.0		
1991	6.5	6.0	5.7	6.7
1992	6.5	6.0	5.9	6.7
1993	6.5	6.1	5.9	6.7
1994	6.5	6.1	5.8	6.6
1995	6.5	6.1	5.8	6.5
1996	6.6	6.1	5.8	6.5
1997	6.6	6.2	5.7	6.4
1998	6.7	6.2	5.7	6.4
1999	6.7	6.3	5.7	6.3
2000	6.7	6.3	5.6	6.3
	(ROR: 5.0%)	(ROR: 5.7%)		

Variables that Influence Rates

4 Dam Pool	Bradley Lake
1. amount of additional sales	1. size of revenue bond issue
2. inflation on O&M	2. interest rate
3. size of renewals and replacement (R&R) fund	3. inflation on O&M

Avoided Cost Analysis: 4 Dam Pool

Year	Avoided Cost (¢/kwh) 7¢ @ 4%/yr.	Avoided Cost (¢/kwh) 9¢ @ 4%/yr.	Rates (¢/kwh) 0 Additional Sales	Rates (¢/kwh) 35 MWH Additional Sales
1986	7.0	9.0	5.1	4.5
1987	7.3	9.4	5.3	4.7
1988	7.6	9.7	5.7	5.1
1989	7.9	10.1	6.0	5.5
1990	8.2	10.5	6.5	6.0
1991	8.5	10.9	6.5	6.0
1992	8.9	11.4	6.5	6.0
1993	9.2	11.8	6.5	6.1
1994	9.6	12.3	6.5	6.1
1995	10.0	12.8	6.5	6.1
1996	10.4	13.3	6.6	6.1
1997	10.8	13.8	6.6	6.2
1998	11.2	14.4	6.7	6.2
1999	11.7	14.9	6.7	6.3
2000	12.1	15.6	6.7	6.3

Savings in Year 2000: ¢9.3 - 5.4/kwh

Assumptions

1986 diesel fuel 83¢/gallon
14.5 kwh/gallon
some amount for fixed costs, depreciation

Avoided Cost Analysis: Bradley Lake

Year	Avoided Cost (¢/kwh)			Rates (¢/kwh)	
	Chugach (1.5 Tier)	Beluga Coal (REA Financing)	Matanuska Coal (11% Financing)	10%	12%
1991	6.1	10.0		5.7	6.7
1992	6.2	10.5	9.1	5.9	6.7
1993	6.5	10.5	9.7	5.9	6.7
1994	10.1	10.8	10.5	5.8	6.6
1995	10.8	11.0	11.5	5.8	6.5
1996	11.4	11.4	12.8	5.8	6.5
1997	11.9	11.7	13.3	5.7	6.4
1998	12.7	12.0	13.3	5.7	6.4
1999	13.3	12.4		5.7	6.3
2000	14.1	12.8		5.6	6.3

Savings in year 2000: ¢8.5 - 6.5

MEMORANDUM OF UNDERSTANDING

Between the Alaska Power Authority
and
Representatives of the Four Dam Pool Communities
governing
Power Sales Contracts for the Four Dam Pool

Representatives of the APA and the Four Dam Pool utilities (Ketchikan, Kodiak, Copper Valley, Wrangell, and Petersburg) have reached agreement in principle on the terms and conditions of a power sales contract for the sale of power from the Solomon Gulch, Swan Lake, Lake Tyee, and Terror Lake hydroelectric projects (the "Initial Project"). Although the specific details of such a contract must still be resolved and drafted, the undersigned representatives hereby agree to recommend to their governing bodies the approval of power sales contracts embodying, among other things, the principles set forth in this Memorandum.

1. The Alaska Power Authority ("APA") and the purchasing utilities of the Four-Dam Pool communities ("Purchasing Utilities") agree to enter into a power sales agreement that will run for 50 years, subject to periodic renegotiations and other conditions set forth below.

2. At the end of the contract period, there will be no debt service component of the wholesale rate charged by the APA for power from the four projects. Debt service payments that may be required to pay for additions and expansions of the four projects that are made subsequent to the execution of these agreements will be governed by future agreements.

3. The Purchasing Utilities agree to pay a wholesale rate for energy purchased from the APA that is generated by the four projects that has a debt service component, and a component relevant to all other annual costs.

4. The annual costs exclusive of the debt service component shall include costs of on-site operations and maintenance, safety inspections and investigations, insurance, project-specific administrative and general expenses, and renewals and replacements.

5. Annual costs referred to in Section 4 will be based on prudent utility practice, and will be subject to mutual agreement arrived at through an annual process that establishes an operating budget for the coming year. An O&M

oversight committee composed of all parties to the agreement will be established. In the event disputes over these annual costs cannot be resolved by the parties, the matter will be referred to arbitration by a certified engineer mutually agreeable to the parties.

6. All annual costs referred to in Section 4 will be pooled and divided by the total annual sales from the four projects, so that all Purchasing Utilities pay the same annual cost component of the wholesale rate.

7. The debt service component of the wholesale rate has two elements: an element paid for energy shown in Schedule A as "forecast sales," and an element paid for energy in addition to the "forecast sales," which is referred to as "additional sales."

8. The "additional sales" debt service element in Schedule A will be charged only after the total annual sales from all four projects exceed the "forecast sales" for that year; that is, the distinction between "forecast sales" and "additional sales" applies to the entire four dam system (as configured at the time this agreement is executed).

9. The purchasing utilities will schedule the energy produced by the projects into their load ahead of energy from other sources, except from existing hydroelectric projects.

10. Upon the initiation of either party, the debt service rates shown in Schedule A may be renegotiated after 15 years. The contract shall require reasonable notice of intent to renegotiate rates, and the contract may direct the parties to consider certain factors and conditions in establishing a new rate schedule.

11. The parties to this agreement do not expect that the composite wholesale rate that results from this agreement will be less than the composite wholesale rate charged by the APA for energy produced from the Bradley Lake hydroelectric project.

12. The APA shall bear the risk of uninsured project failures, substandard project performance, and failure of any Purchasing Utility to make payments required by the contract.

DATED May 8, 1985

ALASKA POWER AUTHORITY

By: [signature]

CITY OF KETCHIKAN

By: [signature]

WORK33:APA

COPPER VALLEY ELECTRIC ASSOCIATION

By: _____

CITY OF WRANGELL

By: _____

KODIAK ELECTRIC ASSOCIATION

By: _____

CITY OF PETERSBURG

By: _____

WORK33:APA

SCHEDULE A

YEAR	FORECAST SALES (MWH)	DEBT SERVICE RATE FOR FORECAST SALES (CENTS/KWH)	DEBT SERVICE RATE FOR ADDITIONAL SALES (CENTS/HWH)
1986	181,496	2.6	1.6
1987	191,437	2.8	1.8
1988	199,181	3.2	2.2
1989	206,042	3.5	2.5
1990	212,994	4.0	3.0
1991	219,067	4.0	3.0
1992	226,907	4.0	3.0
1993	236,183	4.0	3.0
1994	245,893	4.0	3.0
1995	255,439	4.0	3.0
1996	260,533	4.0	3.0
1997	265,897	4.0	3.0
1998	271,482	4.0	3.0
1999	277,343	4.0	3.0
2000	283,488	4.0	3.0
2001	288,220	4.0	3.0
2002	290,043	4.0	3.0
2003	291,926	4.0	3.0
2004	293,889	4.0	3.0
2005	295,935	4.0	3.0
2006	298,067	4.0	3.0
2007	300,290	4.0	3.0
2008	302,608	4.0	3.0
2009	305,023	4.0	3.0
2010	307,541	4.0	3.0
2011	310,165	4.0	3.0
2012	312,901	4.0	3.0
2013	315,753	4.0	3.0
2014	318,725	4.0	3.0
2015	321,824	4.0	3.0
2016	325,053	4.0	3.0
2017	328,420	4.0	3.0
2018	331,929	4.0	3.0
2019	335,587	4.0	3.0
2020	339,400	4.0	3.0
2021	343,375	4.0	3.0
2022	347,518	4.0	3.0
2023	351,836	4.0	3.0
2024	356,338	4.0	3.0
2025	361,030	4.0	3.0
2026	365,921	4.0	3.0
2027	371,019	4.0	3.0

YEAR	FORECAST SALES (MWH)	DEBT SERVICE RATE FOR FORECAST SALES (¢1 KWH)	DEBT SERVICE RATE FOR ADDITIONAL SALES (¢1 KWH)
2028	376,334	4.0	3.0
2029	378,607	4.0	3.0
2030	378,607	4.0	3.0
2031	378,607	4.0	3.0
2032	378,607	4.0	3.0
2033	378,607	4.0	3.0
2034	378,607	4.0	3.0
2035	378,607	4.0	3.0
2036	378,607	4.0	3.0
2037	378,607	4.0	3.0

Sen Ziegler

ARLON R. TUSSING & ASSOCIATES, INC.
2720 Rainier Bank Tower • Seattle, Washington 98101 • (206) 447 0321

18 April, 1985

Mayor Don Koenigs
Petersburg, Alaska 99833

Dear Don:

It was a pleasure to visit Petersburg last weekend, meet you and your fellow citizens, and participate in the Rotary Club's annual benefit. I hope I shall be able to return soon.

The enclosed memo outlines the strategy we talked about for resolving the impasse over the four hydro projects. I think this strategy would result in almost exactly the kind of resolution the parties are looking for, whether they know it or not. For both tactical and selfish reasons, however, the memo strikes me as a bit too detailed and too specific, and I am a bit uneasy about seeing it circulated widely in its present form.

The best tactic for getting acceptance of a proposal of this kind is usually to let its details emerge from discussion and negotiation, so that the various parties (the municipalities, the Power Authority, the Administration, and key legislators) all feel that they have contributed to or at least influenced the final product. No matter how fair and well thought-out a it may be, a settlement proposal emanating from one side of a controversy tends to be perceived by those on other sides as a bargaining position to be diluted and whittled away at. A motion that comes unsolicited from an outside party like myself who has no stake in the dispute is likely to be treated even less seriously.

My selfish reservations about circulating a fully thought-out proposal stem from the fact that I occasionally like to get paid for performing the kind of service at which I am best, and from which I try to make a living. At the very worst, I would like to have been asked formally by one or more of the parties to make a stab at solving their problem. The kernel of an idea contained in the enclosed memorandum is, however, already the most critical part of any contribution I might make on behalf of a settlement. It is this one seemingly simple concept that might not have appeared absent my involvement. The further refining of the concept, its formulation in legislative language, and its public advocacy would all consume more professional effort and are, by that token, more "billable" than what I have already offered. But there are a host of people who are as good or almost as good as I am at these tasks, if not better. With this memo in hand, one may legitimately ask, who needs Tussing?

Here is the idea, nevertheless, for what it is worth, in sufficent detail for all the parties to understand. From the moment you and I began discussing the problem last weekend, I was convinced this general approach was superior --- from almost everyone's standpoint --- to the House Bill or anything else that has yet surfaced publicly.

I do want to see the strategy proposed and tried, even if it generates no personal credit and no professional fee. My druthers, however, lean toward getting a small retainer either from the municipalities or, preferably, from one of the responsible committees of the legislature to explore the general idea with the municipalities, the Power Authority, the Governor, and legislative leaders; to conduct research on relevant regulatory standards and precedents; to draft a proposal that could be incorporated into legislative language; and to appear at hearings on its behalf. I believe this is also the approach most likely to be successful.

The politics of the question I now leave to your judgment, however, and you are free to use this memorandum however seems most appropriate. My associate, Connie Barlow, has spoken with Senate Resources Committee staff about the approach, and I expect to get Senator Sturgelewski's reaction within a few days. Let me know what you do and what happens, and I will keep you similarly informed.

Also enclosed are a statement for my late travel expenses, and a some nice publicity I will be getting in Forbes magazine next week.

Very truly yours,

Arlon R. Tussing

Apportionment of Four-Dam Pool Project Costs
A Suggested Settlement Procedure

OBJECT

The object of the procedure suggested here is the rational and fair apportic ment of costs incurred by the Alaska Power Authority for electrical-generation and transmission facilities designed to serve the four municipalities. The key elements of such a settlement are ---

An impartial valuation of the projects, reflecting only the necessary and prudently incurred outlays for their construction, and

An impartial determination of the fair market rate of interest due the State on the value of the project.

The State would thus write off as a loss any expenditures determined to be unnecessary or to have resulted from imprudence or mismanagement, while electricity costs to the municipalities would be based upon an unsubsidized interest rate. This settlement would differ from others now being proposed in that it would be ---

Permanent,

Uncoupled from the politics of Statewide rural energy assistance, or future Railbelt energy planning, and

Free from dependence upon speculative and controversial estimates of future "avoided costs" of electricity in the four municipalities.

Because such a settlement apportions accountability for all sunk costs directly to the parties responsible for their occurrence, its precedent should make similar fiscal disasters less likely in the future.

ARBITRATION PANEL

The settlement would be determined in binding arbitration, conducted by a panel of three arbitrators, each of whom would have substantial experience as a commissioner, administrative law judge, or hearing officer of a federal, state or provincial public utility commission in the United States or Canada (other than the Alaska Public Utilities Commission). Two arbitrators, appointed respectively by the four municpalities and the Alaska Power Authority, would select the third.

TERMS OF REFERENCE

The arbitrators would determine the fair value, for purposes of sale or rate-making, of the facilities constructed by the Alaska Power Authority to serve the four municipalities. They would use the same standards that regulatory utility commissions throughout North America customarily use in reviewing the capital costs that electric utilities propose to include in their "rate bases", namelyt

(1) Are the facilities "used and useful", and

(2) Were the expenditures "necessary and prudently incurred"?

The arbitrators would also determine a fair market interest rate, and the appropriate amortization schedule to be applied to the fair value of the facility, for the purposes of sale or electric rate-making.

STANDARDS

1. **Valuation of Facilities.** In determining fair value, the arbitrators would

   1.1 Review the construction and interim financing costs actually incurred by the Alaska Power Authority, and

   1.2 Determine what portion of these costs were necessary and prudently incurred for used and useful plant. Specifically, the arbitrators would be authorized to exclude from fair value any expenditures that were incurred ---

      1.2.1 For generating capacity in excess of that required to serve reasonably anticipated demand by the respective municipalities,

      1.2.2 Because of mismanagement or gross negligence, or

      1.2.3 After the date (if any) at which a prudent management would have concluded that a project as planned was not economically viable, and thus would have downsized the project or terminated construction in order to hold losses to unavoidable levels.

   In determining any expenditures to be excluded from fair value, however, the arbitrators would be authorized to consider the extent to which the municipalities or their representatives may have knowingly encouraged, abetted, or agreed to unnecessary or imprudent outlays.

2. Fair market interest rate. In determining a fair market interest rate, the arbitrators would consider ---

   2.1 The actual or probable cost of revenue- or general-obligation borrowing by the municipalities for power-project financing,

   2.3 The actual or prospective cost of revenue- or general-obligation borrowing by the Alaska Power Authority for power-project financing, and

   2.4 The actual or prospective returns to the State of Alaska from alternative uses of any State funds committed to the projects.

3. Appropriate amortization schedule. In determining the appropriate schedule for amortizing the sums determined to constitute the fair value of facilities, the arbitrators would follow generally accepted principles of power-project financing and public-utility ratemaking, but would be authorized to consider ---

   3.1 Projected electricity-demand trends in the respective municipalities,

   3.2 The prospective impact of the amortization schedule (when combined with the fair value of the facilities and the fair market rate of interest) on consumer costs of electricity, and

   3.3 The present and prospective financial capacity of the respective municipalities.

EXECUTION OF THE SETTLEMENT

The decision of the arbitrators would be final and binding. Upon a determination of the fair value of each of the facilities, the fair market interest rate, and appropriate amortization schedule(s), the Alaska Power Authority and the municipalities would be required to execute contracts which, at the option of the respective municipalities, would provide for one of the following ---

1. Sale of electricity by the Alaska Power Authority to the municipalities for a lump-sum monthly charge that reflects the fair value of the facilities, the fair market interest rate, and the appropriate amortization schedule,

2. Sale of facilities to one or more of the municipalities, at fair value plus interest to the date of sale at the fair market interest rate --- with long-term financing arranged by the municipalities themselves, or

3. Sale of facilities to one or more of the muncipalities at fair value --- with long-term financing by the State at the fair market interest rate and with the appropriate amortization schedule.

In the event a municipality elected to purchase facilities, the Alaska Power Authority would retain title to any project capacity that exceeds the capacity the arbitrators have determined to be used and useful for valuation purposes.

ly! No information was forthcoming on this point. What about Merrill Lynch? "We don't talk about what our customers do. I doubt you're going to find out about Phillips from anybody," Merrill told the committee.

But further inquiries revealed a good reason for brokers *not* to be diligent in tracking down wayward holders who left no instructions. Shares left in the custody of brokers in margin or managed-cash-type accounts could have been used to make substantial windfall profits—for the broker.

A reminder of the Phillips recapitalization will be helpful here. The company decided to exchange debt for half its shares. For every two shares tendered, the holder was to get back a package of debt securities worth $62 and one share of stock. Before the offer expired, the old stock was trading at around $49 a share. That means that the new stock would be worth only $36. Why? Twice $49 minus $62 equals $36. (Because not all shares were tendered, the shareholders actually got bonds for slightly more than half their stock—but that is a fine point.) Again, in round numbers: A 200-share, $9,800 position in the old stock was going to turn into $3,600 worth of new stock and $6,200 worth of bonds.

The expected disparity between the value of old Phillips and the value of new Phillips created considerable demand for borrowed Phillips stock. Short-sellers and various other investors had been maneuvering to increase their profit on the Phillips tender (see box, p. 57). These efforts created a demand for untendered Phillips shares, to replace shares that had been called away or sold short. While the tender was under way, the premium exacted by lenders of Phillips stock certificates ranged from $4 to $9 a share, prices that one arbitrager terms "obscene." In most circumstances, stock certificates are lent at no premium at all.

Phillips shares owned by alert investors were, of course, en route to Phillips and unavailable. But what about stock owned by the aforementioned dummies? Some of it, apparently, was available. When stock is bought on margin, the investor signs an agreement allowing his broker to lend out his securities. Also, most so-called managed cash accounts are automatically deemed margin accounts. Margin accounts owned by customers who didn't respond to the tender thus provided a potential supply of lendable certificates.

Precisely how much lending took place from nontendering margin accounts? Evidence is not available on this point. Brokers complained of enormous premiums being charged for borrowed stock, but few would admit to lending it. Shearson Lehman Brothers Senior Executive Vice President Victor Samra averred that he lent stock, the stock being obtained "from institutional investors, mostly." (Apparently some institutions did not have time to read the prospectus, either. It came less than two weeks before the tendering deadline.) Samra said he wasn't sure whether his firm got a premium.

It further appears that none of the loan premiums found their way back to the accounts of the nontendering customers who made it all possible. The following testimony is from a vice president at a small firm in New York City, who was guaranteed anonymity in return for his statement. "Everyone supped at the expense of the negligent Phillips shareholder who left his stock in street name. That guy was carved up on the table."

The committee concludes that the brokers did nothing wrong, or at least nothing actionable. If it weren't the case that 8.6% of the world is slow on its feet, how would some others get rich? ■

The natural gas industry is moving into the world of competition. Some will sink and some will swim, says Arlon Tussing, who has a winning record on predictions.

The coming world of anything goes

By Toni Mack

ARLON R. TUSSING has run up an enviable record predicting swings in the volatile energy business, particularly in natural gas. He called the turn on prices in 1980. In 1981 he forecast that pipelines then contracting to take high-priced gas or pay for it anyway would break their contracts and take the lawsuits, which they did. In 1983 he predicted the industry would rediscover the Sherman Act. The state of Illinois is now suing Panhandle Eastern Corp., and Mobil Corp. is suing Transco Energy Co., both on antitrust grounds.

What next, FORBES asked Tussing (pronounced TOO-sing), a 51-year-old, blue-eyed and jut-jawed Seattle-based consultant.

Deregulation, in fact if not in law, is here, he says, and companies in the gas business aren't particularly happy about it. Says Tussing:

"In this new market, wellhead prices will be determined by competition, and neither the regulators nor the regulated companies will be able to control the price. The market value of gas will be determined in competition with other fuels and electricity. It will only be the sheerest of accidents if the margin between the price of gas in the field and the market value to final customers equals the rates that would be set by regulators under traditional cost-of-service pricing.

"One of the biggest problems is that many executives think just like regulators and Congress. Regardless of their official economic philosophies, they don't like or trust competitive markets. They prefer a visible hand, however palsied, to an invisible one."

Today the pipelines' average costs for gas run from $2 per thousand cubic feet (mcf) to more than $4 per mcf. That disparity will narrow in two to three years as contracts expire and are renegotiated. Then, says Arlon Tussing, the gas transportation costs will be important.

"You'll see the competitive advantage shifting. For instance, Transco and Columbia Gas System have among the highest purchase costs, and they've been the most troubled



Energy consultant Arlon R. Tussing
Everything that isn't expressly prohibited can be done.

pipelines competing in the Middle Atlantic states. But they both have mature systems that have been pretty much written off. If either could get its gas purchase costs down [Columbia Gas in April agreed to lower the price for its gas to keep from losing more business], it would be in a relatively strong competitive position."

Most gas distributors—the companies taking gas from pipelines and delivering it to the customers—still resist competition, and that's where Tussing expects to see the greatest turmoil.

"They are still mentally and emotionally in the 1970s. Most rate cases at the state level are still for higher rates. Depending on how price-sensitive their load [demand] is, they can get into what I call the death spiral, where higher rates and load loss drive each other."

Attempts by pipelines or distributors to hold their monopolies will be futile, he thinks. Transco and Panhandle Eastern are being sued under antitrust laws for using their monopoly position to block competition (that is, not moving competitive gas) or otherwise gain an advantage.

A second trend is the building of pipelines to bypass higher-priced suppliers. Bethlehem Steel is trying to bypass Northern Indiana Public Service Co. by building a spur to a pipeline a few miles away owned by American Natural Resources Co. (now merging with Coastal Corp.). Bethlehem would be able to buy gas for about $1 per mcf under Nipsco's rate. There are already two applicants, and there may be four, to build an interstate pipeline into California's Kern County to serve the growing enhanced oil recovery market there. The purpose is to bypass both Pacific Gas & Electric and its regulator, the California Public Utilities Commission, notorious for the high prices it tolerates for industrial customers in the name of the consumer.

"The basic natural monopoly argument," says Tussing, "is that the cost of service for one pipeline is less than the cost of service for two smaller-scale pipelines. It follows that it is also possible for everybody to get a lower rate under monopoly. But the test of that is in the doing. If the monopoly, even a regulated monopoly, is mainly used to rip off customers, then the natural monopoly argument crumbles. So if Bethlehem or any other customer can get a better rate by building an additional pipeline, then let them do it. If it is cheaper for everybody collectively to be the only pipe in the area, then Nipsco and PG&E had damn well better provide cheaper service to everyone."

Tussing also predicts the natural gas industry will face competition from electric utilities. Today those utilities are raising rates. "That will cause a fall in consumption from normal markets, so they will be desperately trying to flog off extra power for anything over variable costs," he says. "The electric utilities haven't quite caught on yet, but they will."

With all these troubles, Tussing sees some pipelines and gas distributors pushed to the wall. "There's a one-word term for that: bankruptcy." He hesitates, then adds that there are also shotgun weddings.

But it isn't all gloom. Says Tussing: "One area of enormous potential for arbitrage profits and for marketing and transportation is replacing the physical movement of gas with exchange and displacement transactions. The pipeline system in North America is like a big swimming pool: You can take a bucket of water from one end and dump a bucket of water in the other end, without physically carrying the bucket from one end to the other."

For example, instead of building a pipeline to carry western Canadian gas to New England, there's a proposal to use existing lines to carry the Canadian gas to the Midwest. It would be traded for Texas gas, aimed at the Midwest, which could be diverted eastward through existing lines.

Tussing thinks Kenneth L. Lay, now chairman of Houston Natural Gas Corp., represents the new type of thinking coming into the business. "While Lay was president of Transco, Transco invented the whole notion of using spot market gas to regain lost customers [lost because its contract gas prices were too high]," Tussing says. Lay has directed $1.2 billion in acquisitions for Houston Natural, and with two other companies has proposed one of the pipelines into Kern County, Calif. "Something he did at Transco and is now doing at HNG is completely swamping the regulators with proposals within the existing framework, which keeps them off-balance," says Tussing.

Buyer beware

If Arlon Tussing is right, natural gas companies—and their stocks—are in for it. "Whenever an industry gets deregulated, everybody gets clobbered initially, even the good companies. So earnings will be under pressure for all companies for several years," says Foster Corwith, an analyst for Dean Witter Reynolds.

But there will ultimately be winners. Analyst John Olson of Drexel Burnham Lambert likes the prospects, over the long haul, of Houston Natural Gas, which recently moved into Florida and California through acquisitions, and Lear Petroleum Corp., an aggressive pipeliner in Texas and Oklahoma.

Among the big interstate pipelines, MidCon Corp. and InterNorth Inc. are considered standouts for their efficiency, low-cost gas and competitive ability. They also avoided most of the contract and regulatory problems that plague others. Others getting favorable reviews include Texas Eastern Corp. and Coastal Corp.

The pariah of the group is Columbia Gas System. It has high-cost gas Columbia is trying to renegotiate its contracts), fading markets (particularly in the East and Midwest), crippling contract problems and regulation by two federal and seven state agencies. "It's got a lot of things going against it," says Tussing.

On the plus side, of course, stock prices already have been pumped up in anticipation of takeovers, as other pipelines seek access to markets and low-cost gas. Producing properties also are spun off into publicly traded limited partnerships as an antitakeover technique, which pushes up stock prices.

But there's a necessary caution. "The problem is that you can't tell who is shark and who is lunch," says R. Gamble Baldwin, analyst for First Boston Corp. The effect, he says, is that "the natural gas group by and large is overvalued in relation to its fundamental outlook."—T.M.

He sees this as an evolution of management, drawing analogies to banking. "Natural gas has been pretty much a deadhead industry in both pipelines and distribution, and the whole presumption has been that anything not specifically approved by regulators in advance is out of bounds. That's where the bankers were 20 years ago. Bankers did only what bankers had always done.

"But something happened. Bankers left behind the old banker mentality. They assumed that everything that isn't expressly prohibited can be done, and put the onus on the regulators to stop them. Once you had some people with imagination out there, any deal became doable under some combination or permutation of existing institutions and rules. What Congress and the regulators have to say—interstate banking is a good example—has no relevance.

"We're moving in that direction with natural gas. The most interesting things are the ones not foreseeable, because they will be the result of innovations by contrarian individuals. You now have a handful of people who start with the premise that everything not expressly forbidden is allowable." ■

Meet Pat McGovern, the centimillionaire magnate of computer publishing—as unlikely a magnate as ever was.

As you give

By Richard Behar

PATRICK MCGOVERN plans to give away his computer publishing empire when his International Data Group, outside Boston, reaches $1 billion in sales. He says he will then turn over 51% of the firm to his employees. McGovern has already sold 15% of the company to a profit-sharing employee trust.

Says McGovern: "I won't have at IDG what's happened in so many other businesses, where the owner dies or sells and a new team replaces the people who have given so much blood, sweat, toil and tears. What we try to do is build a total common family."

Of course, IDG still has a good way to go; its revenues in 1984, triple those of 1981, were just $225 million, but McGovern figures that revenues will reach the $1 billion mark by 1990.

McGovern is an intensely private person. IDG has 41 corporate units, each with its own president and business plan. His name appears only in *Computerworld*. But he founded, controls and runs the U.S.' biggest chain of computer publications, 62 at last count, as well as the biggest computer market research firm. IDG is private, with profits reportedly running about $20 million a year and no debt. His wealth is estimated at $250 million or so, and he says he's been offered around $500 million for his company.

McGovern, a construction manager's son, caught the computer bug in the tenth grade after reading a book. Thirty-three years later he still remembers the title: *Giant Brains; or, Machines That Think*. Inspired, he built a computer that was unbeatable in ticktacktoe. That won him a scholarship to MIT. He helped pay for school by editing a Boston-based computer magazine run by Edmund Berkeley, the author of *Giant Brains*. After college McGovern put an idea to work. He realized that IBM's rivals lacked information about computer customers; remember, this was 1964. He persuaded firms like Xerox, Burroughs and Univac to prepay $7,500 each for a census report, gathered in $75,000

5/9/85

MAY 10 1985

Senators:

RE: House Bill 219 Relating to Power Development Loans

Absence of my signature on the Memorandum of Understanding Dated May 8, 1985 between APA and Four Dam Pool Communities indicates I do not endorse this agreement as it relates to HB 219.

Within this memo I strongly object to articles (1) periodic renegotiations, (7) two debt elements, (10) renegotiate in 15 years, (11) ties to Bradley Lake Project. Therefore do not support this memorandum, nor the passage of the bill.

Recommend deferring bill until next session.

Further recommend this entire issue be determined in binding arbitration, conducted by a panel of three arbitrators. Two arbitrators, appointed respectively by the municipalities and Alaska Power Authority, would select the third.

Suggested Terms of Reference for Arbitration:

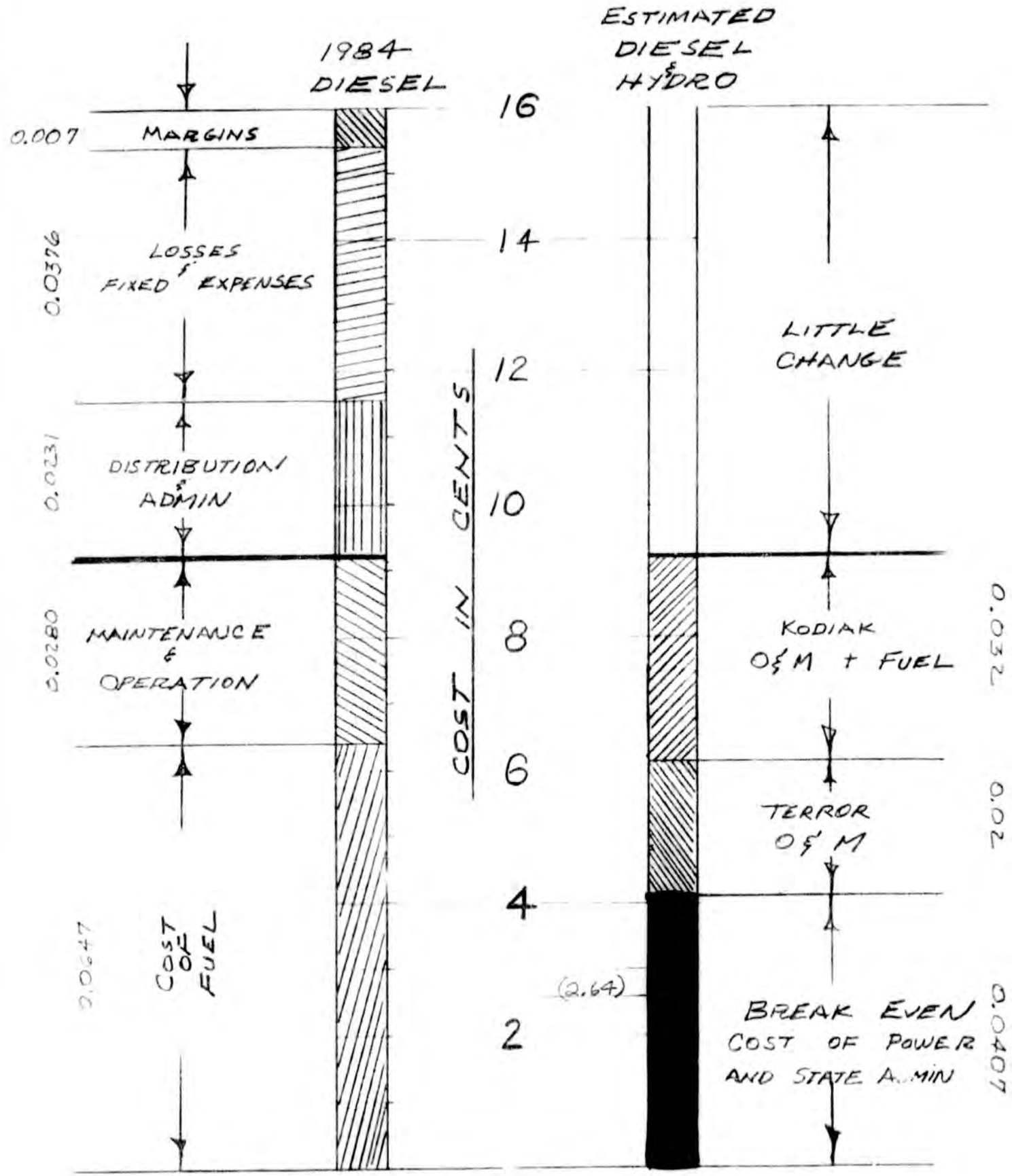
Are the facilities used and useful, and were the expenditures necessary and prudently incurred?

The arbitrators would determine a fair market rate of interest, the appropriate amortization schedule to be applied to the fair value of the facilities for the purposes of sale or electric rate making.

Sincerely,

Don Koenigs

KODIAK ELECTRIC ASSN
AVERAGE COST OF POWER
(AT CONSUMER METER)



3/4/85

MEMORANDUM

TO: Rep. John Sund, Chair
House Special Committee on Loans

FROM: J. Hartle, AA JH

RE: Electric power rates for four dam pool communities (HB 219)

	KEA	CVEA	KPU	Petersburg	Wrangell
Operations and Maintenance	2.0	2.76	2.91	4.59	4.59
Debt Service	2.68	2.68	2.68	2.68	2.68
Total APA	4.68	5.44	5.59	7.27	7.27
Retail Rate*	16.6	19.1** 15.1	10.0	11.1	14.9

* Per KWH at 750 KWH/Month, as of 2/16/85, ~~with debt service as proposed in HB 219~~

** 19.1 = Copper River; 15.1 = Valdez

KEA = Kodiak
CVEA = Copper Valley
KPU = Ketchikan

RETAIL RATES
(cents per kwh)

Community	@ 200 kwh/month	@ 500 kwh/month	@ 700 kwh/month
Copper Valley			
-Glenallen	23.5	20.1	18.8
-Valdez	21.3	16.0	14.7
Kodiak	19.0	18.1	17.5
Wrangell	19.1	16.3	15.7
Petersburg	13.9	11.7	11.2
Ketchikan	14.3	10.8	10.2

COMPONENTS OF THE RATES
(cents per kwh)

Community	APA O&M	APA Debt Service	Other*/	Total (@ 700 kwh/month)
Copper Valley				
-Glenallen	2.76	2.64	13.4	18.8
-Valdez	2.76	2.64	9.3	14.7
Kodiak	2.00	2.64	12.86	17.5
Wrangell	4.59	2.64	8.47	15.7
Petersburg	4.59	2.64	3.97	11.2
Ketchikan	2.26	2.64	5.3	10.2

*/ "Other" includes distribution, administrative and general, reserve generation, and other generation (other hydro as well as diesel in the case of Ketchikan and Petersburg.)

HARRY S. SUNDBERG
P.O. Box 613
Wrangell, Alaska 99929
907-874-3594

Oct. 28, 1985

Mr. Bruce Tenn[illegible]
Assistant Dist[illegible] Attorney
State of Alaska
1031 West 4th [illegible] ste 200
Anchorage, Ala[illegible]

Dear Mr. Tenna[illegible] Re: Tyee Power Project

I will shortl[illegible] shipping you a box containing data, (Thomas Bay Power Commission re[illegible]), which hopefully will help you in the [illegible] case. For your infor[illegible], the following is a brief history of the events which developed into [illegible] Tyee Project as we now know it.

Thomas Bay Pow[illegible] Commission was founded by the communities of Wrangell and Petersburg in [illegible], with responsibility of devising means for obtaining hydro power [illegible] for the two cities. Funds for these studies were grant appropri[illegible] from the legislature, made possible by our state representative [illegible] Naugen.

Our first engi[illegible] study was done at Swan lake (Thomas Bay), about twelve miles from [illegible]. This study was completed in Nov. 1975 by R.W.Beck and Assoc., and was [illegible] P.W. first phase project with an estimated completion date cost in [illegible] million dollars. This study was presented to state and federal [illegible] at that time, (Dept. of Commerce and Alaska Power Administration), [illegible] was turned down as too large a project for the two communities. [illegible] Bay Power Commission was instructed to continue the studies to [illegible] project with an initial first phase capacity which would be compatable [illegible] the present loads and load forcasts for the immediate future.

By August 1977, [illegible] sites had been narrowed down to four, by R.W.Beck. They were:

[illegible] Lake	7.5 Mw	@ 29 Million dollars
[illegible]ola Lake	8.0 Mw	@ 57 Million dollars
[illegible]/Tunk	7.9 Mw	@ 49 Million Dollars
[illegible]rise	3.9 Mw	@ 22 Million dollars

With the exc[illegible] of Sunrise lake, all possible projects had salmon runs besides being [illegible] costly for the KW generated, and no 2nd phase potential. Other sites no[illegible] which could be considered also had salmon streams or were in wilderness [illegible] designated areas which could result in lengthly litigation if an attempt was [illegible] to utilize them.

The Dept. of [illegible] Geological Survey Bulletin 1211-[illegible], [illegible] in 1969, listed three [illegible] hydro power sites in the nearby area, [illegible] Mt. lake in Burroughs [illegible] Ketchikan, and Eagle and Tyee Lakes on Stadfield Canal near Wra[illegible]. A copy of this booklet was obtained and Sutherford and Assoc., wh[illegible] doing some engineering work at Petersburg's Crystal Lake hydro fac[illegible], were asked to do a study with the limited information available at t[illegible], to see if there was potential for power at Tyee, Eagle lake be[illegible] a low elevation lake having substantial runs of all salmon species within [illegible] boundaries. The preliminary study proved promising, so the firm was hired to do an in depth study with the intent to apply for an F.E.R.C. permit. The stipulation at the time was to design a project with a first [illegible] capability to take care of the two communities present needs, with a [illegible] phase available when the demand required it.

The initial [illegible] developed originally with two 5 Mw turbines at the first phase, with a single [illegible] Mw additional turbine when the second phase became necessary. This was changed to two 7½ Mw generators at the first phase and a single 15 Mw at the second, [illegible] more balance the system. Power lines were sized down for the first phase capability, with wood poles supporting the 62 [illegible] capacity to Wrangell and [illegible] KVA on to Petersburg. Estimated cost of this project was in the forty to fifty million dollar range. For the second phase, needed after the turn of the century, it would be necessary to upgrade the entire transmission line components as well as the required additional generation and control costs, as it would then require the 115 KVA lines, steel towers, controls, etc, bringing the costs up considerably.

In the two years that passed before the F.E.R.C. permit application was hand carried to Washington D.C. in December 1979, a great many [illegible] occurred relating to energy in Alaska. Thomas Bay Power Commission had received $300,000.00 dollars from the Dept. of Commerce for the study, and the balance from the newly formed Alaska Power Authority, to pay for the [illegible]0,000.00 study needed to apply for the F.E.R.C. permit. As the APA had been established by the legislature to make the power resources of the state available to all the citizens of the state, and had the capability of acquiring the expertise necessary to bring this to being, it became obvious to the Thomas Bay Power Authority members that the time had arrived to turn the project over to the APA for the actual construction. With the concurrance of the cities, the project was turned over to the [illegible] for construction with the proviso that after completion the cities would have three options. 1. APA would own and run the project, 2. APA could lease the project to Thomas Bay Power Commission, or 3. the cities could buy the project. (Later legislation and other events have apparently eliminated these options for the cities).

Many people have asked how our Tyee project increased to become a 20 Mw facility and such escalated costs, when we were told by the state and federal government at the beginning to keep our project within the present power needs of the two communities. I believe it should be clear to all that the [illegible] project under APA planning, was no longer a project for Wrangell and Petersburg, but part of a long term objective to provide a power grid for south east Alaska. With the Tyee project in the center of south east Alaska, it was only logical to make change orders to upgrade transmission lines to carry such future loads and to increase the generating capacity. In fact, one of the last major change orders during tunnel excavation was to lower the lake tap depth to allow for a constant [illegible] output from the facility. ([illegible] that the Wrangell/Petersburg area would [illegible] need until well after the turn of the century). This indicates to me at least, that the Tyee facility was [illegible] for constant 20 Mw. output to supply power to the entire southeast [illegible] the proposed grid system, not [illegible] permittent demands that occur [illegible] communities such as ours.

I do not fault [illegible] APA staff entirely for this. They [illegible] a mandate by the legislature [illegible] a power rich state, and they [illegible] with a great deal of enthusiasm. Had the money held out, Southeast [illegible] would have had an intertie [illegible] for security and cheaper rates, the [illegible] area would have had Susitna, [illegible] that they still need, and the [illegible] state would have been [illegible] other power sources and methods [illegible] rate stabilization pre[illegible] supported by the legislature. The [illegible], shared equally among [illegible] the power users statewide, would have [illegible] in affordable electric [illegible] the entire state, something we all [illegible].

The difficulties between the APA and the citizens of Wrangell and Petersburg over the past [illegible] years, have been among other things, [illegible] insistance

that the co[illegible] are liable for all the costs [illegible] the fact that, as st[illegible], the project was overbuilt by [illegible] needs. Had the Thomas [illegible] Commission and the two communiti[illegible] ownership, we are quite co[illegible] that the project would have been [illegible] the grant funds appro[illegible] by the legislature, simply because it would have remained a smaller pro[illegible].

Be that as [illegible], we now have a project that will [illegible] communities with power far into [illegible] future, and it will have the capability [illegible] an intregal part of an [illegible] intertie when such a developement [illegible] occurs. Also, through the [illegible] of state officials, the legislature, [illegible] officials and the public, we [illegible] an agreement which hopefully will [illegible] resolve and set to rest, [illegible] local, regional, and statewide [illegible] concerning these hydro[illegible] the agreement is implemented, [illegible] result in stable rate[illegible] constituents and hopefully resolve [illegible] eliminate the narrow and [illegible] attitudes which in the past [illegible] attempts to bring state[illegible] development into being.

As you have [illegible], I will be sending you copies of [illegible] data that we have which [illegible] pertinent to the Tyee project and [illegible] runs. I should emph[illegible] however, that with both the AEA and [illegible] and Assoc. having their [illegible] in Anchorage, we soon found ourselves [illegible] from much of the early [illegible] in the project. This early exclusion of our input did much to con[illegible] to turn the construction phase [illegible], and as a result we [illegible] little or no input on the decisions [illegible] the project from a 2 ph[illegible] into a single full scale facility. [illegible] also resulted in our havi[illegible] no records on any decisions regarding [illegible] orders or information [illegible] changes to the concept of the [illegible]. Because of this, our [illegible] may not help you a great deal [illegible] certainly welcome to [illegible] and hope that they provide [illegible] staff some of the info[illegible] might need.

Sincerely,

Harry [illegible]
Box 613
Wrangell, Alaska 99929
[illegible]

2/6/86

Harry S. Sundberg
P.O. box 613
Wrangell, AK 99929

Dear Harry:

Thanks very much for your note and copy of your letter to Assistant D.A. Bruce Tennant.

Your points are well taken. There are many lessons to be learned from our experience with the Tyee Project. One lesson the APA and all State agencies should learn from this experience is not to leave policy decisions (e.g. the size of the Tyee) to consultants. Local decision-making and local control of projects is the only way to keep spending under control.

I certainly hope the State can win the current lawsuit over cost overruns on Tyee. This could have a significant impact on power rates for Wrangell and Petersburg in the long term by reducing the state debt service component.

With the passage, last session, of House Bill 219 we have finally managed to construct a framework for agreements with the APA for power sales to the communities. Now we are in for the ongoing work of making those agreements function.

Two items we will be monitoring closely in my office are those of insurance costs for the project and APA spending of program receipts from power sales. Insurance costs are significantly higher than forecast and we are getting less comprehensive coverage than last year. We are looking into the possibility of a state insurance pool for hydro projects. The APA, I feel, will always push to attribute whatever costs they can to power sales program receipts. I will be working with the House Finance Committee to do what we can about this ongoing problem.

Anyway, thanks again for your letter; let me know if there is anything I can do.

Sincerely,

John Sund, Representative

Loan Principal ($=000's)	$196,000
O & M Inflation Rate	4.00%
Rate of Return Floor	3.50%
Rate of Return Ceiling	8.00%
Change in Base Load Forecast	0.00%

YEAR	FORECAST SALES (MWH)	ADDITIONAL SALES (MWH)	DEBT SVC RATE (CENTS/KWH)	O & M RATE (CENTS/KWH)	TOTAL RATE (CENTS/KWH)	INITIAL REVENUE STREAM ($=000's)	ADDITIONAL REVENUE ($=000's)	O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
1986	181,496	0	2.64	2.30	4.94	8,966	0	4,438	4,528	6,860	15,680	0	196,000	2,332	3.5%	10,027	5.52	1986
1987	191,427	0	2.64	2.80	5.44	10,414	0	4,616	5,799	6,860	15,680	0	196,000	1,061	3.5%	10,841	5.66	1987
1988	199,191	0	2.84	2.80	5.64	11,234	0	4,800	6,434	6,860	15,680	0	196,000	426	3.5%	11,234	5.64	1988
1989	206,042	0	3.19	2.90	6.09	12,548	0	4,992	7,556	6,860	15,680	0	196,000	0	3.9%	12,548	6.09	1989
1990	212,994	0	3.58	2.90	6.48	13,802	0	5,192	8,610	6,860	15,680	0	196,000	0	4.4%	13,802	6.48	1990
1991	219,067	0	3.58	3.00	6.58	14,415	0	5,400	9,015	6,860	15,680	0	196,000	0	4.6%	14,415	6.58	1991
1992	226,907	0	3.58	3.10	6.68	15,157	0	5,615	9,542	6,860	15,680	0	196,000	0	4.9%	15,157	6.68	1992
1993	236,183	0	3.58	3.20	6.78	16,013	0	5,840	10,173	6,860	15,680	0	196,000	0	5.2%	16,013	6.78	1993
1994	245,893	0	3.58	3.30	6.88	16,917	0	6,074	10,844	6,860	15,680	0	196,000	0	5.5%	16,917	6.88	1994
1995	255,439	0	3.58	3.40	6.98	17,830	0	6,317	11,513	6,860	15,680	0	196,000	0	5.9%	17,830	6.98	1995
1996	260,533	0	3.58	3.50	7.08	18,446	0	6,569	11,876	6,860	15,680	0	196,000	0	6.1%	18,446	7.08	1996
1997	265,897	0	3.58	3.60	7.18	19,091	0	6,832	12,259	6,860	15,680	0	196,000	0	6.3%	19,091	7.18	1997
1998	271,482	0	3.58	3.80	7.38	20,035	0	7,105	12,930	6,860	15,680	0	196,000	0	6.6%	20,035	7.38	1998
1999	277,343	0	3.58	3.90	7.48	20,745	0	7,390	13,356	6,860	15,680	0	196,000	0	6.8%	20,745	7.48	1999
2000	283,498	0	3.58	4.10	7.68	21,772	0	7,685	14,087	6,860	15,680	0	196,000	0	7.2%	21,772	7.68	2000
2001	288,220	0	3.58	4.30	7.88	22,712	0	7,993	14,719	6,860	15,680	0	196,000	0	7.5%	22,712	7.88	2001
2002	290,043	0	3.58	4.50	8.08	23,435	0	8,312	15,123	6,860	15,680	0	196,000	0	7.7%	23,435	8.08	2002
2003	291,926	0	3.58	4.70	8.28	24,171	0	8,645	15,527	6,860	15,680	0	196,000	0	7.9%	24,171	8.28	2003
2004	293,889	0	3.58	5.00	8.58	25,216	0	8,991	16,225	6,860	15,680	545	196,000	0	8.0%	25,216	8.58	2004
2005	295,935	0	3.58	5.30	8.88	26,279	0	9,350	16,929	6,860	15,680	1,249	195,455	0	8.0%	26,279	8.68	2005
2006	298,067	0	3.58	5.60	9.18	27,363	0	9,724	17,638	6,841	15,636	2,002	194,206	0	8.1%	27,363	9.18	2006
2007	300,290	0	3.58	5.90	9.48	28,467	0	10,113	18,354	6,797	15,536	2,818	192,204	0	8.1%	28,467	9.48	2007
2008	302,608	0	3.58	6.30	9.88	29,898	0	10,518	19,380	6,727	15,376	4,004	189,386	0	8.1%	29,898	9.88	2008
2009	305,023	0	3.58	6.60	10.18	31,051	0	10,938	20,113	6,629	15,151	4,962	185,383	0	8.2%	31,051	10.18	2009
2010	307,541	0	3.58	7.00	10.58	32,538	0	11,376	21,162	6,488	14,831	6,331	180,421	0	8.2%	32,538	10.58	2010
2011	310,165	0	3.58	7.40	10.98	34,056	0	11,831	22,225	6,315	14,434	7,791	174,089	0	8.3%	34,056	10.98	2011
2012	312,901	0	3.58	7.80	11.38	35,608	0	12,304	23,304	6,093	13,927	9,377	166,298	0	8.4%	35,608	11.38	2012
2013	315,753	0	3.58	8.30	11.88	37,511	0	12,796	24,715	5,820	13,304	11,411	156,921	0	8.5%	37,511	11.88	2013
2014	318,725	0	3.58	8.70	12.28	39,139	0	13,308	25,831	5,492	12,554	13,277	145,510	0	8.6%	39,139	12.28	2014
2015	321,824	0	3.58	9.20	12.78	41,129	0	13,841	27,289	5,093	11,641	15,648	132,232	0	8.8%	41,129	12.78	2015
2016	325,053	0	3.58	9.70	13.28	43,167	0	14,394	28,773	4,628	10,579	18,194	116,585	0	9.1%	43,167	13.28	2016
2017	328,420	0	3.58	10.09	13.67	44,888	0	14,970	29,918	4,080	9,327	20,592	98,390	0	9.5%	44,888	13.67	2017
2018	331,929	0	3.58	10.49	14.07	46,707	0	15,569	31,139	3,444	7,871	23,267	77,799	0	10.1%	46,707	14.07	2018
2019	335,587	0	3.58	10.91	14.49	48,631	0	16,192	32,439	2,723	6,224	26,215	54,531	0	11.4%	48,631	14.49	2019
2020	339,400	0	3.58	11.35	14.93	50,664	0	16,839	33,825	1,909	4,362	28,316	28,316	0	15.4%	50,664	14.93	2020
2021	343,375	0	3.58	11.80	15.38	52,816	0	17,513	35,304	991	0	0	0	0	ERR	17,513	5.10	2021
2022	347,518	0	3.58	12.27	15.85	55,094	0	18,213	36,881	0	0	0	0	0	ERR	18,213	5.24	2022
2023	351,836	0	3.58	12.76	16.34	57,506	0	18,942	38,564	0	0	0	0	0	ERR	18,942	5.38	2023
2024	356,338	0	3.58	13.28	16.86	60,061	0	19,699	40,362	0	0	0	0	0	ERR	19,699	5.53	2024
2025	361,030	0	3.58	13.81	17.39	62,769	0	20,487	42,282	0	0	0	0	0	ERR	20,487	5.67	2025
2026	365,921	0	3.58	14.36	17.94	65,640	0	21,307	44,333	0	0	0	0	0	ERR	21,307	5.82	2026
2027	371,019	0	3.58	14.93	18.51	68,686	0	22,159	46,526	0	0	0	0	0	ERR	22,159	5.97	2027
2028	376,334	0	3.58	15.53	19.11	71,917	0	23,046	48,872	0	0	0	0	0	ERR	23,046	6.12	2028
2029	378,607	0	3.58	16.15	19.73	74,704	0	23,967	50,736	0	0	0	0	0	ERR	23,967	6.33	2029
2030	378,607	0	3.58	16.80	20.38	77,150	0	24,926	52,224	0	0	0	0	0	ERR	24,926	6.58	2030
2031	378,607	0	3.58	17.47	21.05	79,694	0	25,923	53,770	0	0	0	0	0	ERR	25,923	6.85	2031
2032	378,607	0	3.58	18.17	21.75	82,339	0	26,960	55,379	0	0	0	0	0	ERR	26,960	7.12	2032
2033	378,607	0	3.58	18.89	22.47	85,091	0	28,038	57,052	0	0	0	0	0	ERR	28,038	7.41	2033
2034	378,607	0	3.58	19.65	23.23	87,952	0	29,160	58,792	0	0	0	0	0	ERR	29,160	7.70	2034
2035	378,607	0	3.58	20.44	24.02	90,928	0	30,326	60,602	0	0	0	0	0	ERR	30,326	8.01	2035
2036	378,607	0	3.58	21.25	24.83	94,023	0	31,539	62,483	0	0	0	0	0	ERR	31,539	8.33	2036
2037	378,607	0	3.58	22.10	25.68	97,242	0	32,801	64,441	0	0	0	0	0	ERR	32,801	8.66	2037
	16,027,515	0				2,193,629	0	741,877	1,451,752	217,270	494,753	196,000	8,011,726	3,820	6.1%	1,346,514		

2

Loan Principal ($=000's)	$196,000
O & M Inflation Rate	4.00%
Rate of Return Floor	3.50%
Rate of Return Ceiling	8.00%

YEAR	FORECAST SALES (MWH)	ADDITIONAL SALES (MWH)	DEBT SVC RATE (CENTS/KWH)	O & M RATE (CENTS/KWH)	TOTAL RATE (CENTS/KWH)	INITIAL REVENUE STREAM ($=000's)	ADDITIONAL REVENUE ($=000's)	O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S
1986	181,496	10,828	2.25	2.30	4.55	8,258	244	4,174	4,327	6,860	15,680	0	196,000	2,533	3.5%	8,952	4.93	1986
1987	191,437	21,656	2.53	2.80	5.33	10,204	548	4,341	6,410	6,860	15,680	0	196,000	450	3.5%	10,751	5.62	1987
1988	199,181	32,484	2.84	2.80	5.64	11,234	923	4,515	7,641	6,860	15,680	0	196,000	0	3.9%	12,156	6.10	1988
1989	206,042	43,312	3.19	2.90	6.09	12,548	1,382	4,696	9,234	6,860	15,680	0	196,000	0	4.7%	13,930	6.76	1989
1990	212,994	54,140	3.58	2.90	6.48	13,802	1,938	4,883	10,857	6,860	15,680	0	196,000	0	5.5%	15,740	7.39	1990
1991	219,067	54,140	3.58	3.00	6.58	14,415	1,938	5,079	11,274	6,860	15,680	0	196,000	0	5.8%	16,353	7.46	1991
1992	226,907	54,140	3.58	3.10	6.68	15,157	1,938	5,282	11,814	6,860	15,680	0	196,000	0	6.0%	17,096	7.53	1992
1993	236,183	54,140	3.58	3.20	6.78	16,013	1,938	5,493	12,458	6,860	15,680	0	196,000	0	6.4%	17,951	7.60	1993
1994	245,893	54,140	3.58	3.30	6.88	16,917	1,938	5,713	13,143	6,860	15,680	0	196,000	0	6.7%	18,856	7.67	1994
1995	255,439	54,140	3.58	3.40	6.98	17,830	1,938	5,941	13,826	6,860	15,680	0	196,000	0	7.1%	19,768	7.74	1995
1996	260,533	54,140	3.58	3.50	7.08	18,446	1,938	6,179	14,205	6,860	15,680	0	196,000	0	7.2%	20,384	7.82	1996
1997	265,897	54,140	3.58	3.60	7.18	19,091	1,938	6,426	14,603	6,860	15,680	0	196,000	0	7.5%	21,030	7.91	1997
1998	271,482	54,140	3.58	3.80	7.38	20,035	1,938	6,683	15,290	6,860	15,680	0	196,000	0	7.8%	21,974	8.09	1998
1999	277,343	54,140	3.58	3.90	7.48	20,745	1,938	6,951	15,733	6,860	15,680	53	196,000	0	8.0%	22,683	8.18	1999
2000	283,488	54,140	3.58	4.10	7.68	21,772	1,938	7,229	16,481	6,860	15,680	801	195,947	0	8.0%	23,710	8.36	2000
2001	288,220	54,140	3.58	4.30	7.88	22,712	1,938	7,518	17,132	6,858	15,676	1,456	195,146	0	8.0%	24,650	8.55	2001
2002	290,043	54,140	3.58	4.50	8.08	23,435	1,938	7,819	17,555	6,830	15,612	1,943	193,690	0	8.1%	25,374	8.75	2002
2003	291,926	54,140	3.58	4.70	8.28	24,171	1,938	8,131	17,978	6,779	15,495	2,483	191,746	0	8.1%	26,110	8.94	2003
2004	293,889	54,140	3.58	5.00	8.58	25,216	1,938	8,457	18,697	6,711	15,340	3,358	189,263	0	8.1%	27,154	9.24	2004
2005	295,935	54,140	3.58	5.30	8.88	26,279	1,938	8,795	19,422	6,624	15,141	4,281	185,905	0	8.1%	28,217	9.53	2005
2006	298,067	54,140	3.58	5.60	9.18	27,363	1,938	9,147	20,154	6,507	14,872	5,282	181,624	0	8.2%	29,301	9.83	2006
2007	300,290	54,140	3.58	5.90	9.48	28,467	1,938	9,513	20,893	6,357	14,530	6,363	176,342	0	8.2%	30,406	10.13	2007
2008	302,608	54,140	3.58	6.30	9.88	29,898	1,938	9,893	21,943	6,172	14,107	7,835	169,979	0	8.3%	31,836	10.52	2008
2009	305,023	54,140	3.58	6.60	10.18	31,051	1,938	10,289	22,701	5,949	13,598	9,103	162,144	0	8.4%	32,990	10.82	2009
2010	307,541	54,140	3.58	7.00	10.58	32,538	1,938	10,700	23,776	5,675	12,971	10,804	153,041	0	8.5%	34,476	11.21	2010
2011	310,165	54,140	3.58	7.40	10.98	34,056	1,938	11,128	24,866	5,356	12,243	12,623	142,237	0	8.6%	35,994	11.60	2011
2012	312,901	54,140	3.58	7.80	11.38	35,608	1,938	11,573	25,973	4,978	11,379	14,594	129,614	0	8.8%	37,546	12.00	2012
2013	315,753	54,140	3.58	8.30	11.88	37,511	1,938	12,036	27,413	4,536	10,369	17,044	115,020	0	9.0%	39,450	12.49	2013
2014	318,725	54,140	3.58	8.70	12.28	39,139	1,938	12,518	28,560	4,026	9,202	19,358	97,976	0	9.4%	41,078	12.89	2014
2015	321,824	54,140	3.58	9.20	12.78	41,129	1,938	13,019	30,049	3,429	7,838	22,211	78,618	0	10.0%	43,067	13.38	2015
2016	325,053	53,554	3.58	9.70	13.28	43,167	1,917	13,539	31,585	2,752	6,289	25,256	56,407	0	11.2%	45,084	13.87	2016
2017	328,420	50,187	3.58	10.09	13.67	44,888	1,797	14,081	32,604	1,974	4,513	28,092	31,151	0	14.5%	46,685	14.22	2017
2018	331,929	46,678	3.58	10.49	14.07	46,707	1,671	14,644	33,734	1,090	2,492	3,059	3,059	0	81.5%	48,379	14.57	2018
2019	335,587	43,020	3.58	10.91	14.49	48,631	1,540	15,230	34,941	107	0	0	0	0	ERR	15,230	4.54	2019
2020	339,400	39,207	3.58	11.35	14.93	50,664	1,404	15,839	36,229	0	0	0	0	0	ERR	15,839	4.67	2020
2021	343,375	35,232	3.58	11.80	15.38	52,816	1,261	16,473	37,605	0	0	0	0	0	ERR	16,473	4.80	2021
2022	347,518	31,089	3.58	12.27	15.85	55,094	1,113	17,131	39,076	0	0	0	0	0	ERR	17,131	4.93	2022
2023	351,836	26,771	3.58	12.76	16.34	57,506	958	17,817	40,648	0	0	0	0	0	ERR	17,817	5.06	2023
2024	356,338	22,269	3.58	13.28	16.86	60,061	797	18,529	42,329	0	0	0	0	0	ERR	18,529	5.20	2024
2025	361,030	17,577	3.58	13.81	17.39	62,769	629	19,271	44,128	0	0	0	0	0	ERR	19,271	5.34	2025
2026	365,921	12,686	3.58	14.36	17.94	65,640	454	20,041	46,053	0	0	0	0	0	ERR	20,041	5.48	2026
2027	371,019	7,588	3.58	14.93	18.51	68,686	272	20,843	48,114	0	0	0	0	0	ERR	20,843	5.62	2027
2028	376,334	2,273	3.58	15.53	19.11	71,917	81	21,677	50,322	0	0	0	0	0	ERR	21,677	5.76	2028
2029	378,607	0	3.58	16.15	19.73	74,704	0	22,544	52,160	0	0	0	0	0	ERR	22,544	5.95	2029
2030	378,607	0	3.58	16.80	20.38	77,150	0	23,446	53,704	0	0	0	0	0	ERR	23,446	6.19	2030
2031	378,607	0	3.58	17.47	21.05	79,694	0	24,383	55,310	0	0	0	0	0	ERR	24,383	6.44	2031
2032	378,607	0	3.58	18.17	21.75	82,339	0	25,359	56,980	0	0	0	0	0	ERR	25,359	6.70	2032
2033	378,607	0	3.58	18.89	22.47	85,091	0	26,373	58,717	0	0	0	0	0	ERR	26,373	6.97	2033
2034	378,607	0	3.58	19.65	23.23	87,952	0	27,428	60,524	0	0	0	0	0	ERR	27,428	7.24	2034
2035	378,607	0	3.58	20.44	24.02	90,928	0	28,525	62,403	0	0	0	0	0	ERR	28,525	7.53	2035
2036	378,607	0	3.58	21.25	24.83	94,023	0	29,666	64,357	0	0	0	0	0	ERR	29,666	7.84	2036
2037	378,607	0	3.58	22.10	25.68	97,242	0	30,853	66,389	0	0	0	0	0	ERR	30,853	8.15	2037
	16,027,515	1,904,051				2,192,711	67,384	597,814	1,562,282	195,612	446,868	196,000	5,392,908	2,983	6.6%	1,310,557		

Loan Principal ($=000's)	$196,000
O & M Inflation Rate	4.00%
Rate of Return Floor	3.50%
Rate of Return Ceiling	8.00%

YEAR	FORECAST SALES (MWH)	ADDITIONAL SALES (MWH)	DEBT SVC RATE (CENTS/KWH)	O & M RATE (CENTS/KWH)	TOTAL RATE (CENTS/KWH)	INITIAL REVENUE STREAM ($=000's)	ADDITIONAL REVENUE ($=000's)	O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
1986	181,496	10,828	2.64	2.30	4.94	8,966	286	4,174	5,077	6,860	15,680	0	196,000	1,787	3.5%	9,467	5.22	1986
1987	191,437	21,656	2.64	2.80	5.44	10,414	572	4,341	6,645	6,860	15,680	0	196,000	215	3.5%	10,986	5.74	1987
1988	199,181	32,484	2.84	2.80	5.64	11,234	923	4,515	7,641	6,860	15,680	0	196,000	0	3.9%	12,156	6.10	1988
1989	206,042	43,312	3.19	2.90	6.09	12,548	1,382	4,696	9,234	6,860	15,680	0	196,000	0	4.7%	13,930	6.76	1989
1990	212,994	54,140	3.58	2.90	6.48	13,802	1,938	4,883	10,857	6,860	15,680	0	196,000	0	5.5%	15,740	7.39	1990
1991	219,067	54,140	3.58	3.00	6.58	14,415	1,938	5,079	11,274	6,860	15,680	0	196,000	0	5.8%	16,353	7.46	1991
1992	226,907	54,140	3.58	3.10	6.68	15,157	1,938	5,282	11,814	6,860	15,680	0	196,000	0	6.0%	17,096	7.53	1992
1993	236,185	54,140	3.58	3.20	6.78	16,013	1,938	5,493	12,458	6,860	15,680	0	196,000	0	6.4%	17,951	7.60	1993
1994	245,893	54,140	3.58	3.30	6.88	16,917	1,938	5,713	13,143	6,860	15,680	0	196,000	0	6.7%	18,856	7.67	1994
1995	255,439	54,140	3.58	3.40	6.98	17,830	1,938	5,941	13,826	6,860	15,680	0	196,000	0	7.1%	19,768	7.74	1995
1996	260,533	54,140	3.58	3.50	7.08	18,446	1,938	6,179	14,205	6,860	15,680	0	196,000	0	7.2%	20,384	7.82	1996
1997	265,897	54,140	3.58	3.60	7.18	19,091	1,938	6,426	14,603	6,860	15,680	0	196,000	0	7.5%	21,030	7.91	1997
1998	271,482	54,140	3.58	3.80	7.38	20,035	1,938	6,683	15,290	6,860	15,680	0	196,000	0	7.8%	21,974	8.09	1998
1999	277,343	54,140	3.58	3.90	7.48	20,745	1,938	6,951	15,733	6,860	15,680	53	196,000	0	8.0%	22,683	8.18	1999
2000	283,488	54,140	3.58	4.10	7.68	21,772	1,938	7,229	16,481	6,860	15,680	801	195,947	0	8.0%	23,710	8.36	2000
2001	288,220	54,140	3.58	4.30	7.88	22,712	1,938	7,518	17,132	6,858	15,676	1,456	195,146	0	8.0%	24,650	8.55	2001
2002	290,043	54,140	3.58	4.50	8.08	23,435	1,938	7,819	17,555	6,830	15,612	1,943	193,690	0	8.1%	25,374	8.75	2002
2003	291,926	54,140	3.58	4.70	8.28	24,171	1,938	8,131	17,978	6,779	15,495	2,483	191,746	0	8.1%	26,110	8.94	2003
2004	293,889	54,140	3.58	5.00	8.58	25,216	1,938	8,457	18,697	6,711	15,340	3,358	189,263	0	8.1%	27,154	9.24	2004
2005	295,935	54,140	3.58	5.30	8.88	26,279	1,938	8,795	19,422	6,624	15,141	4,281	185,905	0	8.1%	28,217	9.53	2005
2006	298,067	54,140	3.58	5.60	9.18	27,363	1,938	9,147	20,154	6,507	14,872	5,282	181,624	0	8.2%	29,301	9.83	2006
2007	300,290	54,140	3.58	5.90	9.48	28,467	1,938	9,513	20,893	6,357	14,530	6,363	176,342	0	8.2%	30,406	10.13	2007
2008	302,608	54,140	3.58	6.30	9.88	29,898	1,938	9,893	21,943	6,172	14,107	7,835	169,979	0	8.3%	31,836	10.52	2008
2009	305,023	54,140	3.58	6.60	10.18	31,051	1,938	10,289	22,701	5,949	13,598	9,103	162,144	0	8.4%	32,990	10.82	2009
2010	307,541	54,140	3.58	7.00	10.58	32,538	1,938	10,700	23,776	5,675	12,971	10,804	153,041	0	8.5%	34,476	11.21	2010
2011	310,165	54,140	3.58	7.40	10.98	34,056	1,938	11,128	24,866	5,356	12,243	12,623	142,237	0	8.6%	35,994	11.60	2011
2012	312,901	54,140	3.58	7.80	11.38	35,608	1,938	11,573	25,973	4,978	11,379	14,594	129,614	0	8.8%	37,546	12.00	2012
2013	315,753	54,140	3.58	8.30	11.88	37,511	1,938	12,036	27,413	4,536	10,369	17,044	115,020	0	9.0%	39,450	12.49	2013
2014	318,725	54,140	3.58	8.70	12.28	39,139	1,938	12,518	28,560	4,026	9,202	19,358	97,976	0	9.4%	41,078	12.89	2014
2015	321,824	54,140	3.58	9.20	12.78	41,129	1,938	13,019	30,049	3,429	7,838	22,211	78,618	0	10.0%	43,067	13.38	2015
2016	325,053	57,554	3.58	9.70	13.28	43,167	1,917	13,539	31,545	2,752	6,289	25,256	56,407	0	11.2%	45,084	13.87	2016
2017	328,420	50,187	3.58	10.09	13.67	44,888	1,797	14,081	32,604	1,974	4,513	28,092	31,151	0	14.5%	46,685	14.22	2017
2018	331,929	46,678	3.58	10.49	14.07	46,707	1,671	14,644	33,734	1,090	2,492	3,059	3,059	0	91.5%	48,379	14.57	2018
2019	335,587	43,020	3.58	10.91	14.49	48,631	1,540	15,230	34,941	107	0	0	0	0	ERR	15,230	4.54	2019
2020	339,400	39,207	3.58	11.35	14.93	50,664	1,404	15,839	36,229	0	0	0	0	0	ERR	15,839	4.67	2020
2021	343,375	35,232	3.58	11.80	15.38	52,816	1,261	16,473	37,605	0	0	0	0	0	ERR	16,473	4.80	2021
2022	347,518	31,089	3.58	12.27	15.85	55,094	1,113	17,131	39,076	0	0	0	0	0	ERR	17,131	4.93	2022
2023	351,836	26,771	3.58	12.76	16.34	57,506	958	17,817	40,648	0	0	0	0	0	ERR	17,817	5.06	2023
2024	356,338	22,269	3.58	13.28	16.86	60,061	797	18,529	42,329	0	0	0	0	0	ERR	18,529	5.20	2024
2025	361,030	17,577	3.58	13.81	17.39	62,769	629	19,271	44,128	0	0	0	0	0	ERR	19,271	5.34	2025
2026	365,921	12,686	3.58	14.36	17.94	65,640	454	20,041	46,053	0	0	0	0	0	ERR	20,041	5.48	2026
2027	371,019	7,588	3.58	14.93	18.51	68,686	272	20,843	48,114	0	0	0	0	0	ERR	20,843	5.62	2027
2028	376,334	2,273	3.58	15.53	19.11	71,917	81	21,677	50,322	0	0	0	0	0	ERR	21,677	5.76	2028
2029	378,607	0	3.58	16.15	19.73	74,704	0	22,544	52,160	0	0	0	0	0	ERR	22,544	5.95	2029
2030	378,607	0	3.58	16.80	20.38	77,150	0	23,446	53,704	0	0	0	0	0	ERR	23,446	6.19	2030
2031	378,607	0	3.58	17.47	21.05	79,694	0	24,383	55,310	0	0	0	0	0	ERR	24,383	6.44	2031
2032	378,607	0	3.58	18.17	21.75	82,339	0	25,359	56,980	0	0	0	0	0	ERR	25,359	6.70	2032
2033	378,607	0	3.58	18.89	22.47	85,091	0	26,373	58,717	0	0	0	0	0	ERR	26,373	6.97	2033
2034	378,607	0	3.58	19.65	23.23	87,952	0	27,428	60,524	0	0	0	0	0	ERR	27,428	7.24	2034
2035	378,607	0	3.58	20.44	24.02	90,928	0	28,525	62,403	0	0	0	0	0	ERR	28,525	7.53	2035
2036	378,607	0	3.58	21.25	24.83	94,023	0	29,666	64,357	0	0	0	0	0	ERR	29,666	7.84	2036
2037	378,607	0	3.58	22.10	25.68	97,242	0	30,853	66,389	0	0	0	0	0	ERR	30,853	8.15	2037
	16,027,515	1,904,051				2,193,629	67,450	697,814	1,563,266	195,612	446,868	196,000	5,392,968	1,998	6.2%	1,311,307		

4

Loan Principal ($=000's)	$196,000
O & M Inflation Rate	4.00%
Rate of Return Floor	3.50%
Rate of Return Ceiling	8.00%
Change in Base Load Forecast	10.00%

YEAR	FORECAST SALES (MWH)	ADDITIONAL SALES (MWH)	DEBT SVC RATE (CENTS/KWH)	O & M RATE (CENTS/KWH)	TOTAL RATE (CENTS/KWH)	INITIAL REVENUE STREAM ($=000's)	ADDITIONAL REVENUE ($=000's)	O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
1986	199,646	10,828	2.64	2.30	4.94	9,862	286	4,438	5,710	6,860	15,680	0	196,000	1,150	3.5%	10,148	5.08	1986
1987	210,581	21,656	2.64	2.80	5.44	11,456	572	4,616	7,412	6,860	15,680	0	196,000	0	3.8%	12,027	5.71	1987
1988	219,099	32,484	2.84	2.80	5.64	12,357	923	4,800	8,480	6,860	15,680	0	196,000	0	4.3%	13,280	6.06	1988
1989	226,646	42,312	3.19	2.90	6.09	13,803	1,350	4,992	10,160	6,860	15,680	0	196,000	0	5.2%	15,153	6.69	1989
1990	234,293	54,140	3.58	2.90	6.48	15,182	1,938	5,192	11,929	6,860	15,680	0	196,000	0	6.1%	17,120	7.31	1990
1991	240,974	54,140	3.58	3.00	6.58	15,856	1,938	5,400	12,395	6,860	15,680	0	196,000	0	6.3%	17,794	7.38	1991
1992	249,598	54,140	3.58	3.10	6.68	16,673	1,938	5,615	12,996	6,860	15,680	0	196,000	0	6.6%	18,611	7.46	1992
1993	259,801	54,140	3.58	3.20	6.78	17,615	1,938	5,840	13,713	6,860	15,680	0	196,000	0	7.0%	19,553	7.53	1993
1994	270,482	54,140	3.58	3.30	6.88	18,609	1,938	6,074	14,474	6,860	15,680	0	196,000	0	7.4%	20,547	7.60	1994
1995	280,983	54,140	3.58	3.40	6.98	19,613	1,938	6,317	15,234	6,860	15,680	0	196,000	0	7.8%	21,551	7.67	1995
1996	286,586	54,140	3.58	3.50	7.08	20,290	1,938	6,569	15,659	6,860	15,680	0	196,000	0	8.0%	22,229	7.76	1996
1997	292,487	54,140	3.58	3.60	7.18	21,001	1,938	6,832	16,107	6,860	15,680	427	196,000	0	8.0%	22,939	7.84	1997
1998	298,630	54,140	3.58	3.80	7.38	22,039	1,938	7,105	16,872	6,860	15,680	1,192	195,573	0	8.0%	23,977	8.03	1998
1999	305,077	54,140	3.58	3.90	7.48	22,820	1,938	7,390	17,368	6,845	15,646	1,723	194,382	0	8.0%	24,758	8.12	1999
2000	311,837	54,140	3.58	4.10	7.68	23,949	1,938	7,685	18,202	6,803	15,551	2,652	192,659	0	8.1%	25,887	8.30	2000
2001	317,042	54,140	3.58	4.30	7.88	24,983	1,938	7,993	18,929	6,743	15,413	3,516	190,007	0	8.1%	26,921	8.49	2001
2002	319,047	54,140	3.58	4.50	8.08	25,779	1,938	8,312	19,405	6,650	15,201	4,204	186,492	0	8.2%	27,717	8.69	2002
2003	321,119	54,140	3.58	4.70	8.28	26,589	1,938	8,645	19,882	6,527	14,919	4,963	182,287	0	8.2%	28,527	8.88	2003
2004	323,278	54,140	3.58	5.00	8.58	27,737	1,938	8,991	20,685	6,380	14,583	6,102	177,325	0	8.2%	29,675	9.18	2004
2005	325,529	53,079	3.58	5.30	8.88	28,907	1,900	9,350	21,457	6,206	14,186	7,271	171,223	0	8.3%	30,807	9.46	2005
2006	327,874	50,733	3.58	5.60	9.18	30,099	1,816	9,724	22,191	5,993	13,698	8,493	163,952	0	8.4%	31,915	9.73	2006
2007	330,319	48,288	3.58	5.90	9.48	31,314	1,729	10,113	22,930	5,738	13,116	9,814	155,459	0	8.4%	33,043	10.00	2007
2008	332,869	45,738	3.58	6.30	9.88	32,887	1,637	10,518	24,007	5,441	12,437	11,570	145,645	0	8.5%	34,525	10.37	2008
2009	335,525	43,082	3.58	6.60	10.18	34,156	1,542	10,938	24,760	5,098	11,652	13,109	134,075	0	8.7%	35,699	10.64	2009
2010	338,295	40,312	3.58	7.00	10.58	35,792	1,443	11,376	25,859	4,693	10,726	15,133	120,966	0	8.9%	37,235	11.01	2010
2011	341,182	37,426	3.58	7.40	10.98	37,462	1,340	11,831	26,971	4,234	9,677	17,293	105,833	0	9.1%	38,802	11.37	2011
2012	344,191	34,416	3.58	7.80	11.38	39,169	1,232	12,304	28,097	3,704	8,467	19,630	88,540	0	9.6%	40,401	11.74	2012
2013	347,328	31,279	3.58	8.30	11.88	41,263	1,120	12,796	29,586	3,099	7,083	22,503	68,909	0	10.3%	42,382	12.20	2013
2014	350,598	28,010	3.58	8.70	12.28	43,053	1,003	13,308	30,748	2,412	5,513	25,235	46,407	0	11.9%	44,056	12.57	2014
2015	354,006	24,601	3.58	9.20	12.78	45,242	881	13,841	32,282	1,624	3,713	21,172	21,172	0	17.5%	46,123	13.03	2015
2016	357,558	21,049	3.58	9.70	13.28	47,484	754	14,394	33,843	741	0	0	0	0	ERR	14,394	4.03	2016
2017	361,262	17,345	3.58	10.09	13.67	49,377	621	14,970	35,028	0	0	0	0	0	ERR	14,970	4.14	2017
2018	365,122	13,485	3.58	10.49	14.07	51,378	483	15,569	36,292	0	0	0	0	0	ERR	15,569	4.26	2018
2019	369,146	9,461	3.58	10.91	14.49	53,494	339	16,192	37,641	0	0	0	0	0	ERR	16,192	4.39	2019
2020	373,340	5,267	3.58	11.35	14.93	55,731	189	16,839	39,080	0	0	0	0	0	ERR	16,839	4.51	2020
2021	377,713	895	3.58	11.80	15.38	58,098	32	17,513	40,617	0	0	0	0	0	ERR	17,513	4.64	2021
2022	378,607	0	3.58	12.27	15.85	60,023	0	18,213	41,810	0	0	0	0	0	ERR	18,213	4.81	2022
2023	378,607	0	3.58	12.76	16.34	61,882	0	18,942	42,940	0	0	0	0	0	ERR	18,942	5.00	2023
2024	378,607	0	3.58	13.28	16.86	63,815	0	19,699	44,115	0	0	0	0	0	ERR	19,699	5.20	2024
2025	378,607	0	3.58	13.81	17.39	65,825	0	20,487	45,338	0	0	0	0	0	ERR	20,487	5.41	2025
2026	378,607	0	3.58	14.36	17.94	67,916	0	21,307	46,609	0	0	0	0	0	ERR	21,307	5.63	2026
2027	378,607	0	3.58	14.93	18.51	70,090	0	22,159	47,931	0	0	0	0	0	ERR	22,159	5.85	2027
2028	378,607	0	3.58	15.53	19.11	72,352	0	23,046	49,306	0	0	0	0	0	ERR	23,046	6.09	2028
2029	378,607	0	3.58	16.15	19.73	74,704	0	23,967	50,736	0	0	0	0	0	ERR	23,967	6.33	2029
2030	378,607	0	3.58	16.80	20.38	77,150	0	24,926	52,224	0	0	0	0	0	ERR	24,926	6.58	2030
2031	378,607	0	3.58	17.47	21.05	79,694	0	25,923	53,770	0	0	0	0	0	ERR	25,923	6.85	2031
2032	378,607	0	3.58	18.17	21.75	82,339	0	26,960	55,379	0	0	0	0	0	ERR	26,960	7.12	2032
2033	378,607	0	3.58	18.89	22.47	85,091	0	28,038	57,052	0	0	0	0	0	ERR	28,038	7.41	2033
2034	378,607	0	3.58	19.65	23.23	87,952	0	29,160	58,792	0	0	0	0	0	ERR	29,160	7.70	2034
2035	378,607	0	3.58	20.44	24.02	90,928	0	30,326	60,602	0	0	0	0	0	ERR	30,326	8.01	2035
2036	378,607	0	3.58	21.25	24.83	94,023	0	31,539	62,483	0	0	0	0	0	ERR	31,539	8.33	2036
2037	378,607	0	3.58	22.10	25.68	97,242	0	32,801	64,441	0	0	0	0	0	ERR	32,801	8.66	2037
	17,156,774	1,423,843				2,312,141	50,263	741,877	1,620,527	178,112	405,419	196,000	4,892,904	1,150	6.5%	1,306,375		

Loan Principal ($=000's)	$196,000
O & M Inflation Rate	4.00%
Rate of Return Floor	3.50%
Rate of Return Ceiling	8.00%
Change in Base Load Forecast	-10.00%

YEAR	FORECAST SALES (MWH)	ADDITIONAL SALES (MWH)	DEBT SVC RATE (CENTS/KWH)	O & M RATE (CENTS/KWH)	TOTAL RATE (CENTS/KWH)	INITIAL REVENUE STREAM ($=000's)	ADDITIONAL REVENUE ($=000's)	O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
—A—	—B—	—C—	—D—	—E—	—F—	—G—	—H—	—I—	—J—	—K—	—L—	—M—	—N—	—O—	—P—	—Q—	—R—	—S—
1986	163,346	10,828	2.64	2.30	4.94	8,069	286	4,438	3,917	6,860	15,680	0	196,000	2,943	3.5%	9,886	6.05	1986
1987	172,293	21,656	2.64	2.80	5.44	9,373	572	4,616	5,329	6,860	15,680	0	196,000	1,531	3.5%	10,572	6.14	1987
1988	179,263	32,484	2.84	2.80	5.64	10,110	923	4,800	6,233	6,960	15,680	0	196,000	627	3.5%	11,033	6.15	1988
1989	185,438	42,312	3.19	2.90	6.09	11,293	1,350	4,992	7,651	6,860	15,680	0	196,000	0	3.9%	12,643	6.82	1989
1990	191,695	54,140	3.58	2.90	6.48	12,422	1,938	5,192	9,168	6,860	15,680	0	196,000	0	4.7%	14,360	7.49	1990
1991	197,160	54,140	3.58	3.00	6.58	12,973	1,938	5,400	9,512	6,860	15,680	0	196,000	0	4.9%	14,911	7.56	1991
1992	204,216	54,140	3.58	3.10	6.68	13,642	1,938	5,615	9,964	6,860	15,680	0	196,000	0	5.1%	15,580	7.63	1992
1993	212,565	54,140	3.58	3.20	6.78	14,412	1,938	5,840	10,510	6,860	15,680	0	196,000	0	5.4%	16,350	7.69	1993
1994	221,304	54,140	3.58	3.30	6.88	15,226	1,938	6,074	11,090	6,860	15,680	0	196,000	0	5.7%	17,164	7.76	1994
1995	229,895	54,140	3.58	3.40	6.98	16,047	1,938	6,317	11,668	6,860	15,680	0	196,000	0	6.0%	17,985	7.82	1995
1996	234,480	54,140	3.58	3.50	7.08	16,601	1,938	6,569	11,970	6,860	15,680	0	196,000	0	6.1%	18,539	7.91	1996
1997	239,307	54,140	3.58	3.60	7.18	17,182	1,938	6,832	12,288	6,860	15,680	0	196,000	0	6.3%	19,120	7.99	1997
1998	244,334	54,140	3.58	3.80	7.38	18,032	1,938	7,105	12,865	6,860	15,680	0	196,000	0	6.6%	19,970	8.17	1998
1999	249,609	54,140	3.58	3.90	7.48	18,671	1,938	7,390	13,219	6,860	15,680	0	196,000	0	6.7%	20,609	8.26	1999
2000	255,139	54,140	3.58	4.10	7.68	19,595	1,938	7,685	13,848	6,860	15,680	0	196,000	0	7.1%	21,533	8.44	2000
2001	259,398	54,140	3.58	4.30	7.88	20,441	1,938	7,993	14,386	6,860	15,680	0	196,000	0	7.3%	22,379	8.63	2001
2002	261,039	54,140	3.58	4.50	8.08	21,092	1,938	8,312	14,718	6,860	15,680	0	196,000	0	7.5%	23,030	8.82	2002
2003	262,733	54,140	3.58	4.70	8.28	21,754	1,938	8,645	15,048	6,860	15,680	0	196,000	0	7.7%	23,693	9.02	2003
2004	264,500	54,140	3.58	5.00	8.58	22,694	1,938	8,991	15,642	6,860	15,680	0	196,000	0	8.0%	24,632	9.31	2004
2005	266,342	54,140	3.58	5.30	8.88	23,651	1,938	9,350	16,239	6,860	15,680	559	196,000	0	8.0%	25,589	9.61	2005
2006	268,260	54,140	3.58	5.60	9.18	24,626	1,938	9,724	16,840	6,860	15,680	1,160	195,441	0	8.0%	26,565	9.90	2006
2007	270,261	54,140	3.58	5.90	9.48	25,621	1,938	10,113	17,446	6,840	15,635	1,811	194,281	0	8.1%	27,559	10.20	2007
2008	272,347	54,140	3.58	6.30	9.88	26,908	1,938	10,518	18,328	6,800	15,542	2,786	192,470	0	8.1%	28,846	10.59	2008
2009	274,521	54,140	3.58	6.60	10.18	27,946	1,938	10,938	18,946	6,736	15,398	3,548	189,684	0	8.1%	29,884	10.89	2009
2010	276,787	54,140	3.58	7.00	10.58	29,284	1,938	11,376	19,846	6,639	15,175	4,672	186,136	0	8.2%	31,222	11.28	2010
2011	279,149	54,140	3.58	7.40	10.98	30,651	1,938	11,831	20,758	6,515	14,891	5,867	181,464	0	8.2%	32,589	11.67	2011
2012	281,611	54,140	3.58	7.80	11.38	32,047	1,938	12,304	21,681	6,351	14,517	7,164	175,597	0	8.3%	33,986	12.07	2012
2013	284,178	54,140	3.58	8.30	11.88	33,760	1,938	12,796	22,902	6,146	14,048	8,854	168,433	0	8.3%	35,699	12.56	2013
2014	286,853	54,140	3.58	8.70	12.28	35,225	1,938	13,308	23,855	5,895	13,475	10,381	159,579	0	8.4%	37,164	12.96	2014
2015	289,642	54,140	3.58	9.20	12.78	37,016	1,938	13,841	25,114	5,585	12,766	12,348	149,198	0	8.6%	38,954	13.45	2015
2016	292,548	54,140	3.58	9.70	13.28	38,850	1,938	14,394	26,394	5,222	11,936	14,459	136,850	0	8.7%	40,789	13.94	2016
2017	295,578	54,140	3.58	10.09	13.67	40,400	1,938	14,970	27,368	4,790	10,948	16,420	122,392	0	8.9%	42,338	14.32	2017
2018	298,736	54,140	3.58	10.49	14.07	42,037	1,938	15,569	28,406	4,284	9,791	18,615	105,972	0	9.2%	43,975	14.72	2018
2019	302,028	54,140	3.58	10.91	14.49	43,767	1,938	16,192	29,514	3,709	8,478	21,036	87,357	0	9.7%	45,706	15.13	2019
2020	305,460	54,140	3.58	11.35	14.93	45,598	1,938	16,839	30,697	3,057	6,989	23,708	66,321	0	10.5%	47,536	15.56	2020
2021	309,038	54,140	3.58	11.80	15.38	47,535	1,938	17,513	31,960	2,321	5,306	26,655	42,612	0	12.5%	49,473	16.01	2021
2022	312,766	54,140	3.58	12.27	15.85	49,585	1,938	18,213	33,310	1,491	3,409	15,958	15,958	0	21.4%	51,523	16.47	2022
2023	316,652	54,140	3.58	12.76	16.34	51,755	1,938	18,942	34,752	559	0	0	0	0	ERR	18,942	5.98	2023
2024	320,704	54,140	3.58	13.28	16.86	54,055	1,938	19,699	36,294	0	0	0	0	0	ERR	19,699	6.14	2024
2025	324,927	53,680	3.58	13.81	17.39	56,492	1,922	20,487	37,927	0	0	0	0	0	ERR	20,487	6.31	2025
2026	329,329	49,278	3.58	14.36	17.94	59,076	1,764	21,307	39,533	0	0	0	0	0	ERR	21,307	6.47	2026
2027	333,917	44,690	3.58	14.93	18.51	61,817	1,600	22,159	41,258	0	0	0	0	0	ERR	22,159	6.64	2027
2028	338,701	39,906	3.58	15.53	19.11	64,726	1,429	23,046	43,109	0	0	0	0	0	ERR	23,046	6.80	2028
2029	340,746	37,861	3.58	16.15	19.73	67,233	1,355	23,967	44,621	0	0	0	0	0	ERR	23,967	7.01	2029
2030	340,746	37,861	3.58	16.80	20.38	69,435	1,355	24,926	45,864	0	0	0	0	0	ERR	24,926	7.32	2030
2031	340,746	37,861	3.58	17.47	21.05	71,724	1,355	25,923	47,156	0	0	0	0	0	ERR	25,923	7.61	2031
2032	340,746	37,861	3.58	18.17	21.75	74,105	1,355	26,960	48,501	0	0	0	0	0	ERR	26,960	7.91	2032
2033	340,746	37,861	3.58	18.89	22.47	76,581	1,355	28,038	49,898	0	0	0	0	0	ERR	28,038	8.23	2033
2034	340,746	37,861	3.58	19.65	23.23	79,157	1,355	29,160	51,352	0	0	0	0	0	ERR	29,160	8.56	2034
2035	340,746	37,861	3.58	20.44	24.02	81,835	1,355	30,326	52,864	0	0	0	0	0	ERR	30,326	8.90	2035
2036	340,746	37,861	3.58	21.25	24.83	84,621	1,355	31,539	54,437	0	0	0	0	0	ERR	31,539	9.26	2036
2037	340,746	37,861	3.58	22.10	25.68	87,517	1,355	32,801	56,072	0	0	0	0	0	ERR	32,801	9.67	2037
	14,424,764	2,530,481				1,974,266	89,880	741,877	1,322,270	227,001	517,583	196,000	6,289,744	5,101	6.3%	1,382,667		

Loan Principal ($=000's)	$196,000
O & M Inflation Rate	4.00%
Rate of Return Floor	3.50%
Rate of Return Ceiling	8.00%
Change in Base Load Forecast	10.00%

YEAR	FORECAST SALES (MWH)	ADDITIONAL SALES (MWH)	DEBT SVC RATE (CENTS/KWH)	O & M RATE (CENTS/KWH)	TOTAL RATE (CENTS/KWH)	INITIAL REVENUE STREAM ($=000's)	ADDITIONAL REVENUE ($=000's)	O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)
1986	199,646	0	2.64	2.30	4.94	9,862	0	4,438	5,424	6,860	15,680
1987	210,591	0	2.64	2.80	5.44	11,456	0	4,616	6,840	6,860	15,680
1988	219,099	0	2.84	2.80	5.64	12,357	0	4,800	7,557	6,860	15,680
1989	226,646	0	3.19	2.90	6.09	13,803	0	4,992	8,811	6,860	15,680
1990	234,293	0	3.58	2.90	6.48	15,182	0	5,192	9,990	6,860	15,680
1991	240,974	0	3.58	3.00	6.58	15,856	0	5,400	10,457	6,860	15,680
1992	249,598	0	3.58	3.10	6.68	16,673	0	5,615	11,058	6,860	15,680
1993	259,801	0	3.58	3.20	6.78	17,615	0	5,840	11,774	6,860	15,680
1994	270,482	0	3.58	3.30	6.88	18,609	0	6,074	12,535	6,860	15,680
1995	280,983	0	3.58	3.40	6.98	19,613	0	6,317	13,296	6,860	15,680
1996	286,586	0	3.58	3.50	7.08	20,290	0	6,569	13,721	6,860	15,680
1997	292,487	0	3.58	3.60	7.18	21,001	0	6,832	14,168	6,860	15,680
1998	298,630	0	3.58	3.80	7.38	22,039	0	7,105	14,934	6,860	15,680
1999	305,077	0	3.58	3.90	7.48	22,820	0	7,390	15,430	6,860	15,680
2000	311,837	0	3.58	4.10	7.68	23,949	0	7,685	16,264	6,860	15,680
2001	317,042	0	3.58	4.30	7.88	24,983	0	7,993	16,990	6,860	15,680
2002	319,047	0	3.58	4.50	8.08	25,779	0	8,312	17,467	6,840	15,633
2003	321,119	0	3.58	4.70	8.28	26,589	0	8,645	17,944	6,794	15,528
2004	323,278	0	3.58	5.00	8.58	27,737	0	8,991	18,747	6,730	15,382
2005	325,529	0	3.58	5.30	8.88	28,907	0	9,350	19,557	6,645	15,189
2006	327,874	0	3.58	5.60	9.18	30,099	0	9,724	20,375	6,527	14,919
2007	330,319	0	3.58	5.90	9.48	31,314	0	10,113	21,201	6,374	14,570
2008	332,869	0	3.58	6.30	9.88	32,887	0	10,518	22,370	6,183	14,133
2009	335,525	0	3.58	6.60	10.18	34,156	0	10,938	23,218	5,951	13,603
2010	338,295	0	3.58	7.00	10.58	35,792	0	11,376	24,416	5,663	12,944
2011	341,182	0	3.58	7.40	10.98	37,462	0	11,831	25,631	5,327	12,175
2012	344,191	0	3.58	7.80	11.38	39,169	0	12,304	26,865	4,925	11,257
2013	347,328	0	3.58	8.30	11.88	41,263	0	12,796	28,466	4,454	10,181
2014	350,598	0	3.58	8.70	12.28	43,053	0	13,308	29,745	3,908	8,932
2015	354,006	0	3.58	9.20	12.78	45,242	0	13,841	31,401	3,268	7,469
2016	357,558	0	3.58	9.70	13.28	47,484	0	14,394	33,090	2,539	5,804
2017	361,262	0	3.58	10.09	13.67	49,377	0	14,970	34,407	1,702	3,890
2018	365,122	0	3.58	10.49	14.07	51,378	0	15,569	35,809	747	0
2019	369,146	0	3.58	10.91	14.49	53,494	0	16,192	37,302	0	0
2020	373,340	0	3.58	11.35	14.93	55,731	0	16,839	38,892	0	0
2021	377,713	0	3.58	11.80	15.38	58,098	0	17,513	40,585	0	0
2022	378,607	0	3.58	12.27	15.85	60,023	0	18,213	41,810	0	0
2023	378,607	0	3.58	12.76	16.34	61,882	0	18,942	42,940	0	0
2024	378,607	0	3.58	13.28	16.86	63,815	0	19,699	44,115	0	0
2025	378,607	0	3.58	13.81	17.39	65,825	0	20,487	45,338	0	0
2026	378,607	0	3.58	14.36	17.94	67,916	0	21,307	46,609	0	0
2027	378,607	0	3.58	14.93	18.51	70,090	0	22,159	47,931	0	0
2028	378,607	0	3.58	15.53	19.11	72,352	0	23,046	49,306	0	0
2029	378,607	0	3.58	16.15	19.73	74,704	0	23,967	50,736	0	0
2030	378,607	0	3.58	16.80	20.38	77,150	0	24,926	52,224	0	0
2031	378,607	0	3.58	17.47	21.05	79,694	0	25,923	53,770	0	0
2032	378,607	0	3.58	18.17	21.75	82,339	0	26,960	55,379	0	0
2033	378,607	0	3.58	18.89	22.47	85,091	0	28,038	57,052	0	0
2034	378,607	0	3.58	19.65	23.23	87,952	0	29,160	58,792	0	0
2035	378,607	0	3.58	20.44	24.02	90,928	0	30,326	60,602	0	0
2036	378,607	0	3.58	21.25	24.83	94,023	0	31,539	62,483	0	0
2037	378,607	0	3.58	22.10	25.68	97,242	0	32,801	64,441	0	0
	17,156,774	0				2,312,141	0	741,877	1,570,264	194,336	442,490

ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
0	196,000	1,436	3.5%	9,382	4.95	1986
0	196,000	20	3.5%	11,456	5.44	1987
0	196,000	0	3.9%	12,357	5.64	1988
0	196,000	0	4.5%	13,803	6.09	1989
0	196,000	0	5.1%	15,182	6.48	1990
0	196,000	0	5.3%	15,856	6.58	1991
0	196,000	0	5.6%	16,673	6.68	1992
0	196,000	0	6.0%	17,615	6.78	1993
0	196,000	0	6.4%	18,609	6.88	1994
0	196,000	0	6.8%	19,613	6.98	1995
0	196,000	0	7.0%	20,290	7.08	1996
0	196,000	0	7.2%	21,001	7.18	1997
0	196,000	0	7.6%	22,039	7.38	1998
0	196,000	0	7.9%	22,820	7.48	1999
584	196,000	0	8.0%	23,949	7.68	2000
1,310	195,416	0	8.0%	24,983	7.88	2001
1,833	194,106	0	8.1%	25,779	8.08	2002
2,415	192,272	0	8.1%	26,589	8.28	2003
3,365	189,857	0	8.1%	27,737	8.58	2004
4,368	186,492	0	8.1%	28,907	8.88	2005
5,455	182,124	0	8.2%	30,099	9.18	2006
6,631	176,669	0	8.2%	31,314	9.48	2007
8,236	170,038	0	8.3%	32,887	9.88	2008
9,615	161,801	0	8.4%	34,156	10.18	2009
11,472	152,186	0	8.5%	35,792	10.58	2010
13,456	140,715	0	8.7%	37,462	10.98	2011
15,608	127,259	0	8.8%	39,169	11.38	2012
18,286	111,651	0	9.1%	41,263	11.88	2013
20,813	93,366	0	9.6%	43,053	12.28	2014
23,932	72,553	0	10.3%	45,242	12.78	2015
27,285	48,621	0	11.9%	47,484	13.28	2016
21,335	21,335	0	18.2%	49,377	13.67	2017
0	0	0	ERR	15,569	4.26	2018
0	0	0	ERR	16,192	4.39	2019
0	0	0	ERR	16,839	4.51	2020
0	0	0	ERR	17,513	4.64	2021
0	0	0	ERR	18,213	4.81	2022
0	0	0	ERR	18,942	5.00	2023
0	0	0	ERR	19,699	5.20	2024
0	0	0	ERR	20,487	5.41	2025
0	0	0	ERR	21,307	5.63	2026
0	0	0	ERR	22,159	5.85	2027
0	0	0	ERR	23,046	6.09	2028
0	0	0	ERR	23,967	6.33	2029
0	0	0	ERR	24,926	6.58	2030
0	0	0	ERR	25,923	6.85	2031
0	0	0	ERR	26,960	7.12	2032
0	0	0	ERR	28,038	7.41	2033
0	0	0	ERR	29,160	7.70	2034
0	0	0	ERR	30,326	8.01	2035
0	0	0	ERR	31,539	8.33	2036
0	0	0	ERR	32,801	8.66	2037
196,000	5,358,460	1,455	6.4%	1,326,045		

Loan Principal ($=000's)	$196,000
O & M Inflation Rate	4.00%
Rate of Return Floor	3.50%
Rate of Return Ceiling	8.00%
Change in Base Load Forecast	-10.00%

YEAR	FORECAST SALES (MWH)	ADDITIONAL SALES (MWH)	DEBT SVC RATE (CENTS/KWH)	O & M RATE (CENTS/KWH)	TOTAL RATE (CENTS/KWH)	INITIAL REVENUE STREAM ($=000's)	ADDITIONAL REVENUE ($=000's)	O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
1986	163,346	0	2.64	2.30	4.94	8,069	0	4,438	3,631	6,860	15,680	0	196,000	3,229	3.5%	10,172	6.23	1986
1987	172,293	0	2.64	2.80	5.44	9,373	0	4,616	4,757	6,860	15,680	0	196,000	2,103	3.5%	10,922	6.34	1987
1988	179,263	0	2.84	2.80	5.64	10,110	0	4,800	5,310	6,860	15,680	0	196,000	1,550	3.5%	10,669	5.95	1988
1989	185,438	0	3.19	2.90	6.09	11,293	0	4,992	6,301	6,860	15,680	0	196,000	559	3.5%	11,293	6.09	1989
1990	191,695	0	3.58	2.90	6.48	12,422	0	5,192	7,230	6,860	15,680	0	196,000	0	3.7%	12,422	6.48	1990
1991	197,160	0	3.58	3.00	6.58	12,973	0	5,400	7,574	6,860	15,680	0	196,000	0	3.9%	12,973	6.58	1991
1992	204,216	0	3.58	3.10	6.68	13,642	0	5,615	8,026	6,860	15,680	0	196,000	0	4.1%	13,642	6.68	1992
1993	212,565	0	3.58	3.20	6.78	14,412	0	5,840	8,572	6,860	15,680	0	196,000	0	4.4%	14,412	6.78	1993
1994	221,304	0	3.58	3.30	6.88	15,226	0	6,074	9,152	6,860	15,680	0	196,000	0	4.7%	15,226	6.88	1994
1995	229,895	0	3.58	3.40	6.98	16,047	0	6,317	9,730	6,860	15,680	0	196,000	0	5.0%	16,047	6.98	1995
1996	234,480	0	3.58	3.50	7.08	16,601	0	6,569	10,032	6,860	15,680	0	196,000	0	5.1%	16,601	7.08	1996
1997	239,307	0	3.58	3.60	7.18	17,182	0	6,832	10,350	6,860	15,680	0	196,000	0	5.3%	17,182	7.18	1997
1998	244,334	0	3.58	3.80	7.38	18,032	0	7,105	10,926	6,860	15,680	0	196,000	0	5.6%	18,032	7.38	1998
1999	249,609	0	3.58	3.90	7.48	18,671	0	7,390	11,281	6,860	15,680	0	196,000	0	5.8%	18,671	7.48	1999
2000	255,139	0	3.58	4.10	7.68	19,595	0	7,685	11,910	6,860	15,680	0	196,000	0	6.1%	19,595	7.68	2000
2001	259,398	0	3.58	4.30	7.88	20,441	0	7,993	12,448	6,860	15,680	0	196,000	0	6.4%	20,441	7.88	2001
2002	261,039	0	3.58	4.50	8.08	21,092	0	8,312	12,780	6,860	15,680	0	196,000	0	6.5%	21,092	8.08	2002
2003	262,733	0	3.58	4.70	8.28	21,754	0	8,645	13,110	6,860	15,680	0	196,000	0	6.7%	21,754	8.28	2003
2004	264,500	0	3.58	5.00	8.58	22,694	0	8,991	13,704	6,860	15,680	0	196,000	0	7.0%	22,694	8.58	2004
2005	266,342	0	3.58	5.30	8.88	23,651	0	9,350	14,301	6,860	15,680	0	196,000	0	7.3%	23,651	8.88	2005
2006	268,260	0	3.58	5.60	9.18	24,626	0	9,724	14,902	6,860	15,680	0	196,000	0	7.6%	24,626	9.18	2006
2007	270,261	0	3.58	5.90	9.48	25,621	0	10,113	15,508	6,860	15,680	0	196,000	0	7.9%	25,621	9.48	2007
2008	272,347	0	3.58	6.30	9.88	26,908	0	10,518	16,390	6,860	15,680	710	196,000	0	8.0%	26,908	9.88	2008
2009	274,521	0	3.58	6.60	10.18	27,946	0	10,938	17,008	6,860	15,680	1,328	195,290	0	8.0%	27,946	10.18	2009
2010	276,787	0	3.58	7.00	10.58	29,284	0	11,376	17,908	6,835	15,623	2,285	193,962	0	8.1%	29,284	10.58	2010
2011	279,149	0	3.58	7.40	10.98	30,651	0	11,831	18,820	6,789	15,517	3,303	191,677	0	8.1%	30,651	10.98	2011
2012	281,611	0	3.58	7.80	11.38	32,047	0	12,304	19,743	6,709	15,334	4,409	188,375	0	8.1%	32,047	11.38	2012
2013	284,178	0	3.58	8.30	11.88	33,760	0	12,796	20,964	6,593	15,070	5,894	183,966	0	8.2%	33,760	11.88	2013
2014	286,853	0	3.58	8.70	12.28	35,225	0	13,308	21,917	6,439	14,717	7,200	178,072	0	8.3%	35,225	12.28	2014
2015	289,642	0	3.58	9.20	12.78	37,016	0	13,841	23,176	6,233	14,246	8,930	170,872	0	8.3%	37,016	12.78	2015
2016	292,548	0	3.58	9.70	13.28	38,850	0	14,394	24,456	5,981	13,670	10,786	161,942	0	8.4%	38,850	13.28	2016
2017	295,578	0	3.58	10.09	13.67	40,400	0	14,970	25,430	5,668	12,955	12,474	151,155	0	8.6%	40,400	13.67	2017
2018	298,736	0	3.58	10.49	14.07	42,037	0	15,569	26,468	5,290	12,092	14,376	138,681	0	8.7%	42,037	14.07	2018
2019	302,028	0	3.58	10.91	14.49	43,767	0	16,192	27,576	4,854	11,094	16,481	124,305	0	8.9%	43,767	14.49	2019
2020	305,460	0	3.58	11.35	14.93	45,598	0	16,839	28,759	4,351	9,944	18,814	107,824	0	9.2%	45,598	14.93	2020
2021	309,038	0	3.58	11.80	15.38	47,535	0	17,513	30,022	3,774	8,626	21,396	89,010	0	9.7%	47,535	15.38	2021
2022	312,766	0	3.58	12.27	15.85	49,585	0	18,213	31,371	3,115	7,121	24,251	67,614	0	10.5%	49,585	15.85	2022
2023	316,652	0	3.58	12.76	16.34	51,755	0	18,942	32,814	2,366	5,409	27,404	43,363	0	12.5%	51,755	16.34	2023
2024	320,704	0	3.58	13.28	16.86	54,055	0	19,699	34,356	1,518	3,469	15,959	15,959	0	21.7%	54,055	16.86	2024
2025	324,927	0	3.58	13.81	17.39	56,492	0	20,487	36,005	559	0	0	0	0	ERR	20,487	6.31	2025
2026	329,329	0	3.58	14.36	17.94	59,076	0	21,307	37,769	0	0	0	0	0	ERR	21,307	6.47	2026
2027	333,917	0	3.58	14.93	18.51	61,817	0	22,159	39,658	0	0	0	0	0	ERR	22,159	6.64	2027
2028	338,701	0	3.58	15.53	19.11	64,726	0	23,046	41,680	0	0	0	0	0	ERR	23,046	6.80	2028
2029	340,746	0	3.58	16.15	19.73	67,233	0	23,967	43,266	0	0	0	0	0	ERR	23,967	7.03	2029
2030	340,746	0	3.58	16.80	20.38	69,435	0	24,926	44,509	0	0	0	0	0	ERR	24,926	7.32	2030
2031	340,746	0	3.58	17.47	21.05	71,724	0	25,923	45,801	0	0	0	0	0	ERR	25,923	7.61	2031
2032	340,746	0	3.58	18.17	21.75	74,105	0	26,960	47,145	0	0	0	0	0	ERR	26,960	7.91	2032
2033	340,746	0	3.58	18.89	22.47	76,581	0	28,038	48,543	0	0	0	0	0	ERR	28,038	8.23	2033
2034	340,746	0	3.58	19.65	23.23	79,157	0	29,160	49,997	0	0	0	0	0	ERR	29,160	8.56	2034
2035	340,746	0	3.58	20.44	24.02	81,835	0	30,326	51,509	0	0	0	0	0	ERR	30,326	8.90	2035
2036	340,746	0	3.58	21.25	24.83	84,621	0	31,539	53,081	0	0	0	0	0	ERR	31,539	9.26	2036
2037	340,746	0	3.58	22.10	25.68	87,517	0	32,801	54,716	0	0	0	0	0	ERR	32,801	9.63	2037
	14,424,764	0				1,974,266	0	741,877	1,232,389	241,712	551,208	196,000	6,710,065	7,440	6.0%	1,384,799		

Loan Principal ($=000's)	$196,000
O & M Inflation Rate	6.00%
Rate of Return Floor	3.50%
Rate of Return Ceiling	8.00%
Change in Base Load Forecast	0.00%

YEAR	FORECAST SALES (MWH)	ADDITIONAL SALES (MWH)	DEBT SVC RATE (CENTS/KWH)	O & M RATE (CENTS/KWH)	TOTAL RATE (CENTS/KWH)	INITIAL REVENUE STREAM ($=000's)	ADDITIONAL REVENUE ($=000's)	O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)
	-B-	-C-	-D-	-E-	-F-	-G-	-H-	-I-	-J-	-K-	-L-
1986	181,496	0	2.64	2.30	4.94	8,966	0	4,438	4,528	6,860	15,680
1987	191,437	0	2.64	2.80	5.44	10,414	0	4,704	5,710	6,860	15,680
1988	199,181	0	2.84	2.80	5.64	11,234	0	4,987	6,247	6,860	15,680
1989	206,042	0	3.19	2.90	6.09	12,548	0	5,286	7,262	6,860	15,680
1990	212,994	0	3.58	2.90	6.48	13,802	0	5,603	8,199	6,860	15,680
1991	219,067	0	3.58	3.00	6.58	14,415	0	5,939	8,476	6,860	15,680
1992	226,907	0	3.58	3.10	6.68	15,157	0	6,295	8,862	6,860	15,680
1993	236,183	0	3.58	3.20	6.78	16,013	0	6,673	9,340	6,860	15,680
1994	245,893	0	3.58	3.30	6.88	16,917	0	7,073	9,844	6,860	15,680
1995	255,439	0	3.58	3.40	6.98	17,830	0	7,498	10,332	6,860	15,680
1996	260,533	0	3.58	3.50	7.08	18,446	0	7,948	10,498	6,860	15,680
1997	265,897	0	3.58	3.60	7.18	19,091	0	8,425	10,667	6,860	15,680
1998	271,482	0	3.58	3.80	7.38	20,035	0	8,930	11,105	6,860	15,680
1999	277,343	0	3.58	3.90	7.48	20,745	0	9,466	11,279	6,860	15,680
2000	283,488	0	3.58	4.10	7.68	21,772	0	10,034	11,738	6,860	15,680
2001	288,220	0	3.58	4.30	7.88	22,712	0	10,636	12,076	6,860	15,680
2002	290,043	0	3.58	4.50	8.08	23,435	0	11,274	12,161	6,860	15,680
2003	291,926	0	3.58	4.70	8.28	24,171	0	11,951	12,221	6,860	15,680
2004	293,889	0	3.58	5.00	8.58	25,216	0	12,668	12,548	6,860	15,680
2005	295,935	0	3.58	5.30	8.88	26,279	0	13,428	12,851	6,860	15,680
2006	298,067	0	3.58	5.60	9.18	27,363	0	14,233	13,129	6,860	15,680
2007	300,290	0	3.58	5.90	9.48	28,467	0	15,087	13,380	6,860	15,680
2008	302,608	0	3.58	6.30	9.88	29,898	0	15,992	13,905	6,860	15,680
2009	305,023	0	3.58	6.60	10.18	31,051	0	16,952	14,099	6,860	15,680
2010	307,541	0	3.58	7.00	10.58	32,538	0	17,969	14,569	6,860	15,680
2011	310,165	0	3.58	7.40	10.98	34,056	0	19,047	15,009	6,860	15,680
2012	312,901	0	3.58	7.80	11.38	35,608	0	20,190	15,418	6,860	15,680
2013	315,753	0	3.58	8.30	11.88	37,511	0	21,402	16,110	6,860	15,680
2014	318,725	0	3.58	8.70	12.28	39,139	0	22,686	16,454	6,860	15,680
2015	321,824	0	3.58	9.20	12.78	41,129	0	24,047	17,082	6,845	15,646
2016	325,053	0	3.58	9.70	13.28	43,167	0	25,490	17,677	6,818	15,584
2017	328,420	0	3.58	10.09	13.67	44,888	0	27,019	17,869	6,768	15,469
2018	331,929	0	3.58	10.49	14.07	46,707	0	28,640	18,067	6,694	15,301
2019	335,587	0	3.58	10.91	14.49	48,631	0	30,359	18,272	6,610	15,109
2020	339,400	0	3.58	11.35	14.93	50,664	0	32,180	18,484	6,513	14,888
2021	343,375	0	3.58	11.80	15.38	52,816	0	34,111	18,705	6,403	14,635
2022	347,518	0	3.58	12.27	15.85	55,094	0	36,158	18,937	6,277	14,347
2023	351,836	0	3.58	12.76	16.34	57,506	0	38,327	19,179	6,134	14,022
2024	356,338	0	3.58	13.28	16.86	60,061	0	40,627	19,435	5,974	13,654
2025	361,030	0	3.58	13.81	17.39	62,769	0	43,064	19,705	5,793	13,242
2026	365,921	0	3.58	14.36	17.94	65,640	0	45,648	19,992	5,591	12,779
2027	371,019	0	3.58	14.93	18.51	68,686	0	48,387	20,299	5,365	12,262
2028	376,334	0	3.58	15.53	19.11	71,917	0	51,290	20,627	5,112	11,685
2029	378,607	0	3.58	16.15	19.73	74,704	0	54,368	20,336	4,831	11,042
2030	378,607	0	3.58	16.80	20.38	77,150	0	57,630	19,520	4,518	10,327
2031	378,607	0	3.58	17.47	21.05	79,694	0	61,087	18,606	4,193	9,584
2032	378,607	0	3.58	18.17	21.75	82,339	0	64,753	17,587	3,871	8,848
2033	378,607	0	3.58	18.89	22.47	85,091	0	68,638	16,453	3,555	8,126
2034	378,607	0	3.58	19.65	23.23	87,952	0	72,756	15,196	3,249	7,427
2035	378,607	0	3.58	20.44	24.02	90,928	0	77,121	13,807	2,958	6,761
2036	378,607	0	3.58	21.25	24.83	94,023	0	81,749	12,274	2,686	6,140
2037	378,607	0	3.58	22.10	25.68	97,242	0	86,654	10,588	2,439	5,576
	16,027,515	0				2,193,829	0	1,456,913	736,716	318,139	727,175

ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
-M-	-N-	-O-	-P-	-Q-	-R-	-S-
0	196,000	2,332	3.5%	10,116	5.57	1986
0	196,000	1,150	3.5%	11,027	5.76	1987
0	196,000	613	3.5%	11,234	5.64	1988
0	196,000	0	3.7%	12,548	6.09	1989
0	196,000	0	4.2%	13,802	6.48	1990
0	196,000	0	4.3%	14,415	6.58	1991
0	196,000	0	4.5%	15,157	6.68	1992
0	196,000	0	4.8%	16,013	6.78	1993
0	196,000	0	5.0%	16,917	6.88	1994
0	196,000	0	5.3%	17,830	6.98	1995
0	196,000	0	5.4%	18,446	7.08	1996
0	196,000	0	5.4%	19,091	7.18	1997
0	196,000	0	5.7%	20,035	7.38	1998
0	196,000	0	5.8%	20,745	7.48	1999
0	196,000	0	6.0%	21,772	7.68	2000
0	196,000	0	6.2%	22,712	7.88	2001
0	196,000	0	6.2%	23,435	8.08	2002
0	196,000	0	6.2%	24,171	8.28	2003
0	196,000	0	6.4%	25,216	8.58	2004
0	196,000	0	6.6%	26,279	8.88	2005
0	196,000	0	6.7%	27,363	9.18	2006
0	196,000	0	6.8%	28,467	9.48	2007
0	196,000	0	7.1%	29,898	9.88	2008
0	196,000	0	7.2%	31,051	10.18	2009
0	196,000	0	7.4%	32,538	10.58	2010
0	196,000	0	7.7%	34,056	10.98	2011
0	196,000	0	7.9%	35,608	11.38	2012
430	196,000	0	8.0%	37,511	11.88	2013
774	195,570	0	8.0%	39,139	12.28	2014
1,417	194,796	0	8.0%	41,129	12.78	2015
2,094	193,360	0	8.1%	43,167	13.28	2016
2,401	191,266	0	8.1%	44,888	13.67	2017
2,766	188,865	0	8.1%	46,707	14.07	2018
3,163	186,099	0	8.1%	48,631	14.49	2019
3,596	182,936	0	8.1%	50,664	14.93	2020
4,071	179,340	0	8.2%	52,816	15.38	2021
4,589	175,269	0	8.2%	55,094	15.85	2022
5,157	170,680	0	8.2%	57,506	16.34	2023
5,780	165,523	0	8.2%	60,061	16.86	2024
6,463	159,742	0	8.3%	62,769	17.39	2025
7,213	153,279	0	8.3%	65,640	17.94	2026
8,036	146,066	0	8.4%	68,686	18.51	2027
8,942	138,030	0	8.5%	71,917	19.11	2028
9,294	129,088	0	8.6%	74,704	19.73	2029
9,193	119,794	0	8.6%	77,150	20.38	2030
9,023	110,601	0	8.7%	79,694	21.05	2031
8,738	101,578	0	8.7%	82,339	21.75	2032
8,327	92,840	0	8.8%	85,091	22.47	2033
7,769	84,513	0	8.8%	87,952	23.23	2034
7,045	76,745	0	8.8%	90,928	24.02	2035
6,135	69,699	0	8.8%	94,023	24.83	2036
5,012	63,564	0	8.8%	97,242	25.68	2037
137,448	8,957,246	4,095	5.4%	2,195,392		

Loan Principal ($=000's)	$196,000
O & M Inflation Rate	8.00%
Rate of Return Floor	3.50%
Rate of Return Ceiling	8.00%
Change in Base Load Forecast	0.00%

YEAR	FORECAST SALES (MWH)	ADDITIONAL SALES (MWH)	DEBT SVC RATE (CENTS/KWH)	O & M RATE (CENTS/KWH)	TOTAL RATE (CENTS/KWH)	INITIAL REVENUE STREAM ($=000's)	ADDITIONAL REVENUE ($=000's)	O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
1986	181,496	0	2.64	2.30	4.94	8,966	0	4,438	4,528	6,860	15,680	0	196,000	2,332	3.5%	10,205	5.62	1986
1987	191,437	0	2.64	2.80	5.44	10,414	0	4,793	5,621	6,860	15,680	0	196,000	1,239	3.5%	11,217	5.86	1987
1988	199,181	0	2.84	2.80	5.64	11,234	0	5,176	6,057	6,860	15,680	0	196,000	803	3.5%	11,234	5.64	1988
1989	206,042	0	3.19	2.90	6.09	12,548	0	5,591	6,957	6,860	15,680	0	196,000	0	3.5%	12,548	6.09	1989
1990	212,994	0	3.58	2.90	6.48	13,802	0	6,038	7,764	6,860	15,680	0	196,000	0	4.0%	13,802	6.48	1990
1991	219,067	0	3.58	3.00	6.58	14,415	0	6,521	7,894	6,860	15,680	0	196,000	0	4.0%	14,415	6.58	1991
1992	226,907	0	3.58	3.10	6.68	15,157	0	7,043	8,115	6,860	15,680	0	196,000	0	4.1%	15,157	6.68	1992
1993	236,183	0	3.58	3.20	6.78	16,013	0	7,606	8,407	6,860	15,680	0	196,000	0	4.3%	16,013	6.78	1993
1994	245,893	0	3.58	3.30	6.88	16,917	0	8,214	8,703	6,860	15,680	0	196,000	0	4.4%	16,917	6.88	1994
1995	255,439	0	3.58	3.40	6.98	17,830	0	8,872	8,958	6,860	15,680	0	196,000	0	4.6%	17,830	6.98	1995
1996	260,533	0	3.58	3.50	7.08	18,446	0	9,581	8,864	6,860	15,680	0	196,000	0	4.5%	18,446	7.08	1996
1997	265,897	0	3.58	3.60	7.18	19,091	0	10,348	8,744	6,860	15,680	0	196,000	0	4.5%	19,091	7.18	1997
1998	271,482	0	3.58	3.80	7.38	20,035	0	11,176	8,860	6,860	15,680	0	196,000	0	4.5%	20,035	7.38	1998
1999	277,343	0	3.58	3.90	7.48	20,745	0	12,070	8,676	6,860	15,680	0	196,000	0	4.4%	20,745	7.48	1999
2000	283,498	0	3.58	4.10	7.68	21,772	0	13,035	8,737	6,860	15,680	0	196,000	0	4.5%	21,772	7.68	2000
2001	288,220	0	3.58	4.30	7.88	22,712	0	14,078	8,634	6,860	15,680	0	196,000	0	4.4%	22,712	7.88	2001
2002	290,043	0	3.58	4.50	8.08	23,435	0	15,204	8,231	6,860	15,680	0	196,000	0	4.2%	23,435	8.08	2002
2003	291,926	0	3.58	4.70	8.28	24,171	0	16,421	7,751	6,860	15,680	0	196,000	0	4.0%	24,171	8.28	2003
2004	293,889	0	3.58	5.00	8.58	25,216	0	17,734	7,481	6,860	15,680	0	196,000	0	3.8%	25,216	8.58	2004
2005	295,935	0	3.58	5.30	8.88	26,279	0	19,153	7,126	6,860	15,680	0	196,000	0	3.6%	26,462	8.94	2005
2006	298,067	0	3.58	5.60	9.18	27,363	0	20,685	6,677	6,860	15,680	0	196,000	183	3.5%	28,095	9.43	2006
2007	300,290	0	3.58	5.90	9.48	28,467	0	22,340	6,127	6,860	15,680	0	196,000	733	3.5%	29,557	9.84	2007
2008	302,608	0	3.58	6.30	9.88	29,898	0	24,127	5,770	6,860	15,680	0	196,000	1,090	3.5%	31,764	10.50	2008
2009	305,023	0	3.58	6.60	10.18	31,051	0	26,058	4,994	6,860	15,680	0	196,000	1,866	3.5%	33,516	10.99	2009
2010	307,541	0	3.58	7.00	10.58	32,538	0	28,142	4,396	6,860	15,680	0	196,000	2,464	3.5%	35,735	11.62	2010
2011	310,165	0	3.58	7.40	10.98	34,056	0	30,394	3,663	6,860	15,680	0	196,000	3,197	3.5%	38,133	12.29	2011
2012	312,901	0	3.58	7.80	11.38	35,608	0	32,825	2,783	6,860	15,680	0	196,000	4,077	3.5%	40,408	12.91	2012
2013	315,753	0	3.58	8.30	11.88	37,511	0	35,451	2,060	6,860	15,680	0	196,000	4,800	3.5%	43,519	13.78	2013
2014	318,725	0	3.58	8.70	12.28	39,139	0	38,287	852	6,860	15,680	0	196,000	6,008	3.5%	45,999	14.43	2014
2015	321,824	0	3.58	9.20	12.78	41,129	0	41,350	0	6,860	15,680	0	196,000	6,860	3.5%	47,989	14.91	2015
2016	325,053	0	3.58	9.70	13.28	43,167	0	44,658	0	6,860	15,680	0	196,000	6,860	3.5%	50,027	15.39	2016
2017	328,420	0	3.58	10.09	13.67	44,888	0	48,231	0	6,860	15,680	0	196,000	6,860	3.5%	51,748	15.76	2017
2018	331,929	0	3.58	10.49	14.07	46,707	0	52,089	0	6,860	15,680	0	196,000	6,860	3.5%	53,567	16.14	2018
2019	335,587	0	3.58	10.91	14.49	48,631	0	56,256	0	6,860	15,680	0	196,000	6,860	3.5%	55,491	16.54	2019
2020	339,400	0	3.58	11.35	14.93	50,664	0	60,757	0	6,860	15,680	0	196,000	6,860	3.5%	57,524	16.95	2020
2021	343,375	0	3.58	11.80	15.38	52,816	0	65,617	0	6,860	15,680	0	196,000	6,860	3.5%	59,676	17.38	2021
2022	347,518	0	3.58	12.27	15.85	55,094	0	70,867	0	6,860	15,680	0	196,000	6,860	3.5%	61,954	17.83	2022
2023	351,836	0	3.58	12.76	16.34	57,506	0	76,536	0	6,860	15,680	0	196,000	6,860	3.5%	64,366	18.29	2023
2024	356,338	0	3.58	13.28	16.86	60,061	0	82,659	0	6,860	15,680	0	196,000	6,860	3.5%	66,921	18.78	2024
2025	361,030	0	3.58	13.81	17.39	62,769	0	89,272	0	6,860	15,680	0	196,000	6,860	3.5%	69,629	19.29	2025
2026	365,921	0	3.58	14.36	17.94	65,640	0	96,413	0	6,860	15,680	0	196,000	6,860	3.5%	72,500	19.81	2026
2027	371,019	0	3.58	14.93	18.51	68,686	0	104,127	0	6,860	15,680	0	196,000	6,860	3.5%	75,546	20.36	2027
2028	376,334	0	3.58	15.53	19.11	71,917	0	112,457	0	6,860	15,680	0	196,000	6,860	3.5%	78,777	20.93	2028
2029	378,607	0	3.58	16.15	19.73	74,704	0	121,453	0	6,860	15,680	0	196,000	6,860	3.5%	81,564	21.54	2029
2030	378,607	0	3.58	16.80	20.38	77,150	0	131,169	0	6,860	15,680	0	196,000	6,860	3.5%	84,010	22.19	2030
2031	378,607	0	3.58	17.47	21.05	79,694	0	141,663	0	6,860	15,680	0	196,000	6,860	3.5%	86,554	22.86	2031
2032	378,607	0	3.58	18.17	21.75	82,339	0	152,996	0	6,860	15,680	0	196,000	6,860	3.5%	89,199	23.56	2032
2033	378,607	0	3.58	18.89	22.47	85,091	0	165,236	0	6,860	15,680	0	196,000	6,860	3.5%	91,951	24.29	2033
2034	378,607	0	3.58	19.65	23.23	87,952	0	178,455	0	6,860	15,680	0	196,000	6,860	3.5%	94,812	25.04	2034
2035	378,607	0	3.58	20.44	24.02	90,928	0	192,731	0	6,860	15,680	0	196,000	6,860	3.5%	97,788	25.83	2035
2036	378,607	0	3.58	21.25	24.83	94,023	0	208,149	0	6,860	15,680	0	196,000	6,860	3.5%	100,883	26.65	2036
2037	378,607	0	3.58	22.10	25.68	97,242	0	224,801	0	6,860	15,680	0	196,000	6,860	3.5%	97,242	25.68	2037
	16,027,515	0				2,193,629	0	2,979,343	193,430	356,720	815,360	0	10,192,000	186,571	0.0%	2,377,868		

Loan Principal ($000's) $170,000
O & M Inflation Rate 4.00%
Rate of Return Floor 8.00%
Rate of Return Ceiling 8.00%
Change in Base Load Forecast 0.00%

YEAR	FORECAST SALES (MWH)	ADDITIONAL SALES (MWH)	DEBT SVC RATE (CENTS/KWH)	O & M RATE (CENTS/KWH)	TOTAL RATE (CENTS/KWH)	INITIAL REVENUE STREAM ($=000's)	ADDITIONAL REVENUE ($=000's)	O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
1986	191,496	0	2.64	2.30	4.94	8,966	0	4,438	4,528	15,680	15,680	0	196,000	11,152	8.0%	18,847	10.38	1986
1987	191,437	0	2.64	2.80	5.44	10,414	0	4,616	5,799	15,680	15,680	0	196,000	9,881	8.0%	19,661	10.27	1987
1988	199,181	0	2.84	2.80	5.64	11,234	0	4,800	6,434	15,680	15,680	0	196,000	9,246	8.0%	19,358	9.72	1988
1989	206,042	0	3.19	2.90	6.09	12,548	0	4,992	7,556	15,680	15,680	0	196,000	8,124	8.0%	19,618	9.52	1989
1990	212,994	0	3.58	2.90	6.48	13,802	0	5,192	8,610	15,680	15,680	0	196,000	7,070	8.0%	20,467	9.61	1990
1991	219,067	0	3.58	3.00	6.58	14,415	0	5,400	9,015	15,680	15,680	0	196,000	6,665	8.0%	20,553	9.38	1991
1992	226,907	0	3.58	3.10	6.68	15,157	0	5,615	9,542	15,680	15,680	0	196,000	6,138	8.0%	20,664	9.11	1992
1993	236,183	0	3.58	3.20	6.78	16,013	0	5,840	10,173	15,680	15,680	0	196,000	5,507	8.0%	20,849	8.83	1993
1994	245,893	0	3.58	3.30	6.88	16,917	0	6,074	10,844	15,680	15,680	0	196,000	4,836	8.0%	21,084	8.57	1994
1995	255,439	0	3.58	3.40	6.98	17,830	0	6,317	11,513	15,680	15,680	0	196,000	4,167	8.0%	21,633	8.47	1995
1996	260,533	0	3.58	3.50	7.08	18,446	0	6,569	11,876	15,680	15,680	0	196,000	3,804	8.0%	21,866	8.39	1996
1997	265,897	0	3.58	3.60	7.18	19,091	0	6,832	12,259	15,680	15,680	0	196,000	3,421	8.0%	21,841	8.21	1997
1998	271,482	0	3.58	3.80	7.38	20,035	0	7,105	12,930	15,680	15,680	0	196,000	2,750	8.0%	22,360	8.24	1998
1999	277,343	0	3.58	3.90	7.48	20,745	0	7,390	13,356	15,680	15,680	0	196,000	2,324	8.0%	22,339	8.05	1999
2000	283,488	0	3.58	4.10	7.68	21,772	0	7,685	14,087	15,680	15,680	0	196,000	1,593	8.0%	22,733	8.02	2000
2001	288,220	0	3.58	4.30	7.88	22,712	0	7,993	14,719	15,680	15,680	0	196,000	961	8.0%	23,269	8.07	2001
2002	290,043	0	3.58	4.50	8.08	23,435	0	8,312	15,123	15,680	15,680	0	196,000	557	8.0%	23,589	8.13	2002
2003	291,926	0	3.58	4.70	8.28	24,171	0	8,645	15,527	15,680	15,680	0	196,000	153	8.0%	24,171	8.28	2003
2004	293,889	0	3.58	5.00	8.58	25,216	0	8,991	16,225	15,680	15,680	545	196,000	0	8.0%	25,216	8.58	2004
2005	295,935	0	3.58	5.30	8.88	26,279	0	9,350	16,929	15,680	15,680	1,249	195,455	0	8.0%	26,279	8.88	2005
2006	298,067	0	3.58	5.60	9.18	27,363	0	9,724	17,638	15,636	15,636	2,002	194,206	0	8.1%	27,363	9.18	2006
2007	300,290	0	3.58	5.90	9.48	28,467	0	10,113	18,354	15,536	15,536	2,818	192,204	0	8.1%	28,467	9.48	2007
2008	302,608	0	3.58	6.30	9.88	29,898	0	10,518	19,380	15,376	15,376	4,004	189,386	0	8.1%	29,898	9.88	2008
2009	305,023	0	3.58	6.60	10.18	31,051	0	10,938	20,113	15,151	15,151	4,962	185,383	0	8.2%	31,051	10.18	2009
2010	307,541	0	3.58	7.00	10.58	32,538	0	11,376	21,162	14,831	14,831	6,331	180,421	0	8.2%	32,538	10.58	2010
2011	310,165	0	3.58	7.40	10.98	34,056	0	11,831	22,225	14,434	14,434	7,791	174,089	0	8.3%	34,056	10.98	2011
2012	312,901	0	3.58	7.80	11.38	35,608	0	12,304	23,304	13,927	13,927	9,377	166,298	0	8.4%	35,608	11.38	2012
2013	315,753	0	3.58	8.30	11.88	37,511	0	12,796	24,715	13,304	13,304	11,411	156,921	0	8.5%	37,511	11.88	2013
2014	318,725	0	3.58	8.70	12.28	39,139	0	13,308	25,831	12,554	12,554	13,277	145,510	0	8.6%	39,139	12.28	2014
2015	321,824	0	3.58	9.20	12.78	41,129	0	13,841	27,289	11,641	11,641	15,648	132,232	0	8.8%	41,129	12.78	2015
2016	325,053	0	3.58	9.70	13.28	43,167	0	14,394	28,773	10,579	10,579	18,194	116,585	0	9.1%	43,167	13.28	2016
2017	328,420	0	3.58	10.09	13.67	44,888	0	14,970	29,918	9,327	9,327	20,592	98,390	0	9.5%	44,888	13.67	2017
2018	331,929	0	3.58	10.49	14.07	46,707	0	15,569	31,139	7,871	7,871	23,267	77,799	0	10.1%	46,707	14.07	2018
2019	335,587	0	3.58	10.91	14.49	48,631	0	16,192	32,439	6,224	6,224	26,215	54,531	0	11.4%	48,631	14.49	2019
2020	339,400	0	3.58	11.35	14.93	50,664	0	16,839	33,825	4,362	4,362	28,316	28,316	0	15.4%	50,664	14.93	2020
2021	343,375	0	3.58	11.80	15.38	52,816	0	17,513	35,304	2,265	0	0	0	0	ERR	17,513	5.10	2021
2022	347,518	0	3.58	12.27	15.85	55,094	0	18,213	36,881	0	0	0	0	0	ERR	18,213	5.24	2022
2023	351,836	0	3.58	12.76	16.34	57,506	0	18,942	38,564	0	0	0	0	0	ERR	18,942	5.38	2023
2024	356,338	0	3.58	13.28	16.86	60,061	0	19,699	40,362	0	0	0	0	0	ERR	19,699	5.53	2024
2025	361,030	0	3.58	13.81	17.39	62,769	0	20,487	42,282	0	0	0	0	0	ERR	20,487	5.67	2025
2026	365,921	0	3.58	14.36	17.94	65,640	0	21,307	44,333	0	0	0	0	0	ERR	21,307	5.82	2026
2027	371,019	0	3.58	14.93	18.51	68,686	0	22,159	46,526	0	0	0	0	0	ERR	22,159	5.97	2027
2028	376,334	0	3.58	15.53	19.11	71,917	0	23,046	48,872	0	0	0	0	0	ERR	23,046	6.12	2028
2029	378,607	0	3.58	16.15	19.73	74,704	0	23,967	50,736	0	0	0	0	0	ERR	23,967	6.33	2029
2030	378,607	0	3.58	16.80	20.38	77,150	0	24,926	52,224	0	0	0	0	0	ERR	24,926	6.58	2030
2031	378,607	0	3.58	17.47	21.05	79,694	0	25,923	53,770	0	0	0	0	0	ERR	25,923	6.85	2031
2032	378,607	0	3.58	18.17	21.75	82,339	0	26,960	55,379	0	0	0	0	0	ERR	26,960	7.12	2032
2033	378,607	0	3.58	18.89	22.47	85,091	0	28,038	57,052	0	0	0	0	0	ERR	28,038	7.41	2033
2034	378,607	0	3.58	19.65	23.23	87,952	0	29,160	58,792	0	0	0	0	0	ERR	29,160	7.70	2034
2035	378,607	0	3.58	20.44	24.02	90,928	0	30,326	60,602	0	0	0	0	0	ERR	30,326	8.01	2035
2036	378,607	0	3.58	21.25	24.83	94,023	0	31,539	62,483	0	0	0	0	0	ERR	31,539	8.33	2036
2037	378,607	0	3.58	22.10	25.68	97,242	0	32,801	64,441	0	0	0	0	0	ERR	32,801	8.66	2037
	16,027,515	0				2,193,629	0	741,877	1,451,752	496,618	494,353	198,000	6,011,726	88,250	0.0%	1,422,224		

Loan Principal ($=000's)	$196,000
O & M Inflation Rate	2.00%
Rate of Return Floor	3.50%
Rate of Return Ceiling	8.00%
Change in Base Load Forecast	0.00%

YEAR	FORECAST SALES (MWH)	ADDITIONAL SALES (MWH)	DEBT SVC RATE (CENTS/KWH)	O & M RATE (CENTS/KWH)	TOTAL RATE (CENTS/KWH)	INITIAL REVENUE STREAM ($=000's)	ADDITIONAL REVENUE ($=000's)	O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
1986	181,496	0	2.64	2.30	4.94	8,966	0	4,438	4,528	6,860	15,680	0	196,000	2,332	3.5%	9,938	5.48	1986
1987	191,437	0	2.64	2.80	5.44	10,414	0	4,527	5,887	6,860	15,680	0	196,000	973	3.5%	10,658	5.57	1987
1988	199,181	0	2.84	2.80	5.64	11,234	0	4,617	6,617	6,860	15,680	0	196,000	243	3.5%	11,234	5.64	1988
1989	206,042	0	3.19	2.90	6.09	12,548	0	4,710	7,838	6,860	15,680	0	196,000	0	4.0%	12,548	6.09	1989
1990	212,994	0	3.58	2.90	6.48	13,802	0	4,804	8,998	6,860	15,680	0	196,000	0	4.6%	13,802	6.48	1990
1991	219,067	0	3.58	3.00	6.58	14,415	0	4,900	9,515	6,860	15,680	0	196,000	0	4.9%	14,415	6.58	1991
1992	226,907	0	3.58	3.10	6.68	15,157	0	4,998	10,159	6,860	15,680	0	196,000	0	5.2%	15,157	6.68	1992
1993	236,183	0	3.58	3.20	6.78	16,013	0	5,098	10,915	6,860	15,680	0	196,000	0	5.6%	16,013	6.78	1993
1994	245,893	0	3.58	3.30	6.88	16,917	0	5,200	11,718	6,860	15,680	0	196,000	0	6.0%	16,917	6.88	1994
1995	255,439	0	3.58	3.40	6.98	17,830	0	5,304	12,526	6,860	15,680	0	196,000	0	6.4%	17,830	6.98	1995
1996	260,533	0	3.58	3.50	7.08	18,446	0	5,410	13,036	6,860	15,680	0	196,000	0	6.7%	18,446	7.08	1996
1997	265,897	0	3.58	3.60	7.18	19,091	0	5,518	13,573	6,860	15,680	0	196,000	0	6.9%	19,091	7.18	1997
1998	271,482	0	3.58	3.80	7.38	20,035	0	5,628	14,407	6,860	15,680	0	196,000	0	7.4%	20,035	7.38	1998
1999	277,343	0	3.58	3.90	7.48	20,745	0	5,741	15,004	6,860	15,680	0	196,000	0	7.7%	20,745	7.48	1999
2000	283,488	0	3.58	4.10	7.68	21,772	0	5,856	15,916	6,860	15,680	236	196,000	0	8.0%	21,772	7.68	2000
2001	288,220	0	3.58	4.30	7.88	22,712	0	5,973	16,739	6,860	15,680	1,059	195,764	0	8.2%	22,712	7.88	2001
2002	290,043	0	3.58	4.50	8.08	23,435	0	6,092	17,343	6,852	15,661	1,682	194,705	0	8.0%	23,435	8.08	2002
2003	291,926	0	3.58	4.70	8.28	24,171	0	6,214	17,957	6,815	15,576	2,381	193,023	0	8.1%	24,171	8.28	2003
2004	293,889	0	3.58	5.00	8.58	25,216	0	6,339	18,877	6,756	15,442	3,435	190,642	0	8.1%	25,216	8.58	2004
2005	295,935	0	3.58	5.30	8.88	26,279	0	6,465	19,814	6,672	15,251	4,562	187,207	0	8.1%	26,279	8.88	2005
2006	298,067	0	3.58	5.60	9.18	27,363	0	6,595	20,768	6,552	14,977	5,791	182,645	0	8.2%	27,363	9.18	2006
2007	300,290	0	3.58	5.90	9.48	28,467	0	6,727	21,741	6,393	14,612	7,129	176,854	0	8.3%	28,467	9.48	2007
2008	302,608	0	3.58	6.30	9.88	29,898	0	6,861	23,037	6,190	14,148	8,888	169,724	0	8.3%	29,898	9.88	2008
2009	305,023	0	3.58	6.60	10.18	31,051	0	6,998	24,053	5,940	13,578	10,475	160,836	0	8.4%	31,051	10.18	2009
2010	307,541	0	3.58	7.00	10.58	32,538	0	7,138	25,400	5,629	12,867	12,533	150,361	0	8.6%	32,538	10.58	2010
2011	310,165	0	3.58	7.40	10.98	34,056	0	7,281	26,775	5,263	12,029	14,746	137,828	0	8.7%	34,056	10.98	2011
2012	312,901	0	3.58	7.80	11.38	35,608	0	7,427	28,182	4,824	11,026	17,155	123,082	0	9.0%	35,608	11.38	2012
2013	315,753	0	3.58	8.30	11.88	37,511	0	7,575	29,936	4,308	9,847	20,090	105,927	0	9.3%	37,511	11.88	2013
2014	318,725	0	3.58	8.70	12.28	39,139	0	7,727	31,413	3,707	8,474	22,939	85,837	0	9.9%	39,139	12.28	2014
2015	321,824	0	3.58	9.20	12.78	41,129	0	7,881	33,248	3,004	6,867	26,381	62,898	0	10.9%	41,129	12.78	2015
2016	325,053	0	3.58	9.70	13.28	43,167	0	8,039	35,128	2,201	5,032	30,996	36,517	0	13.8%	43,167	13.28	2016
2017	328,420	0	3.58	10.09	13.67	44,888	0	8,200	36,689	1,278	2,921	6,421	6,421	0	45.5%	44,888	13.67	2017
2018	331,929	0	3.58	10.49	14.07	46,707	0	8,364	38,344	225	0	0	0	0	ERR	8,364	2.52	2018
2019	335,587	0	3.58	10.91	14.49	48,631	0	8,531	40,100	0	0	0	0	0	ERR	8,531	2.54	2019
2020	339,400	0	3.58	11.35	14.93	50,664	0	8,701	41,963	0	0	0	0	0	ERR	8,701	2.56	2020
2021	343,375	0	3.58	11.80	15.38	52,816	0	8,876	43,941	0	0	0	0	0	ERR	8,876	2.58	2021
2022	347,518	0	3.58	12.27	15.85	55,094	0	9,053	46,041	0	0	0	0	0	ERR	9,053	2.61	2022
2023	351,836	0	3.58	12.76	16.34	57,506	0	9,234	48,272	0	0	0	0	0	ERR	9,234	2.62	2023
2024	356,338	0	3.58	13.28	16.86	60,061	0	9,419	50,642	0	0	0	0	0	ERR	9,419	2.64	2024
2025	361,030	0	3.58	13.81	17.39	62,769	0	9,607	53,162	0	0	0	0	0	ERR	9,607	2.66	2025
2026	365,921	0	3.58	14.36	17.94	65,640	0	9,799	55,841	0	0	0	0	0	ERR	9,799	2.68	2026
2027	371,019	0	3.58	14.93	18.51	68,686	0	9,995	58,690	0	0	0	0	0	ERR	9,995	2.69	2027
2028	376,334	0	3.58	15.53	19.11	71,917	0	10,195	61,722	0	0	0	0	0	ERR	10,195	2.71	2028
2029	378,607	0	3.58	16.15	19.73	74,704	0	10,399	64,305	0	0	0	0	0	ERR	10,399	2.75	2029
2030	378,607	0	3.58	16.80	20.38	77,150	0	10,607	66,543	0	0	0	0	0	ERR	10,607	2.80	2030
2031	378,607	0	3.58	17.47	21.05	79,694	0	10,819	68,874	0	0	0	0	0	ERR	10,819	2.86	2031
2032	378,607	0	3.58	18.17	21.75	82,339	0	11,036	71,304	0	0	0	0	0	ERR	11,036	2.91	2032
2033	378,607	0	3.58	18.89	22.47	85,091	0	11,256	73,834	0	0	0	0	0	ERR	11,256	2.97	2033
2034	378,607	0	3.58	19.65	23.23	87,952	0	11,481	76,471	0	0	0	0	0	ERR	11,481	3.03	2034
2035	378,607	0	3.58	20.44	24.02	90,928	0	11,711	79,217	0	0	0	0	0	ERR	11,711	3.09	2035
2036	378,607	0	3.58	21.25	24.83	94,023	0	11,945	82,078	0	0	0	0	0	ERR	11,945	3.16	2036
2037	378,607	0	3.58	22.10	25.68	97,242	0	12,184	85,057	0	0	0	0	0	ERR	12,184	3.22	2037
	16,027,515	0				2,193,629	0	399,493	1,794,137	192,369	439,188	196,000	5,300,271	3,548	9.7%	988,445		

Loan Principal ($=000's)	$196,000
O & M Inflation Rate	3.00%
Rate of Return Floor	3.00%
Rate of Return Ceiling	8.00%
Change in Base Load Forecast	0.00%

YEAR	FORECAST SALES (MWH)	ADDITIONAL SALES (MWH)	DEBT SVC RATE (CENTS/KWH)	O & M RATE (CENTS/KWH)	TOTAL RATE (CENTS/KWH)	INITIAL REVENUE STREAM ($=000's)	ADDITIONAL REVENUE ($=000's)	O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
1986	181,496	0	2.68	2.30	4.98	9,039	0	4,438	4,601	5,880	15,680	0	196,000	1,279	3.0%	10,318	5.68	1986
1987	191,437	0	2.68	2.80	5.48	10,491	0	4,571	5,920	5,880	15,680	0	196,000	0	3.0%	10,491	5.48	1987
1988	199,181	0	2.68	2.80	5.48	10,915	0	4,708	6,207	5,880	15,680	0	196,000	0	3.2%	10,915	5.48	1988
1989	206,042	0	2.68	2.90	5.58	11,497	0	4,850	6,648	5,880	15,680	0	196,000	0	3.4%	11,497	5.58	1989
1990	212,994	0	2.68	2.90	5.58	11,885	0	4,995	6,890	5,880	15,680	0	196,000	0	3.5%	11,885	5.58	1990
1991	219,067	0	2.68	3.00	5.68	12,443	0	5,145	7,298	5,880	15,680	0	196,000	0	3.7%	12,443	5.68	1991
1992	226,907	0	2.68	3.10	5.78	13,115	0	5,299	7,816	5,880	15,680	0	196,000	0	4.0%	13,115	5.78	1992
1993	236,183	0	2.68	3.20	5.88	13,888	0	5,458	8,429	5,880	15,680	0	196,000	0	4.3%	13,888	5.88	1993
1994	245,893	0	2.68	3.30	5.98	14,704	0	5,622	9,082	5,880	15,680	0	196,000	0	4.6%	14,704	5.98	1994
1995	255,439	0	2.68	3.40	6.08	15,531	0	5,791	9,740	5,880	15,680	0	196,000	0	5.0%	15,531	6.08	1995
1996	260,533	0	2.68	3.50	6.18	16,101	0	5,964	10,137	5,880	15,680	0	196,000	0	5.2%	16,101	6.18	1996
1997	265,897	0	2.68	3.60	6.28	16,698	0	6,143	10,555	5,880	15,680	0	196,000	0	5.4%	16,698	6.28	1997
1998	271,482	0	2.68	3.80	6.48	17,592	0	6,328	11,265	5,880	15,680	0	196,000	0	5.7%	17,592	6.48	1998
1999	277,343	0	2.68	3.90	6.58	18,249	0	6,517	11,732	5,880	15,680	0	196,000	0	6.0%	18,249	6.58	1999
2000	283,488	0	2.68	4.10	6.78	19,220	0	6,713	12,508	5,880	15,680	0	196,000	0	6.4%	19,220	6.78	2000
2001	288,220	0	2.68	4.30	6.98	20,118	0	6,914	13,203	5,880	15,680	0	196,000	0	6.7%	20,118	6.98	2001
2002	290,043	0	2.68	4.50	7.18	20,825	0	7,122	13,703	5,880	15,680	0	196,000	0	7.0%	20,825	7.18	2002
2003	291,926	0	2.68	4.70	7.38	21,544	0	7,335	14,209	5,880	15,680	0	196,000	0	7.2%	21,544	7.38	2003
2004	293,889	0	2.68	5.00	7.68	22,571	0	7,555	15,015	5,880	15,680	0	196,000	0	7.7%	22,571	7.68	2004
2005	295,935	0	2.68	5.30	7.98	23,616	0	7,782	15,834	5,880	15,680	154	196,000	0	8.0%	23,616	7.98	2005
2006	298,067	0	2.68	5.60	8.28	24,680	0	8,016	16,664	5,880	15,680	984	195,846	0	8.0%	24,680	8.28	2006
2007	300,290	0	2.68	5.90	8.58	25,765	0	8,256	17,509	5,875	15,668	1,841	194,862	0	8.0%	25,765	8.58	2007
2008	302,608	0	2.68	6.30	8.98	27,174	0	8,504	18,671	5,846	15,589	3,082	193,021	0	8.1%	27,174	8.98	2008
2009	305,023	0	2.68	6.60	9.28	28,306	0	8,759	19,547	5,791	15,442	4,106	189,939	0	8.1%	28,306	9.28	2009
2010	307,541	0	2.68	7.00	9.68	29,770	0	9,022	20,748	5,698	15,195	5,553	185,834	0	8.2%	29,770	9.68	2010
2011	310,165	0	2.68	7.40	10.08	31,265	0	9,292	21,972	5,575	14,867	7,106	180,280	0	8.2%	31,265	10.08	2011
2012	312,901	0	2.68	7.80	10.48	32,792	0	9,571	23,221	5,408	14,422	8,799	173,175	0	8.3%	32,792	10.48	2012
2013	315,753	0	2.68	8.30	10.98	34,670	0	9,858	24,812	5,195	13,854	10,958	164,376	0	8.4%	34,670	10.98	2013
2014	318,725	0	2.68	8.70	11.38	36,271	0	10,154	26,117	4,931	13,150	12,967	153,418	0	8.6%	36,271	11.38	2014
2015	321,824	0	2.68	9.20	11.88	38,233	0	10,458	27,774	4,603	12,273	15,501	140,451	0	8.7%	38,233	11.88	2015
2016	325,053	0	2.68	9.70	12.38	40,242	0	10,772	29,469	4,214	11,236	18,233	124,950	0	9.0%	40,242	12.38	2016
2017	328,420	0	2.68	10.09	12.77	41,933	0	11,095	30,837	3,749	9,996	20,841	106,717	0	9.4%	41,933	12.77	2017
2018	331,929	0	2.68	10.49	13.17	43,720	0	11,428	32,292	3,202	8,537	23,755	85,876	0	9.9%	43,720	13.17	2018
2019	335,587	0	2.68	10.91	13.59	45,610	0	11,771	33,839	2,576	6,870	26,969	62,121	0	11.1%	45,610	13.59	2019
2020	339,400	0	2.68	11.35	14.03	47,610	0	12,124	35,486	1,864	4,970	30,516	35,152	0	14.1%	47,610	14.03	2020
2021	343,375	0	2.68	11.80	14.48	49,726	0	12,488	37,238	1,055	2,812	4,636	4,636	0	60.7%	49,726	14.48	2021
2022	347,518	0	2.68	12.27	14.95	51,966	0	12,863	39,104	139	0	0	0	0	ERR	12,863	3.70	2022
2023	351,836	0	2.68	12.76	15.44	54,339	0	13,248	41,091	0	0	0	0	0	ERR	13,248	3.77	2023
2024	356,338	0	2.68	13.28	15.96	56,854	0	13,646	43,208	0	0	0	0	0	ERR	13,646	3.83	2024
2025	361,030	0	2.68	13.81	16.49	59,520	0	14,055	45,465	0	0	0	0	0	ERR	14,055	3.89	2025
2026	365,921	0	2.68	14.36	17.04	62,347	0	14,477	47,870	0	0	0	0	0	ERR	14,477	3.96	2026
2027	371,019	0	2.68	14.93	17.61	65,346	0	14,911	50,435	0	0	0	0	0	ERR	14,911	4.02	2027
2028	376,334	0	2.68	15.53	18.21	68,530	0	15,359	53,172	0	0	0	0	0	ERR	15,359	4.08	2028
2029	378,607	0	2.68	16.15	18.83	71,296	0	15,819	55,477	0	0	0	0	0	ERR	15,819	4.18	2029
2030	378,607	0	2.68	16.80	19.48	73,742	0	16,294	57,448	0	0	0	0	0	ERR	16,294	4.30	2030
2031	378,607	0	2.68	17.47	20.15	76,286	0	16,783	59,503	0	0	0	0	0	ERR	16,783	4.43	2031
2032	378,607	0	2.68	18.17	20.85	78,932	0	17,286	61,645	0	0	0	0	0	ERR	17,286	4.57	2032
2033	378,607	0	2.68	18.89	21.57	81,683	0	17,805	63,878	0	0	0	0	0	ERR	17,805	4.70	2033
2034	378,607	0	2.68	19.65	22.33	84,545	0	18,339	66,206	0	0	0	0	0	ERR	18,339	4.84	2034
2035	378,607	0	2.68	20.44	23.12	87,520	0	18,889	68,631	0	0	0	0	0	ERR	18,889	4.99	2035
2036	378,607	0	2.68	21.25	23.93	90,615	0	19,456	71,160	0	0	0	0	0	ERR	19,456	5.14	2036
2037	378,607	0	2.68	22.10	24.78	93,834	0	20,039	73,795	0	0	0	0	0	ERR	20,039	5.29	2037
	16,027,515	0				2,055,165	0	540,088	1,515,077	189,200	504,162	196,000	6,110,656	1,279	9.0%	1,157,076		

U.S. DEPARTMENT OF COMMERCE
Economic Development Administration
701 "C" Street, Box 10
Anchorage, Alaska 99513

May 9, 1985

Honorable John L. Sund
Distract 1-B
The Legislature
State of Alaska
Juneau, Alaska 99811

Dear Representative Sund:

In January, 1985, the Economic Development Administration of the U. S. Department of Commerce authorized the submission of a formal application by the City of Saxman for a grant in the amount of $550,000, contingent upon a matching State Legislative appropriation in the amount of $1,245,312 for the construction of a traditional Tribal House (Longhouse).

This project would provide some $650,000 or more in construction wages to local workers in an area of exceedingly high unemployment. The project, which is part of the Tlingit-Haida Central Council and City of Saxman Overall Economic Development Programs, and is a significant component of tourism development planned within the Ketchikan area, would also employ some 100 local residents during the tourist season through dance performances, cultural interpretation, totem pole and other craft demonstrations, and from food and other sales.

As this appears to be a true economic development project benefitting Southeast Alaska and is one which is revenue producing, I am anxious to see the project succeed.

Because of your indicated support for this project, the City of Saxman has requested that I contact you on the current status. If there is some way in which I may be of assistance in this regard, please let me know.

Sincere best regards,

Bernay Richert

Bernhard Richert
Economic Development
Representative

Version #1
Levy
4/12/85

Original sponsor: House Special Committee on State Loans

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 219 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

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

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and <u>electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state,</u> none of whose utilities is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

* Sec. 2. AS 44.33.620(a) is amended to read:

(a) A loan from the fund <u>shall</u> [MUST] be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) [THE MARKET RATE OF INTEREST FOR A LOAN OF COMPARABLE SIZE AND DURATION AT THE TIME THE LOAN IS MADE; AND

(2)] the [ESTIMATED] costs, <u>at the time the power sales</u>

agreement is initially negotiated or renegotiated, of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund;

(2) the effect of the loan terms on the wholesale power costs to all utilities purchasing power from the initial project;

(3) the long-term benefits to consumers and communities of stable wholesale power costs;

(4) the affordability of initial wholesale power costs that result from the loan terms with utilities purchasing power from the initial project;

(5) increasing repayment, not to exceed five years, of debt service payment per kilowatt hour gradually over the initial period of a loan repayment schedule to the extent necessary to avoid significant rate increases to the consumer;

(6) the existing excess capacity of power projects; and

(7) the effects of increased capacity utilization, inflation, and alternative energy production costs over the life of the initial project.

* Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

(d) In (a) of this section "initial project" means the project described in AS 44.83.398(a).

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.625. RATE REOPENERS. A power sales agreement for the sale of power from the initial project, as described in AS 44.83.-398(a), financed with a loan under AS 44.33.610 may include among its provisions an agreed schedule of wholesale power rates notwithstanding the provisions of AS 44.83.398, but must include a provision for a rate reopener.

* Sec. 5. AS 44.83.425(5) is amended to read:

(5) "qualified utility" means an electric utility or an electric operating entity established as an instrumentality of two or more electric utilities [THAT IS] certified by the Alaska Public Utilities Commission to serve all or part of a market area that is served or will be served by the power project, [AND] that the authority determines is capable of operating and maintaining the power project.

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 219 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

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

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and <u>electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state,</u> none of whose utilities is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

* Sec. 2. AS 44.33.620(a) is amended to read:

(a) A loan from the fund <u>shall</u> [MUST] be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) [THE MARKET RATE OF INTEREST FOR A LOAN OF COMPARABLE SIZE AND DURATION AT THE TIME THE LOAN IS MADE; AND

(2)] the [ESTIMATED] costs, <u>at the time the power sales</u>

agreement is initially negotiated or renegotiated, of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund;

(2) the effect of the loan terms on the wholesale power costs to all utilities purchasing power from the initial project;

(3) the long-term benefits to consumers and communities of stable wholesale power costs;

(4) the affordability of initial wholesale power costs that result from the loan terms with utilities purchasing power from the initial project;

(5) increasing repayment, not to exceed five years, of debt service payment per kilowatt hour gradually over the initial period of a loan repayment schedule to the extent necessary to avoid significant rate increases to the consumer;

(6) the existing excess capacity of power projects; and

(7) the effects of increased capacity utilization, inflation, and alternative energy production costs over the life of the initial project.

* Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

(d) In (a) of this section "initial project" means the project described in AS 44.83.398(a).

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.625. RATE REOPENERS. A power sales agreement for the sale of power from the initial project, as described in AS 44.83.-398(a), financed with a loan under AS 44.33.610 may include among its provisions an agreed schedule of wholesale power rates notwithstanding the provisions of AS 44.83.398, but must include a provision for a rate reopener.

* Sec. 5. AS 44.83.425(5) is amended to read:

(5) "qualified utility" means an electric utility or an electric operating entity established as an instrumentality of two or more electric utilities [THAT IS] certified by the Alaska Public Utilities Commission to serve all or part of a market area that is served or will be served by the power project, [AND] that the authority determines is capable of operating and maintaining the power project.

AMENDMENT

TO: "Discussion Draft" HB 219

Page 2, Line 23:

Replace Section 4 with:

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.~~33~~ 625. RATE REOPENERS. A power sales agreement for the sale of power from the initial project financed with a loan under AS 44.33.610 may include among its provisions an agreed schedule of wholesale power rates notwithstanding the provisions of AS 44.83.398 but must include a provision for a rate reopener, ~~after the first 15 years~~.

Pat:

(1) If this is acceptable we have a deal.

(2) The major issue in .398 is the separate accounting of debt service and O+M. The ability to avoid .398 will allow those to be put together in one fixed rate.

(3) Hartle is discussing issue with your staff now

Dave:
The communities and Nesse & Highers have agreed to trust Heath and accept Pourchot amendments. Shively assures* me Heath and has direct support of the governor. Sand.

This looks good to me — let's get a clean copy — I'll talk to Richard & Hartle
Pat

JEAN -

I DON'T LIKE POLICY BASED ON PERSONALITY, HOWEVER, I WILL NOT OBJECT IF WE CAN GET ALL TO SIGN OFF ON IT. BETTER AN UNDERSTANDING, HOWEVER FLAWED, THAN NOTHING. CERTAINLY WE HAVE MADE HEATH REALIZE THE PRIORITY OF THE ISSUE. I HOPE ~~GUESS~~ OUR TIME HAS BEEN WELL SPENT. NOW THE FLOOR FIGHT!

DAVE

KETCHIKAN PUBLIC UTILITIES

334 FRONT STREET KETCHIKAN, ALASKA 99901 TELEPHONE 907-225-3111

MUNICIPALLY OWNED
ELECTRIC WATER PHONE

April 30, 1985

Representative John Sund
Alaska State Legislature
Pouch B (MS 3100)
Juneau, Alaska 99811

Dear Representative Sund:

Attached is a computer analysis that forms the most promising basis for agreement in our current discussions with the Alaska Power Authority. As we mentioned to John Hartle, this model was proposed by Bob Heath and Gordon Harrison, and grew out of certain reservations expressed by the Power Authority staff in response to a prior proposal that was also made by Gordon Harrison. The model appears to offer an affordable wholesale power rate to the communities and a fair return to the state.

For purposes of comparison, we have also included a printout of the first Harrison proposal. As you can see, that proposal featured an agreed wholesale power rate schedule that was to cover both debt service and operations and maintenance (O & M). Debt service would be funded out of any revenues remaining after O & M was paid. A floor and ceiling rate of return on the state's investment would trigger either increased payments by the communities or an early retirement of principal debt.

The Power Authority staff felt that this type of agreement might be difficult to administer because it would make debt service revenues highly dependent on O & M costs over which they would exercise little control. They were also concerned that it placed the risks of inflation, low loads, and excessive O & M costs squarely on the state, without sufficient incentives to the communities to assure the state of a fair return. Of course the benefits of high loads and lower-than-projected O & M costs would also be enjoyed by the state.

The new proposal has the virtue of simplicity. Each community would pay for O & M at the actual pooled average rate for all four projects, and thus bear much of the risk and benefit of fluctuations in load and cost. In this example, "debt service", or an amount above O & M, would be charged at 2.6 cents/kWh in 1986, rising to 4 cents/kWh by 1990, for all sales up to a particular combined forecast load. Sales above the

forecast would be deemed "incentive sales" and would be charged at 1 cent/kWh less than the regular debt service amount. This lower rate would make it possible to attract large industrial loads, and would give the communities an additional incentive to increase project utilization. Finally, the communities would contribute a total of $500,000 per year in addition to O & M to build a fund for renewals and replacements.

Because both O & M and debt service would be pooled, the wholesale power rate would be identical for all communities. This makes it possible to market the power from projects with high unit costs of O & M. The pooling of O & M is one reason that a statutory change is required in order to implement this proposal.

The rate of return to the state in this model is primarily sensitive to changes in load. By passing on the benefits of an incentive rate, we believe the communities can market substantial amounts of additional power to potential large loads that would otherwise develop their own diesel generation. The incentive sales increase the rate of return to the state to over 6%. They also lower the effective melded wholesale power rate to the communities. Without incentive sales, the forecast wholesale power rate would face stiff competition from alternative forms of generation, and the return to the state would be substantially lower.

The rate of return to the state is based upon revenues which include interest on reserves and the communities' contribution to the renewal and replacement fund. These are capital costs paid in consideration of the state's risk, and dedicated to the long-term preservation of the state's investment in the projects. The benefit of these funds will extend well beyond the period for which rate certainty will be guaranteed to the communities. We have not attempted to estimate the extent to which these reserves would be drawn down to pay for claims or improvements, or when such costs would be incurred.

The models provided are as follows:

1. Case H1-1 is the original proposal without any large loads.
2. Case H1-2 is the original proposal with large loads added.
3. Case H2-1 is the new proposal without any large loads.
4. Case H2-2 is the new proposal with large loads added.

I hope you will find this information useful evaluating the legislation necessary to implement the proposal. Please let me know if I can provide anything further.

Very truly yours,

KETCHIKAN PUBLIC UTILITIES

Richard D. Newland
Utilities Manager

RDN:LLM
Enclosures
cc: Mayor & City Council
KPU Advisory Board
Doug Rosenberg, PTE&H
Four Dam Pool Members

PRESTON.1
(COM/Z6)
007/B6

Loan Principal ($=000's) $196,000
O & M Inflation Rate 4.00%
Rate of Return Floor 3.50%
Rate of Return Ceiling 8.00%
Change in Base Load Forecast 0.00%

Case Number MI-1
Internal Rate of Return (IRR) 5.9%

20-Apr-85

YEAR	BASELOAD SALES (MWH)	BASELOAD RATE (CENTS/KWH)	BASELOAD REVENUE ($=000's)	LARGE LOAD SALES (MWH)	LARGE LOAD RATE (CENTS/KWH)	LARGE LOAD REVENUE ($=000's)	TOTAL REVENUE (COL. D+G) ($=000's)	ACTUAL O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
1986	181,498	4.94	8,966	0	1.60	0	8,966	4,438	4,528	6,860	15,680	0	196,000	2,332	3.5%	11,298	6.22	1986
1987	191,437	5.44	10,414	0	1.80	0	10,414	4,616	5,799	6,860	15,680	0	196,000	1,061	3.5%	11,476	5.99	1987
1988	199,181	5.64	11,234	0	2.20	0	11,234	4,800	6,434	6,860	15,680	0	196,000	426	3.5%	11,660	5.85	1988
1989	206,042	6.09	12,548	0	2.50	0	12,548	4,992	7,556	6,860	15,680	0	196,000	0	3.9%	12,548	6.09	1989
1990	212,994	6.48	13,802	0	3.00	0	13,802	5,192	8,610	6,860	15,680	0	196,000	0	4.4%	13,802	6.48	1990
1991	219,067	6.58	14,415	0	3.00	0	14,415	5,400	9,015	6,860	15,680	0	196,000	0	4.6%	14,415	6.58	1991
1992	226,907	6.68	15,157	0	3.00	0	15,157	5,615	9,542	6,860	15,680	0	196,000	0	4.9%	15,157	6.68	1992
1993	236,183	6.78	16,013	0	3.00	0	16,013	5,840	10,173	6,860	15,680	0	196,000	0	5.2%	16,013	6.78	1993
1994	245,893	6.88	16,917	0	3.00	0	16,917	6,074	10,844	6,860	15,680	0	196,000	0	5.5%	16,917	6.88	1994
1995	255,439	6.93	17,830	0	3.00	0	17,830	6,317	11,513	6,860	15,680	0	196,000	0	5.9%	17,830	6.98	1995
1996	260,533	7.08	18,446	0	3.00	0	18,446	6,569	11,876	6,860	15,680	0	196,000	0	6.1%	18,446	7.08	1996
1997	265,897	7.18	19,091	0	3.00	0	19,091	6,832	12,259	6,860	15,680	0	196,000	0	6.3%	19,091	7.18	1997
1998	271,462	7.38	20,035	0	3.00	0	20,035	7,105	12,930	6,860	15,680	0	196,000	0	6.6%	20,035	7.38	1998
1999	277,243	7.48	20,745	0	3.00	0	20,745	7,390	13,356	6,860	15,680	0	196,000	0	6.8%	20,745	7.48	1999
2000	283,468	7.68	21,772	0	3.00	0	21,772	7,685	14,087	6,860	15,680	0	196,000	0	7.2%	21,772	7.68	2000
2001	288,220	7.88	22,712	0	3.00	0	22,712	7,993	14,719	6,860	15,680	0	196,000	0	7.5%	22,712	7.88	2001
2002	290,043	8.08	23,435	0	3.00	0	23,435	8,312	15,123	6,860	15,680	0	196,000	0	7.7%	23,435	8.08	2002
2003	291,926	8.28	24,171	0	3.00	0	24,171	8,645	15,527	6,860	15,680	0	196,000	0	7.9%	24,171	8.28	2003
2004	292,889	8.58	25,216	0	3.00	0	25,216	8,991	16,225	6,860	15,680	545	196,000	0	8.0%	25,216	8.58	2004
2005	295,915	8.88	26,279	0	3.00	0	26,279	9,350	16,929	6,860	15,680	1,249	195,455	0	8.0%	26,279	8.88	2005
2006	296,067	9.18	27,363	0	3.00	0	27,363	9,724	17,638	6,841	15,626	2,002	194,206	0	8.0%	27,363	9.18	2006
2007	300,290	9.48	28,467	0	3.00	0	28,467	10,113	18,354	6,797	15,536	2,818	192,204	0	8.0%	28,467	9.48	2007
2008	302,608	9.88	29,898	0	3.00	0	29,898	10,518	19,380	6,727	15,376	4,004	189,786	0	8.0%	29,898	9.88	2008
2009	305,022	10.18	31,051	0	3.00	0	31,051	10,938	20,113	6,629	15,151	4,942	185,283	0	8.0%	31,051	10.18	2009
2010	307,541	10.58	32,538	0	3.00	0	32,538	11,376	21,162	6,488	14,831	6,331	180,421	0	8.0%	32,538	10.58	2010
2011	310,165	10.98	34,056	0	3.00	0	34,056	11,831	22,225	6,315	14,434	7,791	174,089	0	8.0%	34,056	10.98	2011
2012	312,901	11.38	35,608	0	3.00	0	35,608	12,304	23,304	6,093	13,927	9,377	166,298	0	8.0%	35,608	11.38	2012
2013	315,753	11.88	37,511	0	3.00	0	37,511	12,796	24,715	5,820	13,304	11,411	156,921	0	8.0%	37,511	11.88	2013
2014	318,725	12.28	39,139	0	3.00	0	39,139	13,308	25,831	5,492	12,554	13,277	145,510	0	8.0%	39,139	12.28	2014
2015	321,824	12.78	41,129	0	3.00	0	41,129	13,841	27,289	5,093	11,641	15,648	132,232	0	8.0%	41,129	12.78	2015
2016	325,053	13.28	43,167	0	3.00	0	43,167	14,394	28,773	4,628	10,579	18,194	116,585	0	8.0%	43,167	13.28	2016
2017	328,420	13.67	44,888	0	3.00	0	44,888	14,970	29,918	4,080	9,327	20,592	96,390	0	8.0%	44,888	13.67	2017
2018	331,929	14.07	46,707	0	3.00	0	46,707	15,569	31,139	3,444	7,871	23,267	77,799	0	8.0%	46,707	14.07	2018
2019	335,587	14.49	48,631	0	3.00	0	48,631	16,192	32,439	2,723	6,224	26,215	54,531	0	8.0%	48,631	14.49	2019
2020	339,400	14.93	50,664	0	3.00	0	50,664	16,839	33,825	1,909	4,362	28,316	26,316	0	8.0%	50,664	14.93	2020
2021	343,375	15.38	52,816	0	3.00	0	52,816	17,513	35,304	991	0	0	0	0	8.0%	17,513	5.10	2021
2022	347,516	15.85	55,094	0	3.00	0	55,094	18,213	36,881	0	0	0	0	0	NA	18,213	5.24	2022
2023	351,826	16.34	57,506	0	3.00	0	57,506	18,942	38,564	0	0	0	0	0	NA	18,942	5.38	2023
2024	356,308	16.86	60,061	0	3.00	0	60,061	19,699	40,362	0	0	0	0	0	NA	19,699	5.53	2024
2025	361,030	17.39	62,769	0	3.00	0	62,769	20,487	42,282	0	0	0	0	0	NA	20,487	5.67	2025
2026	365,921	17.94	65,640	0	3.00	0	65,640	21,307	44,333	0	0	0	0	0	NA	21,307	5.82	2026
2027	371,019	18.51	68,686	0	3.00	0	68,686	22,159	46,526	0	0	0	0	0	NA	22,159	5.97	2027
2028	376,334	19.11	71,917	0	3.00	0	71,917	23,046	48,872	0	0	0	0	0	NA	23,046	6.12	2028
2029	381,887	19.73	74,704	0	3.00	0	74,704	23,967	50,736	0	0	0	0	0	NA	23,967	6.33	2029
2030	386,807	20.38	77,150	0	3.00	0	77,150	24,926	52,224	0	0	0	0	0	NA	24,926	6.53	2030
2031	378,607	21.05	79,694	0	3.00	0	79,694	25,923	53,770	0	0	0	0	0	NA	25,923	6.85	2031
2032	378,607	21.75	82,339	0	3.00	0	82,339	26,960	55,379	0	0	0	0	0	NA	26,960	7.12	2032
2033	378,607	22.47	85,091	0	3.00	0	85,091	28,038	57,052	0	0	0	0	0	NA	28,038	7.41	2033
2034	378,607	23.23	87,952	0	3.00	0	87,952	29,160	58,792	0	0	0	0	0	NA	29,160	7.70	2034
2035	378,607	24.02	90,928	0	3.00	0	90,928	30,326	60,602	0	0	0	0	0	NA	30,326	8.01	2035
2036	378,607	24.83	94,023	0	3.00	0	94,023	31,539	62,483	0	0	0	0	0	NA	31,539	8.33	2036
2037	378,607	25.68	97,242	0	3.00	0	97,242	32,801	64,441	0	0	0	0	0	NA	32,801	8.66	2037
	16,027,515			0		0	2,193,629	741,877	1,451,752	217,270	494,353	196,000	6,011,726	3,820		1,348,846		

Loan Principal ($+000's) $196,000
O & M Inflation Rate 4.00%
Rate of Return Floor 3.50%
Rate of Return Ceiling 8.00%
Change in Base Load Forecast 0.00%

Case Number MI-2
Internal Rate of Return (IRR) 6.0%

30-Apr-85

YEAR	BASELOAD SALES (MWH)	BASELOAD RATE (CENTS/KWH)	BASELOAD REVENUE ($+000's)	LARGE LOAD SALES (MWH)	LARGE LOAD RATE (CENTS/KWH)	LARGE LOAD REVENUE ($+000's)	TOTAL REVENUE (COL. D+G) ($+000's)	ACTUAL O&M EXPENSE ($+000's)	BALANCE REMAINING FOR DEBT SV ($+000's)	MINIMUM RETURN (FLOOR) ($+000's)	MAXIMUM RETURN (CEILING) ($+000's)	ACTUAL PRINCIPAL RETIREMENT ($+000's)	NEW PRINCIPAL BALANCE ($+000's)	ADDITIONAL CAPITAL REQUIRED ($+000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($+000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
1986	181,496	4.94	8,966	10,828	1.60	173	9,139	4,438	4,874	6,860	15,680	0	196,000	1,986	3.5%	11,125	5.78	1986
1987	191,457	5.44	10,414	21,656	1.80	390	10,804	4,616	6,578	6,860	15,680	0	196,000	282	3.5%	11,086	5.20	1987
1988	199,181	5.64	11,224	32,484	2.20	715	11,940	4,800	7,813	6,860	15,680	0	196,000	0	4.0%	11,948	5.16	1988
1989	206,842	6.09	12,540	42,312	2.50	1,058	13,598	4,992	8,671	6,860	15,680	0	196,000	0	4.9%	13,806	5.48	1989
1990	212,994	6.49	13,802	54,140	3.00	1,624	15,426	5,192	11,859	6,860	15,680	0	196,000	0	6.1%	15,426	5.77	1990
1991	219,057	6.53	14,415	54,140	3.00	1,624	16,039	5,400	12,264	6,860	15,680	0	196,000	0	6.3%	16,039	5.87	1991
1992	226,697	6.68	15,157	54,140	3.00	1,624	16,782	5,615	12,790	6,860	15,680	0	196,000	0	6.5%	16,782	5.97	1992
1993	236,183	6.78	16,013	54,140	3.00	1,624	17,637	5,840	13,422	6,860	15,680	0	196,000	0	6.8%	17,637	6.08	1993
1994	245,593	6.88	16,917	54,140	3.00	1,624	18,542	6,074	14,092	6,860	15,680	0	196,000	0	7.0%	18,542	6.18	1994
1995	255,419	6.98	17,830	54,140	3.00	1,624	19,454	6,317	14,761	6,860	15,680	0	196,000	0	7.3%	19,454	6.28	1995
1996	260,533	7.08	18,446	54,140	3.00	1,624	20,070	6,569	15,125	6,860	15,680	0	196,000	0	7.7%	20,070	6.38	1996
1997	265,887	7.18	19,091	54,140	3.00	1,624	20,716	6,832	15,518	6,860	15,680	0	196,000	0	7.9%	20,716	6.47	1997
1998	271,482	7.38	20,035	54,140	3.00	1,624	21,6[illegible]	[illegible]105	16,178	6,860	15,680	498	196,000	0	8.0%	21,660	6.65	1998
1999	277,343	7.48	20,745	54,140	3.00	1,624	22,[illegible]	[illegible],390	16,604	6,860	15,680	924	195,502	0	8.0%	22,369	6.75	1999
2000	283,488	7.68	21,772	54,140	3.00	1,624	23,[illegible]	7,685	17,275	6,843	15,640	1,695	194,578	0	8.0%	23,396	6.93	2000
2001	288,220	7.88	22,712	54,140	3.00	1,624	24,[illegible]36	7,993	17,968	6,810	15,586	2,401	192,883	0	8.0%	24,335	7.11	2001
2002	290,043	8.08	23,435	54,140	3.00	1,624	25,060	8,312	18,372	6,751	15,431	2,941	190,481	0	8.0%	25,060	7.28	2002
2003	291,526	8.28	24,171	54,140	3.00	1,624	25,796	8,645	18,775	6,669	15,238	3,537	187,540	0	8.0%	25,796	7.45	2003
2004	293,669	8.58	25,216	54,140	3.00	1,624	26,840	8,991	19,474	6,564	15,003	4,470	184,004	0	8.0%	26,840	7.71	2004
2005	295,935	8.88	26,279	54,140	3.00	1,624	27,903	9,350	20,177	6,440	14,720	5,457	179,513	0	8.0%	27,903	7.97	2005
2006	298,067	9.18	27,363	54,140	3.00	1,624	28,987	9,724	20,887	6,284	14,362	6,524	174,676	0	8.0%	28,987	8.23	2006
2007	300,290	9.48	28,467	54,140	3.00	1,624	30,092	10,113	21,603	6,093	13,926	7,677	167,552	0	8.0%	30,092	8.49	2007
2008	302,608	9.88	29,898	54,140	3.00	1,624	31,522	10,518	22,628	5,864	13,404	9,224	159,676	0	8.0%	31,522	8.84	2008
2009	305,025	10.19	31,051	54,140	3.00	1,624	32,676	10,938	23,361	5,596	12,790	10,571	150,652	0	8.0%	32,676	9.10	2009
2010	307,541	10.58	32,538	54,140	3.00	1,624	34,162	11,376	24,410	5,273	12,052	12,158	140,020	0	8.0%	34,162	9.45	2010
2011	310,165	10.98	34,056	54,140	3.00	1,624	35,680	11,831	25,474	4,903	11,206	13,267	127,722	0	8.0%	35,680	9.79	2011
2012	312,901	11.38	35,608	54,140	3.00	1,624	37,232	12,304	26,552	4,470	10,218	16,135	111,455	0	8.0%	37,232	10.14	2012
2013	315,753	11.88	37,511	54,140	3.00	1,624	39,136	12,796	27,963	3,971	9,076	18,987	97,120	0	8.0%	39,136	10.58	2013
2014	318,725	12.28	39,139	54,140	3.00	1,624	40,764	13,308	29,600	3,359	7,770	21,310	78,233	0	8.0%	40,764	10.95	2014
2015	321,824	12.78	41,129	54,140	3.00	1,624	42,753	13,841	30,537	2,739	6,259	24,278	54,923	0	8.0%	42,753	11.37	2015
2016	325,053	13.28	43,167	53,554	3.00	1,607	44,774	14,394	31,986	1,992	4,554	27,472	32,645	0	8.0%	44,774	11.82	2016
2017	328,420	13.67	44,888	50,187	3.00	1,506	46,394	14,970	32,970	1,145	2,612	5,213	5,213	0	8.0%	46,394	12.25	2017
2018	331,929	14.07	46,707	48,678	3.00	1,400	48,108	15,569	32,939	192	0	0	0	0	0.0%	15,569	4.11	2018
2019	335,587	14.49	48,631	43,020	3.00	1,291	49,921	16,192	33,020	0	0	0	0	0	NA	16,192	4.23	2019
2020	339,400	14.93	50,654	39,207	3.00	1,176	51,841	16,839	34,179	0	0	0	0	0	NA	16,839	4.45	2020
2021	343,375	15.38	52,816	35,232	3.00	1,057	53,873	17,513	37,418	0	0	0	0	0	NA	17,513	4.63	2021
2022	347,518	15.85	55,094	31,089	3.00	933	56,027	18,213	38,746	0	0	0	0	0	NA	18,213	4.81	2022
2023	351,836	16.34	57,506	26,771	3.00	803	58,309	18,942	40,170	0	0	0	0	0	NA	18,942	5.03	2023
2024	356,338	16.86	60,061	22,289	3.00	668	60,729	19,699	41,198	0	0	0	0	0	NA	19,699	5.20	2024
2025	361,030	17.39	62,769	17,577	3.00	527	63,296	20,487	43,215	0	0	0	0	0	NA	20,487	5.41	2025
2026	365,921	17.94	65,640	12,686	3.00	381	66,021	21,307	45,094	0	0	0	0	0	NA	21,307	5.63	2026
2027	371,019	18.51	68,686	7,588	3.00	228	68,913	22,159	46,932	0	0	0	0	0	NA	22,159	5.85	2027
2028	376,324	19.11	71,917	2,273	3.00	68	71,986	23,046	49,018	0	0	0	0	0	NA	23,046	6.09	2028
2029	79,607	19.73	74,704	0	3.00	0	74,704	23,967	50,736	0	0	0	0	0	NA	23,967	6.33	2029
2030	378,607	20.38	77,150	0	3.00	0	77,150	24,926	52,224	0	0	0	0	0	NA	24,926	6.59	2030
2031	378,607	21.05	79,694	0	3.00	0	79,694	25,923	53,770	0	0	0	0	0	NA	25,923	6.85	2031
2032	378,607	21.75	82,339	0	3.00	0	82,339	26,960	55,379	0	0	0	0	0	NA	26,960	7.12	2032
2033	378,607	22.47	85,091	0	3.00	0	85,091	28,038	57,052	0	0	0	0	0	NA	28,038	7.41	2033
2034	378,607	23.23	87,952	0	3.00	0	87,952	29,160	58,792	0	0	0	0	0	NA	29,160	7.72	2034
2035	378,607	24.02	90,928	0	3.00	0	90,928	30,326	60,602	0	0	0	0	0	NA	30,326	8.01	2035
2036	378,607	24.83	94,023	0	3.00	0	94,023	31,539	62,483	0	0	0	0	0	NA	31,539	8.33	2036
2037	378,607	25.68	97,242	0	3.00	0	97,242	32,801	64,441	0	0	0	0	0	NA	32,801	8.66	2037
	16,027,515			1,903,051		56,209	2,249,838	741,877	1,564,170	188,022	429,249	196,000	5,176,070	2,267		1,297,568		

Loan Principal ($=000's) $198,000
Inflation Rate 4.00%
Internal Rate of Return (IOR) 5.47%
Case Number M2-1

20-Apr-85

YEAR	BASELOAD SALES (MWH)	BASELOAD RATE (CENTS/KWH)	BASELOAD REVENUE ($=000's)	ADDITIONAL SALES (MWH)	ADDITIONAL RATE (CENTS/KWH)	ADDITIONAL REVENUE ($=000's)	TOTAL DEBT SVC ($=000's)	OPERATIONS & MAINTENANCE ADMIN ($=000's)	O&M ON-SITE ($=000's)	O&M R & R ($=000's)	O&M TOTAL ($=000's)	O&M RATE (CENTS/KWH)	TOTAL COST ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
1986	181,496	2.6	4,719	0	1.8	0	4,719	863	3,576	500	4,939	2.7	9,658	5.3	1986
1987	191,457	2.8	5,360	0	1.8	0	5,360	998	3,719	500	5,117	2.7	10,477	5.5	1987
1988	199,181	3.2	6,374	0	2.2	0	6,374	933	3,868	500	5,301	2.7	11,675	5.9	1988
1989	206,042	3.5	7,211	0	2.5	0	7,211	971	4,023	500	5,493	2.7	12,705	6.2	1989
1990	212,994	4.0	8,520	0	3.0	0	8,520	1,010	4,183	500	5,693	2.7	14,213	6.7	1990
1991	219,067	4.0	8,763	0	3.0	0	8,763	1,050	4,351	500	5,901	2.7	14,663	6.7	1991
1992	226,907	4.0	9,076	0	3.0	0	9,076	1,092	4,525	500	6,117	2.7	15,193	6.7	1992
1993	236,182	4.0	9,447	0	3.0	0	9,447	1,136	4,706	500	6,341	2.7	15,789	6.7	1993
1994	245,893	4.0	9,836	0	3.0	0	9,836	1,181	4,894	500	6,575	2.7	16,411	6.7	1994
1995	255,439	4.0	10,218	0	3.0	0	10,218	1,228	5,090	500	6,818	2.7	17,036	6.7	1995
1996	260,513	4.0	10,421	0	3.0	0	10,421	1,277	5,293	500	7,071	2.7	17,492	6.7	1996
1997	265,697	4.0	10,636	0	3.0	0	10,636	1,329	5,505	500	7,334	2.8	17,970	6.8	1997
1998	271,462	4.0	10,859	0	3.0	0	10,859	1,382	5,725	500	7,607	2.8	18,466	6.8	1998
1999	277,242	4.0	11,094	0	3.0	0	11,094	1,437	5,954	500	7,891	2.8	18,985	6.8	1999
2000	283,488	4.0	11,340	0	3.0	0	11,340	1,494	6,192	500	8,187	2.9	19,526	6.9	2000
2001	288,220	4.0	11,529	0	3.0	0	11,529	1,554	6,440	500	8,494	2.9	20,023	6.9	2001
2002	290,842	4.0	11,602	0	3.0	0	11,602	1,616	6,698	500	8,814	3.0	20,416	7.0	2002
2003	291,926	4.0	11,677	0	3.0	0	11,677	1,681	6,966	500	9,147	3.1	20,824	7.1	2003
2004	293,889	4.0	11,756	0	3.0	0	11,756	1,748	7,244	500	9,493	3.2	21,248	7.2	2004
2005	295,935	4.0	11,837	0	3.0	0	11,837	1,818	7,534	500	9,852	3.3	21,690	7.3	2005
2006	298,067	4.0	11,923	0	3.0	0	11,923	1,891	7,835	500	10,226	3.4	22,149	7.4	2006
2007	300,290	4.0	12,012	0	3.0	0	12,012	1,967	8,149	500	10,615	3.5	22,627	7.5	2007
2008	302,608	4.0	12,104	0	3.0	0	12,104	2,045	8,475	500	11,020	3.6	23,124	7.6	2008
2009	305,022	4.0	12,201	0	3.0	0	12,201	2,127	8,814	500	11,441	3.8	23,642	7.8	2009
2010	307,541	4.0	12,302	0	3.0	0	12,302	2,212	9,166	500	11,879	3.9	24,180	7.9	2010
2011	310,165	4.0	12,407	0	3.0	0	12,407	2,301	9,533	500	12,334	4.0	24,740	8.0	2011
2012	312,901	4.0	12,516	0	3.0	0	12,516	2,393	9,914	500	12,807	4.1	25,323	8.1	2012
2013	315,753	4.0	12,630	0	3.0	0	12,630	2,488	10,311	500	13,299	4.2	25,929	8.2	2013
2014	318,725	4.0	12,749	0	3.0	0	12,749	2,588	10,723	500	13,811	4.3	26,560	8.3	2014
2015	321,824	4.0	12,873	0	3.0	0	12,873	2,691	11,152	500	14,344	4.5	27,217	8.5	2015
2016	325,053	4.0	13,002	0	3.0	0	13,002	2,799	11,598	500	14,897	4.6	27,900	8.6	2016
2017	328,420	4.0	13,137	0	3.0	0	13,137	2,911	12,062	500	15,473	4.7	28,610	8.7	2017
2018	331,929	4.0	13,277	0	3.0	0	13,277	3,027	12,545	500	16,072	4.8	29,349	8.8	2018
2019	335,587	4.0	13,423	0	3.0	0	13,423	3,149	13,047	500	16,695	5.0	30,119	9.0	2019
2020	339,400	4.0	13,576	0	3.0	0	13,576	3,274	13,569	500	17,343	5.1	30,919	9.1	2020
2021	343,375	4.0	13,735	0	3.0	0	13,735	3,405	14,111	500	18,017	5.2	31,752	9.2	2021
2022	347,518	4.0	13,901	0	3.0	0	13,901	3,542	14,676	500	18,717	5.4	32,618	9.4	2022
2023	351,836	4.0	14,073	0	3.0	0	14,073	3,683	15,263	500	19,446	5.5	33,519	9.5	2023
2024	356,338	4.0	14,254	0	3.0	0	14,254	3,831	15,873	500	20,204	5.7	34,457	9.7	2024
2025	361,030	4.0	14,441	0	3.0	0	14,441	3,984	16,508	500	20,992	5.8	35,433	9.8	2025
2026	365,921	4.0	14,637	0	3.0	0	14,637	4,143	17,168	500	21,812	6.0	36,449	10.0	2026
2027	371,019	4.0	14,841	0	3.0	0	14,841	4,309	17,855	500	22,664	6.1	37,505	10.1	2027
2028	376,334	4.0	15,053	0	3.0	0	15,053	4,481	18,569	500	23,551	6.3	38,604	10.3	2028
2029	378,697	4.0	15,144	0	3.0	0	15,144	4,661	19,312	500	24,473	6.5	39,617	10.5	2029
2030	378,607	4.0	15,144	0	3.0	0	15,144	4,847	20,085	500	25,432	6.7	40,576	10.7	2030
2031	378,607	4.0	15,144	0	3.0	0	15,144	5,041	20,890	500	26,429	7.0	41,573	11.0	2031
2032	378,607	4.0	15,144	0	3.0	0	15,144	5,243	21,724	500	27,466	7.3	42,610	11.3	2032
2033	378,607	4.0	15,144	0	3.0	0	15,144	5,452	22,593	500	28,545	7.5	43,689	11.5	2033
2034	378,607	4.0	15,144	0	3.0	0	15,144	5,670	23,496	500	29,667	7.8	44,811	11.8	2034
2035	378,607	4.0	15,144	0	3.0	0	15,144	5,897	24,436	500	30,833	8.1	45,978	12.1	2035
2036	378,607	4.0	15,144	0	3.0	0	15,144	6,133	25,413	500	32,047	8.5	47,191	12.5	2036
2037	378,607	4.0	15,144	0	3.0	0	15,144	6,378	26,430	500	33,308	8.8	48,453	12.8	2037
	16,027,515			0			633,639	144,263	597,781	26,000	768,044		1,401,683		

Loan Principal ($=000's) $196,000
Inflation Rate 4.00%
Internal Rate of Return (ROR) 6.10%
Case Number H2-2

30-Apr-85

YEAR	BASELOAD SALES (MWH)	BASELOAD RATE (CENTS/KWH)	BASELOAD REVENUE ($=000's)	ADDITIONAL SALES (MWH)	ADDITIONAL RATE (CENTS/KWH)	ADDITIONAL REVENUE ($=000's)	TOTAL DEBT S+C ($=000's)	OPERATIONS & MAINTENANCE ADMIN ($=000's)	O&M ON-SITE ($=000's)	O&M R & R ($=000's)	O&M TOTAL ($=000's)	O&M RATE (CENTS/KWH)	TOTAL COST ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
1986	181,496	2.6	4,719	10,828	1.6	173	4,892	863	3,576	500	4,939	2.6	9,831	5.1	1986
1987	191,417	2.8	5,360	21,656	1.8	390	5,750	898	3,719	500	5,117	2.4	10,867	5.1	1987
1988	199,181	3.2	6,374	32,484	2.2	715	7,089	923	3,868	500	5,291	2.3	12,380	5.3	1988
1989	206,042	3.5	7,211	42,312	2.5	1,058	8,269	971	4,023	500	5,493	2.2	13,763	5.5	1989
1990	212,994	4.0	8,520	54,140	3.0	1,624	10,144	1,010	4,183	500	5,693	2.1	15,837	5.9	1990
1991	219,067	4.0	8,763	54,140	3.0	1,624	10,387	1,050	4,351	500	5,901	2.2	16,288	6.0	1991
1992	226,907	4.0	9,076	54,140	3.0	1,624	10,700	1,092	4,525	500	6,117	2.2	16,817	6.0	1992
1993	236,183	4.0	9,447	54,140	3.0	1,624	11,072	1,136	4,706	500	6,341	2.2	17,413	6.0	1993
1994	245,892	4.0	9,836	54,140	3.0	1,624	11,460	1,181	4,894	500	6,575	2.2	18,035	6.0	1994
1995	255,439	4.0	10,218	54,140	3.0	1,624	11,842	1,228	5,090	500	6,818	2.2	18,660	6.0	1995
1996	260,533	4.0	10,421	54,140	3.0	1,624	12,046	1,277	5,297	500	7,071	2.2	19,116	6.1	1996
1997	265,897	4.0	10,636	54,140	3.0	1,624	12,260	1,329	5,505	500	7,334	2.3	19,594	6.1	1997
1998	271,482	4.0	10,859	54,140	3.0	1,624	12,483	1,382	5,725	500	7,607	2.3	20,090	6.2	1998
1999	277,343	4.0	11,094	54,140	3.0	1,624	12,718	1,437	5,954	500	7,891	2.4	20,609	6.2	1999
2000	283,488	4.0	11,340	54,140	3.0	1,624	12,964	1,494	6,192	500	8,187	2.4	21,151	6.3	2000
2001	288,220	4.0	11,529	54,140	3.0	1,624	13,153	1,554	6,440	500	8,494	2.5	21,647	6.3	2001
2002	293,043	4.0	11,602	54,140	3.0	1,624	13,226	1,616	6,698	500	8,814	2.6	22,040	6.4	2002
2003	297,926	4.0	11,677	54,140	3.0	1,624	13,301	1,681	6,966	500	9,147	2.6	22,448	6.5	2003
2004	303,889	4.0	11,756	54,140	3.0	1,624	13,380	1,748	7,244	500	9,493	2.7	22,872	6.6	2004
2005	309,935	4.0	11,837	54,140	3.0	1,624	13,462	1,818	7,534	500	9,852	2.8	23,314	6.7	2005
2006	316,067	4.0	11,923	54,140	3.0	1,624	13,547	1,891	7,835	500	10,226	2.9	23,773	6.7	2006
2007	322,290	4.0	12,012	54,140	3.0	1,624	13,636	1,967	8,149	500	10,615	3.0	24,251	6.8	2007
2008	328,608	4.0	12,104	54,140	3.0	1,624	13,729	2,045	8,475	500	11,020	3.1	24,749	6.9	2008
2009	335,023	4.0	12,201	54,140	3.0	1,624	13,825	2,127	8,814	500	11,441	3.2	25,266	7.0	2009
2010	341,541	4.0	12,302	54,140	3.0	1,624	13,926	2,212	9,166	500	11,879	3.3	25,804	7.1	2010
2011	348,165	4.0	12,407	54,140	3.0	1,624	14,031	2,301	9,533	500	12,334	3.4	26,364	7.2	2011
2012	354,901	4.0	12,516	54,140	3.0	1,624	14,140	2,393	9,914	500	12,807	3.5	26,947	7.3	2012
2013	361,753	4.0	12,630	54,140	3.0	1,624	14,254	2,488	10,311	500	13,299	3.6	27,554	7.4	2013
2014	368,725	4.0	12,749	54,140	3.0	1,624	14,373	2,588	10,723	500	13,811	3.7	28,184	7.6	2014
2015	375,824	4.0	12,873	54,140	3.0	1,624	14,497	2,691	11,152	500	14,344	3.8	28,841	7.7	2015
2016	382,053	4.0	13,002	53,554	3.0	1,607	14,609	2,799	11,598	500	14,897	3.9	29,506	7.8	2016
2017	388,420	4.0	13,137	50,187	3.0	1,506	14,642	2,911	12,062	500	15,473	4.1	30,116	8.0	2017
2018	394,929	4.0	13,277	46,678	3.0	1,400	14,678	3,027	12,545	500	16,072	4.2	30,750	8.1	2018
2019	401,587	4.0	13,423	43,020	3.0	1,291	14,714	3,149	13,047	500	16,695	4.4	31,409	8.3	2019
2020	408,400	4.0	13,576	39,207	3.0	1,176	14,752	3,274	13,568	500	17,343	4.6	32,095	8.5	2020
2021	415,375	4.0	13,735	35,232	3.0	1,057	14,792	3,405	14,111	500	18,017	4.8	32,809	8.7	2021
2022	422,518	4.0	13,901	31,089	3.0	933	14,833	3,542	14,676	500	18,717	4.9	33,551	8.9	2022
2023	429,836	4.0	14,073	26,771	3.0	803	14,877	3,683	15,263	500	19,446	5.1	34,323	9.1	2023
2024	437,338	4.0	14,254	22,269	3.0	668	14,922	3,831	15,873	500	20,204	5.3	35,125	9.3	2024
2025	445,030	4.0	14,441	17,577	3.0	527	14,969	3,984	16,508	500	20,992	5.5	35,961	9.5	2025
2026	452,921	4.0	14,637	12,686	3.0	381	15,017	4,143	17,168	500	21,812	5.7	36,829	9.7	2026
2027	461,019	4.0	14,841	7,598	3.0	228	15,068	4,309	17,855	500	22,664	6.0	37,732	10.0	2027
2028	469,334	4.0	15,053	2,273	3.0	68	15,122	4,481	18,569	500	23,551	6.2	38,672	10.2	2028
2029	477,867	4.0	15,144	0	3.0	0	15,144	4,661	19,312	500	24,473	6.5	39,617	10.5	2029
2030	477,867	4.0	15,144	0	3.0	0	15,144	4,847	20,085	500	25,432	6.7	40,576	10.7	2030
2031	378,607	4.0	15,144	0	3.0	0	15,144	5,041	20,888	500	26,429	7.0	41,573	11.0	2031
2032	378,607	4.0	15,144	0	3.0	0	15,144	5,243	21,724	500	27,466	7.3	42,610	11.3	2032
2033	378,607	4.0	15,144	0	3.0	0	15,144	5,452	22,593	500	28,545	7.5	43,689	11.5	2033
2034	378,607	4.0	15,144	0	3.0	0	15,144	5,670	23,496	500	29,667	7.8	44,811	11.8	2034
2035	378,607	4.0	15,144	0	3.0	0	15,144	5,897	24,436	500	30,833	8.1	45,978	12.1	2035
2036	378,607	4.0	15,144	0	3.0	0	15,144	6,133	25,413	500	32,047	8.5	47,191	12.5	2036
2037	378,607	4.0	15,144	0	3.0	0	15,144	6,378	26,430	500	33,308	8.8	48,453	12.8	2037
	16,027,515			1,903,051			689,847	144,263	597,781	26,000	768,044		1,457,892		

Alaska State Legislature

House of Representatives

REPRESENTATIVE
JOHN L. SUND

Box 6440
KETCHIKAN, ALASKA 99901
(907) 225-5552

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4919

CHAIR, HOUSE SPECIAL COMMITTEE ON LOANS
VICE-CHAIR, JUDICIARY COMMITTEE
MEMBER, SPECIAL COMMITTEE ON OIL AND GAS
MEMBER, RESOURCES COMMITTEE

4/22/85

MEMORANDUM

TO: Sen. Arliss Sturgulewski, Chair,
Senate Resources Committee

FROM: Rep. John Sund

RE: HB 219 "An act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

The purpose of this bill is to resolve the problems holding up four-dam-pool power sales agreements and to provide for payback of the $196 million appropriation made last year to complete the hydroelectric projects. The Alaska Power Authority and the six communities served by the four dams have been negotiating power sales agreements for 2½ years without success. The goal is a long-term power sales agreement that provides affordable electricity for the communities and a maximum return on the state's investment.

$210 million was appropriated last year; $196 million has been spent to complete the dams and pay off short-term construction financing issued by the APA. This appropriation was structured as a loan from the Department of Commerce and Economic Development to the APA to be paid off through power sales from the project. AS 44.33.620 sets terms for the loan.

As in existing law, the Finance Committee Substitute does not set in law exact terms for the loan, nor does it set power rates. These are left open for further negotiation. The bill provides specific guidelines for resolving the issue under a plan developed by Gordon Harrison of the APA board.

The APA and the six communities report recent significant progress in power sales agreement negotiations; the plan they are now working with requires the passage of CSHB 219 (Fin). Action is required this session to permit sales agreements which will capture additional loads for the under-utilized hydroelectric capacity.

The bill is supported by both the APA and the four-dam-pool communities. Bob Heath, Executive Director of the APA and representatives of the communities are expected to testify before the Resources Committee.

Sectional analysis:

Section 1:
Sections 1 and 5, propose a change in law to allow two communities to get together for joint operation of a dam. The main purpose is to allow the Thomas Bay Power Authority to operate the Tyee Dam. Tyee serves two communities (Wrangell and Petersburg); Current law requires one or the other to operate the dam. This section corrects that by adding "electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state" to the APUC statutes. Like the communities, the 'joint operating entity' would not be subject to APUC regulation.

Section 2:
This section amends the loan terms for the Power Development Revolving Loan Fund (AS 44.33.620). This fund was created last session and the statutory loan terms give little direction to the APA. The added language sets clear guidelines for the agencies to work with. Deleted is the requirement that the loan terms be set considering market rates of interest.

Section 3 adds a definition: "initial project" means the four dams.

Section 4 adds a provision for power sales contract rate reopeners. This protects the state in times of inflation when the power sales rate could not provide sufficient loan repayment in real terms and protects the communities should the price of alternate power generation drop significantly. An important provision is added allowing an agreed schedule of wholesale power rates to be included in the contracts. This allows a contract to be reached through negotiation which will provide for certainty in power rates as needed by utility planners. This also will provide for a greater return to the state in debt service from the project.

Section 5 adds joint operating entities to the definition of "qualified utilities" which may purchase power from the APA. (See explanation of Section 1)

RETAIL RATES
(cents per kwh)

Community	@ 200 kwh/month	@ 500 kwh/month	@ 700 kwh/month
Copper Valley			
-Glenallen	23.5	20.1	18.8
-Valdez	21.3	16.0	14.7
Kodiak	19.0	18.1	17.5
Wrangell	19.1	16.3	15.7
Petersburg	13.9	11.7	11.2
Ketchikan	14.3	10.8	10.2

COMPONENTS OF THE RATES
(cents per kwh)

Community	APA O&M	APA Debt Service	Other*/	Total (@ 700 kwh/month)
Copper Valley				
-Glenallen	2.76	2.64	13.4	18.8
-Valdez	2.76	2.64	9.3	14.7
Kodiak	2.00	2.64	12.86	17.5
Wrangell	4.59	2.64	8.47	15.7
Petersburg	4.59	2.64	3.97	11.2
Ketchikan	2.26	2.64	5.3	10.2

*/ "Other" includes distribution, administrative and general, reserve generation, and other generation (other hydro as well as diesel in the case of Ketchikan and Petersburg.)

Draft: April 23, 1985

SHORTCOMINGS OF PRICING APA POWER AS A PERCENTAGE OF AVOIDED COST

A. Problems for the purchasing utility (in the Alaskan context)*/

1. Loss of potential loads: Some or all potential large new loads that could increase project utilization will be lost, because such loads demand a higher degree of certainty over longer periods. Many such loads will either be met with private generation or cogeneration (e.g., Wrangell Forest Products) or will be lost entirely (e.g., Phillips). In the cogeneration case, the utility may be required by law to purchase excess cogenerated power from the private party, thus reducing the utility's own purchases from the APA project. In the case of loads lost because the economic activity is relocated (e.g., to the Lower 48), the community loses not only employment and taxes, but also the "induced" loads, i.e., increases in other community loads resulting from the economic activity represented by the primary load.

2. Ratemaking and billing problems: The utility must make its retail rates prospectively, yet its power costs will become known only retrospectively. Matching costs to rates during each rate period (and keeping rates fairly predictable for consumers), always a chore, becomes significantly more difficult.

3. Added administrative costs: A fairly sophisticated formula is needed to calculate true avoided cost, and the values for each variable in the formula must be recalculated at frequent (e.g., monthly) intervals. This would create some administrative burden even if (a) diesel were the only alternative, and (b) disputes with APA over the proper value for each variable never arose. (It is also difficult to continue getting realistic quotes for a large volume of diesel once the utility begins buying reduced volumes.) In practice, the difficulties are even greater because (a) the formula must accommodate other alternatives (e.g., cogeneration) as such alternatives become available, and (b) disputes with the APA over the value of individual variables are likely.

---

*/ Such pricing works well in power "pools" in which a sophisticated computer controls the generators of many producers on an instantaneous central-dispatch basis. The computer is programed to minimize total generation costs at all times, based on each generator's fuel cost, efficiency, and maximum/minimum operating guides. Cost savings made possible by using Utility A's generator rather than Utility B's to serve a portion of Utility B's load are "split" (usually on a 50/50 basis) through use of a share-the-savings rate the computer charges to Utility B and credits to Utility A. The actual rate for each transaction, and each utility's costs and savings for any given period, are known at once, facilitating utility ratemaking and billing. Nothing similar exists in Alaska, nor could it exist in the Four Dam Pool context where (a) the communities are not electrically interconnected, and (b) APA power is intended to displace thermal generation completely for most days of the year.

AMENDMENT

TO: "Discussion Draft" HB 219

Page 2, Line 23:

Replace Section 4 with:

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.~~33~~ 625. RATE REOPENERS. A power sales agreement for the sale of power from the initial project financed with a loan under AS 44.33.610 may include among its provisions an agreed schedule of wholesale power rates notwithstanding the provisions of AS 44.83.398 but must include a provision for a rate reopener~~, after the first 15 years~~.

AMENDMENT

TO: HB 219

Page 2, Line 21:

Add a new section:

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.~~33~~625. ~~PRICE~~ RATE REOPENERS. A power sales agreement for the sale of power from a power project financed with a loan under AS 44.33.610 may include among its provisions an agreed schedule of wholesale power rates notwithstanding ~~any other~~ provisions of ~~law and~~ must include a provision for a ~~price~~ RATE reopener ~~after the first 15 years~~.

Renumber following sections accordingly

AMENDMENT

TO: "Discussion Draft" HB 219

Page 2, Line 23:

Replace Section 4 with:

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.~~33~~ 625. ~~PRICE~~ RATE REOPENERS. A power sales agreement for the sale of power from a power project financed with a loan under AS 44.33.610 ~~may~~ include among its provisions an agreed schedule of wholesale power rates notwithstanding any other provisions of law and must include a provision for a ~~price~~ rate reopener after the first 15 years. 44.~~33~~ 83.398

(1) system increment

(2) separate O&M can now be combined

(3) 398 E – distribution of all LPA cost over all kw hours.

Levy
4/10/85

Original sponsor: House Special Committee on State Loans

DISCUSSION DRAFT

IN THE HOUSE

CS FOR HOUSE BILL NO. 219 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

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

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and regional electric authorities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state, none of whose utilities is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

* Sec. 2. AS 44.33.620(a) is amended to read:

(a) A loan from the fund shall [MUST] be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) [THE MARKET RATE OF INTEREST FOR A LOAN OF COMPARABLE SIZE AND DURATION AT THE TIME THE LOAN IS MADE; AND

(2)] the [ESTIMATED] costs, at the time the power sales agreement ~~loan~~ is ini-

tially negotiated [and at the time it] or is renegotiated, of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund;

(2) the effect of the loan terms on the wholesale power costs to all utilities purchasing power from the initial project;

(3) the long-term benefits to consumers and communities of stable wholesale power costs;

(4) the affordability of initial wholesale power costs that result from the loan terms with utilities purchasing power from the initial project;

(5) increasing repayment, not to exceed five years, of debt service payment per kilowatt hour gradually over the initial period of a loan repayment schedule to the extent necessary to avoid significant rate increases to the consumer;

(6) the existing excess capacity of power projects; and

(7) the effects of increased capacity utilization, inflation, and alternative energy production costs over the life of the initial project.

* Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

(d) In (a) of this section "initial project" means the project described in AS 44.83.398(a).

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.625. PRICE REOPENERS. A power sales agreement for the sale of power from a power project financed with a loan under AS 44.33.610 must include a provision for periodic price reopeners.

* Sec. 5. AS 44.83.425(5) is amended to read:

(5) "qualified utility" means an electric utility or a regional electric authority established as an instrumentality of two or more electric utilities [THAT IS] certified by the Alaska Public

Utilities Commission to serve all or part of a market area that is served or will be served by the power project, [AND] that the authority determines is capable of operating and maintaining the power project.

RICK NEWLAND

The initial project offers a unique opportunity to share the infrastructure development in a sensible and equitable manner. the state or Federal Government has traditionally taken the responsibility for the infrastructure necessary to encourage statewide and/or regional economic development. The initial project has an excess capacity of approximately 59% at the present time. Of that 59% excess, approximately 49% is to be found in the Tyee project. The Tyee project, as an example, was built with excess capability because it is geographically well placed to aid regional and statewide energy and economic development. However, the interest on the excess capacity should be carried at state expense until such time as it is needed.

The current situation offers a unique opportunity for the communities and the state to share the burden of infrastructure development in a sensible and equitable manner. The provisions of HB 219 provide for the complete repayment of the principal and the maximum affordable interest rate which can be repaid under current conditions.

Repayment of the APA loan is computed at a fixed interest rate over a set term in order to yield a levelized debt service payment per kilowatt hour. Actual debt service is, in each year, the result of the payment of that portion of the levelized debt service amount corresponding to the fraction of the initial project's total capability which is actually sold in that year. The portion of the debt service amount not paid that year would have a principal component and an interest component. The principal component would be deferred to the end of the amortization period, to be repaid over the contract term remaining thereafter. The interest component is cancelled or treated as simply

unearned. The effect of this structure would be to establish a debt service rate which assumes the initial project is fully utilized and which remains level throughout the period of the loan.

ESSENTIAL LOAN CONDITIONS:

1. Interest rate of 4% on the fraction of the principal which corresponds to the fraction of initial project which is utilized in each contract year.
2. Principal amount of approximately $196 million.
3. Term of the loan is 50 years with a 40 year amortization period.
4. Annual debt service during the amortization period to be computed payment amount multiplied by a fraction, the numerator of which is the actual amount of energy sold that year, and the denominator of which is the total 378,607,000 kwh capability of the initial project.
5. Principal amounts of the loan not paid during the amortization period because of unsold capability shall be deferred until the fortieth year, and then repaid in equal installments without interest over the remaining ten years.

AMENDMENT

OFFERED IN THE HOUSE: BY: SUND

TO: _____ HOUSE BILL No. 219

SENATE BILL No. _____

PAGE: _____ LINE: _____

Page 1, line 13
Delete "regional electric authorities"
Replace with "electric operating entities"

Page 2, line 22, 23
Delete "a regional electric authority"
Replace with "an electric operating entity"

****

Purpose of amendment:

A term of art "regional electric authority" was inadvertantly used; the effect of using this term would be to deregulate an existing electric authority. The amendment would clarify the legislative intent and leave unchanged existing APUC regulation.

****

Pourchot

DISCUSSION DRAFT CSHB 219 (Finance) at the time of entering into the contract

Section 1. AS 42.05.711(b) is amended to read: ...(same)

Sec. 2. AS 44.33.620(a) is amended to read:

(a) A loan from the fund must be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

ok

[(1) the market rate of interest for loan of comparable size and duration at the time the loan is made; and]

clarify

today = affordable:

(1) the current [estimated] costs of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund . ;

(2) the effect of the loan terms on the wholesale power costs to all utilities purchasing power from the initial project;

(3) the affordability of initial wholesale power costs resulting from the loan terms on utilities purchasing power from the initial project;

(4) the benefits to consumers and communities of stable, certain wholesale power costs;

how do you calculate

(5) existing or anticipated wholesale power prices for other state hydroelectric projects; in the state

read new word (read to limit the terms)

ramp:

(6) increasing repayment of debt service payment per kilowatt hour gradually over the initial period of a loan repayment schedule to avoid significant rates increases to consumers above existing levels; (to extent necessary)

(7) the current existing excess capacity of projects;

* (8) the long-term benefits to utilities and consumers of stable hydroelectric power costs;

rewrite

* (9) the effects of increased capacity utilization, inflation, and alternative energy production costs over the life of the initial project. 100 pers

* (10) power sale contracts no more than 35 years in duration with periodic price reopeners;

Sec. 3. AS 44.83.425(5) is amended to read: ....(same)

= purchase of power

Pourchot

DISCUSSION DRAFT CSHB 219 (Finance)

Section 1. AS 42.05.711(b) is amended to read: ...(same)

Sec. 2. AS 44.33.620(a) is amended to read:

(a) A loan from the fund must be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

[(1) the market rate of interest for loan of comparable size and duration at the time the loan is made; and]

(1) the current [estimated] costs of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund . ;

(2) the effect of the loan terms on the wholesale power costs to all utilities purchasing power from the initial project;

(3) the affordability of initial wholesale power costs resulting from the loan terms on utilities purchasing power from the initial project;

(4) the benefits to consumers and communities of stable, certain wholesale power costs;

(5) existing or anticipated wholesale power prices for other state hydroelectric projects;

(6) increasing repayment of debt service payment per kilowatt hour gradually over the initial period of a loan repayment schedule to avoid significant rates increases to consumers above existing levels;

(7) the current existing excess capacity of projects;

* (8) the long-term benefits to utilities and consumers of stable hydroelectric power costs;

* (9) the effects of increased capacity utilization, inflation, and alternative energy production costs over the life of the initial project.

* (10) power sale contracts no more than 35 years in duration with periodic price reopeners;

Sec. 3. AS 44.83.425(5) is amended to read: ....(same)

HB219
Sund

E. C. PHILLIPS & SON, INC.
Box 8235
KETCHIKAN, ALASKA 99901

March 28, 1985

Mayor Charles Freeman
City of Ketchikan, Alaska

Dear Chuck,

I am writing this letter to inform you that we are strongly considering buying diesel generators due to the high cost of K.P.U. power. We have done considerable research and found that we can generate for less than 6½¢ per kilowatt hour.

We feel that since Swan Lake is being utilized less than 50%, we should not have to pay a demand charge since there is a surplus of power. I am enclosing a copy of a proposal on diesel power which clearly shows that by using their option 3 plan at 6½¢ per kilowatt hour, we could save close to $40,000 a year. This is based on $1.25 per gallon for fuel and we are only paying $.94 per gallon at the present time.

We also have another option which would be to ship all of our product South during the season and close the plant at the end of the season. We normally keep a crew employed in the Winter to pack the fish and fill our orders directly from Ketchikan.

We would like to keep the plant open all year round, utilizing K.P.U.'s power, but the continuing high cost may prohibit us from doing this.

Thank you,

Jim D. Jones
Chief Engineer

JDJ:cw

Phone: (907) 225-3121

February 9, 1985

E.C. Phillips & Son
P.O. Box 8235
Ketchikan, Alaska 99901
Attn: Jim Jones

Re: Diesel electric power conversion for your Ketchikan plant

Jim,

For your electric power requirements, I am pleased to offer you the following quote.

Option #1

2 (two) each NTA 495 G1, 1800 R.P.M. 110 KW prime, (125 KW w/o fan) diesel electric generators for the price of $39,025.00

Which includes the following:

* Skid mounted w/pad type vibration isolation
* Radiator cooled
* Unit mounted manual start control panel with complete instumentation and manual paralelling capability
* Unit mounted circuit breaker
* Stainless steel exaust flex and Nelson "critical level" exaust silencers
* Vernier throttles
* Batteries, rack and cables
* Custom Registry
* F.O.B. your plant, Ketchikan, Alaska - delivered

Alternates:

A. Wall mounted control panel for both units w/complete instrumentation for manual paralelling $9,528.00
B. Heat exchanger cooling (skid mounted) for both units...$1,267.00
C. Motor operated circuit breakers for both units $1,425.00

Option #2

2 (two) each Cummins N 855 G, 1800 R.P.M., 135 KW prime (140 KW w/o fan) diesel electric generators for the price of $47,335.00

Which includes the same equipment as in option #1.

Alternates:

A. Same as option #1 alternate A.....$9,528.00
B. " " B.....$2,156.00
C. " " C.....$1,425.00

Option #3

2 (two) each Cummins NT 855 G3 1200 R.P.M., 160 KW prime (170 KW w/o fan) diesel electric generators for the price of $57,200.00

Alternates:

A. Same as option #1 alternate A $9,528.00
B. " " B $1.625.00
C. " " C $1,425.00

Summarization:

Initial investment cost per KW (includes wall mounted panel, heat exchanger cooling, and motor operated breakers).

Option #1 $232.93
Option #2 $223.87
Option #3 $218.06

KW cost per hour, based on both units (set up heat exchanger cooled, w/wall panel, & motor operated breakers), operating continously at 3/4 rated load each for 5 years. Include the following:

(1) The investment cost amortized over 5 years
(2) Fuel @ rated consumption based on $1.25 per gallon
(3) $3.00 per hour for lube oil, filters, maintenence and 1 major overhaul in the 5 year period

Option #1.....Less than 8¢ per KW/hr.
(1) per KW/hr.....$0.0070907
(2) " "..... 0.0533333
(3) " "..... 0.0160000
$0.0764240

Option #2..... Less than 7¢ per KW/hr.
(1) per KW/hr.....$0.0065714
(2) " "..... 0.0465686
(3) " "..... 0.0142857
$0.0684761

Option #3..... Less than 6½¢ per KW/hr.
(1) per KW/hr.....$0.0062474
(2) " "..... 0.0465686
(3) " "..... 0.0117647
$0.0645807

As you can see the larger the unit, the lower the cost, if you can utilize the power. Remember while one unit is not being used your KW/hr. cost would [redacted] increase by the amortized factor, decrease by fuel & maintenance factors.

I hope that this has been some help to you. The prices quoted are firm for 60 days and subject to change thereafter. Availability on these units is 60 days. I look forward to doing business with you.

MEMORANDUM

TO: House Special Committee on State Loans

FROM: Richard D. Newland, Utilities Manager
Ketchikan Public Utilities

RE: Wholesale Power Cost Comparison

DATE: March 5, 1985

Attached you will find a tabulation, accompanied by a graphic presentation, showing projected wholesale power costs for the City of Ketchikan under three alternative scenarios. The generation of powe from the Swan Lake Hydroelectric Project is compared under HB 219 and the package proposed by the Alaska Power Authority (APA); we also project the costs of a like amount of power generated by diesel.

Several points should be emphasized regarding these numbers. First, these are wholesale rates. Rates to the customer would be considerably greater than what is presented here. Second, these are "marginal" rates, i.e., rates for power generated by the Swan Lake Project or by diesel generation used in lieu of Swan Lake. Their effect on Ketchikan's retail rates, up or down, is mitigated by Ketchikan's other sources of power, including other hydroelectric generation. Third, these rates do not account for needed generation in the future. Swan Lake is projected to meet Ketchikan's needs for approximately the next ten years, after which we will need to rely on new generation. Our future rates will therefore continue to be affected by changes in the energy program for Alaska.

In constructing these projections, we have relied on the following sources:

1. Load forecasts were developed by the APA.

2. Swan Lake operation and maintenance costs are from our current budget. They are inflated annually at the assumed inflation rate.

3. Diesel operation and maintenance costs are from the studies used to develop our most recent proposed rate ordinance. They are also inflated annually.

4. Diesel operation and maintenance costs are divided into fixed and variable costs. The fixed costs have been included under the Swan Lake projections because the diesels will be used as reserves.

5. APA debt service costs are from their projection of February 12, 1985.

6. Diesel fuel projections are from the Alaska Department of Revenue Mean Forecast of World Oil Price (Saudi Medium), calculated in 1983 dollars and then inflated at the assumed inflation rate.

7. Each of our cases uses different assumptions about 1985 diesel costs and about the rate of inflation. These assumptions are printed on the tables. The base case (Case 1), uses a 1985 diesel cost of 71¢ per gallon, computed from information provided by Chuck Logsden, Petroluem Economist for the Department of Revenue. The base inflation rate is 5% per year.

I would like to thank the Committee for the opportunity to present this information.

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 1

	1985	1986	1987	1988	1989	1990	1991	1992
Generation in MWH	28,880	37,764	41,423	44,140	46,872	49,663	52,516	55,430
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,155,000	1,212,750	1,273,388	1,337,057	1,403,910	1,474,105	1,547,810
Diesel Reserve Cost (Dollars)	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.00	2.12	2.25	2.39	2.53	2.68	2.68	2.68
Principal (Dollars)	0	19,250	76,048	145,561	229,132	329,246	363,052	399,759
Interest (Dollars)	577,600	781,347	855,969	909,385	956,730	1,001,723	1,044,376	1,085,765
TOTAL - HB 219 ALTERNATIVE	2,064,592	2,361,938	2,571,426	2,776,325	2,993,310	3,228,789	3,400,140	3,577,871
HB 219 ALTERNATIVE (Cents/KWh)	7.15	6.25	6.21	6.29	6.39	6.50	6.47	6.45
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,155,000	1,212,750	1,273,388	1,337,057	1,403,910	1,474,105	1,547,810
Diesel Reserve Cost (Dollars)	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	2.19	7.39	4.40	5.41	6.30	7.28	7.66	7.40
Debt Service (Dollars)	632,000	1,281,000	1,824,000	2,386,000	2,951,000	3,613,000	4,024,000	4,101,000
TOTAL - APA ALTERNATIVE	2,118,992	2,842,342	3,463,409	4,107,379	4,758,448	5,510,820	6,016,711	6,193,347
APA ALTERNATIVE (Cents/KWH)	7.34	7.53	8.36	9.31	10.15	11.10	11.46	11.17
DIESEL ALTERNATIVE:								
O & M:								
Variable	291,688	400,487	461,255	516,085	575,429	640,178	710,802	787,755
Fixed	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
Fuel	1,428,906	1,859,808	2,042,655	2,232,376	2,520,082	2,816,192	3,116,427	3,473,113
Lube Oil	43,320	59,478	68,503	76,646	85,460	95,076	105,565	116,993
TOTAL - DIESEL ALTERNATIVE	2,150,906	2,726,175	2,999,072	3,273,100	3,651,362	4,045,357	4,451,400	4,922,398
DIESEL ALTERNATIVE (Cents/KWH)	7.45	7.22	7.24	7.42	7.79	8.15	8.48	8.88

ASSUMPTIONS:

Inflation:	1.0500
Diesel (1985 Values):	
Variable O & M (Cents/KWH)	1.0100
Fuel (Cents/Gallon)	71.0000
KWH per Gallon of Diesel	14.3500

SOURCES:

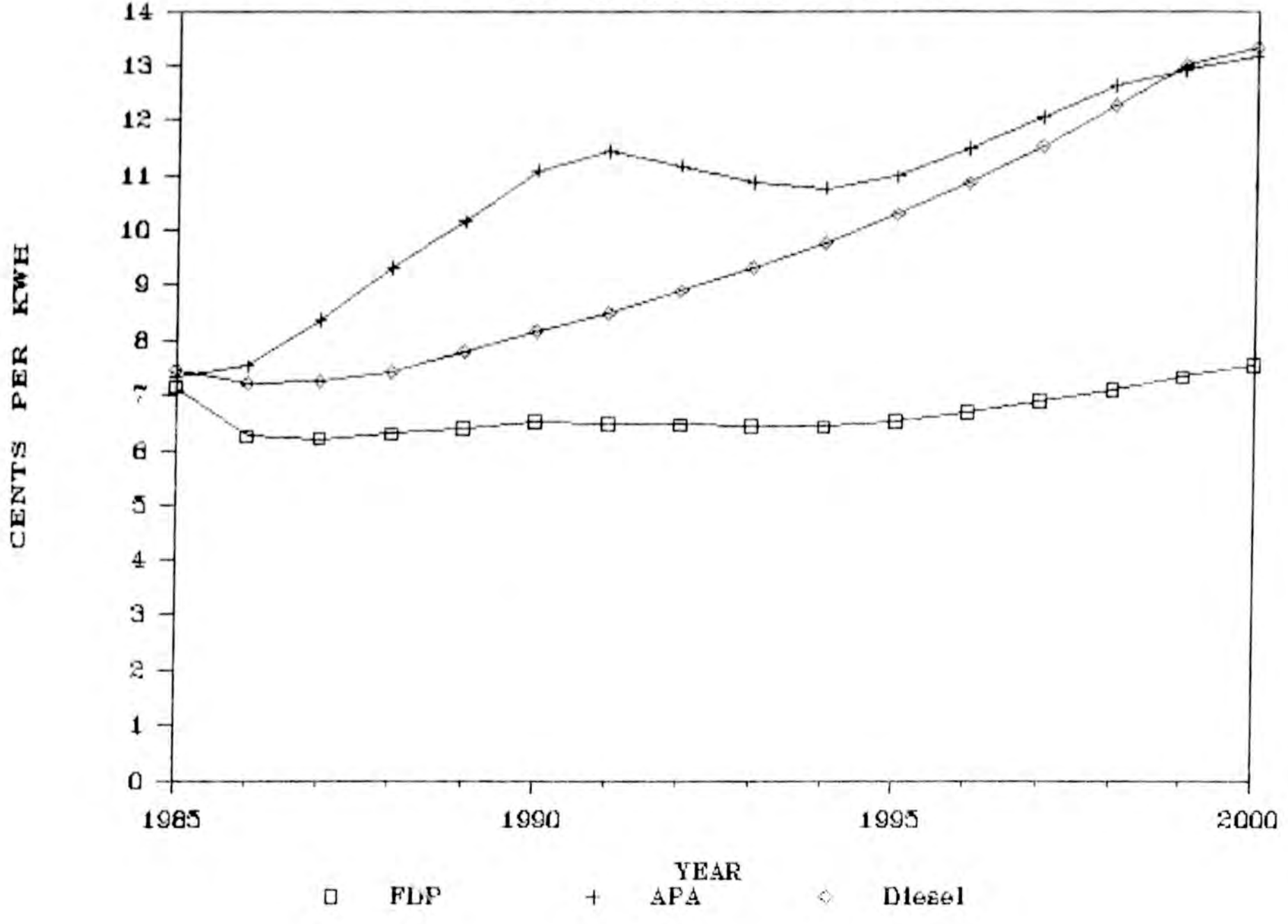
Diesel Fuel Cost Projections: DREV
Generation Requirements: APA
O & M Cost Projections: Based on KPU Historical Data

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 1

	1993	1994	1995	1996	1997	1998	1999	2000
Generation in MWH	58,418	61,682	63,365	63,365	63,365	63,365	63,365	63,365
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,625,201	1,706,461	1,791,784	1,881,373	1,975,442	2,074,214	2,177,925	2,286,821
Diesel Reserve Cost (Dollars)	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Principal (Dollars)	439,582	484,152	518,594	540,010	562,273	585,423	609,493	634,518
Interest (Dollars)	1,126,020	1,168,925	1,179,588	1,158,172	1,135,909	1,112,759	1,088,689	1,063,664
TOTAL - HB 219 ALTERNATIVE	3,762,567	3,959,890	4,120,335	4,241,443	4,368,606	4,502,127	4,642,324	4,789,532
HB 219 ALTERNATIVE (Cents/KWh)	6.44	6.42	6.50	6.69	6.89	7.11	7.33	7.56
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,625,201	1,706,461	1,791,784	1,881,373	1,975,442	2,074,214	2,177,925	2,286,821
Diesel Reserve Cost (Dollars)	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	7.11	7.03	7.16	7.48	7.84	8.21	8.29	8.29
Debt Service (Dollars)	4,152,000	4,337,000	4,535,000	4,742,000	4,965,000	5,205,000	5,253,000	5,251,000
TOTAL - APA ALTERNATIVE	6,348,964	6,643,813	6,957,153	7,285,261	7,635,424	8,008,945	8,197,142	8,342,350
APA ALTERNATIVE (Cents/KWH)	10.87	10.77	10.98	11.50	12.05	12.64	12.94	13.17
DIESEL ALTERNATIVE:								
O & M:								
Variable	871,731	966,459	1,042,471	1,094,594	1,149,324	1,206,790	1,267,129	1,330,486
Fixed	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
Fuel	3,868,973	4,317,809	4,688,043	4,959,980	5,292,433	5,651,642	6,033,542	6,120,134
Lube Oil	129,465	143,534	154,822	162,563	170,692	179,226	188,188	197,597
TOTAL - DIESEL ALTERNATIVE	5,441,933	6,028,153	6,515,705	6,879,025	7,307,430	7,767,390	8,255,077	8,452,746
DIESEL ALTERNATIVE (Cents/KWH)	9.32	9.77	10.28	10.86	11.53	12.26	13.03	13.34

WHOLESALE POWER COST ALTERNATIVES

CITY OF KETCHIKAN - CASE 1



WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 2

	1985	1986	1987	1988	1989	1990	1991	1992
Generation in MWH	28,880	37,764	41,423	44,140	46,872	49,663	52,516	55,430
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	1,275,201	1,313,458	1,352,861
Diesel Reserve Cost (Dollars)	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.00	2.12	2.25	2.39	2.53	2.68	2.68	2.68
Principal (Dollars)	0	19,250	76,048	145,561	229,132	329,246	363,052	399,759
Interest (Dollars)	577,600	781,347	855,969	909,385	956,730	1,001,723	1,044,376	1,085,765
TOTAL - HB 219 ALTERNATIVE	2,064,592	2,332,199	2,509,567	2,679,822	2,859,484	3,054,800	3,182,975	3,314,337
HB 219 ALTERNATIVE (Cents/KWh)	7.15	6.18	6.06	6.07	6.10	6.15	6.06	5.98
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	1,275,201	1,313,458	1,352,861
Diesel Reserve Cost (Dollars)	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	2.19	3.39	4.40	5.41	6.30	7.28	7.66	7.40
Debt Service (Dollars)	632,000	1,281,000	1,824,000	2,386,000	2,951,000	3,613,000	4,024,000	4,101,000
TOTAL - APA ALTERNATIVE	2,118,992	2,812,602	3,401,550	4,010,876	4,624,623	5,336,831	5,799,546	5,929,813
APA ALTERNATIVE (Cents/KWH)	7.34	7.45	8.21	9.09	9.87	10.75	11.04	10.70
DIESEL ALTERNATIVE:								
O & M:								
Variable	291,688	392,859	443,851	487,153	532,824	581,488	633,339	688,536
Fixed	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
Fuel	1,428,906	1,824,442	1,965,581	2,107,226	2,333,492	2,558,008	2,776,799	3,035,669
Lube Oil	43,320	58,345	65,918	72,349	79,132	86,360	94,060	102,258
TOTAL - DIESEL ALTERNATIVE	2,150,906	2,674,248	2,885,910	3,089,605	3,381,011	3,674,485	3,966,287	4,302,414
DIESEL ALTERNATIVE (Cents/KWH)	7.45	7.08	6.97	7.00	7.21	7.40	7.55	7.76

ASSUMPTIONS:

Inflation:	1.0300
Diesel (1985 Values):	
Variable O & M (Cents/KWH)	1.0100
Fuel (Cents/Gallon)	71.0000
KWH per Gallon of Diesel	14.3500

SOURCES:

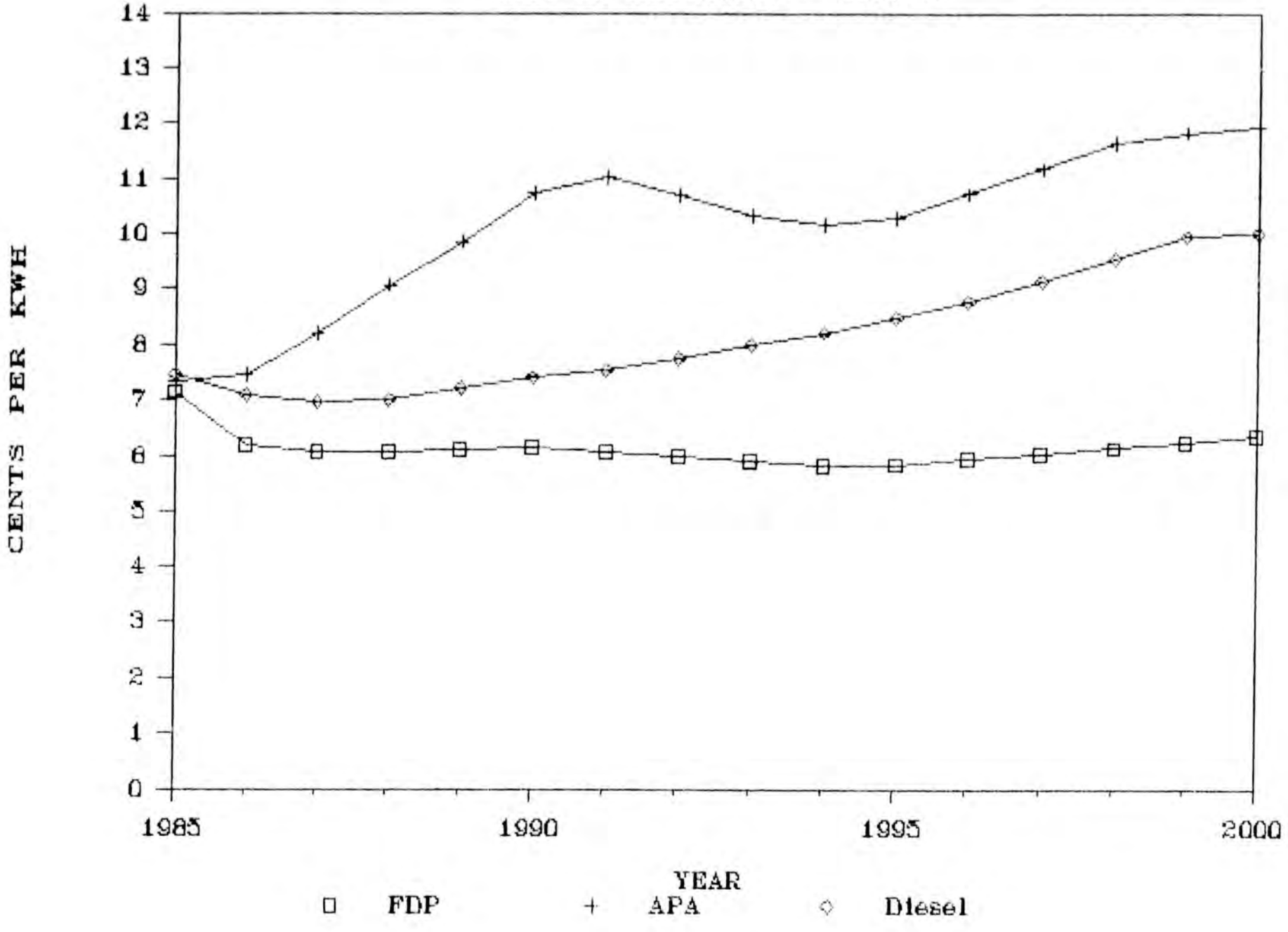
Diesel Fuel Cost Projections: DREV
Generation Requirements: APA
O & M Cost Projections: Based on KPU Historical Data

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 2

	1993	1994	1995	1996	1997	1998	1999	2000
Generation in MWH	58,418	61,682	63,365	63,365	63,365	63,365	63,365	63,365
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,393,447	1,435,251	1,478,308	1,522,657	1,568,337	1,615,387	1,663,849	1,713,764
Diesel Reserve Cost (Dollars)	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Principal (Dollars)	439,582	484,152	518,594	540,010	562,273	585,423	609,493	634,518
Interest (Dollars)	1,126,020	1,168,925	1,179,588	1,158,172	1,135,909	1,112,759	1,088,689	1,063,664
TOTAL - HB 219 ALTERNATIVE	3,449,279	3,593,265	3,696,575	3,756,527	3,818,277	3,881,880	3,947,391	4,014,867
HB 219 ALTERNATIVE (Cents/KWh)	5.90	5.83	5.83	5.93	6.03	6.13	6.23	6.34
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,393,447	1,435,251	1,478,308	1,522,657	1,568,337	1,615,387	1,663,849	1,713,764
Diesel Reserve Cost (Dollars)	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	7.11	7.03	7.16	7.48	7.84	8.21	8.29	8.29
Debt Service (Dollars)	4,152,000	4,337,000	4,535,000	4,742,000	4,965,000	5,205,000	5,253,000	5,251,000
TOTAL - APA ALTERNATIVE	6,035,677	6,277,187	6,533,393	6,800,345	7,085,095	7,388,698	7,502,209	7,567,685
APA ALTERNATIVE (Cents/KWH)	10.33	10.18	10.31	10.73	11.18	11.66	11.84	11.94
DIESEL ALTERNATIVE:								
O & M:								
Variable	747,422	812,858	860,088	885,891	912,468	939,842	968,037	997,078
Fixed	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
Fuel	3,317,257	3,631,573	3,867,861	4,014,275	4,201,752	4,401,470	4,609,388	4,586,484
Lube Oil	111,003	120,722	127,736	131,568	135,515	139,580	143,768	148,081
TOTAL - DIESEL ALTERNATIVE	4,665,912	5,070,089	5,375,770	5,567,421	5,801,493	6,049,203	6,306,553	6,334,564
DIESEL ALTERNATIVE (Cents/KWH)	7.99	8.22	8.48	8.79	9.16	9.55	9.95	10.00

WHOLESALE POWER COST ALTERNATIVES

CITY OF KETCHIKAN – CASE 2



WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 3

	1985	1986	1987	1988	1989	19	1991	1992
Generation in MWH	28,880	37,764	41,423	44,140	46,872	49,663	52,516	55,430
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,155,000	1,212,750	1,273,388	1,337,057	1,403,910	1,474,105	1,547,810
Diesel Reserve Cost (Dollars)	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.00	2.12	2.25	2.39	2.53	2.68	2.68	2.68
Principal (Dollars)	0	19,250	76,048	145,561	229,132	329,246	363,052	399,759
Interest (Dollars)	577,600	781,347	855,969	909,385	956,730	1,001,723	1,044,376	1,085,765
TOTAL - HB 219 ALTERNATIVE	2,064,592	2,361,938	2,571,426	2,776,325	2,993,310	3,228,789	3,400,140	3,577,871
HB 219 ALTERNATIVE (Cents/KWh)	7.15	6.25	6.21	6.29	6.39	6.50	6.47	6.45
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,155,000	1,212,750	1,273,388	1,337,057	1,403,910	1,474,105	1,547,810
Diesel Reserve Cost (Dollars)	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	2.19	3.39	4.40	5.41	6.30	7.28	7.66	7.40
Debt Service (Dollars)	632,000	1,281,000	1,824,000	2,386,000	2,951,000	3,613,000	4,024,000	4,101,000
TOTAL - APA ALTERNATIVE	2,118,992	2,842,342	3,463,409	4,107,379	4,758,448	5,510,820	6,016,711	6,193,347
APA ALTERNATIVE (Cents/KWH)	7.34	7.53	8.36	9.31	10.15	11.10	11.46	11.17
DIESEL ALTERNATIVE:								
O & M:								
Variable	291,688	400,487	461,255	516,085	575,429	640,178	710,802	787,755
Fixed	386,992	406,342	426,659	447,992	470,391	493,911	518,606	544,537
Fuel	1,690,537	2,200,407	2,416,662	2,641,121	2,981,505	3,331,833	3,687,040	4,109,035
Lube Oil	43,320	59,478	68,503	76,646	85,460	95,076	105,565	116,993
TOTAL - DIESEL ALTERNATIVE	2,412,537	3,066,714	3,373,080	3,681,844	4,112,786	4,560,997	5,022,013	5,558,321
DIESEL ALTERNATIVE (Cents/KWH)	8.35	8.12	8.14	8.34	8.77	9.18	9.56	10.03

ASSUMPTIONS:

Inflation:	1.0500
Diesel (1985 Values):	
Variable O & M (Cents/KWH)	1.0100
Fuel (Cents/Gallon)	84.0000
KWH per Gallon of Diesel	14.3500

SOURCES:

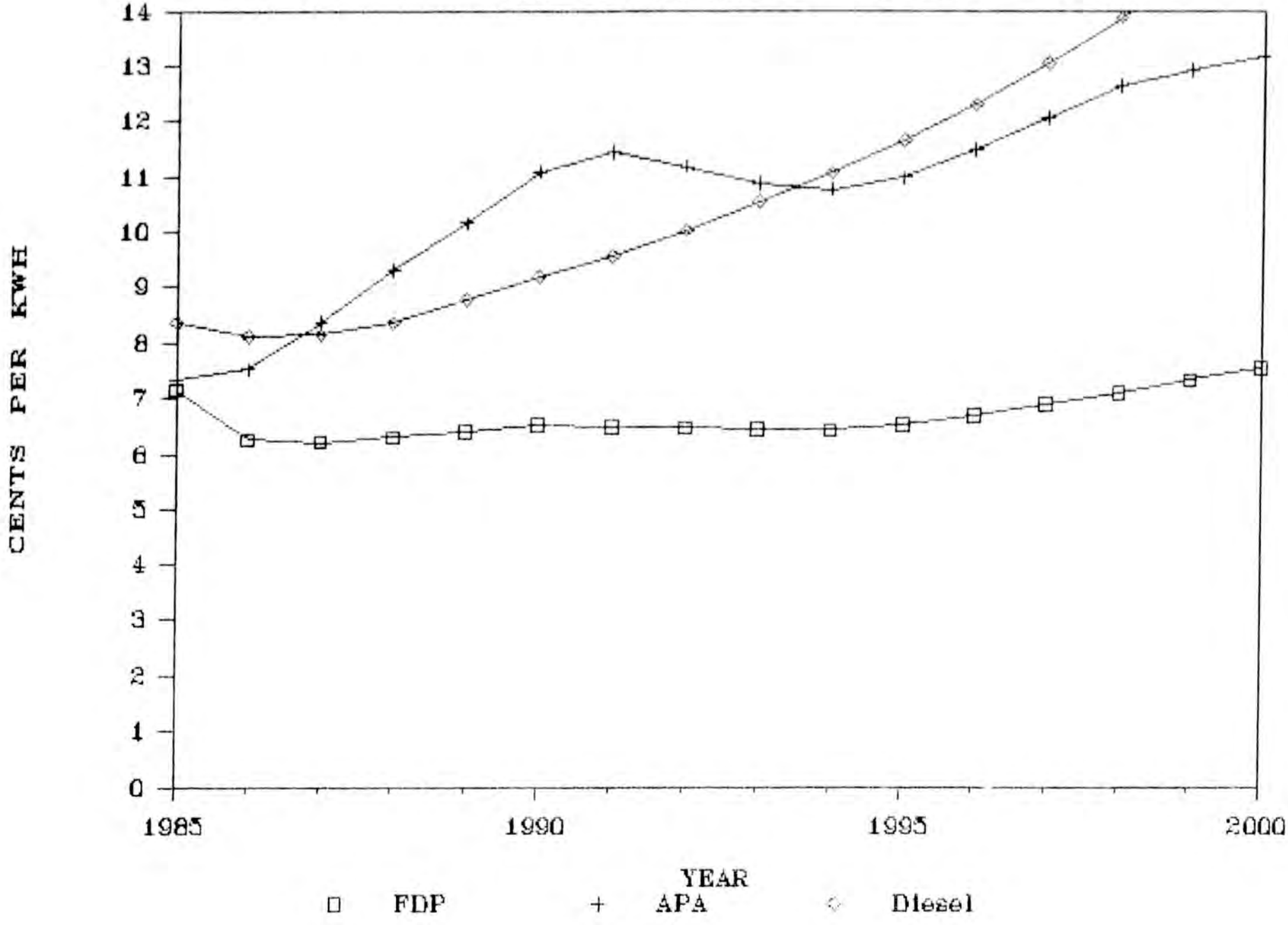
Diesel Fuel Cost Projections: DREV
Generation Requirements: APA
O & M Cost Projections: Based on KPU Historical Data

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 3

	1993	1994	1995	1996	1997	1998	1999	2000
Generation in MWH	58,418	61,682	63,365	63,365	63,365	63,365	63,365	63,365
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,625,201	1,706,461	1,791,784	1,881,373	1,975,442	2,074,214	2,177,925	2,286,821
Diesel Reserve Cost (Dollars)	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Principal (Dollars)	439,582	484,152	518,594	540,010	562,273	585,423	609,493	634,518
Interest (Dollars)	1,126,020	1,168,925	1,179,588	1,158,172	1,135,909	1,112,759	1,088,689	1,063,664
TOTAL - HB 219 ALTERNATIVE	3,762,567	3,959,890	4,120,335	4,241,443	4,368,606	4,502,127	4,642,324	4,789,532
HB 219 ALTERNATIVE (Cents/KWh)	6.44	6.42	6.50	6.69	6.89	7.11	7.33	7.56
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,625,201	1,706,461	1,791,784	1,881,373	1,975,442	2,074,214	2,177,925	2,286,821
Diesel Reserve Cost (Dollars)	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	7.11	7.03	7.16	7.48	7.84	8.21	8.29	8.29
Debt Service (Dollars)	4,152,000	4,337,000	4,535,000	4,742,000	4,965,000	5,205,000	5,253,000	5,251,000
TOTAL - APA ALTERNATIVE	6,348,964	6,643,813	6,957,153	7,285,261	7,635,424	8,008,945	8,197,142	8,342,350
APA ALTERNATIVE (Cents/KWH)	10.87	10.77	10.98	11.50	12.05	12.64	12.94	13.17
DIESEL ALTERNATIVE:								
O & M:								
Variable	871,731	966,459	1,042,471	1,094,594	1,149,324	1,206,790	1,267,129	1,330,486
Fixed	571,763	600,352	630,369	661,888	694,982	729,731	766,218	804,529
Fuel	4,577,377	5,108,394	5,546,417	5,868,145	6,261,469	6,686,450	7,138,275	7,240,722
Lube Oil	129,465	143,534	154,822	162,563	170,692	179,226	188,188	197,597
TOTAL - DIESEL ALTERNATIVE	6,150,336	6,818,738	7,374,079	7,787,190	8,276,467	8,802,197	9,359,810	9,573,334
DIESEL ALTERNATIVE (Cents/KWH)	10.53	11.05	11.64	12.29	13.06	13.89	14.77	15.11

WHOLESALE POWER COST ALTERNATIVES

CITY OF KETCHIKAN – CASE 3



WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 4

	1985	1986	1987	1988	1989	1990	1991	1992
Generation in MWH	28,880	37,764	41,423	44,140	46,872	49,663	52,516	55,430
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	1,275,201	1,313,458	1,352,861
Diesel Reserve Cost (Dollars)	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.00	2.12	2.25	2.39	2.53	2.68	2.68	2.68
Principal (Dollars)	0	19,250	76,048	145,561	229,132	329,246	363,052	399,759
Interest (Dollars)	577,600	781,347	855,969	909,385	956,730	1,001,723	1,044,376	1,085,765
TOTAL - HB 219 ALTERNATIVE	2,064,592	2,332,199	2,509,567	2,679,822	2,859,484	3,054,800	3,182,975	3,314,337
HB 219 ALTERNATIVE (Cents/KWh)	7.15	6.18	6.06	6.07	6.10	6.15	6.06	5.98
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060	1,275,201	1,313,458	1,352,861
Diesel Reserve Cost (Dollars)	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	2.19	3.39	4.40	5.41	6.30	7.28	7.66	7.40
Debt Service (Dollars)	632,000	1,281,000	1,824,000	2,386,000	2,951,000	3,613,000	4,024,000	4,101,000
TOTAL - APA ALTERNATIVE	2,118,992	2,812,602	3,401,550	4,010,876	4,624,623	5,336,831	5,799,546	5,929,813
APA ALTERNATIVE (Cents/KWH)	7.34	7.45	8.21	9.09	9.87	10.75	11.04	10.70
DIESEL ALTERNATIVE:								
O & M:								
Variable	291,688	392,859	443,851	487,153	532,824	581,488	633,339	688,536
Fixed	386,992	398,602	410,560	422,877	435,563	448,630	462,089	475,951
Fuel	1,690,537	2,158,494	2,325,476	2,493,056	2,760,751	3,026,375	3,285,227	3,591,496
Lube Oil	43,320	58,345	65,918	72,349	79,132	86,360	94,060	102,258
TOTAL - DIESEL ALTERNATIVE	2,412,537	3,008,300	3,245,805	3,475,435	3,808,270	4,142,852	4,474,715	4,858,241
DIESEL ALTERNATIVE (Cents/KWH)	8.35	7.97	7.84	7.87	8.12	8.34	8.52	8.76

ASSUMPTIONS:

Inflation:	1.0300
Diesel (1985 Values):	
Variable O & M (Cents/KWH)	1.0100
Fuel (Cents/Gallon)	84.0000
KWH per Gallon of Diesel	14.3500

SOURCES:

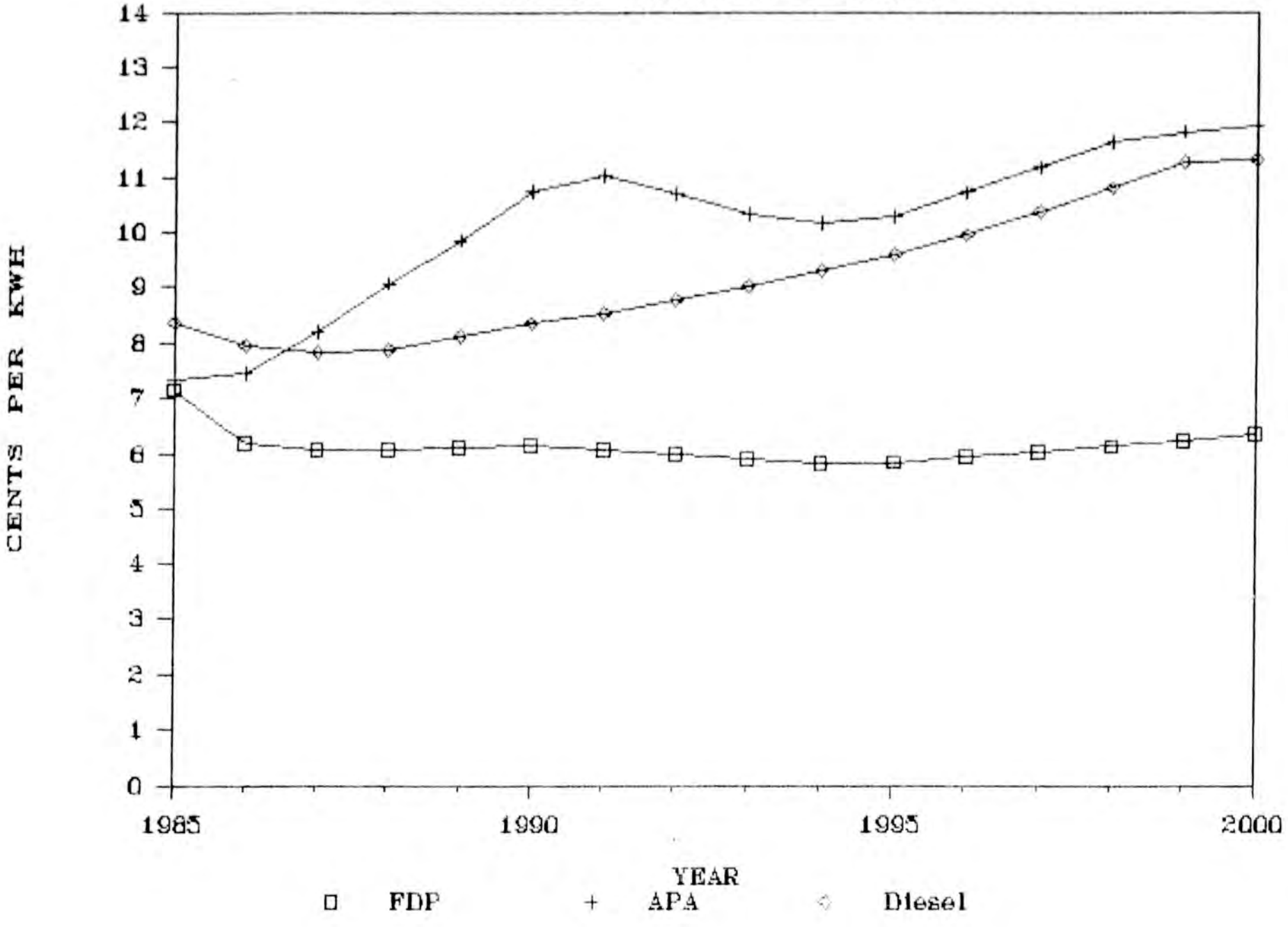
Diesel Fuel Cost Projections: DREV
Generation Requirements: APA
O & M Cost Projections: Based on KPU Historical Data

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
CASE 4

	1993	1994	1995	1996	1997	1998	1999	2000
Generation in MWH	58,418	61,682	63,365	63,365	63,365	63,365	63,365	63,365
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,393,447	1,435,251	1,478,308	1,522,657	1,568,337	1,615,387	1,663,849	1,713,764
Diesel Reserve Cost (Dollars)	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
HB 219 DEBT SERVICE:								
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Principal (Dollars)	439,582	484,152	518,594	540,010	562,273	585,423	609,493	634,518
Interest (Dollars)	1,126,020	1,168,925	1,179,588	1,158,172	1,135,909	1,112,759	1,088,689	1,063,664
TOTAL - HB 219 ALTERNATIVE	3,449,279	3,593,265	3,696,575	3,756,527	3,818,277	3,881,880	3,947,391	4,014,867
HB 219 ALTERNATIVE (Cents/KWh)	5.90	5.83	5.83	5.93	6.03	6.13	6.23	6.34
APA ALTERNATIVE:								
O & M Cost (Dollars)	1,393,447	1,435,251	1,478,308	1,522,657	1,568,337	1,615,387	1,663,849	1,713,764
Diesel Reserve Cost (Dollars)	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
APA DEBT SERVICE:								
Debt Service (Cents/KWh)	7.11	7.03	7.16	7.48	7.84	8.21	8.29	8.29
Debt Service (Dollars)	4,152,000	4,337,000	4,535,000	4,742,000	4,965,000	5,205,000	5,253,000	5,251,000
TOTAL - APA ALTERNATIVE	6,035,677	6,277,187	6,533,393	6,800,345	7,085,095	7,388,698	7,502,209	7,567,685
APA ALTERNATIVE (Cents/KWH)	10.33	10.18	10.31	10.73	11.18	11.66	11.84	11.94
DIESEL ALTERNATIVE:								
O & M:								
Variable	747,422	812,858	860,088	885,891	912,468	939,842	968,037	997,078
Fixed	490,230	504,937	520,085	535,687	551,758	568,311	585,360	602,921
Fuel	3,924,642	4,296,509	4,576,060	4,749,283	4,971,087	5,207,372	5,453,361	5,426,262
Lube Oil	111,003	120,722	127,736	131,568	135,515	139,580	143,768	148,081
TOTAL - DIESEL ALTERNATIVE	5,273,297	5,735,025	6,083,970	6,302,429	6,570,828	6,855,105	7,150,526	7,174,342
DIESEL ALTERNATIVE (Cents/KWH)	9.03	9.30	9.60	9.95	10.37	10.82	11.28	11.32

WHOLESALE POWER COST ALTERNATIVES

CITY OF KETCHIKAN – CASE 4



ALASKA POWER AUTHORITY
FOUR DAM POOL
OBJECTIVES IN NEGOTIATIONS

1) Form the foundation for a statewide energy program for Alaska;

2) Establish debt service so that rate shock is not experienced by the communities;

3) Establish entry rates for the communities at no higher than their avoided cost; and

4) Establish long-term rates which benefit the communities as well as provide a return to the state.

LETTER OF UNDERSTANDING

The negotiating team representing APA, Ketchikan, Copper Valley Electric Association, Kodiak Electric Association, Petersburg and Wrangell have agreed on the terms and conditions of a power sales agreement incorporating the following:

1. The written and oral understandings of the parties heretofore reached shall be placed in writing in agreed final form, and remaining comments of the parties will be mutually and expeditiously resolved and also incorporated in the agreement.

2. A rate stabilization fund shall be established as proposed in the communities' 17 point proposal funded in part by a State appropriation of $49,000,000.

3. The system increment proposal of the communities shall also be incorporated in such agreement.

We mutually recognize that certain statutory amendments are required to implement the agreements reached to date.

We expect to conclude draft O & M agreements and interconnection agreements following a mutual review of proposed contract revisions.

We will recommend to our respective boards and councils that the agreements be adopted and that we be authorized to execute them and to assist in the steps necessary to complete the financing.

DATED March 20, 1984

ALASKA POWER AUTHORITY
By: Larry D Crawford

CITY OF KETCHIKAN
By: [signature]

COPPER VALLEY ELECTRIC ASSOCIATION
By J. A. Fillingames

CITY OF WRANGELL
By: [signature]

KODIAK ELECTRIC ASSOCIATION
By David L. Neave

CITY OF PETERSBURG
By Dan Koenigs

SENATE FINANCE COMMITTEE
MAY 26, 1984
9:20 A.M.

CALL TO ORDER

CO-CHAIRMAN DON BENNETT CONVENED THE MEETING AT APPROXIMATELY 9:20 A.M.

PRESENT MEMBERS PRESENT: SENATORS BENNETT, FERGUSON, MULCAHY, SACKETT, AND V. FISCHER. SENATORS JOSEPHSON AND FAIKS CAME IN LATER.
OTHERS PRESENT: MIKE GREANY, DIRECTOR, LEGISLATIVE FINANCE; P.S. DHILLON, REVENUE ANALYST, LEGISLATIVE FINANCE; MILT BARKER, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE; COMMISSIONER HEATH, DEPARTMENT OF REVENUE; COMMISSIONER LYON, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT; REPRESENTATIVE HURLBERT; SENATOR KERTTULA; RICH UNDERKOFLER, CITY MANAGER, CITY OF PETERSBURG; DON KOENIGS, MAYOR, CITY OF PETERSBURG; KURT DZINICH, SENIOR ADVISOR, SENATOR ADVISORY COUNCIL; SUSAN WHITE, EXECUTIVE ASSISTANT, ALASKA POWER AUTHORITY; MARTHA FOX, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW; TERRY ELDER, DEPUTY COMMISSIONER, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT; AND STAFF FROM STATE OFFICES AND LEGISLATIVE OFFICES.

SUMMARY INFO

CSHB 684(FIN) AM AN ACT MAKING SPECIAL APPROPRIATIONS TO THE ALASKA POWER AUTHORITY; AND PROVIDING FOR AN EFFECTIVE DATE. DISCUSSION AND HELD IN COMMITTEE.

SENATOR FERGUSON WALKED THE COMMITTEE THROUGH THE PROPOSED SCS FOR CS FOR HB 684(FINANCE). HE THEN ASKED MR. LARRY CRAWFORD AND BILL BATT TO COME FORWARD AND DISCUSS THE PROPOSAL WITH THE COMMITTEE.

LARRY CRAWFORD

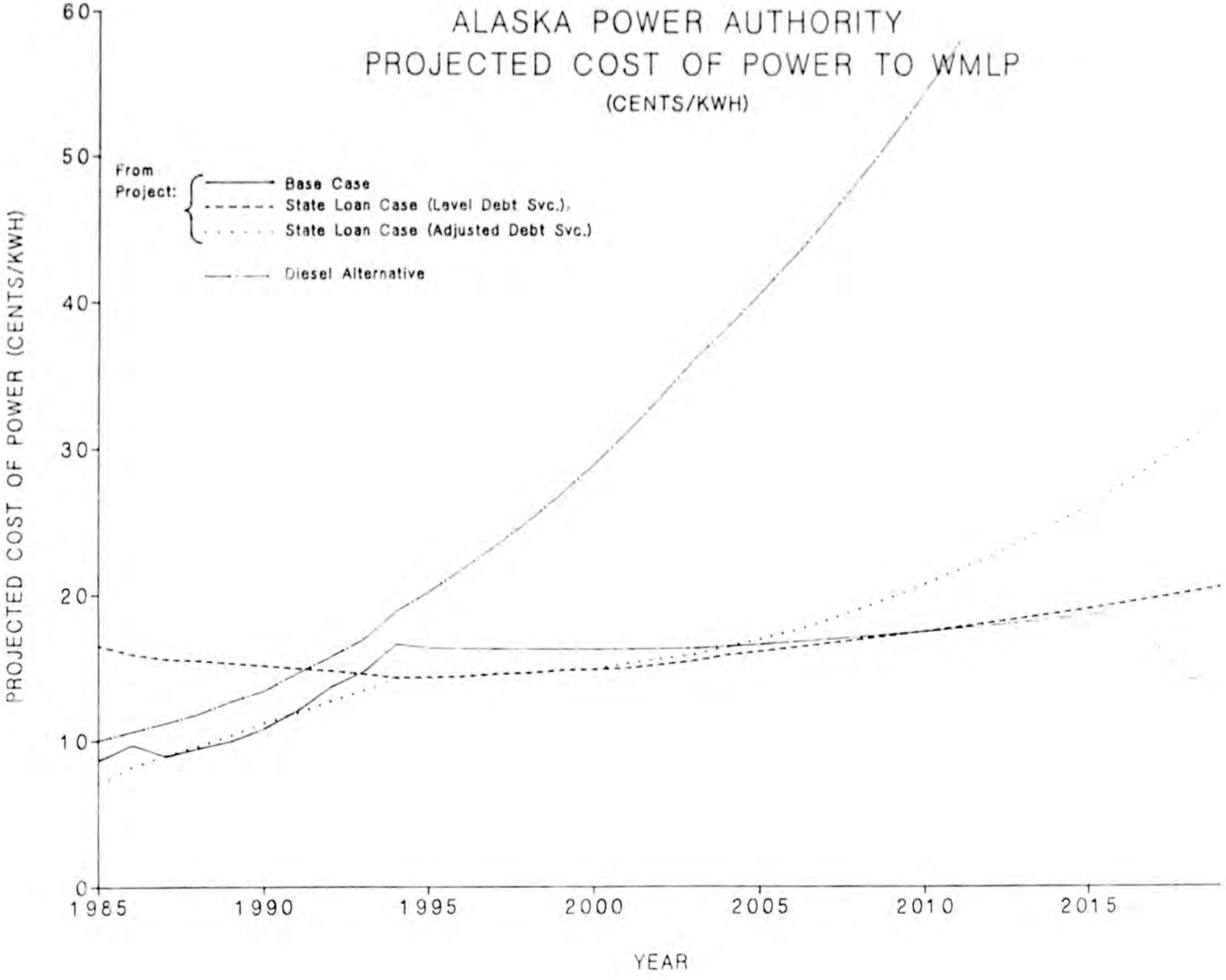
MR. LARRY CRAWFORD, EXECUTIVE DIRECTOR OF THE ALASKA POWER AUTHORITY CAME FORWARD TO TESTIFY AND INTRODUCED MR. BILL BATT, DIRECTOR OF FINANCE. SENATOR MULCAHY ASKED WHAT THE INTENT WAS OF THE ALASKA POWER AUTHORITY WITH REGARD TO SECTION 1, THE $210,000,000 AND THE POWER CONTRACTS. MR. CRAWFORD SAID THE INTENT OF THE POWER AUTHORITY WAS TO USE THE RENEGOTIATED AGREEMENTS AS THE BASIS FOR THE LOAN AND THE COMMUNITIES WOULD HAVE RATES BASED ON THOSE RENEGOTIATED AGREEMENTS. HE SAID THE ONLY TIME THEY WOULD ENFORCE THE EXISTING AGREEMENT WOULD BE WHERE THEY DID NOT HAVE A NEW RENEGOTIATED AGREEMENT.

SENATOR MULCAHY ASKED ABOUT CLARIFICATION ON SECTION 1. HE FELT THE APPROACH BEING TAKEN WOULD DO AWAY WITH THE RATE STABILIZATION APPROPRIATION THAT HAD BEEN LOOKED AT BEFORE WHEN GOING OUT TO THE BOND MARKET. HE SAID IT WAS HIS UNDERSTANDING THAT THE RATE STABILIZATION APPROPRIATION WOULD NOT BE NEEDED BECAUSE OF THE USE OF GENERAL FUNDS AND BECAUSE THE LANGUAGE IN THE AUTHORIZING BILL IS SUCH THAT THE INTEREST RATE CAN BE "BACKED IN."

MR. CRAWFORD SAID THIS WAS CORRECT, THAT THEY ARE LOOKING AT WHAT THE DEBT SERVICE PAYMENTS WOULD HAVE BEEN UNDER THE RENEGOTIATED AGREEMENT AND THEN THEY WILL BE RETURNING THE MONEY TO THE STATE IN ACCORDANCE WITH THOSE DEBT SERVICE PAYMENTS. THE INTEREST RATE IS THE DERIVED NUMBER AND LOOKS TO BE ABOUT AN 8% YIELD TO THE STATE ON THE $210,000,000 OVER THE LIFE OF THE LOAN. HE SAID THE PAYMENTS IN THE EARLY YEARS WILL BE LESS THAN IN THE LATER YEARS AND THEY CAN DO AWAY WITH THE RATE STABILIZATION FUND.

SCS FOR CSHB 589(FINANCE)

SENATOR FERGUSON WALKED THE COMMITTEE THROUGH THIS LEGISLATION. SECTIONS 1 THROUGH 3, CREATE THE POWER DEVELOPMENT REVOLVING FUND FOR THE PURPOSE OF IMPLEMENTING THE $210,000,000 LOAN FOR THE FOUR-DAM POOL PAY OUT. SECTION 4 ALLOWS THE CREATION FOR THE FOUR-DAM POOL.

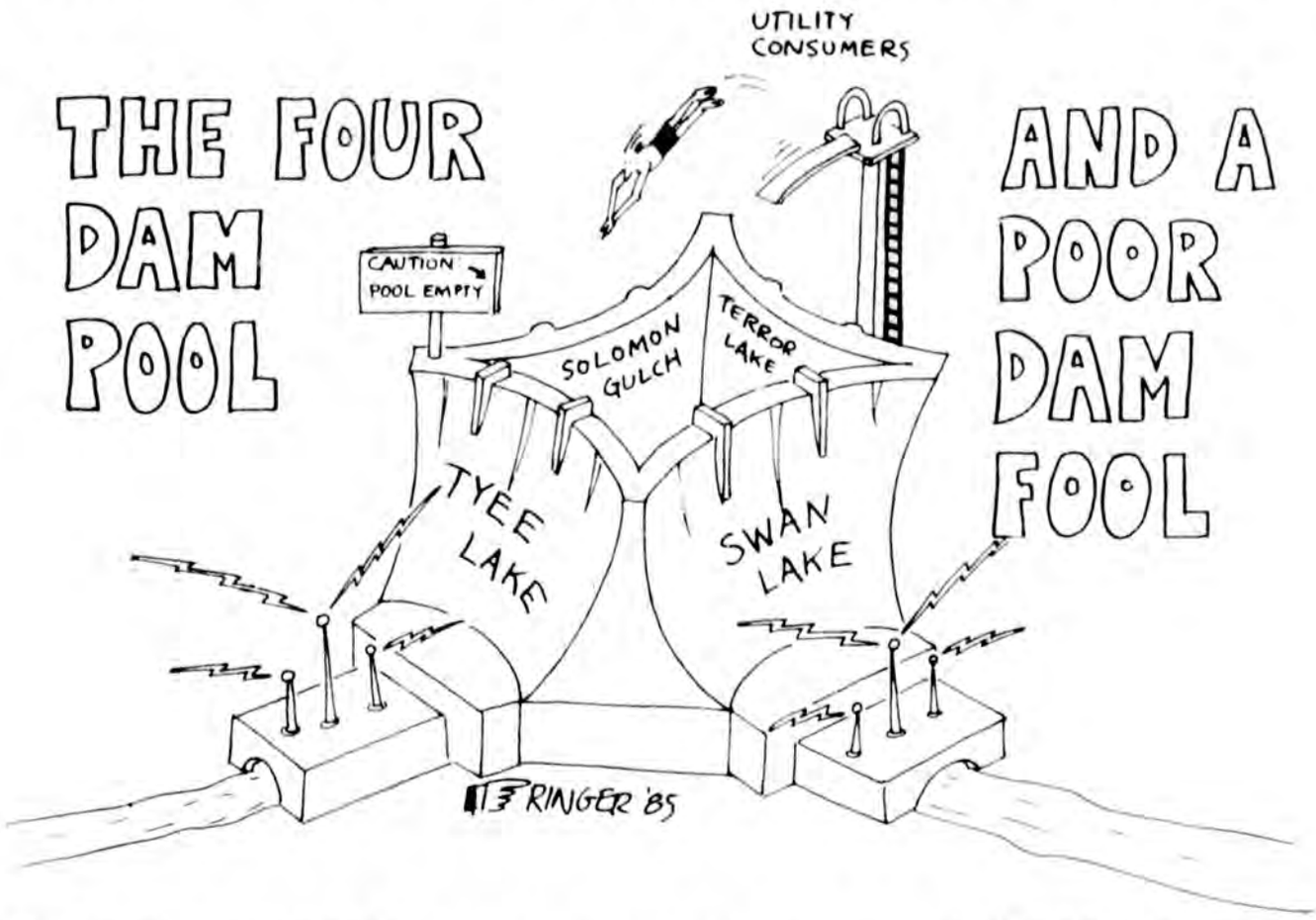

ALASKA POWER AUTHORITY
PROJECTED COST OF POWER TO WMLP
(CENTS/KWH)
From Project:
Base Case
State Loan Case (Level Debt Svc.)
State Loan Case (Adjusted Debt Svc.)
Diesel Alternative
PROJECTED COST OF POWER (CENTS/KWH)
60
50
40
30
20
10
0
1985
1990
1995
2000
2005
2010
2015
YEAR

The Capital REPORTER

A Journal of Alaskan Political News and Opinion

Volume 1, No. 13

Four Dam Pool: Round & Round We Go



Three meetings were held this week between legislators, the administration officials and representatives of the four-dam pool communities to discuss Rep. John Sund's House Bill 219. The bill represents the four-dam pool communities' latest attempt to come to an agreement with the Alaska Power Authority and the admininstration for long-term power rates that the communities can afford, and that offer the state a reasonable rate of return on its investment.

Negotiations began on an amicable, hopeful note, but by week's end, when House Bill 219 failed to move from a House Finance subcommittee, the pre-Easter talks ended on a hostile, confrontational note. The turn in events was termed "frustrating, but not surprising," by some of the players who have worked for two and e half years to reach the ever-elusive, long-term power cost agreement with the state.

In spite of the negative end to

(Continued on page 8)

Wunnicke Defends DNR Action on Royalty Gas Increase

Controversy erupted last week over a decision by the Department of Natural Resources (DNR) to increase state royalties on Cook Inlet natural gas. The action could result in significant increases for Anchorage utility consumers, and some lawmakers are concerned over the effect that would have on the rural power cost equalization program which provides power subsidies for rural consumers.

DNR announced on March 19 that it had notified five Cook Inlet gas producers (ARCO, Chevron, Marathon, Shell and Union Oil of California) that, effective April 1, it would no longer accept royalty valuation based on long-term contract prices that are significantly below current market value. A higher royalty valuation on the state's portion of Cook Inlet gas translates into about $8 million per year in additional revenues to the state.

It also means that the producers, under the terms of their contracts with purchasers, will pass the costs on, in this case to Chugach Electric Association and Enstar Natural Gas in Anchorage. Those utilities would probably seek APUC approval to pass the costs on to their customers.

Estimates vary as to the magnitude of the increases, but according to DNR Commissioner Esther Wunnicke, press accounts of a 20 percent jump are overstated. She feels prices would rise by no more than about ten percent for Chugach Electric Association, the utility that will be the most severely affected, and by about one percent for Enstar who relies less heavily on Cook Inlet gas. Chugach estimates utility rates will rise about four percent as a result of the action.

Wunnicke said recent negotiations by Enstar and Marathon set the market rate for natural gas at around $2.05 per thousand cubic feet (mcf), significantly higher than the rates established under long-term contracts the some producers are operating under. Chugach, under its present contract with Chevron, ARCO and Shell for Beluga gas, pays only $.21 per mcf. Wunnicke pointed out that although Chugach's gas purchase costs will increase by almost 50 percent, the gas represents only 30 percent of the utility's fuel requirement.

According to Wunnicke, who gave an overview on the subject to the Senate Resources Committee on April 1, DNR is merely exercising the state's right to obtain royalties on the higher "market value" of its natural gas. Wunnicke labeled the action a "lease enforcement action" and not an optional or arbitrary decision.

Wunnicke also stressed the importance of strict, yet even-handed enforcement of the state's leases. "If we hope to prevail in the North Slope royalty litigation, it is our view that we must act across the board to collect full value for the state's resources. It would be improper to have one standard of enforcement where oil companies bear the burden and a different more lenient standard where some of that burden is passed on to Alaska consumers," she said.

The effect on bush power subsidies is not clear. Some fear that an increase in Anchorage power rates will adversely affect the Power Cost Equalization program established last year which provides power cost subsidies to rural consumers. Some of the impetus to establish the program came from recognition of the fact that Anchorage enjoyed what amounted to a state subsidy in the form of low gas prices to the utilities, and that rural consumers should be afforded the same benefits. On March 25 Rep. Virginia Collins (R-Anchorage) circulated a letter to Sheffield claiming that rates established under the Power Cost Equalization program "are premised, in large part, on per kilowatt hour costs in the Anchorage area."

Wunnicke disagreed. "The marker for rural subsidies is set by statute at 8.5 cents per kilowatt hour, and this rate is unaffected by changes that might occur in urban power rates," she told the Senate Resources Committee. She also said that the lower gas prices have never been openly labeled a subsidy, and that if the Legislature decides to subsidize Anchorage then it

(Continued on page 6)

The Hyder Connection

The House Finance Committee gave a favorable recommendation to Rep. Robin Taylor's bill to link Hyder, Alaska with the rest of the state via marine highway service. Taylor (R-Wrangell) introduced the bill in mid-February to appropriate $22,000 to initiate trial summer service into the long-neglected Southeastern Alaska community. Taylor said he hopes to see the bill on the floor of the House for a vote early next week, and he hopes that the bill's minimal fiscal impact will help it in its journey through the Senate.

Hyder is a community of approximately 100 residents located at the head of Portland Canal, a long, scenic fjord that runs 90 miles along the U.S. - Canadian border just north of Prince Rupert, British Columbia. Hyder is directly across the canal from Stewart, a British Columbia mining town. Children from Hyder are bused to Stewart to attend school, and the currency used in town is Canadian. The State of Alaska provides very little in the way of services to Hyder, the town that calls itself "The Friendliest Ghost Town in Alaska."

The Stewart-Cassiar Highway opened last year, connecting the two towns to the Alaska/Yukon Highway 37, and Hyder asked the Legislature that it be designated as "Mile 0" of the Alaska/Yukon Highway. Proponents point out that Hyder is 141 miles closer to the Seattle than Prince Rupert, and that the road is superior to the Prince Rupert-Terrace portion of the Yellowhead Highway. Rep. Taylor testified that over 25,000 cars made the trip into Stewart and Hyder last year. Taylor would like to see the State help out one of its own, and he sees Hyder as a possibility for a future southern terminus of the Alaska Marine Highway. A companion measure, House Bill 202, that is also in House Finance, appropriates $2.1 million for construction of a ferry dock and terminal facilities at Hyder.

Chances of HB 202 passing this session are slim, however Rep. Taylor intends to keep pushing for a ferry terminal at Hyder. Joe Camp from the Marine Highway System claims that the northeast end of Portland Canal can be extremely windy, and that the twice-weekly summertime runs would give them some experience in navigating the canal.

Subsistence and Tlingit Culture

by Robert Willard

Let me allay any fear that the culture of the Tlingit nation is dying. There are those among you who preach the notion that the culture of the Tlingit is either dead or dying on the vine.

There are even some among the Tlingit people who express that fear. It may well be that these people, on their own or through their upbringing, write off the customary ways and the heritage of the Tlingit. But I can assure you, the culture of the Tlingit nation is alive and well.

To our younger people: do not believe that the culture is dying. It is there because you are there.

We thank and acknowledge our elders - our mothers and fathers who brought us here, and our aunts, uncles, grandmothers and grandfathers for teaching us to respect the culture and to respect our fathers, mothers, brothers, sisters, and our children. Respect is the cultural trait of the Tlingit people.

We acknowledge, too, those among us who have a culture to identify with. We applaud the Irish, the Filipinos, the Vietnamese, the African nations, the Russians - and others from around the world who are among us. We are pleased when we observe their folklore dances in our presence. They too have not lost the cultural identity and the inherited traits of their cultural beginnings. Likewise, they must respect the Tlingit when we act in our customary and traditional ways.

In order to understand this business of culture, you need first to identify what you claim is lost. These things may not be understood even by our own people.

You must understand the king's language on the terms "culture" or "cultural," "custom" or "customary," "tradition" or "traditional," and "heritage," "hereditary," or "inherited."

You should know the difference between these terms before you charge me, or my Tlingit people with having lost our cultural ties.

Permit me to explain certain aspects of culture, custom, tradition and heritage.

Tlingit is the culture of the land and waters around us. Likewise, the land and water are the culture of the Tlingit.

My five Tlingit names are part of the Tlingit culture, in fact my very existence is living proof of that culture. The honor we give to the Tlingit name is customary practice. The method that I use, perform and speak at ceremonial activities is the tradition of our people. All of the above is the heritage, because I inherited all from my mother and father.

"Subsistence is the very culture of the Tlingit Nation. . . . To take away subsistence . . . would constitute cultural genocide."

I belong to the Decitan, or clan of the beaver. That too is the culture. My Tlingit name is that of the beaver, and the headgear, the blanket, leg wear and make-up I wear at official Tlingit activity are all aspects of culture.

Occasionally you will hear of a "40-Day Party" being held for a deceased member of the Tlingit. This has become a tradition, although it is not of the true culture because this practice came with the advent of Christianity. The churches take credit for having "brought Christianity to the Tlingit people." Not true. Long before the Christians came to our shores, the Tlingit had a word for "God." The Tlingit accommodated the Christians' religion though, and instituted the 40-Day Party. In that event the favorite food of the decedent was served in the traditional way, usually our subsistence foods - the fish, the deer, the berries, the water plants, and other wildlife.

Subsistence is the very culture of the Tlingit Nation. It is of the land and the water around us. The methods we use to prepare and preserve our foods are the customary ways that we have used since life began. The manner in which we serve our foods is in the traditional way of the Tlingit nation, and the implements derived from the resources represent the Tlingit culture. All of these uses and methods are the heritage of the Tlingit nation. Thus, the subsistence use of the resources is more than traditional and customary.

Any effort to take subsistence away will be met with the full resistence of the Tlingit nation. The same is true of the Haida nation. To take away subsistence would constitute cultural genocide, by any interpretation.

Because we respect other cultures, we would never deny the Chinese his rice or the Norwegian his lutefisk.

We have never imposed our culture, customary or traditional ways upon others. They are reserved and revered by the Tlingit nation. All we ask is that you understand our ways, we do not ask that you respect them or observe our rites when they are occurring. Only to understand.

Our present generation, and the generations to come, will observe the cultural traits and customary way of life of the Tlingit nation. They will enjoy the fruits of our labors in the traditional way. That is our heritage and it will never be surrendered or lost. For that is the culture of the Tlingit nation. I have spoken.

Ed. Note: Robert Willard is the Chairman of the Alaska Native Brotherhood Legislative Affairs Committee.

The Capital Reporter is published weekly during the legislature and monthly in the interim. Yearly subscription rate is $100. Comments, suggestions or opposing viewpoints should be addressed to:

The Capital Reporter
P.O. Box 1376
Juneau, Alaska 99802

Or call us at (907) 586-6672

Graphics by Tony Armfin
1985
Ann Gardiner Metcalfe and
Kimberly Metcalfe Helmar

Vern's Version

Presiding Officers I Have Known

By Vern Metcalfe



For those who are into Alaska Trivial Pursuit, it should be known that the first speaker of the House in 1913, was Earnest B. Collins. He was named aptly and from then on referred to as "Fox." His counterpart, from Seward, was L. V. Ray and no, he was not related to another present day senator, who has yet to be prexy of the Senate and is not included in the coalition ruling the Senate body this session.

E. B. Collins later moved to Fairbanks and last served as a senator in the 1949 Territorial Legislature. He was a delegate to the Constitutional Convention of 1955. No one else, to my knowledge, had a greater time span in legislative office than the Fairbanks attorney, who was born in 1873 and had resided in Alaska since 1904.

Collins was the only speaker to serve two consecutive terms until another Fairbanksan, Warren A. Taylor did so for the first two sessions of the State House. Taylor was a good friend of the writer (we served together in 1951 and again in 1955) and he was also the only member to be elected from three different towns -- Cordova, Kodiak, and Fairbanks. Taylor read law under Anthony J. Dimond, who had served eight years in the Territorial Senate before becoming a delegate to Congress, from 1933 to 1945, after which he became a federal judge for the Third Division.

One of the most colorful of all presiding officers, Taylor was once accused during a debate in the 1955 session of "defending more criminals than any other Alaskan attorney." Speaker Wendell P. Kay could have taken exception but agreed with Taylor when he replied, "you have that wrong, sir, I have defended more people accused of crime than any other attorney."

My acquaintance with speakers began with Stanley J. McCutcheon of Anchorage who served in 1949 and was perhaps the ablest I've seen in the chair. He could move more legislation off the calendar faster than anyone I've seen. He was often placed in the chair during the 1951 session, when William A. Egan was speaker, to do just that, move things. The Democrats had only a four vote margin (14 to 10) with two of these being prone to vote with the GOP unless sufficiently prodded to do otherwise.

Egan was a no-nonsense man in the chair although reduced to laughter on occasion -- once when Mike Stepovich, later a Territorial governor, got carried away with his fiery oratory. Seems that Mike was seated directly behind Alden Wilbur, a Fairbanks plumber and businessman, who got tired of dogging that Stepovich windmill approach to debate. Each time Mike stepped forward, Alden put out his arm and pushed him back, without Stepovich missing a word or Wilbur changing expressions.

". . . Taylor was once accused . . . of 'defending more criminals than any other Alaskan attorney.' Then Speaker Wendell P. Kay could have taken exception, but agreed when Taylor replied, 'you have that wrong, sir, I have defended more people accused of crime then any other attorney.'"

George Miscovich followed Egan and presided over the Republican-controlled 1953 House. Miscovich was non-plussed at being in the majority but handled the chores well. In 1951 there was a saying that went, "23 and Miscovich" since he never liked having a unanimous vote on anything. He also figured in a last night epic that is still spoken of when such matters are discussed. Seems he was presented with a painting he much admired (all presiding officers get gifts for surviving) and overcome with emotion, reared back in his chair which rolled off the podium with a horrendous crash. Miscovich recovered enough to crawl back up on his dais, slam down the gavel and call a recess.

Wendell Kay was given a solid majority in 1955, 21 to 3, where Miscovich had like numbers, 20 to 4, which was the fastest party turn around in legislative history. Kay had quite a crew to herd, consisting of 12 attorneys, plus 12 laymen. His session saw the passage of the "Unified Bar" which gave the Alaska Bar Association the ruling of the legal roost but only after a trick brought about by Rep. Dora Sweeney (D-Juneau).

The House was expected to pass the bill without any nays but each lawyer had to rise to explain the benefits of the passage. Rep. Sweeney determined that the laymen should upset various applecarts and when the vote was called Wendell Kay very nearly emulated Miscovich's upsy-daisy. He was busy scanning a newspaper, feet on his desk as the roll call was made, and suddenly dropped his feet, paper, and almost himself and yelled, "What in the hell is going on here?"

Seaborn J. Buckalew, Jr. also was on his feet in a panic but all was well when the lay people allowed that another vote be taken. There have also been instances wherein a speaker had a pet bill which he left the chair to champion and then heard the House roundly vote it down. All in fun, of course.

There have been some Senate presidents I've known, although when covering the legislature as a reporter I've always preferred the House. Where else could you have seen such a maverick as Bruce Kendall presiding? Bruce was the winner in a 20-20 contest. Kendall was later to become a Democrat after not gaining the Republican nomination, he lost to Walter J. Hickel in the 1966 primary for governor. Kendall was one of the shrewdest operators I've seen.

He once told the reporter following a stirring speech he made, before he became speaker, that his

(Continued on page 6)

Legislature . . .

(Continued from page 5)

proponents to be "freedom of choice" legislation, was sponsored by Sen. Bettye Fahrenkamp, and would exempt midwives from State Medical Board regulation, and instead grant the Department of Health and Social Services power to adopt regulations for educating and training persons engaged in the practice of midwifery.

Kay Connelly, a midwife who is licensed through the state of New Mexico and practices in Juneau, told members of the HESS committee that because midwives are not regulated they cannot get insurance. Connelly was one of five Juneau residents testifying in favor of the bill. Most midwives in Alaska are licensed through New Mexico, which is one of more than 10 states that has sanctioned the practice of midwifery.

One Anchorage doctor, who spoke on behalf of the Anchorage medical society, and said that they are "adamantly opposed" to this bill. Another doctor in Anchorage also voiced his objection to the bill, by stating that he doesn't "want to see the state legitimize a second class of care."

The bill defines the practice of midwifery as "giving education and advice concerning pregnancy; supervising, caring for, and advising women during pregnancy, labor, and the postpartum period; conducting deliveries without supervision; and caring for newborns and infants."

A student midwife in Fairbanks, Diane Fuller, said women have a "right to be attended by the person of our choice, and a right to alternative health care. And it is our constitutional right to choose where and when we give birth."

—The Senate postponed action on a bill that would allow a terminally ill patient to decide whether life-sustaining devices are used. Under the "living will" bill, CSSB 140(HESS) by Sen. Eliason, a patient would have the right to make treatment decisions "as long as the patient is able to do so." When a patient is no longer able to make decisions, hiw sworn statement regarding withdrawal of life-support systems becomes effective. Sen. Josephson (D-Anchorage) felt the circumstances constituting "not being able to make a decision" should be clearly defined in the legislation, and Sen. Ray (D-Juneau) expressed concern over a provision requiring doctors who will not honor the wishes of a patient to transfer the patient to another doctor. The Senate will take the bill up again on Tuesday, April 9.

—A bill creating the Alaska State Fire Commission to promote fire safety was passed out of Senate State Affairs on Tuesday, but with only one favorable recommendation. Sen. Bob Ziegler's Sb 209, and the companion funding measure, SB 210, prompted criticism from Anchorage Republican Tim Kelly who questioned a section in the bill granting the Commission power to adopt regulations. "What we're talking about here is a statewide, super-regulatory agency," Kelly said. "Frankly, I don't think that's necessary." Sen. Bill Ray of Juneau was the lone "do pass."

--Sen. Bettye Fahrenkamp (D-Fairbanks) testified before Senate State Affairs on Tuesday in support of her bill to continue the Administrative Journal, the bi-weekly compilation of state solicitations to bid and notices of changes in regulations. The journal was started on an experimental basis last year.

Four Dam Pool . . .

(Continued from page 8)

Pourchot until the Alaska Power Authority and the four-dam communities reach a compromise somewhere between 8 and 4 percent, and until a formula for figuring out avoided cost is settled on.

No one is saying what the final figures will be, but they are talking, and most of the parties agree that Bob Heath, the most recent in a chain of Alaska Power Authority executive directors, is the most reasonable person they have had to deal with so far. Heath is confident of reaching an agreement and said, "we're getting close and are working toward a conceptual framework," and he hopes that in another two or three meetings the factions can agree on a methodology. Heath said all of the ideas are on the table, and stated "nothing is sacred here - until we reach some agreement I'm refusing to recognize any boundaries..."

Vern's Version . . .

(Continued from page 4)

remarks might have been on the wrong bill — they were — but the mistake was a natural one for him. "I've never read a bill en toto yet, why start now?" he told me. He was extremely partisan prior to becoming the speaker but acquitted himself well once he gained the throne. It should also be noted that as House minority leader in 1959, the 1st State Legislature, he persuaded Jay Hammond, who was elected as an Independent, to join the five-man Republican force.

He explained to Hammond that he would be able to choose what committees he wished since the majority had to allow at least one GOP member on each. Hammond confessed that when he ran he didn't know which party appealed to him the most, thus his classification as an Independent.

More than one Republican later indicated that he was still a bit foggy as far as party affiliation went but that would be another column all in itself. Hammond was to preside from 1971 to 1973 as Senate President, then retired from the fray to his home in Bristol Bay only to be persuaded by Sen. Lowell Thomas, Jr. to run for governor with Thomas as his Lt. Gov. candidate.

Others that I came to know and admire included Frank Peratrovich of Klawock who holds distinction in leadership roles and service in both houses, which has never been attained and never will be attained by any other legislator. There was Bill Boardman, a Ketchikan Republican, who like Kendall surprised a lot of people, including me, by being an extremely effective speaker.

Gas . . .

(Continued from page 2)

should do so directly, not through slack enforcement of its leasing program.

Collins' letter to Sheffield urges the governor to suspend DNR's decision until the Legislature has a chance to study its impact on both rural and urban consumers. Wunnicke said that in response to these concerns the effective date of the decision has been postponed until April 15 to give lawmakers a chance to study the problem.

Sheffield's Budget "Revelation" Anti-Climactic At Best



Commentary
by Joe LaRocca

Several weeks ago, when I discussed here the ease with which Alaska's government and political establishment are able to manipulate Alaska's gullible press corps, I didn't anticipate the prompt confirmation they would obligingly proffer.

The case in point was the Sheffield administration's recent "revelation" that first quarter state revenue projections foretold a half billion dollar shortfall from earlier budget expectations.

The local rag, for example, carried this Page One banner headline: "New forecast: State revenue falls $463 million."

In fact, there was nothing at all new about the projections. They were, at best, an anti-climactic, after-the-fact reaffirmation of months' old projections which could be altered only by dramatic events which would have been obvious if and when they occurred.

If ever there was a non-news story, it was the one to which Alaska's naive news media over-reacted on April 1 when they announced, with drum rolls and fanfare, the "new" state revenue projections. April fools, indeed.

My news media colleagues compounded their folly when they erroneously attributed the $463 million shortfall announced by the administration exclusively to eroding oil prices.

In fact, only half that total is directly attributable to the softening world oil market. The other half is due to shortfalls from three general revenue sources: state investment yields ($75 million); property taxes ($60 million); and corporate income taxes ($95 million).

The distinction is subtle, but significant. There is little, if anything, the state can do to make up shortfalls directly attributable to declining world oil prices.

But there's much it can do to compensate for shortfalls from two of the other three revenue sources: to wit, raise taxation levels.

While I'm not necessarily advocating that option, it's clearly one over which state decision makers exercise significant control.

By hyper-dramatizing a non-news event, the news media played right into the hands of sly politicians, underscoring the myth that Alaska is going broke.

"By hyper-dramatizing a non-news event, the news media played right into the hands of sly politicians, underscoring the myth that Alaska is going broke."

That's precisely the perception which certain politicians are anxious to foster among rank and file Alaskans. The reality, which the politicians prefer to mask, is that Alaska is, relatively speaking, awash in money.

But by poor-mouthing their constituents, the politicians are more easily able to deflect constituent demands in favor of their own pet projects, which they continue to promote and fund behind the scenes

(Continued on page 7)

Legislature

--A proposal to guarantee the state Ombudsman access to confidential records of state agencies drew fire from Department of Health & Social Services representatives at a Senate State Affairs meeting on Tuesday. SB 9 by Senator Ray would grant the Ombudsman access "at all times to records of every state agency, including confidential records." Deputy Commissioner of the Department of Health & Social Services Connie Sipe objected to the language as being too broad. "Some federal statutes and regulations flatly prohibit public disclosure of client records, except for internal audits. Other federal laws condition receipt of federal funds by the state upon the state's agreement to honor client confidentiality requirements," she said. DH&SS recommended a substitute version with more restrictive language relating to confidential information. The bill will be brought before the committee again when the Ombudsman's Office and bill drafters have reached agreement on a proposed substitute.

--Senate Resources unanimously approved a bill which would remove a possible legal obstacle to development of Barrick Petroleum, Ltd.'s treadwell mine development in Juneau. The bill, SCS CSHB 273 (Res), grants extralateral mining rights to owners of mining claims located before statehood under federal mining laws. Extralateral rights enable the claim holder to follow a slanting vein of ore even if it slants out of the boundaries of the claim.

—A bill requiring the Department of Revenue to make public the list of candidates and groups to which campaign contributions were made and political campaign contribution credits granted was piloted through House State Affairs by its sponsor, Rep. Terry Martin (R-Anchorage). Martin requested this information earlier this year, but was not successful in obtaining the list until DOR was ordered by the Supreme Court to release it

—Proponents and opponents of a bill that would legalize the practice of midwifery testified in force Tuesday during a Senate HESS Committee teleconference with Anchorage and Fairbanks. SB 239, termed by many

(Continued on page 6)

LaRocca . . .

(Continued from page 5)

with cash surpluses obscured by political pettifoggery.

For example, legislators can use the state's misperceived impecunity as a pretext to roll-back state employees' salaries (while greedily pocketing their own extravagant paychecks).

The half billion dollar shortfall, which anyone could have computed with a dime store calculator, has prompted a re-examination by some legislators of the state's corporate income tax law. That's the likeliest target for a tax rate increase, because of lingering resentment among some legislators over 1981 changes in the 1978 law which they say have cost the state literally hundreds of millions of dollars in revenues foregone.

The 1981 amendments were sold to the legislature, based upon assurances from the Hammond administration and other industry supporters that they would not result in a significant decrease in state revenues over time.

But subsequent events revealed that an egregious error by the Department of Revenue had led to a gross miscalculation of future revenues which, according to figures developed in 1983, will reduce the state's corporate income tax revenues by more than two billion dollars over the next five years.

During a House Finance Committee meeting last week at which the director of the Revenue Department's research section testified, one member, Rep. Sam Cotten, drew from him an admission that the 1981 miscalculation has already cost the state incalculable millions of dollars in revenues foregone. Cotten estimates the losses "in hundreds of millions of dollars."

After the enactment of the new corporate income tax law in 1978, the major oil companies operating in Alaska took the state into court, contending that the statute was unconstitutional.

Later, they said they would settle the lawsuit out of court if the state would amend the law to satisfy their objections to it. It was an unwritten agreement to that effect which led to the 1981 amendments.

But the oil companies subsequently decided that the amendments did not go far enough in their favor, and they continued the lawsuit. A decision in State Superior Court upheld the state's position, and an appeal to the State Supreme Court is still pending.

A news report last week that the House Finance Committee was quietly drafting legislation to re-institute the 1978 law brought oil industry lobbyists scurrying to Juneau in their corporate jets to try to forestall that threat. The proposed legislation was introduced in the House on Wednesday, April 3, precipitating one of this legislature's potentially most explosive issues.

Helmar's Politicians Past



Sen. W.E. "Brad" Bradley (R-Anchorage) and the late Sen. John Huber (D-Fairbanks), 1978 Session.

Four Dam Pool . . .

(Continued from page 1)

the meetings, negotiations will continue, and representatives of the four-dam communities hope to iron out the loan repayment terms so they can finally sign power sales agreements that will assure their communities of stable electrical rates into the next century.

Rep. Pat Pourchot (D-Anchorage) headed the House Finance subcommittee where the bill is mired. When Pourchot refused to move the bill out of his subcommittee Rep. Robin Taylor (R-Wrangell) and Rep. David Thompson (R-Kodiak) badgered Pourchot about a time schedule for moving the bill. Taylor and Thompson represent a constituency who harbor a growing resentment over failure to reach an agreement between their city governments and the state on long-term electric rates.

Cities in Taylor's district have refused to accept agreements until they are put before the voters, and Taylor stated that he is afraid of a "consumer revolt" if something is not resolved soon. Rep. Thompson accused Pourchot of not appreciating the amount of time spent negotiating, and Taylor said four-dam communities desperately need to see the bill move.

Pourchot told Taylor and Thompson that they could have their pick of a final resting place for the bill, the subcommittee, the full Finance Committee, the Rules Committee, the House floor, or the Senate, and he indicated that persistence on their part would not change his mind.

Pourchot was more hopeful about continued negotiations between the state and the communities the day after the heated meeting. As chairman of the subcommittee he feels he must try to fashion a rate structure that will benefit the state as a whole. He thinks it would be presumptuous of the committee to move the bill before the Power Authority comes in with its offer, and Pourchot said "one or two points means literally millions of dollars." He wants to take the time to study the proposals, and he thinks it is important that all factions talk.

The four-dam pool communities are Ketchikan (Swan Lake), Wrangell and Petersburg (Tyee Lake), Valdez and Glenallen (Solomon Gulch), and Kodiak (Terror Lake). What they have in common are hydroelectric projects that have been financed by the state. The projects are very different, the communities are very different, but in order to finance the state's first petro-dollar dams, a pool was formed, now known as "the four-dam pool," or "the poor, damned fool," depending on who you talk to.

What is at stake is repayment of $196 million in loans from the state. The dams were built at a total cost of $490 million, and except for the $196 million owed, the projects were funded by state grants. The repayment terms are seen by some, including Pourchot, as precedent-setting, in terms of the "Energy Program for Alaska." The energy program is the statutory vehicle by which the Alaska Power Authority has authority to acquire or construct power projects in the state with approval of the legislature. One faction fears the long-term loss to the state if this legislature were to give up too much on the four-dam contracts, with so many unmet energy needs in the state.

According to House Bill 219, the communities would commit to an annual interest rate not to exceed four percent, a loan term not to exceed 50 years, and a 40-year amortization period. The communities want loan payments adjusted so the payment per kilowatt hour increases gradually over the first five years of the loan and remains fixed over the next 35 years. The deferred principal would be repaid with interest in equal annual installments during the last 10 years of the loan.

Last summer the Power Authority's offer was an eight percent average yield over 35 years. The four-dam communities made a counter proposal in September, that is basically what HB 219 calls for, four percent over 40 years. The four percent sounds good, but in reality does not equate to a four percent average total yield, said Kurt Dzinich, the senior advisor to the Senate Advisory Council. Dzinich has been following the four-dam issue for over three years during his tenure with the Senate. He figures the interest rate equates to 2.2 percent because the communities will only agree to pay a lower interest rate on the unused capacity of the dams. They also want to defer payment of the principal, interest free, until the last 10 years of loan. Community representatives claim some of the dams were grossly overbuilt, and they refuse to pay the high costs now for future power capacity.

Dzinich blames the longevity of negotiations on passage of a $210 million loan made by the Legislature to the communities last year. The loan is administered by the Department of Commerce and Economic Development, and paid off short-term bonds that financed the original projects. Payment of the short-term bonds changed the whole negotiating scenario that had gone on between the communities and the Alaska Power Authority.

Dzinich said that the APA, by law, must charge debt service on a loan, and the Dept. of Commerce must set the terms. The state agencies have to take into consideration the current market rate and the cost of alternative avoided cost. Avoided cost, Dzinich explained, is determined by figuring what a community like Ketchikan, for example, would pay for power should the Swan Lake hydro project not come on line - what they would pay if they had to buy a diesel generator, install it and operate it.

Figuring a formula for avoided cost gets confusing, too. The price of diesel fuel has dropped, and the communities are arguing against paying premium prices for hydro power when over the next five years they could be getting bargain electrical rates burning diesel fuel. Charles Freeman, mayor of Ketchikan, said that HB 219 puts his city over the amount they would pay for diesel, but would give them predictable rates in the long term.

Ketchikan has commercial customers who need predictability, and Freeman is afraid they will opt for buying their own diesel generators which they can operate cheaper in the short run. In addition to short-term lower rates, private businesses can take advantage of investment tax credits, Freeman stated.

In spite of the brief confrontation between Taylor and Thompson, who represent communities with real problems, and Pourchot, who sees his job as fashioning a rate structure that is in the state's best interest, it seems as though negotiations will proceed. House Bill 219 will not move out of the Finance subcommittee headed by

(Continued on page 6)

COMMITTEE REPORT

HOUSE

(11) FURTHER:

3/15/85

Date: 4-13-85

The Committee on FINANCE has had HB 219

"An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the enegry program for Alaska."

under consideration and recommends:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

[X] replace with CS for HB219 (Fin) [X] same title [ ] new title

and recommends do pass

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

[X] Zero Fiscal Note Attached

[ ] reports it back without recommendation

[ ] referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

CHAIRMAN

Alaska State Legislature

House of Representatives

REPRESENTATIVE
JOHN L. SUND

Box 6440
KETCHIKAN, ALASKA 99901
(907) 225-5552

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4919

CHAIR, HOUSE SPECIAL COMMITTEE ON LOANS
VICE-CHAIR, JUDICIARY COMMITTEE
MEMBER, SPECIAL COMMITTEE ON OIL AND GAS
MEMBER, RESOURCES COMMITTEE

4/22/85

MEMORANDUM

TO: Sen. Arliss Sturgulewski, Chair,
Senate Resources Committee

FROM: Rep. John Sund

RE: HB 219 "An act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

The purpose of this bill is to resolve the problems holding up four-dam-pool power sales agreements and to provide for payback of the $196 million appropriation made last year to complete the hydroelectric projects. The Alaska Power Authority and the six communities served by the four dams have been negotiating power sales agreements for 2½ years without success. The goal is a long-term power sales agreement that provides affordable electricity for the communities and a maximum return on the state's investment.

$210 million was appropriated last year; $196 million has been spent to complete the dams and pay off short-term construction financing issued by the APA. This appropriation was structured as a loan from the Department of Commerce and Economic Development to the APA to be paid off through power sales from the project. AS 44.33.620 sets terms for the loan.

As in existing law, the Finance Committee Substitute does not set in law exact terms for the loan, nor does it set power rates. These are left open for further negotiation. The bill provides specific guidelines for resolving the issue under a plan developed by Gordon Harrison of the APA board.

The APA and the six communities report recent significant progress in power sales agreement negotiations; the plan they are now working with requires the passage of CSHB 219 (Fin). Action is required this session to permit sales agreements which will capture additional loads for the under-utilized hydroelectric capacity.

The bill is supported by both the APA and the four-dam-pool communities. Bob Heath, Executive Director of the APA and representatives of the communities are expected to testify before the Resources Committee.

Sectional analysis:

Section 1:
Sections 1 and 5, propose a change in law to allow two communities to get together for joint operation of a dam. The main purpose is to allow the Thomas Bay Power Authority to operate the Tyee Dam. Tyee serves two communities (Wrangell and Petersburg); Current law requires one or the other to operate the dam. This section corrects that by adding "electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state" to the APUC statutes. Like the communities, the 'joint operating entity' would not be subject to APUC regulation.

Section 2:
This section amends the loan terms for the Power Development Revolving Loan Fund (AS 44.33.620). This fund was created last session and the statutory loan terms give little direction to the APA. The added language sets clear guidelines for the agencies to work with. Deleted is the requirement that the loan terms be set considering market rates of interest.

Section 3 adds a definition: "initial project" means the four dams.

Section 4 adds a provision for power sales contract rate reopeners. This protects the state in times of inflation when the power sales rate could not provide sufficient loan repayment in real terms and protects the communities should the price of alternate power generation drop significantly. An important provision is added allowing an agreed schedule of wholesale power rates to be included in the contracts. This allows a contract to be reached through negotiation which will provide for certainty in power rates as needed by utility planners. This also will provide for a greater return to the state in debt service from the project.

Section 5 adds joint operating entities to the definition of "qualified utilities" which may purchase power from the APA. (See explanation of Section 1)

RETAIL RATES
(cents per kwh)

Community	@ 200 kwh/month	@ 500 kwh/month	@ 700 kwh/month
Copper Valley			
-Glenallen	23.5	20.1	18.8
-Valdez	21.3	16.0	14.7
Kodiak	19.0	18.1	17.5
Wrangell	19.1	16.3	15.7
Petersburg	13.9	11.7	11.2
Ketchikan	14.3	10.8	10.2

COMPONENTS OF THE RATES
(cents per kwh)

Community	APA O&M	APA Debt Service	Other*/	Total (@ 700 kwh/month)
Copper Valley				
-Glenallen	2.76	2.64	13.4	18.8
-Valdez	2.76	2.64	9.3	14.7
Kodiak	2.00	2.64	12.86	17.5
Wrangell	4.59	2.64	8.47	15.7
Petersburg	4.59	2.64	3.97	11.2
Ketchikan	2.26	2.64	5.3	10.2

*/ "Other" includes distribution, administrative and general, reserve generation, and other generation (other hydro as well as diesel in the case of Ketchikan and Petersburg.)

Draft: April 23, 1985

SHORTCOMINGS OF PRICING APA POWER AS A PERCENTAGE OF AVOIDED COST

A. Problems for the purchasing utility (in the Alaskan context)*/

1. Loss of potential loads: Some or all potential large new loads that could increase project utilization will be lost, because such loads demand a higher degree of certainty over longer periods. Many such loads will either be met with private generation or cogeneration (e.g., Wrangell Forest Products) or will be lost entirely (e.g., Phillips). In the cogeneration case, the utility may be required by law to purchase excess cogenerated power from the private party, thus reducing the utility's own purchases from the APA project. In the case of loads lost because the economic activity is relocated (e.g., to the Lower 48), the community loses not only employment and taxes, but also the "induced" loads, i.e., increases in other community loads resulting from the economic activity represented by the primary load.

2. Ratemaking and billing problems: The utility must make its retail rates prospectively, yet its power costs will become known only retrospectively. Matching costs to rates during each rate period (and keeping rates fairly predictable for consumers), always a chore, becomes significantly more difficult.

3. Added administrative costs: A fairly sophisticated formula is needed to calculate true avoided cost, and the values for each variable in the formula must be recalculated at frequent (e.g., monthly) intervals. This would create some administrative burden even if (a) diesel were the only alternative, and (b) disputes with APA over the proper value for each variable never arose. (It is also difficult to continue getting realistic quotes for a large volume of diesel once the utility begins buying reduced volumes.) In practice, the difficulties are even greater because (a) the formula must accommodate other alternatives (e.g., cogeneration) as such alternatives become available, and (b) disputes with the APA over the value of individual variables are likely.

*/ Such pricing works well in power "pools" in which a sophisticated computer controls the generators of many producers on an instantaneous central-dispatch basis. The computer is programed to minimize total generation costs at all times, based on each generator's fuel cost, efficiency, and maximum/minimum operating guides. Cost savings made possible by using Utility A's generator rather than Utility B's to serve a portion of Utility B's load are "split" (usually on a 50/50 basis) through use of a share-the-savings rate the computer charges to Utility B and credits to Utility A. The actual rate for each transaction, and each utility's costs and savings for any given period, are known at once, facilitating utility ratemaking and billing. Nothing similar exists in Alaska, nor could it exist in the Four Dam Pool context where (a) the communities are not electrically interconnected, and (b) APA power is intended to displace thermal generation completely for most days of the year.

4. Regulatory costs: For the cooperatives (Kodiak and Copper Valley), whose retail rates are regulated by the Alaska PUC, rate filings and rate cases will become more frequent, more complex, and more costly. If the past is a guide, the APUC may also require the co-ops to raise/lower retail rates to "track" the fluctuating wholesale cost of power to the co-op, thus producing fluctuating retail rates.

5. Planning problems: The search for alternative sources of power supply with more predictable long-term costs would be intensified and simultaneously complicated. Presumably the planning process would be biased (rationally) toward predictability, even if the price of predictability were that somewhat higher retail rates might result from the more predictable alternatives.

6. Uncertain impact on utility financing: It is not clear that a utility would be able to finance additions to its distribution system and/or its generating plant as easily or inexpensively as would otherwise be the case, since the utility's revenue stream and its ability to maintain required coverage ratios and reserves would be somewhat unpredictable.

B. Problems for the State of Alaska as the seller of power

1. Reduced revenue: Compared with long-term contracts under the terms of HB 219 pricing method, power sold on a percentage-of-avoided-cost basis is likely to produce less total revenue for the State, even if one assumes that loads are equal in both cases. But loads will actually be less (see ¶ A.1. above). The loss of potential large new loads that would have produced more revenue for the State would make the comparative revenue disadvantage to the State worse.

2. Increased revenue risk: This would take two forms. First, the State would take the entire risk of further downward movement in the price of diesel and the cost of alternative resources, whereas under HB 219 the communities would bear that risk entirely. Second, because the utilities would be free, over time, to switch wholly or partially to other sources of supply, and because the utilities would have an incentive to investigate and pursue such other sources, the State would face some risk of losing even the existing loads of the utilities, as well as utility load growth.

3. Risk of negative rate of return (failure to cover current costs): This simply indicates the extreme to which the State's additional risk could take it. Under HB 219, the State is assured that (a) O&M costs will be completely paid by the utilities, and (b) some positive return, in addition to return of the principal, will be earned on the State's loan. If wholesale rates are tied to actual avoided costs of the utilities, however, a sufficiently great drop in actual avoided costs would result in the APA failing to cover even its O&M costs. In less extreme cases, APA might cover its O&M costs but fail to earn sufficient revenue to repay the principal and/or interest on the loan.

4. Added administrative costs: Administering such a pricing system would be just as complex and labor-intensive for the APA as it would be for the utilities.

4/12/85

MEMORANUDM

TO: Rep. John Sund
FROM: J. Hartle, PA

RE: Amendment to Subcommittee draft of HB 219

Here are some reasons for adding the section:

*Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.625. RATE REOPENERS. A power sales agreement for the sale of power from the initial project financed under AS 44.33.610 may include among its provisions an agreed schedule of wholesale power rates notwithstanding the provisions of AS 44.83.398 but must include a provision for a rate reopener.

1. Will allow the present negotiations to continue.

Negotiations are presently moving forward under a plan from Gordon Harrison. His plan is to offer a wholesale power rate which combines debt service and O & M. The plan would offer the purchasers of power a certain rate per kwh, O&M would be taken out of that rate and whatever is left above O&M would go to debt service. This is not allowed under AS 44.83.398 which specifies that O&M and Debt service must be separated and debt service must be the same for all projects.

2. Will return more debt service to the state.

Per KWH, Tyee has the highest O&M rate; this rate is by itself almost equal to the cost of alternative sources of power. Therefore, if the "Harrison plan" is implemented, very little would be left over for debt service thus limiting the debt service rate that can be paid by the other projects as well (under 398). Other projects with lower O&M are, with this amendment, allowed to provide a greater return to the state for debt service.

3. It still leaves the rate open to negotiations.

The amendment only provides for an agreed schedule, it is silent as to what that rate will be. Under AS 44.83.398 there is no way to agree on a schedule - the rates must fluctuate with loads - if loads go down, rates go up, if loads go up, rates go down. This is the exact problem the communities are trying to get away from - certainty is more important than the actual rate itself; the amendment allows for agreement.

Bill may facilitate power sales dealings

The Associated Press

JUNEAU — House lawmakers passed a bill Tuesday that supporters say offers new hope to officials trying to negotiate power sales agreements between the Alaska Power Authority and the so-called "Four-Dam Pool" communities.

The measure, first sponsored by Rep. John Sund, D-Ketchikan, was sent to the Senate after a 33-to-4 vote in the House.

The communities — Ketchikan, Wrangell and Petersburg, Kodiak, and Valdez and Glennallen — are all served by hydroelectric projects recently built in their back yards.

But municipal officials in those areas have been unable to reach long-term power agreements with the APA, fearing it will cost more to pay for hydroelectric power than to generate diesel-fueled power.

Officials from the communities currently are negotiating with the APA, trying to work out repayment schedules on a $210 million loan set aside last year by lawmakers to offset part of the cost of the four projects.

Sund said his bill outlines "general policy direction" for both sides involved in the power-sales negotiations.

A key provision in the measure would release the APA from offering repayment agreements at current market rates. By setting lower interest rates on the loan, APA officials hope to offer the communities power at more affordable rates.

State lawmakers in the late 1970s put together a $462.5 million, four-part hydroelectric project designed to make the state energy self-sufficient.

Anc. Daily News 4/17/85

Draft: April 23, 1985

SHORTCOMINGS OF PRICING APA POWER AS A PERCENTAGE OF AVOIDED COST

A. Problems for the purchasing utility (in the Alaskan context)*/

1. Loss of potential loads: Some or all potential large new loads that could increase project utilization will be lost, because such loads demand a higher degree of certainty over longer periods. Many such loads will either be met with private generation or cogeneration (e.g., Wrangell Forest Products) or will be lost entirely (e.g., Phillips). In the cogeneration case, the utility may be required by law to purchase excess cogenerated power from the private party, thus reducing the utility's own purchases from the APA project. In the case of loads lost because the economic activity is relocated (e.g., to the Lower 48), the community loses not only employment and taxes, but also the "induced" loads, i.e., increases in other community loads resulting from the economic activity represented by the primary load.

2. Ratemaking and billing problems: The utility must make its retail rates prospectively, yet its power costs will become known only retrospectively. Matching costs to rates during each rate period (and keeping rates fairly predictable for consumers), always a chore, becomes significantly more difficult.

3. Added administrative costs: A fairly sophisticated formula is needed to calculate true avoided cost, and the values for each variable in the formula must be recalculated at frequent (e.g., monthly) intervals. This would create some administrative burden even if (a) diesel were the only alternative, and (b) disputes with APA over the proper value for each variable never arose. (It is also difficult to continue getting realistic quotes for a large volume of diesel once the utility begins buying reduced volumes.) In practice, the difficulties are even greater because (a) the formula must accommodate other alternatives (e.g., cogeneration) as such alternatives become available, and (b) disputes with the APA over the value of individual variables are likely.

---

*/ Such pricing works well in power "pools" in which a sophisticated computer controls the generators of many producers on an instantaneous central-dispatch basis. The computer is programed to minimize total generation costs at all times, based on each generator's fuel cost, efficiency, and maximum/minimum operating guides. Cost savings made possible by using Utility A's generator rather than Utility B's to serve a portion of Utility B's load are "split" (usually on a 50/50 basis) through use of a share-the-savings rate the computer charges to Utility B and credits to Utility A. The actual rate for each transaction, and each utility's costs and savings for any given period, are known at once, facilitating utility ratemaking and billing. Nothing similar exists in Alaska, nor could it exist in the Four Dam Pool context where (a) the communities are not electrically interconnected, and (b) APA power is intended to displace thermal generation completely for most days of the year.

4. Added administrative costs: Administering such a pricing system would be just as complex and labor-intensive for the APA as it would be for the utilities.

4/12/85

MEMORANUDM

TO: Rep. John Sund
FROM: J. Hartle, PA

RE: Amendment to Subcommittee draft of HB 219

Here are some reasons for adding the section:

*Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.625. RATE REOPENERS. A power sales agreement for the sale of power from the initial project financed under AS 44.33.610 may include among its provisions an agreed schedule of wholesale power rates notwithstanding the provisions of AS 44.83.398 but must include a provision for a rate reopener.

1. Will allow the present negotiations to continue.

Negotiations are presently moving forward under a plan from Gordon Harrison. His plan is to offer a wholesale power rate which combines debt service and O & M. The plan would offer the purchasers of power a certain rate per kwh, O&M would be taken out of that rate and whatever is left above O&M would go to debt service. This is not allowed under AS 44.83.398 which specifies that O&M and Debt service must be separated and debt service must be the same for all projects.

2. Will return more debt service to the state.

Per KWH, Tyee has the highest O&M rate; this rate is by itself almost equal to the cost of alternative sources of power. Therefore, if the "Harrison plan" is implemented, very little would be left over for debt service thus limiting the debt service rate that can be paid by the other projects as well (under 398). Other projects with lower O&M are, with this amendment, allowed to provide a greater return to the state for debt service.

3. It still leaves the rate open to negotiations.

The amendment only provides for an agreed schedule, it is silent as to what that rate will be. Under AS 44.83.398 there is no way to agree on a schedule - the rates must fluctuate with loads - if loads go down, rates go up, if loads go up, rates go down. This is the exact problem the communities are trying to get away from - certainty is more important than the actual rate itself; the amendment allows for agreement.

4. Regulatory costs: For the cooperatives (Kodiak and Copper Valley), whose retail rates are regulated by the Alaska PUC, rate filings and rate cases will become more frequent, more complex, and more costly. If the past is a guide, the APUC ma, also require the co-ops to raise/lower retail rates to "track" the fluctuating wholesale cost of power to the co-op, thus producing fluctuating retail rates.

5. Planning problems: The search for alternative sources of power supply with more predictable long-term costs would be intensified and simultaneously complicated. Presumably the planning process would be biased (rationally) toward predictability, even if the price of predictability were that somewhat higher retail rates might result from the more predictable alternatives.

6. Uncertain impact on utility financing: It is not clear that a utility would be able to finance additions to its distribution system and/or its generating plant as easily or inexpensively as would otherwise be the case, since the utility's revenue stream and its ability to maintain required coverage ratios and reserves would be somewhat unpredictable.

B. Problems for the State of Alaska as the seller of power

1. Reduced revenue: Compared with long-term contracts under the terms of HB 219 pricing method, power sold on a percentage-of-avoided-cost basis is likely to produce less total revenue for the State, even if one assumes that loads are equal in both cases. But loads will actually be less (see ¶ A.1. above). The loss of potential large new loads that would have produced more revenue for the State would make the comparative revenue disadvantage to the State worse.

2. Increased revenue risk: This would take two forms. First, the State would take the entire risk of further downward movement in the price of diesel and the cost of alternative resources, whereas under HB 219 the communities would bear that risk entirely. Second, because the utilities would be free, over time, to switch wholly or partially to other sources of supply, and because the utilities would have an incentive to investigate and pursue such other sources, the State would face some risk of losing even the existing loads of the utilities, as well as utility load growth.

3. Risk of negative rate of return (failure to cover current costs): This simply indicates the extreme to which the State's additional risk could take it. Under HB 219, the State is assured that (a) O&M costs will be completely paid by the utilities, and (b) some positive return, in addition to return of the principal, will be earned on the State's loan. If wholesale rates are tied to actual avoided costs of the utilities, however, a sufficiently great drop in actual avoided costs would result in the APA failing to cover even its O&M costs. In less extreme cases, APA might cover its O&M costs but fail to earn sufficient revenue to repay the principal and/or interest on the loan.

Blue Copy

Alaska State Legislature

CO-CHAIRMAN
FINANCE COMMITTEE
907-465-3740

JAN FAIKS
POUCH V
CAPITOL BUILDING
JUNEAU, ALASKA 99811

Senate

April 11, 1985

MEMORANDUM

TO: Senator Bettye Fahrenkamp, Chairman

FROM: Senator Jan Faiks

SUBJECT: Background on Senate Bill 263, an Act relating to disqualification for certain state loan programs for failure to pay child support.

This bill will disqualify persons who have an overdue child support obligation from participating in certain state loan programs. Persons who are delinquent in their payments to the Child Support Enforcement Division of the Department of Revenue (CSED) will be prevented from receiving loans from any of the following programs:

Section of Bill	Loan Program
Section 1	Agricultural Loan Program
Sections 2 & 3	Alaska Student Loan Program
Section 4	Commercial Fishing Loan Program
Section 5	Alaska Housing Finance Corporation
Section 6	Veteran's Loan Assumption

Section 7	Mining Loan Program
Section 8	Housing Assistance Loan Program
Section 9	Alternative Technology and Energy Loan Program
Section 10	Residential Energy Conservation Loan Program

Delinquent child support is a monumental problem in Alaska. As of April 2 of this year, CSED has 7198 cases having a total arrearage balance of over $30,000,000. The Division is now determining what portion of this debt is owed by loan recipients. Once this information is available, I will forward it to the committee.

The Division's files are computerized, and it can share information with loan agencies in three ways. Upon receiving a call from an agency, CSED can respond within minutes with a status report on a particular loan applicant. The Division can match computer tapes with any agency which has a system which is compatible with its IBM equipment. Finally, CSED sends a monthly statement to all absent parents which verifies their current obligation status. The parents can provide a copy of this statement to the lending agency when they file their loan applications, or upon request, CSED can verify their obligations in writing.

Support payments are a debt that is owed to the children of Alaska. When payments are not made, our public assistance programs must often pick up the cost of maintaining our children's health, safety, and comfort. To alleviate hardship and reduce our public welfare costs, I ask you to act favorably on this bill.

Initial Loan Principal	$196,000,000	Ramp Period (Years)	5		4-DAM POOL
Loan Interest Rate	4.00%	D. S. Entry Rate (c/kW.h)	2.00	LOAN REPAYMENT SCHEDULE	
Loan Term (Years)	40	Entry Rate Annual Escalation	6.05%		
Total Energy Capability (GW.h/yr)	378,607	D. S. Rate Ceiling (c/kW.h)	2.682840		CASE 4-A

Year	DEBT SERV COMPONENT (c/kW.h)	PAYMENT FROM ELEC REVENUE	ENERGY SALES (GW.h)	UTILIZ-ATION	CURRENT PRINCIPAL BALANCE	INTEREST DUE FROM 4-DAM POOL	ACTUAL PAY-MENT LESS INT. DUE	PRINCIPAL REPAYMENT DEFERRED	DEFERRED PRINCIPAL BALANCE
1985	2.00	3,104,120	155,206	40.99%	196,000,000	3,213,926	(109,806)	1,217,061	1,217,061
1986	2.12	3,849,550	181,496	47.94%	194,892,746	3,756,990	92,561	1,116,790	2,333,851
1987	2.25	4,306,077	191,437	50.56%	193,683,395	3,954,721	351,356	1,102,885	3,436,735
1988	2.39	4,751,347	199,181	52.61%	192,229,154	4,095,758	655,589	1,099,544	4,535,279
1989	2.53	5,212,398	206,042	54.42%	190,474,021	4,205,259	1,007,139	1,099,799	5,636,078
1990	2.68	5,714,288	212,994	56.25%	188,367,283	4,300,727	1,413,561	1,097,712	6,733,790
1991	2.68	5,877,217	219,067	57.86%	185,855,810	4,361,163	1,516,054	1,099,757	7,833,547
1992	2.68	6,087,552	226,907	59.93%	183,239,999	4,449,374	1,638,178	1,087,542	8,921,089
1993	2.68	6,336,412	236,183	62.38%	180,514,278	4,557,304	1,779,108	1,061,884	9,982,973
1994	2.68	6,596,916	245,893	64.95%	177,673,286	4,664,816	1,932,100	1,029,868	11,012,841
1995	2.68	6,853,020	255,439	67.47%	174,712,118	4,760,231	2,092,789	993,250	12,005,291
1996	2.68	6,990,569	260,566	68.82%	171,625,080	4,767,619	2,222,950	989,981	12,995,272
1997	2.68	7,133,591	265,897	70.23%	168,413,149	4,771,637	2,361,954	983,082	13,978,354
1998	2.68	7,283,428	271,482	71.71%	165,068,112	4,772,574	2,510,854	971,743	14,950,097
1999	2.68	7,440,669	277,343	73.25%	161,585,516	4,770,144	2,670,525	955,320	15,905,417
2000	2.68	7,605,529	283,488	74.88%	157,959,671	4,763,757	2,841,772	933,243	16,838,660
2001	2.68	7,732,481	288,220	76.13%	154,184,656	4,725,569	3,006,912	922,288	17,760,948
2002	2.68	7,781,390	290,043	76.61%	150,255,456	4,633,629	3,147,761	939,834	18,700,782
2003	2.68	7,831,907	291,926	77.11%	146,167,861	4,536,187	3,295,720	956,646	19,657,428
2004	2.68	7,884,572	293,889	77.62%	141,915,495	4,433,170	3,451,401	972,381	20,629,809
2005	2.68	7,939,463	295,935	78.16%	137,491,713	4,324,285	3,615,257	986,853	21,616,662
2006	2.68	7,996,661	298,067	78.73%	132,889,602	4,208,891	3,787,770	999,859	22,616,521
2007	2.68	8,056,300	300,290	79.31%	128,101,973	4,086,822	3,969,478	1,011,153	23,627,674
2008	2.68	8,118,488	302,608	79.93%	123,121,342	3,957,546	4,160,942	1,020,474	24,648,147
2009	2.68	8,183,279	305,023	80.56%	117,939,925	3,820,549	4,362,730	1,027,568	25,675,716
2010	2.68	8,250,833	307,541	81.23%	112,549,627	3,675,330	4,575,503	1,032,102	26,707,818
2011	2.68	8,321,231	310,165	81.92%	106,942,022	3,521,308	4,799,922	1,033,753	27,741,570
2012	2.68	8,394,633	312,901	82.65%	101,108,347	3,357,895	5,036,738	1,032,125	28,773,696
2013	2.68	8,471,148	315,753	83.40%	95,039,483	3,184,428	5,286,719	1,026,818	29,800,514
2014	2.68	8,550,882	318,725	84.18%	88,725,946	3,000,199	5,550,683	1,017,397	30,817,911
2015	2.68	8,634,023	321,824	85.00%	82,157,866	2,804,469	5,829,554	1,003,334	31,821,245
2016	2.68	8,720,652	325,053	85.85%	75,324,978	2,596,405	6,124,247	984,130	32,805,376
2017	2.68	8,810,983	328,420	86.74%	68,216,601	2,375,152	6,435,831	959,147	33,764,523
2018	2.68	8,905,124	331,929	87.67%	60,821,622	2,139,753	6,765,371	927,769	34,692,291
2019	2.68	9,003,262	335,587	88.64%	53,128,483	1,889,200	7,114,062	889,265	35,581,556
2020	2.68	9,105,559	339,400	89.64%	45,125,156	1,622,397	7,483,162	842,864	36,424,421
2021	2.68	9,212,202	343,375	90.69%	36,799,130	1,338,166	7,874,035	787,707	37,212,128
2022	2.68	9,323,352	347,518	91.79%	28,137,388	1,035,234	8,288,118	722,882	37,935,010
2023	2.68	9,439,197	351,836	92.93%	19,126,387	712,229	8,726,968	647,379	38,582,389
2024	2.68	9,559,978	356,338	94.12%	9,752,841	367,680	9,192,299	560,052	39,142,441
2025	1.34	4,825,870	361,030	95.36%	(310)	1,565,685	3,260,185		35,881,945
2026	1.32	4,825,870	365,921	96.65%		1,435,278	3,390,592		32,491,353
2027	1.30	4,825,870	371,019	98.00%		1,299,654	3,526,216		28,965,137
2028	1.28	4,825,870	376,334	99.40%		1,158,605	3,667,265		25,297,872
2029	1.27	4,825,870	378,607	100.00%		1,011,915	3,813,955		21,483,917
2030	1.27	4,825,870	378,607	100.00%		859,357	3,966,514		17,517,403
2031	1.27	4,825,870	378,607	100.00%		700,696	4,125,174		13,[illegible]3
2032	1.27	4,825,870	378,607	100.00%		535,689	4,290,181		9,102,848
2033	1.27	4,825,870	378,607	100.00%		364,082	4,461,788		4,640,260
2034	1.27	4,825,870	378,607	100.00%		185,610	4,640,260		(0)
TOTALS		347,628,986	15,046,933			151,628,986	196,000,000	39,142,441	

1984 SHCA NSD Forecast*
World Oil Price -- "Marker Crude"
($1983/bbl)

Year	Forecast
1985	$ 26.30
1986	26.30
1987	26.30
1988	26.30
1989	27.09
1990	27.90
1995	32.50
2000	40.00
2005	50.00
2010	60.00
2020	80.00
2030	90.00
2040	100.00
2050	110.00

* Sherman H. Clark Associates "no supply disruption" forecast. Extracted from "Alaska Power Authority Comments on the Federal Energy Regulatory Commission Draft Environmental Impact Statement of May 1984, Volume 3, Appendix I"; August 1984; p. 2-6.

Alaska Department of Revenue Mean Forecast
World Oil Price -- Saudi Medium
($1983/bbl)

Fiscal Year	December 1984 Forecast
1985	$25.70
1986	24.36
1987	23.24
1988	22.81
1989	22.71
1990	23.08
1991	22.99
1992	23.13
1993	23.28
1994	23.43
1995	23.60
1996	23.76
1997	24.16
1998	24.56
1999	24.99
2000	25.42
2001	25.86

COMPARISON OF HB 219 AND "DIESEL ALTERNATIVE"

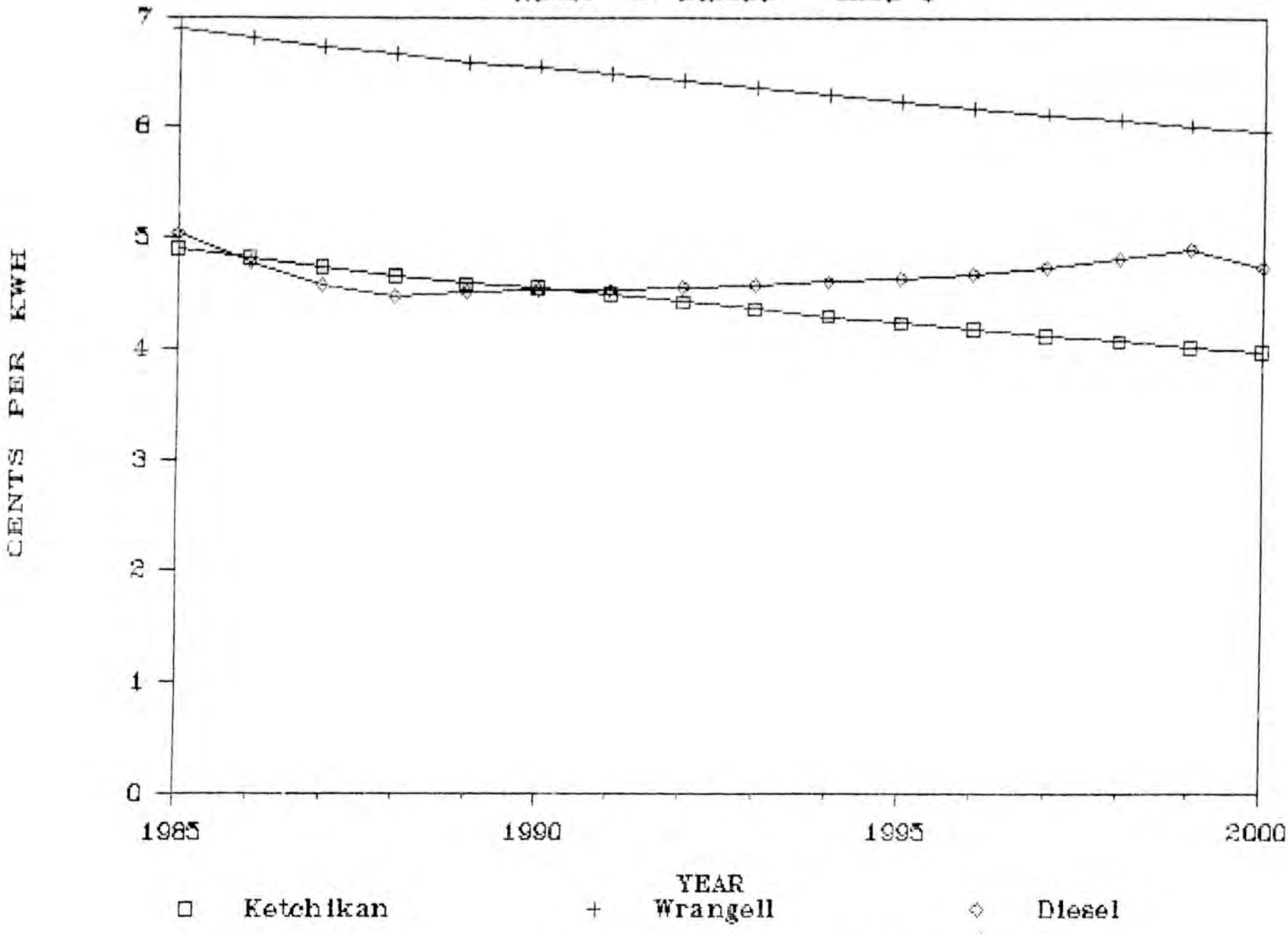
The attached tables and graphs present a rough calculation of projected wholesale power rates and amounts returned to the state by the City of Ketchikan under two alternative arrangements for purchasing power out of the Swan Lake Hydroelectric Project. The first is the result obtained under HB 219, now pending in the House. The second assumes that power from the Project is priced according to what the City would save by not burning diesel fuel.

Several assumptions need to be clarified. First, these are wholesale power costs from the Project. The City has other costs and other resources which bring its current retail rates up over 10¢ per kWh. Future resources will need to be acquired under circumstances far different from those of the past. Second, it is not certain that diesel generation will be the only alternative open to the City in the future. Cogeneration, alternative fuels and technologies, and imported power could all play a role. Thus the diesel alternative analyzed here may not be the lowest cost alternative. Third, we have computed the avoided cost of diesel generation -- i.e., only the savings that would actually be realized by taking power from the Project. Because the City's diesel generators would need to be maintained in reserve, only fuel and lubrication costs would be saved. Finally, we have simplified the "ramp" that is authorized but not required by HB 219. This reflects a recognition that the wholesale power rate under the Interim Power Sales Agreement is currently close to the fixed rate under HB 219.

The numbers presented here are highly sensitive to inflation, changes in the cost of fuel, and changes in load. Case 1 assumes no inflation and modest load growth. It shows that HB 219 would produce insignificant savings over diesel in 1985, and would result in slightly higher costs in the years 1986-1990. Savings from HB 219 would largely be realized in the years from 1990 and later. Case 2 shows what happens if load growth does not materialize. In this case, the diesel alternative remains less expensive throughout the entire 15 year period. This reflects the fact that under HB 219, the City bears the risk of operations and maintenance. If loads, fuel prices, and other prices fall steeply over this period, HB 219 would become relatively more burdensome to the City, whereas if these components rise, the bill becomes more attractive.

WHOLESALE POWER COST ALTERNATIVES

HB219 VS. DIESEL – CASE 1

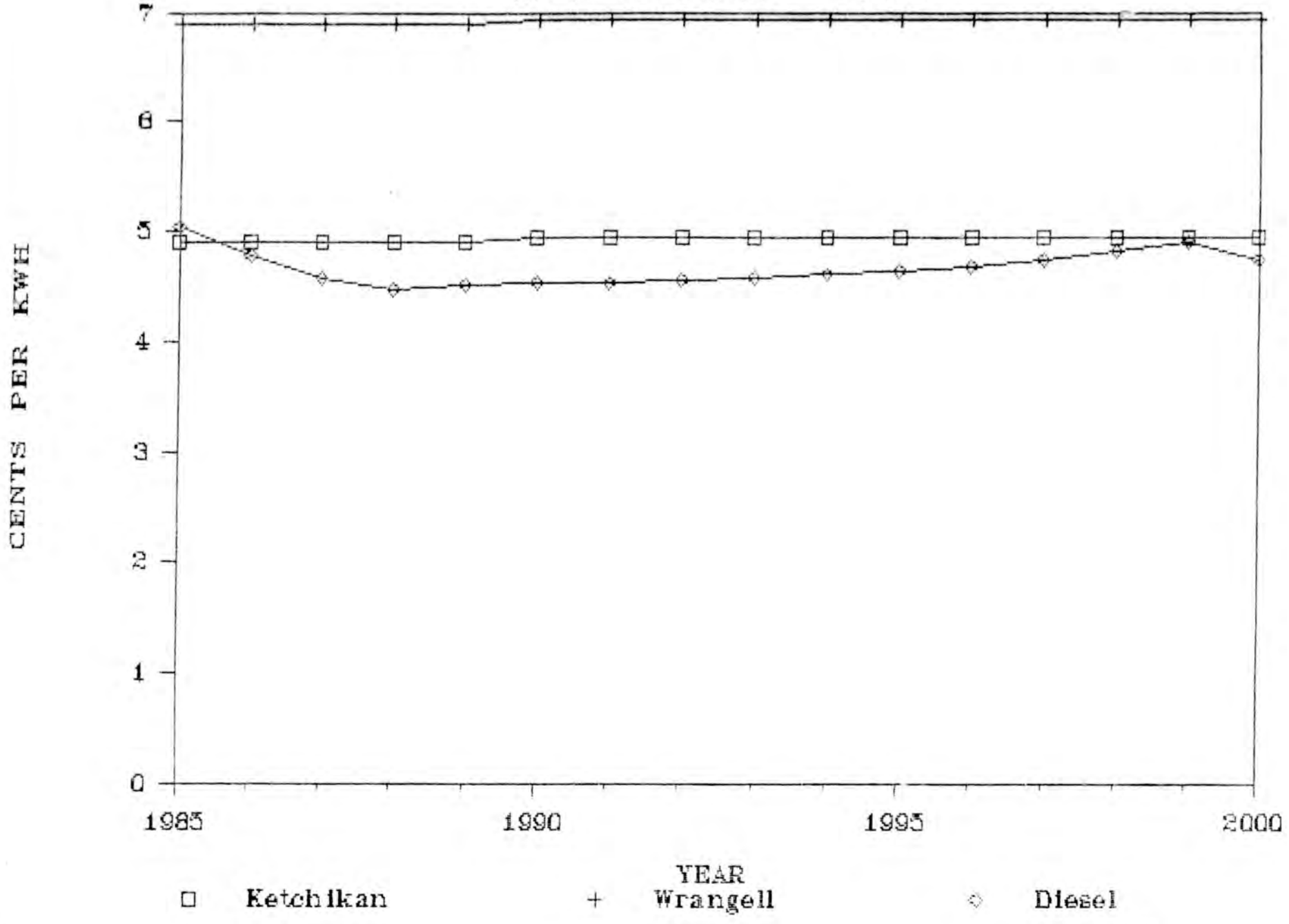


7¢ Diesel
14.53 KwH/Gallon diesel

No Inflation
Load growth "Normal" (APA)

WHOLESALE POWER COST ALTERNATIVES

HB219 VS. DIESEL – CASE 2



No load growth

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
C A S E 2

	1985	1986	1987	1988	1989	1990	1991	1992
Swan Lake Generation MWH	49,000	49,000	49,000	49,000	49,000	49,000	49,000	49,000
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400
Debt Service (Cents/KWH)	2.64	2.64	2.64	2.64	2.64	2.68	2.68	2.68
Debt Service (Dollars)	1,293,600	1,293,600	1,293,600	1,293,600	1,293,600	1,313,200	1,313,200	1,313,200
TOTAL - HB 219 ALTERNATIVE	2,401,000	2,401,000	2,401,000	2,401,000	2,401,000	2,420,600	2,420,600	2,420,600
HB 219 ALTERNATIVE (Cents/KWh)	4.90	4.90	4.90	4.90	4.90	4.94	4.94	4.94
DIESEL ALTERNATIVE:								
Fuel	2,394,357	2,269,850	2,164,498	2,114,217	2,140,555	2,150,132	2,142,949	2,154,921
Lube Oil	73,500	73,500	73,500	73,500	73,500	73,500	73,500	73,500
TOTAL - DIESEL ALTERNATIVE	2,467,857	2,343,350	2,237,998	2,187,717	2,214,055	2,223,632	2,216,449	2,228,421
DIESEL ALTERNATIVE (Cents/KWH)	5.04	4.78	4.57	4.46	4.52	4.54	4.52	4.55
TOTAL DOLLARS RETURNED TO STATE	1,360,457	1,235,950	1,130,598	1,080,317	1,106,655	1,116,232	1,109,049	1,121,021

ASSUMPTIONS: (CASE 2)

Inflation:	1.0000
Diesel (1985 Values):	
Fuel (Cents/Gallon)	71.0000
KWH per Gallon of Diesel	14.5300

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
C A S E 2

	1993	1994	1995	1996	1997	1998	1999	2000
Swan Lake Generation MWH	49,000	49,000	49,000	49,000	49,000	49,000	49,000	49,000
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Debt Service (Dollars)	1,313,200	1,313,200	1,313,200	1,313,200	1,313,200	1,313,200	1,313,200	1,313,200
TOTAL - HB 219 ALTERNATIVE	2,420,600	2,420,600	2,420,600	2,420,600	2,420,600	2,420,600	2,420,600	2,420,600
HB 219 ALTERNATIVE (Cents/KWH)	4.94	4.94	4.94	4.94	4.94	4.94	4.94	4.94
DIESEL ALTERNATIVE:								
Fuel	2,169,287	2,183,653	2,198,019	2,214,780	2,250,695	2,289,005	2,327,315	2,248,301
Lube Oil	73,500	73,500	73,500	73,500	73,500	73,500	73,500	73,500
TOTAL - DIESEL ALTERNATIVE	2,242,787	2,257,153	2,271,519	2,288,280	2,324,195	2,362,505	2,400,815	2,321,801
DIESEL ALTERNATIVE (Cents/KWH)	4.58	4.61	4.64	4.67	4.74	4.82	4.90	4.74
TOTAL DOLLARS RETURNED TO STATE	1,135,387	1,149,753	1,164,119	1,180,880	1,216,795	1,255,105	1,293,415	1,214,401

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
C A S E 1

	1985	1986	1987	1988	1989	1990	1991	1992
Swan Lake Generation MWH	49,000	50,862	52,795	54,801	56,883	59,045	61,289	63,618
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400
Debt Service (Cents/KWH)	2.64	2.64	2.64	2.64	2.64	2.68	2.68	2.68
Debt Service (Dollars)	1,293,600	1,342,757	1,393,782	1,446,745	1,501,722	1,582,405	1,642,536	1,704,953
TOTAL - HB 219 ALTERNATIVE	2,401,000	2,450,157	2,501,182	2,554,145	2,609,122	2,689,805	2,749,936	2,812,353
HB 219 ALTERNATIVE (Cents/KWh)	4.90	4.82	4.74	4.66	4.59	4.56	4.49	4.42
DIESEL ALTERNATIVE:								
Fuel	2,394,357	2,356,104	2,332,126	2,364,512	2,484,939	2,590,908	2,680,378	2,797,775
Lube Oil	73,500	76,293	79,192	82,201	85,325	88,567	91,933	95,426
TOTAL - DIESEL ALTERNATIVE	2,467,857	2,432,397	2,411,318	2,446,714	2,570,264	2,679,475	2,772,311	2,893,202
DIESEL ALTERNATIVE (Cents/KWH)	5.04	4.78	4.57	4.46	4.52	4.54	4.52	4.55
TOTAL DOLLARS RETURNED TO STATE	1,360,457	1,324,997	1,303,918	1,339,314	1,462,864	1,572,075	1,664,911	1,785,802

ASSUMPTIONS: (CASE 1)

Inflation:	1.0000
Diesel (1985 Values):	
Fuel (Cents/Gallon)	71.0000
KWH per Gallon of Diesel	14.5300

WHOLESALE POWER COST COMPARISON
Swan Lake Hydroelectric Project
Ketchikan Public Utilities Diesel Generation
March 5, 1985
C A S E 1

	1993	1994	1995	1996	1997	1998	1999	2000
Swan Lake Generation MWH	66,035	68,544	71,149	73,853	76,659	79,572	82,596	85,735
HB 219 ALTERNATIVE:								
O & M Cost (Dollars)	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400	1,107,400
Debt Service (Cents/KWH)	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
Debt Service (Dollars)	1,769,741	1,836,991	1,906,797	1,979,255	2,054,467	2,132,536	2,213,573	2,297,689
TOTAL - HB 219 ALTERNATIVE	2,877,141	2,944,391	3,014,197	3,086,655	3,161,867	3,239,936	3,320,973	3,405,089
HB 219 ALTERNATIVE (Cents/KWh)	4.36	4.30	4.24	4.18	4.12	4.07	4.02	3.97
DIESEL ALTERNATIVE:								
Fuel	2,923,451	3,054,639	3,191,575	3,338,116	3,521,153	3,717,169	3,922,997	3,933,822
Lube Oil	99,053	102,817	106,724	110,779	114,989	119,358	123,894	128,602
TOTAL - DIESEL ALTERNATIVE	3,022,504	3,157,455	3,298,299	3,448,895	3,636,142	3,836,527	4,046,891	4,062,424
DIESEL ALTERNATIVE (Cents/KWH)	4.58	4.61	4.64	4.67	4.74	4.82	4.90	4.74
TOTAL DOLLARS RETURNED TO STATE	1,915,104	2,050,055	2,190,899	2,341,495	2,528,742	2,729,127	2,939,491	2,955,024

RETAIL RATES
(cents per kwh)

Community	@ 200 kwh/month	@ 500 kwh/month	@ 700 kwh/month
Copper Valley			
-Glenallen	23.5	20.1	18.8
-Valdez	21.3	16.0	14.7
Kodiak	19.0	18.1	17.5
Wrangell	19.1	16.3	15.7
Petersburg	13.9	11.7	11.2
Ketchikan	14.3	10.8	10.2

COMPONENTS OF THE RATES
(cents per kwh)

Community	APA O&M	APA Debt Service	Other*/	Total (@ 700 kwh/month)
Copper Valley				
-Glenallen	2.76	2.64	13.4	18.8
-Valdez	2.76	2.64	9.3	14.7
Kodiak	2.00	2.64	12.86	17.5
Wrangell	4.59	2.64	8.47	15.7
Petersburg	4.59	2.64	3.97	11.2
Ketchikan	2.26	2.64	5.3	10.2

*/ "Other" includes distribution, administrative and general, reserve generation, and other generation (other hydro as well as diesel in the case of Ketchikan and Petersburg.)

Document/diskette: LOANS/Eric1 Draft: April 1, 1985

SHORTCOMINGS OF PRICING APA POWER AS A PERCENTAGE OF AVOIDED COST

A. Problems for the purchasing utility (in the Alaskan context)*/

1. Loss of potential loads: Some or all potential large new loads that could increase project utilization will be lost, because such loads demand a higher degree of certainty over longer periods. Many such loads will either be met with private generation or cogeneration (e.g., Wrangell Forest Products) or will be lost entirely (e.g., Phillips). In the cogeneration case, the utility may be required by law to purchase excess cogenerated power from the private party, thus reducing the utility's own purchases from the APA project. In the case of loads lost because the economic activity is relocated (e.g., to the Lower 48), the community loses not only employment and taxes, but also the "induced" loads, i.e., increases in other community loads resulting from the economic activity represented by the primary load.

2. Ratemaking and billing problems: The utility must make its retail rates prospectively, yet its power costs will become known only retrospectively. Matching costs to rates during each rate period (and keeping rates fairly predictable for consumers), always a chore, becomes significantly more difficult.

3. Added administrative costs: A fairly sophisticated formula is needed to calculate true avoided cost, and the values for each variable in the formula must be recalculated at frequent (e.g., monthly) intervals. This would create some administrative burden even if (a) diesel were the only alternative, and (b) disputes with APA over the proper value for each variable never arose. (It is also difficult to continue getting realistic quotes for a large volume of diesel once the utility begins buying reduced volumes.) In practice, the difficulties are even greater because (a) the formula must accommodate other alternatives (e.g., cogeneration) as such alternatives become available, and (b) disputes with the APA over the value of individual variables are likely.

---

*/ Such pricing works well in power "pools" in which a sophisticated computer controls the generators of many producers on an instantaneous central-dispatch basis. The computer is programed to minimize total generation costs at all times, based on each generator's fuel cost, efficiency, and maximum/minimum operating guides. Cost savings made possible by using Utility A's generator rather than Utility B's to serve a portion of Utility B's load are "split" (usually on a 50/50 basis) through use of a share-the-savings rate the computer charges to Utility B and credits to Utility A. The actual rate for each transaction, and each utility's costs and savings for any given period, are known at once, facilitating utility ratemaking and billing. Nothing similar exists in Alaska, nor could it exist in the Four Dam Pool context where (a) the communities are not electrically interconnected, and (b) APA power is intended to displace thermal generation completely for most days of the year.

4. Regulatory costs: For the cooperatives (Kodiak and Copper Valley), whose retail rates are regulated by the Alaska PUC, rate filings and rate cases will become more frequent, more complex, and more costly. If the past is a guide, the APUC may also require the co-ops to raise/lower retail rates to "track" the fluctuating wholesale cost of power to the co-op, thus producing fluctuating retail rates.

5. Planning problems: The search for alternative sources of power supply with more predictable long-term costs would be intensified and simultaneously complicated. Presumably the planning process would be biased (rationally) toward predictability, even if the price of predictability were that somewhat higher retail rates might result from the more predictable alternatives.

6. Uncertain impact on utility financing: It is not clear that a utility would be able to finance additions to its distribution system and/or its generating plant as easily or inexpensively as would otherwise be the case, since the utility's revenue stream and its ability to maintain required coverage ratios and reserves would be somewhat unpredictable.

B. Problems for the State of Alaska as the seller of power

1. Reduced revenue: Compared with long-term contracts under the terms of HB 219 pricing method, power sold on a percentage-of-avoided-cost basis is likely to produce less total revenue for the State, even if one assumes that loads are equal in both cases. But loads will actually be less (see ¶ A.1. above). The loss of potential large new loads that would have produced more revenue for the State would make the comparative revenue disadvantage to the State worse.

2. Increased revenue risk: This would take two forms. First, the State would take the entire risk of further downward movement in the price of diesel and the cost of alternative resources, whereas under HB 219 the communities would bear that risk entirely. Second, because the utilities would be free, over time, to switch wholly or partially to other sources of supply, and because the utilities would have an incentive to investigate and pursue such other sources, the State would face some risk of losing even the existing loads of the utilities, as well as utility load growth.

3. Risk of negative rate of return (failure to cover current costs): This simply indicates the extreme to which the State's additional risk could take it. Under HB 219, the State is assured that (a) O&M costs will be completely paid by the utilities, and (b) some positive return, in addition to return of the principal, will be earned on the State's loan. If wholesale rates are tied to actual avoided costs of the utilities, however, a sufficiently great drop in actual avoided costs would result in the APA failing to cover even its O&M costs. In less extreme cases, APA might cover its O&M costs but fail to earn sufficient revenue to repay the principal and/or interest on the loan.

4. Added administrative costs: Administering such a pricing system would be just as complex and labor-intensive for the APA as it would be for the utilities.

May 11, 1985

The Honorable Jan Faiks, Chair
Senate Finance Committee
Pouch V
Juneau, Alaska 99811

Dear Madam Chair:

My name is Jim Franzel. I am a member of the Petersburg City Council and it is my signature that appears on the Four Dam Pool/APA memorandum of understanding, dated May 8, 1985. I would like to briefly comment on several items, mostly related to the M.O.U., for the record.

(1) I believe that Petersburg would have preferred not to have a rate reopener, but if we must have one, we will be negotiating for some tight limitations.

(2) The mention of Bradley Lake in the M.O.U. has been difficult to assess in the limited time we have had to work with it. Comparing the APA forecast loads and projected project construction costs for Bradley Lake versus the Four Dam Pool projects, it looks like the Four Dam Pool will have higher electric rates. I want to emphasize that, since Bradley Lake has not been constructed, it is my understanding that if there are construction cost overruns (as there were with Tyee,) the Petersburg rate payers will not eventually be penalized for something that isn't their fault.

(3) If HB 219 becomes law, the Four Dam Pool communities will have among the most expensive residential electrical rates in Alaska at present. I think this will be a concern to the voters of Petersburg.

(4) The Petersburg City Council intends to put the negotiated contract to a vote of the people.

I would like to express that I feel we have made significant progress with the M.O.U. agreement. However, we still have a long way to go.

I pledge that I will support the M.O.U. to my governing body.

Finally, I think that it is to everyone's advantage to settle this issue. Thank You.

Sincerely,

Jim Franzel

Jim Franzel
Petersburg City Council

Alaska State Legislature

House of Representatives

REPRESENTATIVE
JOHN L. SUND

Box 6440
KETCHIKAN, ALASKA 99901
(907) 225-5552

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4919

CHAIR, HOUSE SPECIAL COMMITTEE ON LOANS
VICE-CHAIR, JUDICIARY COMMITTEE
MEMBER, SPECIAL COMMITTEE ON OIL AND GAS
MEMBER, RESOURCES COMMITTEE

5/10/85

MEMORANDUM

TO: Sen. Jan Faiks, Co-Chair
Sen. John Sackett, Co-Chair
Senate Finance Committee
Sen Dick Eliason
Sen. Frank Ferguson
Sen. Paul Fischer
Sen. Rick Halford
Sen. Jay Kerttula

FROM: Rep. John Sund

RE: HB 219 "An act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

****

Attached please find a package of backup information on HB 219, the four-dam-pool bill. Please let me know if there is any further information I can provide you.

The package contains:

- The Finance Committee Substitute for the bill
- A Memorandum of Understanding dated May 8, 1985
- Schedule of debt service charges for the project
- Schedule of retail electric rates
- Memo to Senate Resources with sectional analysis HB 219
- Spreadsheet of debt repayment

Offered: 4/14/85
Referred: Rules

Original sponsor: House Special Committee on State Loans

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 219 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

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

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and <u>electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state,</u> none of whose utilities is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

* Sec. 2. AS 44.33.620(a) is amended to read:

(a) A loan from the fund <u>shall</u> [MUST] be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) [THE MARKET RATE OF INTEREST FOR A LOAN OF COMPARABLE SIZE AND DURATION AT THE TIME THE LOAN IS MADE; AND

(2)] the [ESTIMATED] costs, <u>at the time the power sales</u>

agreement is initially negotiated or renegotiated, of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund;

(2) the effect of the loan terms on the wholesale power cos . to all utilities purchasing power from the initial project;

(3) the long-term benefits to consumers and communities of stable wholesale power costs;

(4) the affordability of initial wholesale power costs that result from the loan terms with utilities purchasing power from the initial project;

(5) increasing repayment, not to exceed five years, of debt service payment per kilowatt hour gradually over the initial period of a loan repayment schedule to the extent necessary to avoid significant rate increases to the consumer;

(6) the existing excess capacity of power projects; and

(7) the effects of increased capacity utilization, inflation, and alternative energy production costs over the life of the initial project.

* Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

(d) In (a) of this section "initial project" means the project described in AS 44.83.398(a).

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.625. RATE REOPENERS. A power sales agreement for the sale of power from the initial project, as described in AS 44.83.-398(a), financed with a loan under AS 44.33.610 may include among its provisions an agreed schedule of wholesale power rates notwithstanding the provisions of AS 44.83.398, but must include a provision for a rate reopener.

* Sec. 5. AS 44.83.425(5) is amended to read:

(5) "qualified utility" means an electric utility or an electric operating entity established as an instrumentality of two or more electric utilities [THAT IS] certified by the Alaska Public Utilities Commission to serve all or part of a market area that is served or will be served by the power project, [AND] that the authority determines is capable of operating and maintaining the power project.

MEMORANDUM OF UNDERSTANDING

Between the Alaska Power Authority
and
Representatives of the Four Dam Pool Communities
governing
Power Sales Contracts for the Four Dam Pool

Representatives of the APA and the Four Dam Pool utilities (Ketchikan, Kodiak, Copper Valley, Wrangell, and Petersburg) have reached agreement in principle on the terms and conditions of a power sales contract for the sale of power from the Solomon Gulch, Swan Lake, Lake Tyee, and Terror Lake hydroelectric projects (the "Initial Project"). Although the specific details of such a contract must still be resolved and drafted, the undersigned representatives hereby agree to recommend to their governing bodies the approval of power sales contracts embodying, among other things, the principles set forth in this Memorandum.

1. The Alaska Power Authority ("APA") and the purchasing utilities of the Four-Dam Pool communities ("Purchasing Utilities") agree to enter into a power sales agreement that will run for 50 years, subject to periodic renegotiations and other conditions set forth below.

2. At the end of the contract period, there will be no debt service component of the wholesale rate charged by the APA for power from the four projects. Debt service payments that may be required to pay for additions and expansions of the four projects that are made subsequent to the execution of these agreements will be governed by future agreements.

3. The Purchasing Utilities agree to pay a wholesale rate for energy purchased from the APA that is generated by the four projects that has a debt service component, and a component relevant to all other annual costs.

4. The annual costs exclusive of the debt service component shall include costs of on-site operations and maintenance, safety inspections and investigations, insurance, project-specific administrative and general expenses, and renewals and replacements.

5. Annual costs referred to in Section 4 will be based on prudent utility practice, and will be subject to mutual agreement arrived at through an annual process that establishes an operating budget for the coming year. An O&M

oversight committee composed of all parties to the agreement will be established. In the event disputes over these annual costs cannot be resolved by the parties, the matter will be referred to arbitration by a certified engineer mutually agreeable to the parties.

6. All annual costs referred to in Section 4 will be pooled and divided by the total annual sales from the four projects, so that all Purchasing Utilities pay the same annual cost component of the wholesale rate.

7. The debt service component of the wholesale rate has two elements: an element paid for energy shown in Schedule A as "forecast sales," and an element paid for energy in addition to the "forecast sales," which is referred to as "additional sales."

8. The "additional sales" debt service element in Schedule A will be charged only after the total annual sales from all four projects exceed the "forecast sales" for that year; that is, the distinction between "forecast sales" and "additional sales" applies to the entire four dam system (as configured at the time this agreement is executed).

9. The purchasing utilities will schedule the energy produced by the projects into their load ahead of energy from other sources, except from existing hydroelectric projects.

10. Upon the initiation of either party, the debt service rates shown in Schedule A may be renegotiated after 15 years. The contract shall require reasonable notice of intent to renegotiate rates, and the contract may direct the parties to consider certain factors and conditions in establishing a new rate schedule.

11. The parties to this agreement do not expect that the composite wholesale rate that results from this agreement will be less than the composite wholesale rate charged by the APA for energy produced from the Bradley Lake hydroelectric project.

12. The APA shall bear the risk of uninsured project failures, substandard project performance, and failure of any Purchasing Utility to make payments required by the contract.

DATED May 8, 1985

ALASKA POWER AUTHORITY

By: [signature]

CITY OF KETCHIKAN

By: [signature]

WORK33:APA

COPPER VALLEY ELECTRIC ASSOCIATION

By: _____

KODIAK ELECTRIC ASSOCIATION

By: _____

CITY OF WRANGELL

By: _____

CITY OF PETERSBURG

By: _____

WORK33:APA

SCHEDULE A

YEAR	FORECAST SALES (MWH)	DEBT SERVICE RATE FOR FORECAST SALES (CENTS/KWH)	DEBT SERVICE RATE FOR ADDITIONAL SALES (CENTS/HWH)
1986	181,496	2.6	1.6
1987	191,437	2.8	1.8
1988	199,181	3.2	2.2
1989	206,042	3.5	2.5
1990	212,994	4.0	3.0
1991	219,067	4.0	3.0
1992	226,907	4.0	3.0
1993	236,183	4.0	3.0
1994	245,893	4.0	3.0
1995	255,439	4.0	3.0
1996	260,533	4.0	3.0
1997	265,897	4.0	3.0
1998	271,482	4.0	3.0
1999	277,343	4.0	3.0
2000	283,488	4.0	3.0
2001	288,220	4.0	3.0
2002	290,043	4.0	3.0
2003	291,926	4.0	3.0
2004	293,889	4.0	3.0
2005	295,935	4.0	3.0
2006	298,067	4.0	3.0
2007	300,290	4.0	3.0
2008	302,608	4.0	3.0
2009	305,023	4.0	3.0
2010	307,541	4.0	3.0
2011	310,165	4.0	3.0
2012	312,901	4.0	3.0
2013	315,753	4.0	3.0
2014	318,725	4.0	3.0
2015	321,824	4.0	3.0
2016	325,053	4.0	3.0
2017	328,420	4.0	3.0
2018	331,929	4.0	3.0
2019	335,587	4.0	3.0
2020	339,400	4.0	3.0
2021	343,375	4.0	3.0
2022	347,518	4.0	3.0
2023	351,836	4.0	3.0
2024	356,338	4.0	3.0
2025	361,030	4.0	3.0
2026	365,921	4.0	3.0
2027	371,019	4.0	3.0

YEAR	FORECAST SALES (MWH)	DEBT SERVICE RATE FOR FORECAST SALES (¢1 KWH)	DEBT SERVICE RATE FOR ADDITIONAL SALES (¢1 KWH)
2028	376,334	4.0	3.0
2029	378,607	4.0	3.0
2030	378,607	4.0	3.0
2031	378,607	4.0	3.0
2032	378,607	4.0	3.0
2033	378,607	4.0	3.0
2034	378,607	4.0	3.0
2035	378,607	4.0	3.0
2036	378,607	4.0	3.0
2037	378,607	4.0	3.0

RETAIL RATES
(cents per kwh)

Community	@ 200 kwh/month	@ 500 kwh/month	@ 700 kwh/month
Copper Valley			
-Glenallen	23.5	20.1	18.8
-Valdez	21.3	16.0	14.7
Kodiak	19.0	18.1	17.5
Wrangell	19.1	16.3	15.7
Petersburg	13.9	11.7	11.2
Ketchikan	14.3	10.8	10.2

COMPONENTS OF THE RATES
(cents per kwh)

Community	APA O&M	APA Debt Service	Other*/	Total (@ 700 kwh/month)
Copper Valley				
-Glenallen	2.76	2.64	13.4	18.8
-Valdez	2.76	2.64	9.3	14.7
Kodiak	2.00	2.64	12.86	17.5
Wrangell	4.59	2.64	8.47	15.7
Petersburg	4.59	2.64	3.97	11.2
Ketchikan	2.26	2.64	5.3	10.2

*/ "Other" includes distribution, administrative and general, reserve generation, and other generation (other hydro as well as diesel in the case of Ketchikan and Petersburg.)

Alaska State Legislature

House of Representatives

REPRESENTATIVE
JOHN L. SUND

Box 5440
KETCHIKAN, ALASKA 99901
(907) 225-5552

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4919

CHAIR, HOUSE SPECIAL COMMITTEE ON LOANS
VICE-CHAIR, JUDICIARY COMMITTEE
MEMBER, SPECIAL COMMITTEE ON OIL AND GAS
MEMBER, RESOURCES COMMITTEE

4/22/85

MEMORANDUM

TO: Sen. Arliss Sturgulewski, Chair,
Senate Resources Committee

FROM: Rep. John Sund

RE: HB 219 "An act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

The purpose of this bill is to resolve the problems holding up four-dam-pool power sales agreements and to provide for payback of the $196 million appropriation made last year to complete the hydroelectric projects. The Alaska Power Authority and the six communities served by the four dams have been negotiating power sales agreements for 2½ years without success. The goal is a long-term power sales agreement that provides affordable electricity for the communities and a maximum return on the state's investment.

$210 million was appropriated last year; $196 million has been spent to complete the dams and pay off short-term construction financing issued by the APA. This appropriation was structured as a loan from the Department of Commerce and Economic Development to the APA to be paid off through power sales from the project. AS 44.33.620 sets terms for the loan.

As in existing law, the Finance Committee Substitute does not set in law exact terms for the loan, nor does it set power rates. These are left open for further negotiation. The bill provides specific guidelines for resolving the issue under a plan developed by Gordon Harrison of the APA board.

The APA and the six communities report recent significant progress in power sales agreement negotiations; the plan they are now working with requires the passage of CSHB 219 (Fin). Action is required this session to permit sales agreements which will capture additional loads for the under-utilized hydroelectric capacity.

The bill is supported by both the APA and the four-dam-pool communities. Bob Heath, Executive Director of the APA and representatives of the communities are expected to testify before the Resources Committee.

Sectional analysis:

Section 1:
Sections 1 and 5, propose a change in law to allow two communities to get together for joint operation of a dam. The main purpose is to allow the Thomas Bay Power Authority to operate the Tyee Dam. Tyee serves two communities (Wrangell and Petersburg); Current law requires one or the other to operate the dam. This section corrects that by adding "electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state" to the APUC statutes. Like the communities, the 'joint operating entity' would not be subject to APUC regulation.

Section 2:
This section amends the loan terms for the Power Development Revolving Loan Fund (AS 44.33.620). This fund was created last session and the statutory loan terms give little direction to the APA. The added language sets clear guidelines for the agencies to work with. Deleted is the requirement that the loan terms be set considering market rates of interest.

Section 3 adds a definition: "initial project" means the four dams.

Section 4 adds a provision for power sales contract rate reopeners. This protects the state in times of inflation when the power sales rate could not provide sufficient loan repayment in real terms and protects the communities should the price of alternate power generation drop significantly. An important provision is added allowing an agreed schedule of wholesale power rates to be included in the contracts. This allows a contract to be reached through negotiation which will provide for certainty in power rates as needed by utility planners. This also will provide for a greater return to the state in debt service from the project.

Section 5 adds joint operating entities to the definition of "qualified utilities" which may purchase power from the APA. (See explanation of Section 1)

EXHIBIT A: WHOLESALE POWER RATE SCHEDULE
Alaska Power Authority--Four Dam Pool
Memorandum of Understanding

YEAR	SCHEDULED DEBT SERVICE (CENTS/KWH)	ESTIMATED O & M COST (CENTS/KWH)	PROJECTED WHOLESALE POWER RATE (CENTS/KWH)
--A--	----B-----	----C-----	----D-----
1986	2.60	2.72	5.32
1987	2.80	2.72	5.52
1988	3.20	2.76	5.96
1989	3.50	2.81	6.31
1990	4.00	2.87	6.87
1991	4.00	2.94	6.94
1992	4.00	3.00	7.00
1993	4.00	3.04	7.04
1994	4.00	3.08	7.08
1995	4.00	3.13	7.13
1996	4.00	3.24	7.24
1997	4.00	3.36	7.36
1998	4.00	3.47	7.47
1999	4.00	3.59	7.59
2000	4.00	3.72	7.72
2001	4.00	3.86	7.86
2002	4.00	4.06	8.06
2003	4.00	4.27	8.27
2004	4.00	4.48	8.48
2005	4.00	4.71	8.71
2006	4.00	4.94	8.94
2007	4.00	5.19	9.19
2008	4.00	5.45	9.45
2009	4.00	5.72	9.72
2010	4.00	6.01	10.01
2011	4.00	6.30	10.30
2012	4.00	6.61	10.61
2013	4.00	6.94	10.94
2014	4.00	7.28	11.28
2015	4.00	7.63	11.63
2016	4.00	8.00	12.00
2017	4.00	8.38	12.38
2018	4.00	8.78	12.78
2019	4.00	9.20	13.20
2020	4.00	9.63	13.63
2021	4.00	10.08	14.08
2022	4.00	10.55	14.55
2023	4.00	11.04	15.04
2024	4.00	11.54	15.54
2025	4.00	12.07	16.07
2026	4.00	12.61	16.61
2027	4.00	13.18	17.18
2028	4.00	13.76	17.76
2029	4.00	14.50	18.50
2030	4.00	15.36	19.36
2031	4.00	16.27	20.27
2032	4.00	17.24	21.24
2033	4.00	18.27	22.27
2034	4.00	19.35	23.35
2035	4.00	20.51	24.51

Notes:

1. O & M based on forecast loads without Additional Sales.

2. O & M includes $500,000 per year capital cost for Renewals and Replacements.

3. O & M inflation assumed to be 6% per year.

4. Additional Sales to be charged for Debt Service at 1 Cent/kWh less than Scheduled Debt Service.

Case Number 2
Loan Principal ($=000's) $196,000
O&M Cost Inflation Rate 6.00%

EXHIBIT B: PROJECTED OPERATING RESULTS AND RATES OF RETURN
Alaska Power Authority--Four Dam Pool
Memorandum of Understanding

Average Rate of Return:
Without Additional Sales 5.47%
With Additional Sales 6.10%

		PROJECTED					OPERATIONS & MAINTENANCE			
YEAR	SCHEDULED DEBT SVC. (CENTS/KWH)	O & M COST (CENTS/KWH)	WHLS. POWER RATE (CENTS/KWH)	SALES (MWH)	GROSS REVENUES ($=000's)	NET REVENUES ($=000's)	ADMIN ($=000's)	ON-SITE ($=000's)	R & R ($=000's)	TOTAL O & M ($=000's)
	A	B	C	D	E	F	G	H	I	J	K
1986	2.60	2.72	5.32	181,496	9,658	5,219	863	3,576	500	4,939
1987	2.80	2.72	5.52	191,437	10,566	5,860	915	3,791	500	5,205
1988	3.20	2.76	5.96	199,181	11,861	6,874	970	4,018	500	5,488
1989	3.50	2.81	6.31	206,042	12,998	7,711	1,028	4,259	500	5,787
1990	4.00	2.87	6.87	212,994	14,624	9,020	1,090	4,515	500	6,104
1991	4.00	2.94	6.94	219,067	15,203	9,263	1,155	4,785	500	6,440
1992	4.00	3.00	7.00	226,907	15,873	9,576	1,224	5,073	500	6,797
1993	4.00	3.04	7.04	236,183	16,622	9,947	1,298	5,377	500	7,175
1994	4.00	3.08	7.08	245,893	17,411	10,336	1,375	5,700	500	7,575
1995	4.00	3.13	7.13	255,439	18,217	10,718	1,458	6,042	500	8,000
1996	4.00	3.24	7.24	260,533	18,871	10,921	1,546	6,404	500	8,450
1997	4.00	3.36	7.36	265,897	19,562	11,136	1,638	6,788	500	8,927
1998	4.00	3.47	7.47	271,482	20,291	11,359	1,737	7,196	500	9,432
1999	4.00	3.59	7.59	277,343	21,062	11,594	1,841	7,627	500	9,968
2000	4.00	3.72	7.72	283,488	21,876	11,840	1,951	8,085	500	10,536
2001	4.00	3.86	7.86	288,220	22,667	12,029	2,068	8,570	500	11,138
2002	4.00	4.06	8.06	290,043	23,378	12,102	2,192	9,084	500	11,777
2003	4.00	4.27	8.27	291,926	24,130	12,177	2,324	9,629	500	12,453
2004	4.00	4.48	8.48	293,889	24,926	12,256	2,463	10,207	500	13,170
2005	4.00	4.71	8.71	295,935	25,768	12,337	2,611	10,820	500	13,931
2006	4.00	4.94	8.94	298,067	26,659	12,423	2,768	11,469	500	14,736
2007	4.00	5.19	9.19	300,290	27,602	12,512	2,934	12,157	500	15,591
2008	4.00	5.45	9.45	302,608	28,600	12,604	3,110	12,886	500	16,496
2009	4.00	5.72	9.72	305,023	29,657	12,701	3,296	13,659	500	17,456
2010	4.00	6.01	10.01	307,541	30,775	12,802	3,494	14,479	500	18,473
2011	4.00	6.30	10.30	310,165	31,958	12,907	3,704	15,348	500	19,552
2012	4.00	6.61	10.61	312,901	33,211	13,016	3,926	16,269	500	20,695
2013	4.00	6.94	10.94	315,753	34,537	13,130	4,162	17,245	500	21,906
2014	4.00	7.28	11.28	318,725	35,940	13,249	4,411	18,279	500	23,191
2015	4.00	7.63	11.63	321,824	37,425	13,373	4,676	19,376	500	24,552
2016	4.00	8.00	12.00	325,053	38,997	13,502	4,957	20,539	500	25,995
2017	4.00	8.38	12.38	328,420	40,662	13,637	5,254	21,771	500	27,525
2018	4.00	8.78	12.78	331,929	42,424	13,777	5,569	23,077	500	29,147
2019	4.00	9.20	13.20	335,587	44,289	13,923	5,903	24,462	500	30,865
2020	4.00	9.63	13.63	339,400	46,263	14,076	6,258	25,930	500	32,687
2021	4.00	10.08	14.08	343,375	48,354	14,235	6,633	27,485	500	34,619
2022	4.00	10.55	14.55	347,518	50,566	14,401	7,031	29,135	500	36,666
2023	4.00	11.04	15.04	351,836	52,909	14,573	7,453	30,883	500	38,836
2024	4.00	11.54	15.54	356,338	55,389	14,754	7,900	32,736	500	41,136
2025	4.00	12.07	16.07	361,030	58,015	14,941	8,374	34,700	500	43,574
2026	4.00	12.61	16.61	365,921	60,795	15,137	8,877	36,782	500	46,158
2027	4.00	13.18	17.18	371,019	63,739	15,341	9,409	38,989	500	48,898
2028	4.00	13.76	17.76	376,334	66,855	15,553	9,974	41,328	500	51,802
2029	4.00	14.50	18.50	378,607	70,024	15,644	10,572	43,808	500	54,880
2030	4.00	15.36	19.36	378,607	73,287	15,644	11,206	46,436	500	58,143
2031	4.00	16.27	20.27	378,607	76,745	15,644	11,879	49,222	500	61,601
2032	4.00	17.24	21.24	378,607	80,411	15,644	12,592	52,176	500	65,267
2033	4.00	18.27	22.27	378,607	84,297	15,644	13,347	55,306	500	69,153
2034	4.00	19.35	23.35	378,607	88,417	15,644	14,148	58,624	500	73,272
2035	4.00	20.51	24.51	378,607	92,783	15,644	14,997	62,142	500	77,639

	ADDITIONAL SALES TRUE-UP CALCULATION						
YEAR	ADDITIONAL SALES (MWH)	GROSS REVENUE ($=000'S)	DEBT SVC. TRUE-UP ($=000'S)	O & M TRUE-UP ($=000's)	NET REVENUE ($=000's)	MELDED RATE (CENTS/KWH)	YEAR
----A-----	----L-----	----M-----	----N-----	----O-----	----P-----	----Q-----	----R-----
1986	10,828	10,234	108	295	5,392	5.11	1986
1987	21,656	11,761	217	589	6,250	5.11	1987
1988	32,484	13,796	325	895	7,588	5.43	1988
1989	42,312	15,668	423	1,188	8,769	5.66	1989
1990	54,140	18,341	541	1,552	10,644	6.08	1990
1991	54,140	18,960	541	1,592	10,887	6.16	1991
1992	54,140	19,660	541	1,622	11,200	6.23	1992
1993	54,140	20,432	541	1,645	11,572	6.28	1993
1994	54,140	21,244	541	1,668	11,960	6.34	1994
1995	54,140	22,078	541	1,696	12,342	6.41	1995
1996	54,140	22,792	541	1,756	12,546	6.51	1996
1997	54,140	23,546	541	1,818	12,760	6.62	1997
1998	54,140	24,338	541	1,881	12,983	6.73	1998
1999	54,140	25,173	541	1,946	13,218	6.84	1999
2000	54,140	26,053	541	2,012	13,464	6.96	2000
2001	54,140	26,925	541	2,092	13,653	7.10	2001
2002	54,140	27,742	541	2,198	13,726	7.26	2002
2003	54,140	28,605	541	2,310	13,801	7.44	2003
2004	54,140	29,518	541	2,426	13,880	7.63	2004
2005	54,140	30,482	541	2,549	13,962	7.82	2005
2006	54,140	31,501	541	2,677	14,047	8.03	2006
2007	54,140	32,579	541	2,811	14,136	8.25	2007
2008	54,140	33,717	541	2,951	14,229	8.47	2008
2009	54,140	34,921	541	3,098	14,325	8.71	2009
2010	54,140	36,193	541	3,252	14,426	8.96	2010
2011	54,140	37,537	541	3,413	14,531	9.22	2011
2012	54,140	38,957	541	3,581	14,640	9.49	2012
2013	54,140	40,458	541	3,756	14,754	9.78	2013
2014	54,140	42,045	541	3,939	14,873	10.07	2014
2015	54,140	43,721	541	4,130	14,997	10.39	2015
2016	53,554	45,422	536	4,283	15,109	10.72	2016
2017	50,187	46,876	502	4,206	15,142	11.14	2017
2018	46,678	48,390	467	4,099	15,177	11.58	2018
2019	43,020	49,966	430	3,957	15,214	12.04	2019
2020	39,207	51,608	392	3,776	15,252	12.53	2020
2021	35,232	53,315	352	3,552	15,292	13.05	2021
2022	31,089	55,090	311	3,280	15,333	13.60	2022
2023	26,771	56,935	268	2,955	15,377	14.19	2023
2024	22,269	58,851	223	2,571	15,422	14.81	2024
2025	17,577	60,840	176	2,121	15,469	15.46	2025
2026	12,686	62,903	127	1,600	15,517	16.16	2026
2027	7,588	65,042	76	1,000	15,568	16.90	2027
2028	2,273	67,259	23	313	15,622	17.68	2028
2029	0	70,024	0	0	15,644	18.50	2029
2030	0	73,287	0	0	15,644	19.36	2030
2031	0	76,745	0	0	15,644	20.27	2031
2032	0	80,411	0	0	15,644	21.24	2032
2033	0	84,297	0	0	15,644	22.27	2033
2034	0	88,417	0	0	15,644	23.35	2034
2035	0	92,783	0	0	15,644	24.51	2035

Note: Rates of Return are based upon Net Revenues (columns G and P), which include Debt Service payments and capital contributions to the Renewals and Replacements Fund, plus interest on reserves.

MEMORANDUM

State of Alaska

RECEIVED
APR 5 1985
ALASKA POWER AUTHORITY

TO: William H. Batt
Assoc. Executive Director
Finance/Administration
Alaska Power Authority

DATE: April 3, 1985

FILE NO:

TELEPHONE NO: 276-3550

FROM: Norman C. Gorsuch
Attorney General
By:
Carolyn E. Jones
Assistant Attorney General

SUBJECT: Swan Lake Project,
City of Ketchikan

I have reviewed the materials you sent with me with regard to the transfer of leftover construction moneys. I can find nowhere in this packet a written request for the funds with directions as to how the funds are to be transferred or a refusal by KPU to transfer the funds. The September, 1984 Crawford letter is more advisory than directory and suggests that several more steps still needed to be taken, e.g., "We will be in touch with you tomorrow regarding transactional details."

What is needed now is a letter from the APA to Ketchikan Public Utilities requesting that the Utility turn over the money, and setting out the procedural steps relating to the transfer. That is an administrative matter which I leave you to draft as you wish the request and process to take place.

If you wish to discuss in this letter the informal signals you have received regarding KPU's demand that its legal fees be paid, then I offer the following paragraph to be included in your demand letter: [Note to typist: the following paragraph should be inserted in the letter immediately following the text requesting transfer and setting out the procedure for the transfer.]

We have learned informally that Ketchikan Public Utilities believes that moneys from the construction fund and reserve account should be used to pay for KPU's legal costs in negotiating the power sales agreement. We believe that any legal fees related to negotiating KPU's negotiations in the context of purchasing energy from the project are not covered by the terms of the acquisition agreement.

Section 10 of the acquisition agreement provides that the Alaska Power Authority will reimburse the City of Ketchikan for its project costs including legal fees related to the cost of management and construction. The section reads,

> Compensation for Management and Construction Services. The City shall be compensated for

XEROX TELECOPIER 295 : 4-28-85; 6:02 AM; CCITT G3 → 9074653686 : # 2

management of the project and for work performed by the city personnel in relation to the project, by payment of the following cost on a monthly basis:

> (b) the cost and expenses of attorneys, consultants, engineers or other consultants, whether or not such persons are employees of the city, and any and all other out-of-pocket expenses incurred by the city in administration or management of, or in connection with the project;

We believe that the intent of the acquisition agreement was to cover KPU's costs vis-a-vis construction and management of the project on the APA's behalf. When KPU negotiated with the APA for the right to purchase power from the project, KPU stood in an arms-length relationship with the APA-- as any buyer and seller do. In those circumstances, KPU's activities and legal fees were not covered by the contract. Indeed, the APA is not paying comparable legal expenses to the other communities that are negotiating with us to buy power from the Four Dam Pool project. (end of letter)

CEJ:cmh

XEROX TELECOPIER 295 : 4-28-85: 6:03 AM: CC111 03 +

Alaska State Legislature

House of Representatives

REPRESENTATIVE
JOHN L. SUND

Box 6440
KETCHIKAN, ALASKA 99901
(907) 225-5552

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4919

CHAIR, HOUSE SPECIAL COMMITTEE ON LOANS
VICE-CHAIR, JUDICIARY COMMITTEE
MEMBER, SPECIAL COMMITTEE ON OIL AND GAS
MEMBER, RESOURCES COMMITTEE

5/10/85

MEMORANDUM

TO: Sen. Jan Faiks, Co-Chair
Sen. John Sackett, Co-Chair
Senate Finance Committee
Sen Dick Eliason
Sen. Frank Ferguson
Sen. Paul Fischer
Sen. Rick Halford
Sen. Jay Kerttula

FROM: Rep. John Sund

RE: HB 219 "An act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

****

Attached please find a package of backup information on HB 219, the four-dam-pool bill. Please let me know if there is any further information I can provide you.

The package contains:

- The Finance Committee Substitute for the bill
- A Memorandum of Understanding dated May 8, 1985
- Schedule of debt service charges for the project
- Schedule of retail electric rates
- Memo to Senate Resources with sectional analysis HB 219
- Spreadsheet of debt repayment

Offered: 4/14/85
Referred: Rules

Original sponsor: House Special Committee on State Loans

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 219 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

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

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and <u>electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state,</u> none of whose utilities is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

* Sec. 2. AS 44.33.620(a) is amended to read:

(a) A loan from the fund <u>shall</u> [MUST] be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) [THE MARKET RATE OF INTEREST FOR A LOAN OF COMPARABLE SIZE AND DURATION AT THE TIME THE LOAN IS MADE; AND

(2)] the [ESTIMATED] costs, <u>at the time the power sales</u>

agreement is initially negotiated or renegotiated, of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund;

(2) the effect of the loan terms on the wholesale power costs to all utilities purchasing power from the initial project;

(3) the long-term benefits to consumers and communities of stable wholesale power costs;

(4) the affordability of initial wholesale power costs that result from the loan terms with utilities purchasing power from the initial project;

(5) increasing repayment, not to exceed five years, of debt service payment per kilowatt hour gradually over the initial period of a loan repayment schedule to the extent necessary to avoid significant rate increases to the consumer;

(6) the existing excess capacity of power projects; and

(7) the effects of increased capacity utilization, inflation, and alternative energy production costs over the life of the initial project.

* Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

(d) In (a) of this section "initial project" means the project described in AS 44.83.398(a).

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.625. RATE REOPENERS. A power sales agreement for the sale of power from the initial project, as described in AS 44.83.-398(a), financed with a loan under AS 44.33.610 may include among its provisions an agreed schedule of wholesale power rates notwithstanding the provisions of AS 44.83.398, but must include a provision for a rate reopener.

* Sec. 5. AS 44.83.425(5) is amended to read:

(5) "qualified utility" means an electric utility or an electric operating entity established as an instrumentality of two or more electric utilities [THAT IS] certified by the Alaska Public Utilities Commission to serve all or part of a market area that is served or will be served by the power project, [AND] that the authority determines is capable of operating and maintaining the power project.

MEMORANDUM OF UNDERSTANDING

Between the Alaska Power Authority
and
Representatives of the Four Dam Pool Communities
governing
Power Sales Contracts for the Four Dam Pool

Representatives of the APA and the Four Dam Pool utilities (Ketchikan, Kodiak, Copper Valley, Wrangell, and Petersburg) have reached agreement in principle on the terms and conditions of a power sales contract for the sale of power from the Solomon Gulch, Swan Lake, Lake Tyee, and Terror Lake hydroelectric projects (the "Initial Project"). Although the specific details of such a contract must still be resolved and drafted, the undersigned representatives hereby agree to recommend to their governing bodies the approval of power sales contracts embodying, among other things, the principles set forth in this Memorandum.

1. The Alaska Power Authority ("APA") and the purchasing utilities of the Four-Dam Pool communities ("Purchasing Utilities") agree to enter into a power sales agreement that will run for 50 years, subject to periodic renegotiations and other conditions set forth below.

2. At the end of the contract period, there will be no debt service component of the wholesale rate charged by the APA for power from the four projects. Debt service payments that may be required to pay for additions and expansions of the four projects that are made subsequent to the execution of these agreements will be governed by future agreements.

3. The Purchasing Utilities agree to pay a wholesale rate for energy purchased from the APA that is generated by the four projects that has a debt service component, and a component relevant to all other annual costs.

4. The annual costs exclusive of the debt service component shall include costs of on-site operations and maintenance, safety inspections and investigations, insurance, project-specific administrative and general expenses, and renewals and replacements.

5. Annual costs referred to in Section 4 will be based on prudent utility practice, and will be subject to mutual agreement arrived at through an annual process that establishes an operating budget for the coming year. An O&M

oversight committee composed of all parties to the agreement will be established. In the event disputes over these annual costs cannot be resolved by the parties, the matter will be referred to arbitration by a certified engineer mutually agreeable to the parties.

6. All annual costs referred to in Section 4 will be pooled and divided by the total annual sales from the four projects, so that all Purchasing Utilities pay the same annual cost component of the wholesale rate.

7. The debt service component of the wholesale rate has two elements: an element paid for energy shown in Schedule A as "forecast sales," and an element paid for energy in addition to the "forecast sales," which is referred to as "additional sales."

8. The "additional sales" debt service element in Schedule A will be charged only after the total annual sales from all four projects exceed the "forecast sales" for that year; that is, the distinction between "forecast sales" and "additional sales" applies to the entire four dam system (as configured at the time this agreement is executed).

9. The purchasing utilities will schedule the energy produced by the projects into their load ahead of energy from other sources, except from existing hydroelectric projects.

10. Upon the initiation of either party, the debt service rates shown in Schedule A may be renegotiated after 15 years. The contract shall require reasonable notice of intent to renegotiate rates, and the contract may direct the parties to consider certain factors and conditions in establishing a new rate schedule.

11. The parties to this agreement do not expect that the composite wholesale rate that results from this agreement will be less than the composite wholesale rate charged by the APA for energy produced from the Bradley Lake hydroelectric project.

12. The APA shall bear the risk of uninsured project failures, substandard project performance, and failure of any Purchasing Utility to make payments required by the contract.

DATED May 8, 1985

ALASKA POWER AUTHORITY

By: [signature]

CITY OF KETCHIKAN

By: [signature]

WORK33:APA

COPPER VALLEY ELECTRIC ASSOCIATION

By: _____

KODIAK ELECTRIC ASSOCIATION

By: _____

CITY OF WRANGELL

By: _____

CITY OF PETERSBURG

By: _____

WORK33:APA

SCHEDULE A

YEAR	FORECAST SALES (MWH)	DEBT SERVICE RATE FOR FORECAST SALES (CENTS/KWH)	DEBT SERVICE RATE FOR ADDITIONAL SALES (CENTS/HWH)
1986	181,496	2.6	1.6
1987	191,437	2.8	1.8
1988	199,181	3.2	2.2
1989	206,042	3.5	2.5
1990	212,994	4.0	3.0
1991	219,067	4.0	3.0
1992	226,907	4.0	3.0
1993	236,183	4.0	3.0
1994	245,893	4.0	3.0
1995	255,439	4.0	3.0
1996	260,533	4.0	3.0
1997	265,897	4.0	3.0
1998	271,482	4.0	3.0
1999	277,343	4.0	3.0
2000	283,488	4.0	3.0
2001	288,220	4.0	3.0
2002	290,043	4.0	3.0
2003	291,926	4.0	3.0
2004	293,889	4.0	3.0
2005	295,935	4.0	3.0
2006	298,067	4.0	3.0
2007	300,290	4.0	3.0
2008	302,608	4.0	3.0
2009	305,023	4.0	3.0
2010	307,541	4.0	3.0
2011	310,165	4.0	3.0
2012	312,901	4.0	3.0
2013	315,753	4.0	3.0
2014	318,725	4.0	3.0
2015	321,824	4.0	3.0
2016	325,053	4.0	3.0
2017	328,420	4.0	3.0
2018	331,929	4.0	3.0
2019	335,587	4.0	3.0
2020	339,400	4.0	3.0
2021	343,375	4.0	3.0
2022	347,518	4.0	3.0
2023	351,836	4.0	3.0
2024	356,338	4.0	3.0
2025	361,030	4.0	3.0
2026	365,921	4.0	3.0
2027	371,019	4.0	3.0

YEAR	FORECAST SALES (MWH)	DEBT SERVICE RATE FOR FORECAST SALES (¢1 KWH)	DEBT SERVICE RATE FOR ADDITIONAL SALES (¢1 KWH)
2028	376,334	4.0	3.0
2029	378,607	4.0	3.0
2030	378,607	4.0	3.0
2031	378,607	4.0	3.0
2032	378,607	4.0	3.0
2033	378,607	4.0	3.0
2034	378,607	4.0	3.0
2035	378,607	4.0	3.0
2036	378,607	4.0	3.0
2037	378,607	4.0	3.0

RETAIL RATES
(cents per kwh)

Community	@ 200 kwh/month	@ 500 kwh/month	@ 700 kwh/month
Copper Valley			
-Glenallen	23.5	20.1	18.8
-Valdez	21.3	16.0	14.7
Kodiak	19.0	18.1	17.5
Wrangell	19.1	16.3	15.7
Petersburg	13.9	11.7	11.2
Ketchikan	14.3	10.8	10.2

COMPONENTS OF THE RATES
(cents per kwh)

Community	APA O&M	APA Debt Service	Other*/	Total (@ 700 kwh/month)
Copper Valley				
-Glenallen	2.76	2.64	13.4	18.8
-Valdez	2.76	2.64	9.3	14.7
Kodiak	2.00	2.64	12.86	17.5
Wrangell	4.59	2.64	8.47	15.7
Petersburg	4.59	2.64	3.97	11.2
Ketchikan	2.26	2.64	5.3	10.2

*/ "Other" includes distribution, administrative and general, reserve generation, and other generation (other hydro as well as diesel in the case of Ketchikan and Petersburg.)

Alaska State Legislature

House of Representatives

REPRESENTATIVE
JOHN L. SUNO

Box 6440
KETCHIKAN, ALASKA 99901
(907) 225-3852

MAIL TO JUNEAU
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4919

CHAIR, HOUSE SPECIAL COMMITTEE ON LOANS
VICE CHAIR, JUDICIARY COMMITTEE
MEMBER, SPECIAL COMMITTEE ON OIL AND GAS
MEMBER, RESOURCES COMMITTEE

4/22/85

MEMORANDUM

TO: Sen. Arliss Sturgulewski, Chair,
Senate Resources Committee

FROM: Rep. John Suno

RE: HB 219 "An act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

The purpose of this bill is to resolve the problems holding up four-dam-pool power sales agreements and to provide for payback of the $196 million appropriation made last year to complete the hydroelectric projects. The Alaska Power Authority and the six communities served by the four dams have been negotiating power sales agreements for 2½ years without success. The goal is a long-term power sales agreement that provides affordable electricity for the communities and a maximum return on the state's investment.

$210 million was appropriated last year; $196 million has been spent to complete the dams and pay off short-term construction financing issued by the APA. This appropriation was structured as a loan from the Department of Commerce and Economic Development to the APA to be paid off through power sales from the project. AS 44.33.620 sets terms for the loan.

As in existing law, the Finance Committee Substitute does not set in law exact terms for the loan, nor does it set power rates. These are left open for further negotiation. The bill provides specific guidelines for resolving the issue under a plan developed by Gordon Harrison of the APA board.

The APA and the six communities report recent significant progress in power sales agreement negotiations; the plan they are now working with requires the passage of CSHB 219 (Fin). Action is required this session to permit sales agreements which will capture additional loads for the under-utilized hydroelectric capacity.

The bill is supported by both the APA and the four-dam-pool communities. Bob Heath, Executive Director of the APA and representatives of the communities are expected to testify before the Resources Committee.

Sectional analysis:

Section 1:
Sections 1 and 5, propose a change in law to allow two communities to get together for joint operation of a dam. The main purpose is to allow the Thomas Bay Power Authority to operate the Tyee Dam. Tyee serves two communities (Wrangell and Petersburg); Current law requires one or the other to operate the dam. This section corrects that by adding "electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state" to the APUC statutes. Like the communities, the 'joint operating entity' would not be subject to APUC regulation.

Section 2:
This section amends the loan terms for the Power Development Revolving Loan Fund (AS 44.33.620). This fund was created last session and the statutory loan terms give little direction to the APA. The added language sets clear guidelines for the agencies to work with. Deleted is the requirement that the loan terms be set considering market rates of interest.

Section 3 adds a definition: "initial project" means the four dams.

Section 4 adds a provision for power sales contract rate reopeners. This protects the state in times of inflation when the power sales rate could not provide sufficient loan repayment in real terms and protects the communities should the price of alternate power generation drop significantly. An important provision is added allowing an agreed schedule of wholesale power rates to be included in the contracts. This allows a contract to be reached through negotiation which will provide for certainty in power rates as needed by utility planners. This also will provide for a greater return to the state in debt service from the project.

Section 5 adds joint operating entities to the definition of "qualified utilities" which may purchase power from the APA. (See explanation of Section 1)

EXHIBIT A: WHOLESALE POWER RATE SCHEDULE
Alaska Power Authority--Four Dam Pool
Memorandum of Understanding

YEAR	SCHEDULED DEBT SERVICE (CENTS/KWH)	ESTIMATED O & M COST (CENTS/KWH)	PROJECTED WHOLESALE POWER RATE (CENTS/KWH)
--A--	----B-----	----C-----	----D-----
1986	2.60	2.72	5.32
1987	2.80	2.72	5.52
1988	3.20	2.76	5.96
1989	3.50	2.81	6.31
1990	4.00	2.87	6.87
1991	4.00	2.94	6.94
1992	4.00	3.00	7.00
1993	4.00	3.04	7.04
1994	4.00	3.08	7.08
1995	4.00	3.13	7.13
1996	4.00	3.24	7.24
1997	4.00	3.36	7.36
1998	4.00	3.47	7.47
1999	4.00	3.59	7.59
2000	4.00	3.72	7.72
2001	4.00	3.86	7.86
2002	4.00	4.06	8.06
2003	4.00	4.27	8.27
2004	4.00	4.48	8.48
2005	4.00	4.71	8.71
2006	4.00	4.94	8.94
2007	4.00	5.19	9.19
2008	4.00	5.45	9.45
2009	4.00	5.72	9.72
2010	4.00	6.01	10.01
2011	4.00	6.30	10.30
2012	4.00	6.61	10.61
2013	4.00	6.94	10.94
2014	4.00	7.28	11.28
2015	4.00	7.63	11.63
2016	4.00	8.00	12.00
2017	4.00	8.38	12.38
2018	4.00	8.78	12.78
2019	4.00	9.20	13.20
2020	4.00	9.63	13.63
2021	4.00	10.08	14.08
2022	4.00	10.55	14.55
2023	4.00	11.04	15.04
2024	4.00	11.54	15.54
2025	4.00	12.07	16.07
2026	4.00	12.61	16.61
2027	4.00	13.18	17.18
2028	4.00	13.76	17.76
2029	4.00	14.50	18.50
2030	4.00	15.36	19.36
2031	4.00	16.27	20.27
2032	4.00	17.24	21.24
2033	4.00	18.27	22.27
2034	4.00	19.35	23.35
2035	4.00	20.51	24.51

Notes:

1. O & M based on forecast loads without Additional Sales.

2. O & M includes $500,000 per year capital cost for Renewals and Replacements.

3. O & M inflation assumed to be 6% per year.

4. Additional Sales to be charged for Debt Service at 1 Cent/kWh less than Scheduled Debt Service.

EXHIBIT B: PROJECTED OPERATING RESULTS AND RATES OF RETURN
Alaska Power Authority--Four Dam Pool
Memorandum of Understanding

Case Number 2
Loan Principal ($=000's) $196,000
O&M Cost Inflation Rate 6.00%

Average Rate of Return:
Without Additional Sales 5.47%
With Additional Sales 6.10%

	PROJECTED						OPERATIONS & MAINTENANCE			
YEAR	SCHEDULED DEBT SVC. (CENTS/KWH)	O & M COST (CENTS/KWH)	WHLS. POWER RATE (CENTS/KWH)	SALES (MWH)	GROSS REVENUES ($=000's)	NET REVENUES ($=000's)	ADMIN ($=000's)	ON-SITE ($=000's)	R & R ($=000's)	TOTAL O & M ($=000's)
----A-----	----B-----	----C-----	----D-----	----E-----	----F-----	----G-----	----H-----	----I-----	----J-----	----K-----
1986	2.60	2.72	5.32	181,496	9,658	5,219	863	3,576	500	4,939
1987	2.80	2.72	5.52	191,437	10,566	5,860	915	3,791	500	5,205
1988	3.20	2.76	5.96	199,181	11,861	6,874	970	4,018	500	5,488
1989	3.50	2.81	6.31	206,042	12,998	7,711	1,028	4,259	500	5,787
1990	4.00	2.87	6.87	212,994	14,624	9,020	1,090	4,515	500	6,104
1991	4.00	2.94	6.94	219,067	15,203	9,263	1,155	4,785	500	6,440
1992	4.00	3.00	7.00	226,907	15,873	9,576	1,224	5,073	500	6,797
1993	4.00	3.04	7.04	236,183	16,622	9,947	1,298	5,377	500	7,175
1994	4.00	3.08	7.08	245,893	17,411	10,336	1,375	5,700	500	7,575
1995	4.00	3.13	7.13	255,439	18,217	10,718	1,458	6,042	500	8,000
1996	4.00	3.24	7.24	260,533	18,871	10,921	1,546	6,404	500	8,450
1997	4.00	3.36	7.36	265,897	19,562	11,136	1,638	6,788	500	8,927
1998	4.00	3.47	7.47	271,482	20,291	11,359	1,737	7,196	500	9,432
1999	4.00	3.59	7.59	277,343	21,062	11,594	1,841	7,627	500	9,968
2000	4.00	3.72	7.72	283,488	21,876	11,840	1,951	8,085	500	10,536
2001	4.00	3.86	7.86	288,220	22,667	12,029	2,068	8,570	500	11,138
2002	4.00	4.06	8.06	290,043	23,378	12,102	2,192	9,084	500	11,777
2003	4.00	4.27	8.27	291,926	24,130	12,177	2,324	9,629	500	12,453
2004	4.00	4.48	8.48	293,889	24,926	12,256	2,463	10,207	500	13,170
2005	4.00	4.71	8.71	295,935	25,768	12,337	2,611	10,820	500	13,931
2006	4.00	4.94	8.94	298,067	26,659	12,423	2,768	11,469	500	14,736
2007	4.00	5.19	9.19	300,290	27,602	12,512	2,934	12,157	500	15,591
2008	4.00	5.45	9.45	302,608	28,600	12,604	3,110	12,886	500	16,496
2009	4.00	5.72	9.72	305,023	29,657	12,701	3,298	13,659	500	17,456
2010	4.00	6.01	10.01	307,541	30,775	12,802	3,494	14,479	500	18,473
2011	4.00	6.30	10.30	310,165	31,958	12,907	3,704	15,348	500	19,552
2012	4.00	6.61	10.61	312,901	33,211	13,016	3,926	16,269	500	20,695
2013	4.00	6.94	10.94	315,753	34,537	13,130	4,162	17,245	500	21,906
2014	4.00	7.28	11.28	318,725	35,940	13,249	4,411	18,279	500	23,191
2015	4.00	7.63	11.63	321,824	37,425	13,373	4,676	19,376	500	24,552
2016	4.00	8.00	12.00	325,053	38,997	13,502	4,957	20,539	500	25,995
2017	4.00	8.38	12.38	328,420	40,662	13,637	5,254	21,771	500	27,525
2018	4.00	8.78	12.78	331,929	42,424	13,777	5,569	23,077	500	29,147
2019	4.00	9.20	13.20	335,587	44,289	13,923	5,903	24,462	500	30,865
2020	4.00	9.63	13.63	339,400	46,263	14,076	6,258	25,930	500	32,687
2021	4.00	10.08	14.08	343,375	48,354	14,235	6,633	27,485	500	34,619
2022	4.00	10.55	14.55	347,518	50,566	14,401	7,031	29,135	500	36,666
2023	4.00	11.04	15.04	351,836	52,909	14,573	7,453	30,883	500	38,836
2024	4.00	11.54	15.54	356,338	55,389	14,754	7,900	32,736	500	41,136
2025	4.00	12.07	16.07	361,030	58,015	14,941	8,374	34,700	500	43,574
2026	4.00	12.61	16.61	365,921	60,795	15,137	8,877	36,782	500	46,158
2027	4.00	13.18	17.18	371,019	63,739	15,341	9,409	38,989	500	48,898
2028	4.00	13.76	17.76	376,334	66,855	15,553	9,974	41,328	500	51,802
2029	4.00	14.50	18.50	378,607	70,024	15,644	10,572	43,808	500	54,880
2030	4.00	15.36	19.36	378,607	73,287	15,644	11,206	46,436	500	58,143
2031	4.00	16.27	20.27	378,607	76,745	15,644	11,879	49,222	500	61,601
2032	4.00	17.24	21.24	378,607	80,411	15,644	12,592	52,176	500	65,267
2033	4.00	18.27	22.27	378,607	84,297	15,644	13,347	55,306	500	69,153
2034	4.00	19.35	23.35	378,607	88,417	15,644	14,148	58,624	500	73,272
2035	4.00	20.51	24.51	378,607	92,783	15,644	14,997	62,142	500	77,639

	ADDITIONAL SALES TRUE-UP CALCULATION						
YEAR	ADDITIONAL SALES (MWH)	GROSS REVENUE ($=000'S)	DEBT SVC. TRUE-UP ($=000'S)	O & M TRUE-UP ($=000's)	NET REVENUE ($=000's)	MELDED RATE (CENTS/KWH)	YEAR
----A-----	----L-----	----M-----	----N-----	----O-----	----P-----	----Q-----	----R-----
1986	10,828	10,234	108	295	5,392	5.11	1986
1987	21,656	11,761	217	589	6,250	5.14	1987
1988	32,484	13,796	325	895	7,588	5.43	1988
1989	42,312	15,668	423	1,188	8,769	5.66	1989
1990	54,140	18,341	541	1,552	10,644	6.08	1990
1991	54,140	18,960	541	1,592	10,887	6.16	1991
1992	54,140	19,660	541	1,622	11,200	6.23	1992
1993	54,140	20,432	541	1,645	11,572	6.28	1993
1994	54,140	21,244	541	1,668	11,960	6.34	1994
1995	54,140	22,078	541	1,696	12,342	6.41	1995
1996	54,140	22,792	541	1,756	12,546	6.51	1996
1997	54,140	23,546	541	1,818	12,760	6.62	1997
1998	54,140	24,338	541	1,881	12,983	6.73	1998
1999	54,140	25,173	541	1,946	13,218	6.84	1999
2000	54,140	26,053	541	2,012	13,464	6.96	2000
2001	54,140	26,925	541	2,092	13,653	7.10	2001
2002	54,140	27,742	541	2,198	13,726	7.26	2002
2003	54,140	28,605	541	2,310	13,801	7.44	2003
2004	54,140	29,518	541	2,426	13,880	7.63	2004
2005	54,140	30,482	541	2,549	13,962	7.82	2005
2006	54,140	31,501	541	2,677	14,047	8.03	2006
2007	54,140	32,579	541	2,811	14,136	8.25	2007
2008	54,140	33,717	541	2,951	14,229	8.47	2008
2009	54,140	34,921	541	3,098	14,325	8.71	2009
2010	54,140	36,193	541	3,252	14,426	8.96	2010
2011	54,140	37,537	541	3,413	14,531	9.22	2011
2012	54,140	38,957	541	3,581	14,640	9.49	2012
2013	54,140	40,458	541	3,756	14,754	9.78	2013
2014	54,140	42,045	541	3,939	14,873	10.07	2014
2015	54,140	43,721	541	4,130	14,997	10.39	2015
2016	53,554	45,422	536	4,283	15,109	10.72	2016
2017	50,187	46,876	502	4,206	15,142	11.14	2017
2018	46,678	48,390	467	4,099	15,177	11.58	2018
2019	43,020	49,966	430	3,957	15,214	12.04	2019
2020	39,207	51,608	392	3,776	15,252	12.53	2020
2021	35,232	53,315	352	3,552	15,292	13.05	2021
2022	31,089	55,090	311	3,280	15,333	13.60	2022
2023	26,771	56,935	268	2,955	15,377	14.19	2023
2024	22,269	58,851	223	2,571	15,422	14.81	2024
2025	17,577	60,840	176	2,121	15,469	15.46	2025
2026	12,686	62,903	127	1,600	15,517	16.16	2026
2027	7,588	65,042	76	1,000	15,568	16.90	2027
2028	2,273	67,259	23	313	15,622	17.68	2028
2029	0	70,024	0	0	15,644	18.50	2029
2030	0	73,287	0	0	15,644	19.36	2030
2031	0	76,745	0	0	15,644	20.27	2031
2032	0	80,411	0	0	15,644	21.24	2032
2033	0	84,297	0	0	15,644	22.27	2033
2034	0	88,417	0	0	15,644	23.35	2034
2035	0	92,783	0	0	15,644	24.51	2035

Note: Rates of Return are based upon Net Revenues (columns G and P), which include Debt Service payments and capital contributions to the Renewals and Replacements Fund, plus interest on reserves.

(3) access for the line that would be installed with loan proceeds;

(4) availability of other utility service in the area; and

(5) the economic feasibility of the extension of electric service with the proceeds of the loan. (§ 1 ch 118 SLA 1981)

Article 9. Energy Program for Alaska.

Section	
380. Program established	400. Energy conservation
382. Power development fund established	410. Continuing appropriation for Susitna River hydroelectric project [Repealed effective June 30, 1991]
384. Use of fund balance	
386. Investment of fund	
388. Allotment to projects	420. Continuing appropriation for Bradley Lake hydroelectric project [Repealed effective June 30, 1988]
390. Reappropriation of fund balance	
392. Lapse of excess appropriations	425. Definitions
396. Operation of power project	
398. Sale of power from power project	

Sec. 44.83.380. Program established. (a) The energy program for Alaska is established. The program shall be administered by the Alaska Power Authority.

(b) The energy program for Alaska is a program by which the authority may acquire or construct power projects with money appropriated by the legislature to the power development fund established in AS 44.83.382. A power project may be acquired or constructed as part of the energy program for Alaska only if the project is submitted to and approved by the legislature in accordance with procedures set out in AS 44.83.177 — 44.83.187.

(c) The provisions of AS 36.10.010 — 36.10.125 apply to power projects constructed by the authority under AS 44.83.380 — 44.83.425. (§ 1 ch 118 SLA 1981)

Revisor's notes. — Enacted as AS 44.83.400. Renumbered in 1981.

Sec. 44.83.382. Power development fund established. (a) A power development fund is established in the Alaska Power Authority to carry out the purposes of the energy program for Alaska (AS 44.83.380 — 44.83.425).

(b) The fund includes

(1) money appropriated to it by the legislature; and

(2) *[Repealed, § 27 ch 89 SLA 1983.]* (§ 1 ch 118 SLA 1981; am § 27 ch 89 SLA 1983)

Revisor's notes. — Enacted as AS 44.83.410. Renumbered in 1981.

Effect of amendments. — The 1983 amendment, repealed paragraph (2) of subsection (b).

loan proceeds;
and
ic service with

1.

on
propriation for
droelectric project
e June 30, 1991]
priation for Brad-
roelectric project
e June 30, 1988]

gy program for
stered by the

by which the
money appro-
d established
constructed as
t is submitted
procedures set

pply to power
) — 44.83.425.

ished. (a) A
ver Authority
Alaska (AS

981; am § 27

ragraph (2) of

Sec. 44.83.384. Use of fund balance. (a) The fund may be used by the authority to provide money for

(1) reconnaissance and feasibility studies and power project finance plans prepared under AS 44.83.177 — 44.83.181;

(2) the cost of a power project, including but not limited to costs of acquiring necessary licenses, preparing engineering designs, obtaining land, and constructing the power project;

(3) the defeasance of bonds, or the payment of debt service on loans for or on an issue of bonds sold in connection with a power project;

(4) the cost of operating and maintaining power projects; and

(5) debt service on power projects.

(b) Money in the fund may be used under (a) of this section only for a power project that

(1) is economically feasible; and

(2) provides the lowest reasonable power cost to utility customers in the market area for the estimated life of the power project, whether operated by itself or in conjunction with other power projects in the market area, and that operates or will operate on one or more of the following:

(A) renewable energy resources, including but not limited to hydroelectric power, wind, biomass, geothermal, tidal or solar energy, or a method that uses temperature differentials or other physical properties of the ocean;

(B) coal or peat;

(C) energy derived from waste heat; or

(D) fossil fuel, including oil or natural gas.

(c) Notwithstanding (b)(1) of this section and AS 44.83.396 — 44.83.398, the fund may be used by the authority to provide money for the cost of a power project that is or was either constructed or owned by the United States government if the requirements of this subsection are met. The provisions of AS 44.83.177 — 44.83.187 do not apply to a power project financed under this subsection. The authority may use money in the fund for the cost of a power project under this subsection if

(1) the legislature enacts a law approving the project;

(2) the office of management and budget in the Office of the Governor reviews a feasibility study and a plan of finance for the project and determines that the feasibility study complies with the requirements for a feasibility study submitted under AS 44.83.181(b) and that the plan of finance complies with the requirements for a plan of finance submitted under AS 44.83.181(c); and

(3) the project meets the other requirements of this chapter. (§ 1 ch 118 SLA 1981; am § 12 ch 133 SLA 1982; am § 28 ch 63 SLA 1983; am §§ 14, 15 ch 89 SLA 1983)

Revisor's notes. — Enacted as AS 44.83.420. Renumbered in 1981.

Effect of amendments. — The 1982 amendment added subsection (c).

The first 1983 amendment, substituted "office of management and budget" for "division of budget and management" in paragraph (c)(2).

The second 1983 amendment, rewrote paragraph (1) of subsection (b) and substituted "AS 44.83.396 — 44.83.398" for "AS 44.83.394 — 44.83.398" and "or was either constructed or owned" for "constructed and owned" in the first sentence of subsection (c).

Sec. 44.83.386. Investment of fund. The Department of Revenue shall invest the money in the fund in accordance with AS 37.10.070 and 37.10.075. The Department of Revenue shall provide money in the fund to the authority only after costs have been incurred or amounts in the fund have been otherwise obligated under contracts for the acquisition and construction of a project. Amounts that have been obligated, but for which costs have not yet been incurred, may be segregated by the Department of Revenue or transferred to the authority only with the prior approval or agreement of the commissioner of revenue. Interest received on money that is segregated or transferred under this section must be deposited in the general fund. (§ 1 ch 118 SLA 1981; am § 16 ch 89 SLA 1983)

Revisor's notes. — Enacted as AS 44.83.430. Renumbered in 1981.

Effect of amendments. — The 1983 amendment, substituted the language beginning "costs have been incurred" for "a cost for a project is incurred" at the end of the second sentence and added the third and fourth sentences.

Sec. 44.83.388. Allotment to projects. (a) The authority shall maintain records of power project allocations from the fund for each power project

(1) approved in accordance with AS 44.83.185; and

(2) for which an allocation is made from an appropriation made by the legislature without specifying an appropriation to a project.

(b) Income earned from investment of money appropriated to the fund shall be deposited in the general fund and may be appropriated to the fund by the legislature. (§ 1 ch 118 SLA 1981)

Revisor's notes. — Enacted as AS 44.83.440. Renumbered in 1981.

Sec. 44.83.390. Reappropriation of fund balance. (a) If a power project designated by the legislature by law is not constructed, the amount appropriated to it may be reappropriated to other power projects by the legislature.

(b) The legislature may reappropriate money under (a) of this section only for a power project that is economically feasible under AS 44.83.181(b) and only if the project will serve the market area that would have been served by the power project designated by the legislature and not constructed. (§ 1 ch 118 SLA 1981)



nendment, rewrote
tion (b) and substi-
44.83.398" for "AS
and "or was either
or "constructed and
tence of subsection

ent of Revenue
S 37.10.070 and
ney in the fund
amounts in the
the acquisition
obligated, but
regated by the
only with the
enue. Interest
er this section
1981; am § 16

een incurred" for
urred" at the end
d added the third

thority shall
fund for each

tion made by
project.
priated to the
appropriated

a) If a power
structed, the
other power

) of this sec-
le under AS
et area that
y the legisla-

Revisor's notes. — Enacted as AS 44.83.450. Renumbered in 1981.

Sec. 44.83.392. Lapse of excess appropriations. If at the end of construction of a power project appropriations for the power project exceed the amount required for construction of it, the excess lapses into the general fund. (§ 1 ch 118 SLA 1981)

Revisor's notes. — Enacted as AS 44.83.460. Renumbered in 1981.

Sec. 44.83.394. Revenue requirements. [Repealed, § 27 ch 89 SLA 1983.]

Sec. 44.83.396. Operation of power project. (a) A power project that is acquired or constructed as part of the energy program for Alaska is owned, and shall be administered, by the authority.

(b) When a power project has been acquired or constructed by the authority, the project may be operated for the authority under a contract or lease entered into by a qualified utility and the authority.

(c) The authority shall enter into a contract or lease under reasonable terms and conditions to permit the applicant utility to operate the power project when the applicant utility is the only wholesale power customer to be served directly by the power project unless the authority determines a utility making application for a contract or lease to operate a power project is not a qualified utility or is not capable of operating that power project efficiently and in a manner that is consistent with national standards for the industry and with agreements with bondholders.

(d) The authority shall adopt regulations to determine the manner of selecting a qualified utility to operate a power project under a contract or lease when there is more than one wholesale power customer to be served directly by the power project.

(e) When the authority permits a power project to be operated by a qualified utility under a contract or lease, the authority shall

(1) review and approve the annual budget for the operation and maintenance of the power project; and

(2) assure that the project is being operated efficiently and in a manner that is consistent with national standards for the industry and agreements with bondholders. (§ 1 ch 118 SLA 1981; am §§ 17 — 19 ch 89 SLA 1983)

Revisor's notes. — Enacted as AS 44.83.480. Renumbered in 1981.

Effect of amendments. — The 1983 amendment, deleted "by the state" following "is owned" in subsection (a), inserted "a qualified utility or is not" near the end of subsection (c), added the language beginning "efficiently and in a manner that is consistent" to the end of subsection (c), added "and" to the end of paragraph (1) of subsection (e), and added "and agreements with bondholders" to the end of paragraph (2) of subsection (e).

Sec. 44.83.398. Sale of power from power project. (a) The authority shall sell power produced from power projects acquired or constructed under the energy program for Alaska. For purposes of this section, Lake Tyee, Swan Lake, Solomon Gulch, and Terror Lake hydroelectric facilities are considered to be one power project. This power project is referred to as the initial project

(b) The authority shall establish a wholesale power rate structure applicable to sales of power to the customers of a power project as follows:

(1) The authority shall establish and maintain a separate wholesale power rate applicable to each power project that it has acquired or constructed under the energy program for Alaska, other than a project described in (f) of this section. The wholesale power rate established by the authority for the initial project shall be a rate calculated under this paragraph except that the portion of the rate applicable to (A) and (C) of this paragraph shall be adjusted for the hydroelectric facilities in the initial project as set out in (3) of this subsection. The wholesale power rate shall be computed by the authority annually, or more frequently as may be necessary, and shall equal the rate that the authority estimates is necessary to produce revenue that is sufficient to pay

(A) operation, maintenance, and equipment replacement costs of the power project;

(B) the power project's proportionate share of the debt service on state loans and bonds for all power projects in the energy program for Alaska, determined in accordance with (g) of this section;

(C) safety inspections and investigations of the power project by the authority.

(2) *[Repealed, § 7 ch 169 SLA 1984.]*

(3) For the purposes of determining amounts to be allocated to each hydroelectric facility in the initial project under (1)(A) and (1)(C) of this subsection, the authority shall determine for each hydroelectric facility its individual operation, maintenance, equipment replacement, safety inspection, and investigation costs.

(c) The authority shall transmit all the money that it receives under (a) of this section to the commissioner of revenue for deposit in the state general fund except for money it has pledged or otherwise covenanted to secure bonds.

(d) *[Repealed, § 8 ch 169 SLA 1984.]*

(e) After determining the wholesale power rate for a power project under the provisions of this section, the authority may adjust the rate or change the rate provisions to insure that the revenue derived from that power project and the aggregate revenues of the authority will be adequate to comply with the rate covenants and other agreements contained in any trust indenture or trust agreement entered into by the authority for the seurity of the holders of bonds issued to finance power projects in the energy program for Alaska. The authority may agree with a purchaser of power to limit rate increases caused by debt service payable by the authority on subsequent projects.



(f) The provisions of (b) of this section do not apply to an intertie that is authorized as a separate project under AS 44.83.380. The authority shall establish and maintain separate power rate schedules applicable to each intertie that it has acquired or constructed as a separate power project under the energy program for Alaska. The power rate schedules shall produce sufficient revenue from utilities connected by the intertie to pay (1) operation, maintenance, and equipment replacement costs of the intertie; (2) debt service of the intertie; and (3) safety inspections and investigations of the intertie by the authority. If the authority determines that an intertie has ceased to function as a separate project and has become a part of one or more other power projects and has become a part of one or more other power projects as a transmission line, the power rate schedules established under this subsection shall be terminated and a wholesale power rate applicable to the former intertie shall be calculated under (b) of this section for the project or projects of which it has become a part.

(g) For the purposes of (b)(1)(B) of this section, a power project's proportionate share of debt service on state loans and bonds for all power projects in the energy program for Alaska is equal to the state's investment in the power project divided by the state's investment in all power projects in the energy program for Alaska and multiplied by the debt service on state loans and bonds for all power projects in the energy program for Alaska. In this subsection

(1) "state's investment in the power project" includes all state money invested in a power project, including loans, grants, and proceeds from bonds, less the principal repayments on the project's proportionate share of debt service on state loans and bonds;

(2) "state's investment in all power projects in the energy program for Alaska" includes all state money invested in the power projects, other than interties, in the energy program for Alaska, including loans, grants, and proceeds from bonds, less the principal repayments on bonds and state loans issued for the power projects.

(h) Notwithstanding (g) of this section, in the 1983 state fiscal year the proportionate share of debt service under (b) of this section, expressed as a rate, for a power project for which a construction contract has been awarded before June 25, 1982 may not exceed the average debt service component of the wholesale power rate for all power projects in the energy program for Alaska. The limit imposed by this subsection shall be increased in the 1984 state fiscal year to four percent above the average debt service component of the wholesale power rate for all power projects in the energy program for Alaska and by an additional four percent above that average in each succeeding state fiscal year. If application of this subsection results in the production of insufficient revenue to pay the total debt service for all projects in the energy program for Alaska, a project that does not have its share of debt service limited under this subsection shall be subject to a rate

in addition to the rate established under (b) of this section. The additional rate is the rate that the authority estimates is necessary to produce revenue that is sufficient to pay the difference between the total debt service for all projects in the energy program for Alaska and the revenue actually produced to pay that debt service, multiplied by a fraction whose numerator is the total cost of the project and whose denominator is the total cost of all of the projects that are subject to the additional rate. In this subsection, "projects in the energy program for Alaska" does not include an intertie that is authorized as a separate project as described in (f) of this section.

(i) The authority may place in a separate interest bearing account money appropriated to the authority as a loan for the purpose of meeting the operating expenses of a facility in the initial project. The money may be used to replace amounts which were expected to be paid by a utility potentially served by a facility in the initial project, which has not entered into a power sales agreement with the authority. Repayment of the amount loaned must be made from revenues attributable to power sales from that facility, as limited by the terms of power sales agreements with power purchasers from that facility. A loan made in accordance with this subsection is not a state loan for purposes of calculating the wholesale power rate under (b)(1) of this section. (§ 1 ch 118 SLA 1981; am §§ 13 — 16 ch 133 SLA 1982; am §§ 20 — 23 ch 89 SLA 1983; am § 125 ch 6 SLA 1984; am §§ 2-8 ch 169 SLA 1984)

Revisor's notes. — Enacted as AS 44.83.490. Renumbered in 1981.

Effect of amendments. — The 1982 amendment, in subsection (b), substituted "a power project" for "the power project" in the introductory language, substituted "separate" for "single" and "each power project" for "all power projects" in the first sentence of paragraph (1), added "other than a project described in (f) of this section" to the end of the first sentence of paragraph (1), inserted "or more frequently as may be necessary" in the introductory language of the second sentence of paragraph (1), substituted "power project" for "power projects" in subparagraph (1)(A) and (C), added "the power project's proportionate share of the" to the beginning of subparagraph (1)(B), substituted the language beginning "on state loans and bonds" for "of the power projects" in subparagraph (1)(B), substituted "separate" for "single" and "each power project that is" for "all power projects that it has" in the first sentence of paragraph (2), inserted "or more frequently as may be necessary" in the introductory language of the second sentence of paragraph (2), substituted "power project" for "power projects" in subparagraph (2)(A) and (2)(B)(iii), and substituted the present provisions of subparagraph (2)(B)(ii) for the former provisions, which read: "debt service of power projects by the authority and." In subsection (c), the amendment substituted "under (a) of this section" for "under (b) of this section" and "money it has pledged to secure bonds in accordance with contracts with bondholders" for "the money it receives under (b)(1)(A) and (B) and (b)(2)(B)(i) and (ii), or the money it would have received under (b)(1)(A) and (B) and (b)(2)(B)(i) and (ii) of this section if those items had been used in part to establish the wholesale power rate in effect at the time the money is received by the authority." In subsection (e), the amendment substituted "a wholesale" for "the wholesale" and "or (f)" in the first sentence and added the second sentence. The amendment also added subsections (f) — (h).

The 1983 amendment, substituted "July 1, 1991" for "July 1, 1986" near the beginning of paragraph (2) of subsection (b), substituted "or otherwise covenanted



ction. The addi-
is necessary to
ce between the
for Alaska and
, multiplied by
ject and whose
re subject to the
gy program for
d as a separate

earing account
the purpose of
al project. The
ected to be paid
project, which
the authority,
from revenues
d by the terms
hat facility. A
state loan for
r (b)(1) of this
SLA 1982; am
; am §§ 2-8 ch

ubstituted "power
ects" in subpara-
(iii), and substi-
provisions of
or the former pro-
t service of power
; and." In subsec-
ment substituted
for "under (b) of
it has pledged to
ce with contracts
"the money it
and (B) and
money it would
(A) and (B) and
section if those
part to establish
in effect at the
d by the author-
amendment sub-
"the wholesale"
tence and added
amendment also
7).
ubstituted "July
986" near the
2) of subsection
wise covenanted

to secure bonds" for "to secure bonds in accordance with contracts with bondholders" at the end of subsection (c), rewrote subsection (e), and added the last sentence of subsection (h).

The first 1984 amendment made a technical change in the last sentence in subsection (f).

The second 1984 amendment added subsection (i), repealed former paragraph (2) of subsection (b), relating to a separate wholesale power rate beginning July 1, 1991, and repealed former subsection (d), relating to industrial consumer rates. The 1984 amendment also, in subsection (a), deleted former paragraphs (1) and (2) and the former last sentence in the introductory paragraph, relating to a utility that purchases power produced by a power project of the authority, and, in the remaining language, added the last two sentences; in subsection (b), substituted "the customers" for "its customers at the busbar" in the introductory language, inserted the second sentence in the introductory paragraph of paragraph (1), and added paragraph (3); in subsection (e), added the second sentence and substituted "energy program" for "Energy Program" in the first sentence; and changed the internal reference in the first sentence in the introductory paragraph of subsection (g).

Sec. 44.83.400. Energy conservation. The authority shall ensure

(1) that communities that benefit from the energy program for Alaska implement cost-effective energy conservation measures for residences, commercial and public buildings, and industries; and

(2) that communities shall fulfill their responsibilities under (1) of this section by cooperating with state agencies concerned with development and conservation of energy, including but not limited to

(A) the Alaska Public Utilities Commission;

(B) the Department of Community and Regional Affairs; and

(C) the division of business loans, Department of Commerce and Economic Development. (§ 1 ch 118 SLA 1981; am § 5 ch 79 SLA 1983)

Revisor's notes. — Enacted as AS 44.83.500. Renumbered in 1981.

Effect of amendments. — The 1983 amendment, substituted "Department of Community and Regional Affairs" for "division of energy and power development, Department of Commerce and Economic Development" in paragraph (2)(B).

Sec. 44.83.410. Continuing appropriation for Susitna River Hydroelectric project. [Repealed effective June 30, 1991] The sum of $100,000,000 is appropriated on July 1, 1984 and the sum of $200,000,000 is appropriated on July 1 of each subsequent fiscal year from the general fund to the authority for deposit in the power development fund (AS 44.83.382) for the purpose of equity investment in, and rate stabilization for, the Susitna River hydroelectric project. (§ 314 ch 171 SLA 1984; r § 317 ch 171 SLA 1984)

Postponed repeal. — This section is repealed effective June 30, 1991.

Editor's notes. — Section 316, ch. 171, SLA 1984, provides that the appropriations made in §§ 313—315 and 319 of ch. 171, SLA 1984, which enacted this section, are not one-year appropriations and do not lapse under AS 37.25.010.

Sec. 44.83.420. Continuing appropriation for Bradley Lake hydroelectric project. [Repealed effective June 30, 1988.] The sum

of $50,000,000 is appropriated on July 1, of each fiscal year from the general fund to the authority for deposit in the power development fund (AS 44.83.382) for the purpose of equity investment in, and rate stabilization for, the Bradley Lake hydroelectric project. (§ 314 ch 171 SLA 1984; r § 318 ch 171 SLA 1984)

Postponed repeal. — This section is repealed effective June 30, 1988.

Editor's notes. — Section 316, ch. 171, SLA 1984, provides that the appropriations made in §§ 313—315 and 319 of ch. 171, SLA 1984, which enacted this section, are not one-year appropriations and do not lapse under AS 37.25.010.

Sec. 44.83.425. Definitions. In AS 44.83.380 — 44.83.425,

(1) "bus bar" means the substation that serves as the delivery point from the generation and transmission system of the authority to the transmission and distribution system of the utility;

(2) "debt service" means the amounts covenanted with respect to, or pledged to pay, bonds under a trust agreement securing bonds;

(3) "fund" means the power development fund established by AS 44.83.382;

(4) "industrial consumer" means a customer of a utility which customer has a peak power demand in excess of 500 kilowatts and uses the power principally for

(A) manufacturing;

(B) pipeline transportation;

(C) the recovery or processing of minerals;

(D) the processing of timber, agricultural, or seafood products or their by-products; or

(E) the operation of facilities owned by the federal government;

(5) "qualified utility" means an electric utility that is certified by the Alaska Public Utilities Commission to serve all or part of a market area that is served or will be served by the power project, and that the authority determines is capable of operating and maintaining the power project. (§ 1 ch 118 SLA 1981; am § 24 ch 89 SLA 1983)

Revisor's notes. — Enacted as AS 44.83.510. Renumbered in 1981.

Effect of amendments. — The 1983 amendment, rewrote the definition of "debt service" in paragraph (2).

Chapter 85. Alaska Municipal Bond Bank Authority.

Section		Section	
05.	Legislative findings	70.	Staff
10.	Legislative policy	80.	Powers of bond bank authority
20.	Municipal Bond Bank Authority	90.	Limitations
30.	Membership and vacancies	95.	Regulations
40.	Officers, quorum, and meetings	100.	Annual report and audit
50.	Bonding of members	110.	Annual budget
60.	Compensation and expenses	120.	Care and custody of bonds

Article 9. Power Development Revolving Loan Fund.

Section	Section
600. Creation of fund	620. Loan terms
610. Powers and duties of department in administering the fund	630. Definitions

Sec. 44.33.600. Creation of fund. (a) There is established in the Department of Commerce and Economic Development the power development revolving loan fund to carry out the purpose of AS 44.33.600 — 44.33.630. The fund may be used for no other purpose.

(b) The fund consists of

(1) appropriations to the fund by the legislature;

(2) repayments of principal to the fund; and

(3) income from investment of money in the fund and from loans made from the fund. (§ 1 ch 169 SLA 1984)

Sec. 44.33.610. Powers and duties of department in administering the fund. (a) The department may make a loan from the power development revolving loan fund to the Alaska Power Authority for the purpose of financing a power project acquired or constructed by the authority under the energy program for Alaska (AS 44.83.380 — 44.83.425). Repayment of a loan from the fund must be made with the proceeds from the sale of power from projects in the energy program for Alaska. Except as provided in AS 44.83.398(i), the payments required to be made by the authority on a loan from the fund constitute debt service for the purpose of calculating the wholesale power rate in AS 44.83.398(b)(1).

(b) After completion of a final plan of finance and approval of a project under AS 44.83.185(c), a loan may be made from the fund for

(1) the cost or a portion of the cost of final design, acquisition, and construction of a power project;

(2) defeasance or payment of bonds or notes of the authority issued for a power project;

(3) the establishment of a reserve fund for renewals and replacements for the operation of a completed power project; and

(4) any other project related expenses including those described in AS 44.83.398(i). (§ 1 ch 169 SLA 1984)

Sec. 44.33.620. Loan terms. (a) A loan from the fund must be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) the market rate of interest for a loan of comparable size and duration at the time the loan is made; and



.oan Fund.

stablished in the
ment the power
purpose of AS
other purpose.

and from loans

ent in adminis-
from the power
Authority for the
structed by the
S 44.83.380 —
e made with the
rgy program for
ments required
constitute debt
ower rate in AS

l approval of a
om the fund for
acquisition, and

uthority issued

ls and replace-
and
se described in

fund must be
determines to
provision for a
pal amount of
t the authority
projects based

rable size and

(2) the estimated costs of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund.

(b) The department may agree with the authority to defer repayment of a loan. However, the loan must be repaid in full during the period of the loan agreement.

(c) A loan to the authority from the fund may not exceed 50 years. (§ 1 ch 169 SLA 1984)

Sec. 44.33.630. Definitions. In AS 44.33.600 — 44.33.630

(1) "authority" means the Alaska Power Authority;

(2) "department" means the Department of Commerce and Economic Development;

(3) "fund" means the power development revolving loan fund;

(4) "power project" means a project acquired or constructed under the energy program for Alaska, AS 44.83.380 — 44.83.425. (§ 1 ch 169 SLA 1984)

Chapter 35. Department of Military and Veterans' Affairs.

Section	Section
10. Adjutant general	30. Construction of memorials to Alaska veterans
20. Duties of department	

Sec. 44.35.010. Adjutant general. The principal executive officer of the Department of Military and Veterans' Affairs is the adjutant general. (§ 15 ch 64 SLA 1959; am E.O. No. 58, § 20 (1984))

Effect of amendments. — The 1984 amendment inserted "and Veterans'."

Collateral references. — 53 Am. Jur. 2d, Military, and Civil Defense, §§ 4, 30, 33, 37.

57 C.J.S., Militia, § 11.

Sec. 44.35.020. Duties of department. The Department of Military and Veterans' Affairs shall

(1) conduct the military affairs of the state as prescribed by the Military Code; and

(2) cooperate with the federal government in matters of mutual concern pertaining to the welfare of Alaskan veterans, including establishing, extending, or strengthening services for veterans in Alaska. (§ 15 ch 64 SLA 1959; am E.O. No. 58, § 21 (1984))

Effect of amendments. — The 1984 amendment rewrote and restructured this section, which formerly read "The Department of Military Affairs shall conduct the military affairs of the state as prescribed by the Military Code."

Editor's notes. — For the Military Code of Alaska, see AS 26.05.

Collateral references. — 53 Am. Jur. 2d, Military, and Civil Defense, § 1 et seq.

(d) In this section, "record" means a report, file, book, account, paper, or application, and the facts and information contained in it. (§ 6 ch 113 SLA 1970; am § 8 ch 110 SLA 1981)

Effect of amendments. — The 1981 amendment rewrote this section.

NOTES TO DECISIONS

Narrow construction. — The privilege reflected by this section should be construed narrowly so that it does not conflict with the constitutional requirements of due process. City of Fairbanks v. Alaska Pub. Utils. Comm'n & Wire Communications, Inc., Sup. Ct. Op. No. 2079 (File No. 3977), 611 P.2d 493 (1980).

Due process controls over section. — The requirement of this section that information not be withheld if "required in the interests of the public" will normally prevent a conflict with due process requirements. If a conflict nevertheless occurs, due process must control. City of Fairbanks v. Alaska Pub. Utils. Comm'n & Wire Communications, Inc., Sup. Ct. Op. No. 2079 (File No. 3977), 611 P.2d 493 (1980).

Sec. 42.05.681. Validity of certain certificates. A certificate issued before July 29, 1968, to a public utility for the generation, transmission, or distribution of electric energy and power, or for the furnishing of telecommunications may not be considered as terminated, or voided, for the sole reason that the utility did not or would not produce an annual gross income in excess of $25,000. (§ 6 ch 113 SLA 1970)

Sec. 42.05.691. Utility classes. The commission may by regulation provide for the classification of public utilities based upon differences in annual revenue, assets, nature of ownership and other appropriate distinctions and as between these classifications, by regulation, provide for different reporting, accounting and other regulatory requirements. (§ 6 ch 113 SLA 1970)

Article 10. General Provisions.

Section	Section
711. Exemptions	720. Definitions
712. Deregulation ballot	721. Short title

Sec. 42.05.701. [Renumbered as AS 42.05.720.]

Sec. 42.05.711. Exemptions. (a) The provisions of this chapter do not apply to a person who furnishes water, gas or petroleum or petroleum products by tank, wagon, or similar conveyance, unless the person is thereby supplying water, gas, petroleum or petroleum products to a public utility in which the person has an "affiliated interest."

(b) Public utilities owned and operated by a political subdivision of the state and none of whose utilities is in competition with any other utility are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 — 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

(c) The ownership in whole or part, of the corporate stock of a public utility does not make the owner a public utility.

(d) The commission, on a finding that no legitimate public interest will be served, may exempt a utility from all or any portion of this chapter.

(e) Notwithstanding any other provisions of this chapter, any electric or telephone utility that does not gross $50,000 annually is exempt from regulation under this chapter unless 25 percent of the subscribers petition the commission for regulation.

(f) Notwithstanding any other provisions of this chapter, an electric or telephone utility that does not gross $325,000 annually may elect to be exempt from the provisions of this chapter other than AS 42.05.221 — 42.05.281 under the procedure described in AS 42.05.712.

(g) A utility, other than a telephone or electric utility, that does not gross $100,000 annually may elect to be exempt from the provisions of this chapter other than AS 42.05.221 — 42.05.281 under the procedure described in AS 42.05.712.

(h) A cooperative organized under AS 10.25 may elect to be exempt from the provisions of this chapter, other than AS 42.05.221 — 42.05.281, under the procedure described in AS 42.05.712.

(i) A utility which furnishes collection and disposal service of garbage, refuse, trash, or other waste material and has annual gross revenues of $200,000 or less is exempt from the provisions of this chapter, other than the certification provisions of AS 42.05.221 — 42.05.281, unless 25 percent of the subscribers or subscribers representing 25 percent of the gross revenue of the utility petition the commission for regulation.

(j) The provisions of this chapter do not apply to sales, exchanges or gifts of energy to an electric utility certificated under this chapter when the energy which is the subject of the sale, exchange or gift is waste heat, electricity, or other energy which is surplus or the by-product of an industrial process. In an area in which no electric utility is certificated for service, energy provided by sale, exchange or gift may be provided to any utility which is certificated for service to that area. A contract for the sale, exchange or gift of energy exempt under this subsection does not make the supplier a public utility, and does not transfer the responsibility to provide utility services from a certificated utility to any other person.

(k) A utility which furnishes cable television service is exempt from the provisions of this chapter other than AS 42.05.221 — 42.05.281 unless 25 percent of the subscribers petition the commission for regulation.

(*l*) A person, utility, or cooperative that is exempt from regulation under AS 42.05.711(a) or (d) — (k) is not subject to regulation by a municipality under AS 29.48.060 — 29.48.090. (§ 6 ch 113 SLA 1970; am § 3 ch 76 SLA 1973; am § 8 ch 83 SLA 1980; am §§ 7-9 ch 136 SLA 1980; am § 89 ch 59 SLA 1982; am § 1 ch 30 SLA 1983)

Cross references. — For limitations on these exemptions, see AS 42.05.321(b) and AS 42.05.381(c).

Effect of amendments. — The first 1980 amendment added subsection (j).

The second 1980 amendment deleted "excepting the furnishing of collection and disposal service of garbage, refuse, trash or other waste material" following "none of whose utilities" near the beginning of subsection (b), deleted the former second sentence in subsection (b), which read: "Notwithstanding any other provisions of this chapter, municipalities providing collection and disposal service of garbage, refuse, trash or other waste material within their corporate boundaries are not subject to regulation by the Alaska Public Utilities Commission unless the municipality elects to be subject to the provisions of this chapter," substituted "$50,000" for "$25,000" following "does not gross" near the middle of subsection (e), substituted "under this chapter" for "hereunder" following "exempt from regulat..." near the middle of subsection (e), and added subsections (f) through (i).

The 1982 amendment, effective May 28, 1982, deleted "on June 30, 1980" preceding "a utility," and inserted "annual" preceding "gross revenue" in subsection (i).

The 1983 amendment added subsections (k) and (l).

Opinions of attorney general. — An electrical utility owned and operated by a regional electrical authority would continue to qualify for the broad exemption from this chapter, available to political subdivisions under subsection (b) of this section once the regional electrical authority had completed its proposed organization as a nonprofit corporation pursuant to AS 10.20.005 et seq. June 7, 1976, Op. Att'y Gen.

NOTES TO DECISIONS

Municipally owned utilities in competition with other utilities subjected to full gamut of regulation pertaining to other utilities, with exception relating to bond covenants. — See Alaska Pub. Utils. Comm'n v. Municipality of Anchorage, Sup. Ct. Op. No. 1326 (File No. 2940), 555 P.2d 262 (1976).

Sec. 42.05.712. Deregulation ballot. (a) A utility or cooperative which may elect to be exempt from the provisions of this chapter shall poll its subscribers or members in the manner described in this section.

(b) The votes of a majority of those voting in an election in which at least 15 percent of the eligible subscribers or members return ballots are required for a utility or cooperative to elect exemption under (a) of this section.

(c) Each subscriber or member of the utility or cooperative shall receive notice of an election under this section with the subscriber's or member's regular bill for service at least 60 days before the date set for the election. The notice shall contain impartial language informing the subscribers or members that an election on the option of deregulation or regulation by the Alaska Public Utilities Commission will be held within 60 days and that a ballot to participate in that election will be mailed or delivered to each subscriber or member of the utility or cooperative with the regular bill for service. The notice shall also state

Article 9. Power Development Revolving Loan Fund.

Section	Section
600. Creation of fund	620. Loan terms
610. Powers and duties of department in administering the fund	630. Definitions

Sec. 44.33.600. Creation of fund. (a) There is established in the Department of Commerce and Economic Development the power development revolving loan fund to carry out the purpose of AS 44.33.600 — 44.33.630. The fund may be used for no other purpose.

(b) The fund consists of

(1) appropriations to the fund by the legislature;

(2) repayments of principal to the fund; and

(3) income from investment of money in the fund and from loans made from the fund. (§ 1 ch 169 SLA 1984)

Sec. 44.33.610. Powers and duties of department in administering the fund. (a) The department may make a loan from the power development revolving loan fund to the Alaska Power Authority for the purpose of financing a power project acquired or constructed by the authority under the energy program for Alaska (AS 44.83.380 — 44.83.425). Repayment of a loan from the fund must be made with the proceeds from the sale of power from projects in the energy program for Alaska. Except as provided in AS 44.83.398(i), the payments required to be made by the authority on a loan from the fund constitute debt service for the purpose of calculating the wholesale power rate in AS 44.83.398(b)(1).

(b) After completion of a final plan of finance and approval of a project under AS 44.83.185(c), a loan may be made from the fund for

(1) the cost or a portion of the cost of final design, acquisition, and construction of a power project;

(2) defeasance or payment of bonds or notes of the authority issued for a power project;

(3) the establishment of a reserve fund for renewals and replacements for the operation of a completed power project; and

(4) any other project related expenses including those described in AS 44.83.398(i). (§ 1 ch 169 SLA 1984)

Sec. 44.33.620. Loan terms. (a) A loan from the fund must be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) the market rate of interest for a loan of comparable size and duration at the time the loan is made; and

(2) the estimated costs of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund.

(b) The department may agree with the authority to defer repayment of a loan. However, the loan must be repaid in full during the period of the loan agreement.

(c) A loan to the authority from the fund may not exceed 50 years. (§ 1 ch 169 SLA 1984)

Sec. 44.33.630. Definitions. In AS 44.33.600 — 44.33.630

(1) "authority" means the Alaska Power Authority;

(2) "department" means the Department of Commerce and Economic Development;

(3) "fund" means the power development revolving loan fund;

(4) "power project" means a project acquired or constructed under the energy program for Alaska, AS 44.83.380 — 44.83.425. (§ 1 ch 169 SLA 1984)

Chapter 35. Department of Military and Veterans' Affairs.

Section	Section
10. Adjutant general	30. Construction of memorials to Alaska veterans
20. Duties of department	

Sec. 44.35.010. Adjutant general. The principal executive officer of the Department of Military and Veterans' Affairs is the adjutant general. (§ 15 ch 64 SLA 1959; am E.O. No. 58, § 20 (1984))

Effect of amendments. — The 1984 amendment inserted "and Veterans'."

Collateral references. — 53 Am. Jur. 2d, Military, and Civil Defense, §§ 4, 30, 33, 37.

57 C.J.S., Militia, § 11.

Sec. 44.35.020. Duties of department. The Department of Military and Veterans' Affairs shall

(1) conduct the military affairs of the state as prescribed by the Military Code; and

(2) cooperate with the federal government in matters of mutual concern pertaining to the welfare of Alaskan veterans, including establishing, extending, or strengthening services for veterans in Alaska. (§ 15 ch 64 SLA 1959; am E.O. No. 58, § 21 (1984))

Effect of amendments. — The 1984 amendment rewrote and restructured this section, which formerly read "The Department of Military Affairs shall conduct the military affairs of the state as prescribed by the Military Code."

Editor's notes. — For the Military Code of Alaska, see AS 26.05.

Collateral references. — 53 Am. Jur. 2d, Military, and Civil Defense, § 1 et seq.

Sec. 44.83.398. Sale of power from power project. (a) The authority shall sell power produced from power projects acquired or constructed under the energy program for Alaska. For purposes of this section, Lake Tyee, Swan Lake, Solomon Gulch, and Terror Lake hydroelectric facilities are considered to be one power project. This power project is referred to as the initial project

(b) The authority shall establish a wholesale power rate structure applicable to sales of power to the customers of a power project as follows:

(1) The authority shall establish and maintain a separate wholesale power rate applicable to each power project that it has acquired or constructed under the energy program for Alaska, other than a project described in (f) of this section. The wholesale power rate established by the authority for the initial project shall be a rate calculated under this paragraph except that the portion of the rate applicable to (A) and (C) of this paragraph shall be adjusted for the hydroelectric facilities in the initial project as set out in (3) of this subsection. The wholesale power rate shall be computed by the authority annually, or more frequently as may be necessary, and shall equal the rate that the authority estimates is necessary to produce revenue that is sufficient to pay

(A) operation, maintenance, and equipment replacement costs of the power project;

(B) the power project's proportionate share of the debt service on state loans and bonds for all power projects in the energy program for Alaska, determined in accordance with (g) of this section;

(C) safety inspections and investigations of the power project by the authority.

(2) *[Repealed, § 7 ch 169 SLA 1984.]*

(3) For the purposes of determining amounts to be allocated to each hydroelectric facility in the initial project under (1)(A) and (1)(C) of this subsection, the authority shall determine for each hydroelectric facility its individual operation, maintenance, equipment replacement, safety inspection, and investigation costs.

(c) The authority shall transmit all the money that it receives under (a) of this section to the commissioner of revenue for deposit in the state general fund except for money it has pledged or otherwise covenanted to secure bonds.

(d) *[Repealed, § 8 ch 169 SLA 1984.]*

(e) After determining the wholesale power rate for a power project under the provisions of this section, the authority may adjust the rate or change the rate provisions to insure that the revenue derived from that power project and the aggregate revenues of the authority will be adequate to comply with the rate covenants and other agreements contained in any trust indenture or trust agreement entered into by the authority for the security of the holders of bonds issued to finance power projects in the energy program for Alaska. The authority may agree with a purchaser of power to limit rate increases caused by debt service payable by the authority on subsequent projects.

(f) The provisions of (b) of this section do not apply to an intertie that is authorized as a separate project under AS 44.83.380. The authority shall establish and maintain separate power rate schedules applicable to each intertie that it has acquired or constructed as a separate power project under the energy program for Alaska. The power rate schedules shall produce sufficient revenue from utilities connected by the intertie to pay (1) operation, maintenance, and equipment replacement costs of the intertie; (2) debt service of the intertie; and (3) safety inspections and investigations of the intertie by the authority. If the authority determines that an intertie has ceased to function as a separate project and has become a part of one or more other power projects and has become a part of one or more other power projects as a transmission line, the power rate schedules established under this subsection shall be terminated and a wholesale power rate applicable to the former intertie shall be calculated under (b) of this section for the project or projects of which it has become a part.

(g) For the purposes of (b)(1)(B) of this section, a power project's proportionate share of debt service on state loans and bonds for all power projects in the energy program for Alaska is equal to the state's investment in the power project divided by the state's investment in all power projects in the energy program for Alaska and multiplied by the debt service on state loans and bonds for all power projects in the energy program for Alaska. In this subsection

(1) "state's investment in the power project" includes all state money invested in a power project, including loans, grants, and proceeds from bonds, less the principal repayments on the project's proportionate share of debt service on state loans and bonds;

(2) "state's investment in all power projects in the energy program for Alaska" includes all state money invested in the power projects, other than interties, in the energy program for Alaska, including loans, grants, and proceeds from bonds, less the principal repayments on bonds and state loans issued for the power projects.

(h) Notwithstanding (g) of this section, in the 1983 state fiscal year the proportionate share of debt service under (b) of this section, expressed as a rate, for a power project for which a construction contract has been awarded before June 25, 1982 may not exceed the average debt service component of the wholesale power rate for all power projects in the energy program for Alaska. The limit imposed by this subsection shall be increased in the 1984 state fiscal year to four percent above the average debt service component of the wholesale power rate for all power projects in the energy program for Alaska and by an additional four percent above that average in each succeeding state fiscal year. If application of this subsection results in the production of insufficient revenue to pay the total debt service for all projects in the energy program for Alaska, a project that does not have its share of debt service limited under this subsection shall be subject to a rate

in addition to the rate established under (b) of this section. The additional rate is the rate that the authority estimates is necessary to produce revenue that is sufficient to pay the difference between the total debt service for all projects in the energy program for Alaska and the revenue actually produced to pay that debt service, multiplied by a fraction whose numerator is the total cost of the project and whose denominator is the total cost of all of the projects that are subject to the additional rate. In this subsection, "projects in the energy program for Alaska" does not include an interfie that is authorized as a separate project as described in (f) of this section.

(i) The authority may place in a separate interest bearing account money appropriated to the authority as a loan for the purpose of meeting the operating expenses of a facility in the initial project. The money may be used to replace amounts which were expected to be paid by a utility potentially served by a facility in the initial project, which has not entered into a power sales agreement with the authority. Repayment of the amount loaned must be made from revenues attributable to power sales from that facility, as limited by the terms of power sales agreements with power purchasers from that facility. A loan made in accordance with this subsection is not a state loan for purposes of calculating the wholesale power rate under (b)(1) of this section. (§ 1 ch 118 SLA 1981; am §§ 13 — 16 ch 133 SLA 1982; am §§ 20 — 23 ch 89 SLA 1983; am § 125 ch 6 SLA 1984; am §§ 2-8 ch 169 SLA 1984)

Revisor's notes. — Enacted as AS 44.83.490. Renumbered in 1981.

Effect of amendments. — The 1982 amendment, in subsection (b), substituted "a power project" for "the power project" in the introductory language, substituted "separate" for "single" and "each power project" for "all power projects" in the first sentence of paragraph (1), added "other than a project described in (f) of this section" to the end of the first sentence of paragraph (1), inserted "or more frequently as may be necessary" in the introductory language of the second sentence of paragraph (1), substituted "power project" for "power projects" in subparagraph (1)(A) and (C), added "the power project's proportionate share of the" to the beginning of subparagraph (1)(B), substituted the language beginning "on state loans and bonds" for "of the power projects" in subparagraph (1)(B), substituted "separate" for "single" and "each power project that is" for "all power projects that it has" in the first sentence of paragraph (2), inserted "or more frequently as may be necessary" in the introductory language of the second sentence of paragraph (2), substituted "power project" for "power projects" in subparagraph (2)(A) and (2)(B)(iii), and substituted the present provisions of subparagraph (2)(B)(ii) for the former provisions, which read: "debt service of power projects by the authority; and." In subsection (c), the amendment substituted "under (a) of this section" for "under (b) of this section" and "money it has pledged to secure bonds in accordance with contracts with bondholders" for "the money it receives under (b)(1)(A) and (B) and (b)(2)(B)(i) and (ii), or the money it would have received under (b)(1)(A) and (B) and (b)(2)(B)(i) and (ii) of this section if those items had been used in part to establish the wholesale power rate in effect at the time the money is received by the authority." In subsection (e), the amendment substituted "a wholesale" for "the wholesale" and "or (f)" in the first sentence and added the second sentence. The amendment also added subsections (f) — (h).

The 1983 amendment, substituted "July 1, 1991" for "July 1, 1986" near the beginning of paragraph (2) of subsection (b), substituted "or otherwise covenanted

ction. The addi-
is necessary to
ce between the
for Alaska and
, multiplied by
ject and whose
re subject to the
gy program for
d as a separate

earing account
the purpose of
al project. The
cted to be paid
project, which
the authority,
from revenues
d by the terms
hat facility. A
state loan for
r (b)(1) of this
SLA 1982; am
am §§ 2-8 ch

bstituted "power
cts" in subpara-
(ii), and substi-
provisions of
r the former pro-
service of power
and." In subsec-
ent substituted
for "under (b) of
it has pledged to
ce with contracts
the money it
and (B) and
money it would
(A) and (B) and
section if those
art to establish
n effect at the
d by the author-
mendment sub-
the wholesale"
ence and added
mendment also
(i).
bstituted "July
986" near the
of subsection
wise covenanted

to secure bonds" for "to secure bonds in accordance with contracts with bondholders" at the end of subsection (c), rewrote subsection (e), and added the last sentence of subsection (h).

The first 1984 amendment made a technical change in the last sentence in subsection (f).

The second 1984 amendment added subsection (i), repealed former paragraph (2) of subsection (b), relating to a separate wholesale power rate beginning July 1, 1991, and repealed former subsection (d), relating to industrial consumer rates. The 1984 amendment also, in subsection (a), deleted former paragraphs (1) and (2) and the former last sentence in the introductory paragraph, relating to a utility that purchases power produced by a power project of the authority, and, in the remaining language, added the last two sentences; in subsection (b), substituted "the customers" for "its customers at the busbar" in the introductory language, inserted the second sentence in the introductory paragraph of paragraph (1), and added paragraph (3); in subsection (e), added the second sentence and substituted "energy program" for "Energy Program" in the first sentence; and changed the internal reference in the first sentence in the introductory paragraph of subsection (g).

Sec. 44.83.400. Energy conservation. The authority shall ensure

(1) that communities that benefit from the energy program for Alaska implement cost-effective energy conservation measures for residences, commercial and public buildings, and industries; and

(2) that communities shall fulfill their responsibilities under (1) of this section by cooperating with state agencies concerned with development and conservation of energy, including but not limited to

(A) the Alaska Public Utilities Commission;

(B) the Department of Community and Regional Affairs; and

(C) the division of business loans, Department of Commerce and Economic Development. (§ 1 ch 118 SLA 1981; am § 5 ch 79 SLA 1983)

Revisor's notes. — Enacted as AS 44.83.500. Renumbered in 1981.

Effect of amendments. — The 1983 amendment, substituted "Department of Community and Regional Affairs" for "division of energy and power development, Department of Commerce and Economic Development" in paragraph (2)(B).

Sec. 44.83.410. Continuing appropriation for Susitna River Hydroelectric project. [Repealed effective June 30, 1991] The sum of $100,000,000 is appropriated on July 1, 1984 and the sum of $200,000,000 is appropriated on July 1 of each subsequent fiscal year from the general fund to the authority for deposit in the power development fund (AS 44.83.382) for the purpose of equity investment in, and rate stabilization for, the Susitna River hydroelectric project. (§ 314 ch 171 SLA 1984; r § 317 ch 171 SLA 1984)

Postponed repeal. — This section is repealed effective June 30, 1991.

Editor's notes. — Section 316, ch. 171, SLA 1984, provides that the appropriations made in §§ 313—315 and 319 of ch. 171, SLA 1984, which enacted this section, are not one-year appropriations and do not lapse under AS 37.25.010.

Sec. 44.83.420. Continuing appropriation for Bradley Lake hydroelectric project. [Repealed effective June 30, 1988.] The sum

of $50,000,000 is appropriated on July 1, of each fiscal year from the general fund to the authority for deposit in the power development fund (AS 44.83.382) for the purpose of equity investment in, and rate stabilization for, the Bradley Lake hydroelectric project. (§ 314 ch 171 SLA 1984; r § 318 ch 171 SLA 1984)

Postponed repeal. — This section is repealed effective June 30, 1988.

Editor's notes. — Section 316, ch. 171, SLA 1984, provides that the appropriations made in §§ 313—315 and 319 of ch. 171, SLA 1984, which enacted this section, are not one-year appropriations and do not lapse under AS 37.25.010.

Sec. 44.83.425. Definitions. In AS 44.83.380 — 44.83.425,

(1) "bus bar" means the substation that serves as the delivery point from the generation and transmission system of the authority to the transmission and distribution system of the utility;

(2) "debt service" means the amounts covenanted with respect to, or pledged to pay, bonds under a trust agreement securing bonds;

(3) "fund" means the power development fund established by AS 44.83.382;

(4) "industrial consumer" means a customer of a utility which customer has a peak power demand in excess of 500 kilowatts and uses the power principally for

(A) manufacturing;

(B) pipeline transportation;

(C) the recovery or processing of minerals;

(D) the processing of timber, agricultural, or seafood products or their by-products; or

(E) the operation of facilities owned by the federal government;

(5) "qualified utility" means an electric utility that is certified by the Alaska Public Utilities Commission to serve all or part of a market area that is served or will be served by the power project, and that the authority determines is capable of operating and maintaining the power project. (§ 1 ch 118 SLA 1981; am § 24 ch 89 SLA 1983)

Revisor's notes. — Enacted as AS 44.83.510. Renumbered in 1981.

Effect of amendments. — The 1983 amendment, rewrote the definition of "debt service" in paragraph (2).

Chapter 85. Alaska Municipal Bond Bank Authority.

Section	Section
05. Legislative findings	70. Staff
10. Legislative policy	80. Powers of bond bank authority
20. Municipal Bond Bank Authority	90. Limitations
30. Membership and vacancies	95. Regulations
40. Officers, quorum, and meetings	100. Annual report and audit
50. Bonding of members	110. Annual budget
60. Compensation and expenses	120. Care and custody of bonds

(3) access for the line that would be installed with loan proceeds;

(4) availability of other utility service in the area; and

(5) the economic feasibility of the extension of electric service with the proceeds of the loan. (§ 1 ch 118 SLA 1981)

Article 9. Energy Program for Alaska.

Section	Section
380. Program established	400. Energy conservation
382. Power development fund established	410. Continuing appropriation for Susitna River hydroelectric project [Repealed effective June 30, 1991]
384. Use of fund balance	420. Continuing appropriation for Bradley Lake hydroelectric project [Repealed effective June 30, 1988]
386. Investment of fund	425. Definitions
388. Allotment to projects	
390. Reappropriation of fund balance	
392. Lapse of excess appropriations	
396. Operation of power project	
398. Sale of power from power project	

Sec. 44.83.380. Program established. (a) The energy program for Alaska is established. The program shall be administered by the Alaska Power Authority.

(b) The energy program for Alaska is a program by which the authority may acquire or construct power projects with money appropriated by the legislature to the power development fund established in AS 44.83.382. A power project may be acquired or constructed as part of the energy program for Alaska only if the project is submitted to and approved by the legislature in accordance with procedures set out in AS 44.83.177 — 44.83.187.

(c) The provisions of AS 36.10.010 — 36.10.125 apply to power projects constructed by the authority under AS 44.83.380 — 44.83.425. (§ 1 ch 118 SLA 1981)

Revisor's notes. — Enacted as AS 44.83.400. Renumbered in 1981.

Sec. 44.83.382. Power development fund established. (a) A power development fund is established in the Alaska Power Authority to carry out the purposes of the energy program for Alaska (AS 44.83.380 — 44.83.425).

(b) The fund includes

(1) money appropriated to it by the legislature; and

(2) *[Repealed, § 27 ch 89 SLA 1983.]* (§ 1 ch 118 SLA 1981; am § 27 ch 89 SLA 1983)

Revisor's notes. — Enacted as AS 44.83.410. Renumbered in 1981.

Effect of amendments. — The 1983 amendment, repealed paragraph (2) of subsection (b).

ith loan proceeds;
ea; and
lectric service with

iska.

vation
appropriation for
r hydroelectric project
ective June 30, 1991]
propriation for Brad-
ydroelectric project
ective June 30, 1988]

ergy program for
nistered by the

by which the
th money appro-
und established
r constructed as
ct is submitted
procedures set

pply to power
80 — 44.83.425.

lished. (a) A
wer Authority
r Alaska (AS

1981; am § 27

ragraph (2) of

Sec. 44.83.384. Use of fund balance. (a) The fund may be used by the authority to provide money for

(1) reconnaissance and feasibility studies and power project finance plans prepared under AS 44.83.177 — 44.83.181;

(2) the cost of a power project, including but not limited to costs of acquiring necessary licenses, preparing engineering designs, obtaining land, and constructing the power project;

(3) the defeasance of bonds, or the payment of debt service on loans for or on an issue of bonds sold in connection with a power project;

(4) the cost of operating and maintaining power projects; and

(5) debt service on power projects.

(b) Money in the fund may be used under (a) of this section only for a power project that

(1) is economically feasible; and

(2) provides the lowest reasonable power cost to utility customers in the market area for the estimated life of the power project, whether operated by itself or in conjunction with other power projects in the market area, and that operates or will operate on one or more of the following:

(A) renewable energy resources, including but not limited to hydroelectric power, wind, biomass, geothermal, tidal or solar energy, or a method that uses temperature differentials or other physical properties of the ocean;

(B) coal or peat;

(C) energy derived from waste heat; or

(D) fossil fuel, including oil or natural gas.

(c) Notwithstanding (b)(1) of this section and AS 44.83.396 — 44.83.398, the fund may be used by the authority to provide money for the cost of a power project that is or was either constructed or owned by the United States government if the requirements of this subsection are met. The provisions of AS 44.83.177 — 44.83.187 do not apply to a power project financed under this subsection. The authority may use money in the fund for the cost of a power project under this subsection if

(1) the legislature enacts a law approving the project;

(2) the office of management and budget in the Office of the Governor reviews a feasibility study and a plan of finance for the project and determines that the feasibility study complies with the requirements for a feasibility study submitted under AS 44.83.181(b) and that the plan of finance complies with the requirements for a plan of finance submitted under AS 44.83.181(c); and

(3) the project meets the other requirements of this chapter. (§ 1 ch 118 SLA 1981; am § 12 ch 133 SLA 1982; am § 28 ch 63 SLA 1983; am §§ 14, 15 ch 89 SLA 1983)

Revisor's notes. — Enacted as AS 44.83.420. Renumbered in 1981.

Effect of amendments. — The 1982 amendment added subsection (c).

The first 1983 amendment, substituted "office of management and budget" for "division of budget and management" in paragraph (c)(2).

The second 1983 amendment, rewrote paragraph (1) of subsection (b) and substituted "AS 44.83.396 — 44.83.398" for "AS 44.83.394 — 44.83.398" and "or was either constructed or owned" for "constructed and owned" in the first sentence of subsection (c).

Sec. 44.83.386. Investment of fund. The Department of Revenue shall invest the money in the fund in accordance with AS 37.10.070 and 37.10.075. The Department of Revenue shall provide money in the fund to the authority only after costs have been incurred or amounts in the fund have been otherwise obligated under contracts for the acquisition and construction of a project. Amounts that have been obligated, but for which costs have not yet been incurred, may be segregated by the Department of Revenue or transferred to the authority only with the prior approval or agreement of the commissioner of revenue. Interest received on money that is segregated or transferred under this section must be deposited in the general fund. (§ 1 ch 118 SLA 1981; am § 16 ch 89 SLA 1983)

Revisor's notes. — Enacted as AS 44.83.430. Renumbered in 1981.

Effect of amendments. — The 1983 amendment, substituted the language beginning "costs have been incurred" for "a cost for a project is incurred" at the end of the second sentence and added the third and fourth sentences.

Sec. 44.83.388. Allotment to projects. (a) The authority shall maintain records of power project allocations from the fund for each power project

(1) approved in accordance with AS 44.83.185; and

(2) for which an allocation is made from an appropriation made by the legislature without specifying an appropriation to a project.

(b) Income earned from investment of money appropriated to the fund shall be deposited in the general fund and may be appropriated to the fund by the legislature. (§ 1 ch 118 SLA 1981)

Revisor's notes. — Enacted as AS 44.83.440. Renumbered in 1981.

Sec. 44.83.390. Reappropriation of fund balance. (a) If a power project designated by the legislature by law is not constructed, the amount appropriated to it may be reappropriated to other power projects by the legislature.

(b) The legislature may reappropriate money under (a) of this section only for a power project that is economically feasible under AS 44.83.181(b) and only if the project will serve the market area that would have been served by the power project designated by the legislature and not constructed. (§ 1 ch 118 SLA 1981)

Revisor's notes. — Enacted as AS 44.83.450. Renumbered in 1981.

Sec. 44.83.392. Lapse of excess appropriations. If at the end of construction of a power project appropriations for the power project exceed the amount required for construction of it, the excess lapses into the general fund. (§ 1 ch 118 SLA 1981)

Revisor's notes. — Enacted as AS 44.83.460. Renumbered in 1981.

Sec. 44.83.394. Revenue requirements. [Repealed, § 27 ch 89 SLA 1983.]

Sec. 44.83.396. Operation of power project. (a) A power project that is acquired or constructed as part of the energy program for Alaska is owned, and shall be administered, by the authority.

(b) When a power project has been acquired or constructed by the authority, the project may be operated for the authority under a contract or lease entered into by a qualified utility and the authority.

(c) The authority shall enter into a contract or lease under reasonable terms and conditions to permit the applicant utility to operate the power project when the applicant utility is the only wholesale power customer to be served directly by the power project unless the authority determines a utility making application for a contract or lease to operate a power project is not a qualified utility or is not capable of operating that power project efficiently and in a manner that is consistent with national standards for the industry and with agreements with bondholders.

(d) The authority shall adopt regulations to determine the manner of selecting a qualified utility to operate a power project under a contract or lease when there is more than one wholesale power customer to be served directly by the power project.

(e) When the authority permits a power project to be operated by a qualified utility under a contract or lease, the authority shall

(1) review and approve the annual budget for the operation and maintenance of the power project; and

(2) assure that the project is being operated efficiently and in a manner that is consistent with national standards for the industry and agreements with bondholders. (§ 1 ch 118 SLA 1981; am §§ 17 — 19 ch 89 SLA 1983)

Revisor's notes. — Enacted as AS 44.83.480. Renumbered in 1981.

Effect of amendments. — The 1983 amendment, deleted "by the state" following "is owned" in subsection (a), inserted "a qualified utility or is not" near the end of subsection (c), added the language beginning "efficiently and in a manner that is consistent" to the end of subsection (c), added "and" to the end of paragraph (1) of subsection (e), and added "and agreements with bondholders" to the end of paragraph (2) of subsection (e).

Article 9. Power Development Revolving Loan Fund.

Section	Section
600. Creation of fund	620. Loan terms
610. Powers and duties of department in administering the fund	630. Definitions

Sec. 44.33.600. Creation of fund. (a) There is established in the Department of Commerce and Economic Development the power development revolving loan fund to carry out the purpose of AS 44.33.600 — 44.33.630. The fund may be used for no other purpose.

(b) The fund consists of

(1) appropriations to the fund by the legislature;

(2) repayments of principal to the fund; and

(3) income from investment of money in the fund and from loans made from the fund. (§ 1 ch 169 SLA 1984)

Sec. 44.33.610. Powers and duties of department in administering the fund. (a) The department may make a loan from the power development revolving loan fund to the Alaska Power Authority for the purpose of financing a power project acquired or constructed by the authority under the energy program for Alaska (AS 44.83.380 — 44.83.425). Repayment of a loan from the fund must be made with the proceeds from the sale of power from projects in the energy program for Alaska. Except as provided in AS 44.83.398(i), the payments required to be made by the authority on a loan from the fund constitute debt service for the purpose of calculating the wholesale power rate in AS 44.83.398(b)(1).

(b) After completion of a final plan of finance and approval of a project under AS 44.83.185(c), a loan may be made from the fund for

(1) the cost or a portion of the cost of final design, acquisition, and construction of a power project;

(2) defeasance or payment of bonds or notes of the authority issued for a power project;

(3) the establishment of a reserve fund for renewals and replacements for the operation of a completed power project; and

(4) any other project related expenses including those described in AS 44.83.398(i). (§ 1 ch 169 SLA 1984)

Sec. 44.33.620. Loan terms. (a) A loan from the fund must be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) the market rate of interest for a loan of comparable size and duration at the time the loan is made; and

(2) the estimated costs of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund.

(b) The department may agree with the authority to defer repayment of a loan. However, the loan must be repaid in full during the period of the loan agreement.

(c) A loan to the authority from the fund may not exceed 50 years. (§ 1 ch 169 SLA 1984)

Sec. 44.33.630. Definitions. In AS 44.33.600 — 44.33.630

(1) "authority" means the Alaska Power Authority;

(2) "department" means the Department of Commerce and Economic Development;

(3) "fund" means the power development revolving loan fund;

(4) "power project" means a project acquired or constructed under the energy program for Alaska, AS 44.83.380 — 44.83.425. (§ 1 ch 169 SLA 1984)

Chapter 35. Department of Military and Veterans' Affairs.

Section		Section	
10.	Adjutant general	30.	Construction of memorials to Alaska veterans
20.	Duties of department		

Sec. 44.35.010. Adjutant general. The principal executive officer of the Department of Military and Veterans' Affairs is the adjutant general. (§ 15 ch 64 SLA 1959; am E.O. No. 58, § 20 (1984))

Effect of amendments. — The 1984 amendment inserted "and Veterans'."

Collateral references. — 53 Am. Jur. 2d, Military, and Civil Defense, §§ 4, 30, 33, 37.

57 C.J.S., Militia, § 11.

Sec. 44.35.020. Duties of department. The Department of Military and Veterans' Affairs shall

(1) conduct the military affairs of the state as prescribed by the Military Code; and

(2) cooperate with the federal government in matters of mutual concern pertaining to the welfare of Alaskan veterans, including establishing, extending, or strengthening services for veterans in Alaska. (§ 15 ch 64 SLA 1959; am E.O. No. 58, § 21 (1984))

Effect of amendments. — The 1984 amendment rewrote and restructured this section, which formerly read "The Department of Military Affairs shall conduct the military affairs of the state as prescribed by the Military Code."

Editor's notes. — For the Military Code of Alaska, see AS 26.05.

Collateral references. — 53 Am. Jur. 2d, Military, and Civil Defense, § 1 et seq.

Subcommittee
Version #1
Levy
4/12/85 ✓

Original sponsor: House Special Committee on State Loans

IN THE HOUSE

CS FOR HOUSE BILL NO. 219 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

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

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and <u>electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state,</u> none of whose utilities is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

* Sec. 2. AS 44.33.620(a) is amended to read:

(a) A loan from the fund <u>shall</u> [MUST] be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) [THE MARKET RATE OF INTEREST FOR A LOAN OF COMPARABLE SIZE AND DURATION AT THE TIME THE LOAN IS MADE; AND

(2)] the [ESTIMATED] costs, <u>at the time the power sales</u>

agreement is initially negotiated or renegotiated, of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund;

(2) the effect of the loan terms on the wholesale power costs to all utilities purchasing power from the initial project;

(3) the long-term benefits to consumers and communities of stable wholesale power costs;

(4) the affordability of initial wholesale power costs that result from the loan terms with utilities purchasing power from the initial project;

(5) increasing repayment, not to exceed five years, of debt service payment per kilowatt hour gradually over the initial period of a loan repayment schedule to the extent necessary to avoid significant rate increases to the consumer;

(6) the existing excess capacity of power projects; and

(7) the effects of increased capacity utilization, inflation, and alternative energy production costs over the life of the initial project.

* Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

(d) In (a) of this section "initial project" means the project described in AS 44.83.398(a).

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.625. PRICE REOPENERS. A power sales agreement for the sale of power from a power project financed with a loan under AS 44.33.610 must include a provision for periodic price reopeners.

* Sec. 5. AS 44.83.425(5) is amended to read:

(5) "qualified utility" means an electric utility or an electric operating entity established as an instrumentality of two or more electric utilities [THAT IS] certified by the Alaska Public

Utilities Commission to serve all or part of a market area that is served or will be served by the power project, [AND] that the authority determines is capable of operating and maintaining the power project.

Sen. Zeigler
5/10/85 comments
For Sen. Finance

HB219

THE COMMUNITIES OF PETERSBURG, WRANGELL AND KETCHIKAN, ALONG WITH THE COPPER VALLEY AND KODIAK ELECTRIC COOPERATIVES, HAVE BEEN WORKING WITH THE STATE FOR THREE YEARS TO SECURE WORKABLE LONG TERM POWER SALES AGREEMENTS FOR THE STATE'S FIRST FOUR HYDROELECTRIC PROJECTS. TODAY YOU HAVE BEFORE YOU A BILL AND A MEMORANDUM OF UNDERSTANDING THAT REPRESENT A SOLUTION TO THIS PROBLEM.

NEGOTIATORS REPRESENTING FOUR OF THE COMMUNITIES HAVE SIGNED A MEMORANDUM OF UNDERSTANDING WHICH YOU SEE BEFORE YOU TODAY. THE CITY COUNCIL OF PETERSBURG HAS ALSO AUTHORIZED THE SIGNING OF THIS DOCUMENT THRU CONSULTATION WITH THEIR REPRESENTATIVE, PETERSBURG CITY COUNCILMAN, JIM FRENZELL. THE MEMORANDUM OF UNDERSTANDING PROVIDES THE FRAMEWORK ABOUT WHICH LONG TERM POWER SALES AGREEMENTS CAN BE CONSTRUCTED.

THE FOUR DAM POOL REPRESENTATIVES REPORT TO ME THAT AN EXCELLENT WORKING RELATIONSHIP WITH BOB HEATH HAS DEVELOPED SINCE HIS RECENT APPOINTMENT TO THE APA'S TOP POST. THIS RELATIONSHIP WILL ASSIST IN BRINGING THESE NEGOTIATIONS TO A CLOSE WITH A MUTUALLY ACCEPTABLE AND MUTUALLY BENEFICIAL CONTRACT FOR THE SALE OF HYDROELECTRIC POWER IN THESE SOUTH CENTRAL AND SOUTHEASTERN COMMUNITIES.

HB219 REPRESENTS GUIDING AND ENABLING LEGISLATION THAT MAKES IT POSSIBLE TO NEGOTIATE A CONTRACT USING THE GUIDELINES FOUND IN THE MEMORANDUM OF UNDERSTANDING. HB219 ALLOWS FOR THE ARBITRATION OF THE PRINCIPALS OF REASONABLE AND PREDICTABLE RATES TO THE COMMUNITIES AND A FAIR RETURN TO THE STATE. WITHOUT PASSAGE OF HB219 IT IS VERY UNLIKELY THAT LONG TERM POWER SALES AGREEMENTS CAN BE NEGOTIATED.

WITHOUT LONG TERM CONTRACTS IT IS CERTAIN THAT SIGNIFICANT POWER SALES TO THE COMMUNITIES' COMMERCIAL AND INDUSTRIAL CUSTOMERS WILL BE LOST TO THE DETRIMENT OF THE STATE, THE CUSTOMERS AND THE COMMUNITIES. IF THIS ISSUE IS NOT SETTLED THIS SESSION, IT IS ALSO LIKELY THAT THE PRICE THE COMMUNITIES ARE WILLING TO PAY FOR POWER WILL DROP WITH FALLING OIL PRICES AND MAKE THE NEGOTIATION OF POWER SALES CONTRACTS EVEN MORE DIFFICULT.

THE UNDERSTANDING BOB HEATH AND THE COMMUNITIES HAVE AGREED TO IN THE MEMORANDUM OF UNDERSTANDING HAS THE VIRTUE OF SIMPLICITY. EACH COMMUNITY WOULD PAY FOR OPERATIONS AND MAINTENANCE AT THE ACTUAL POOLED AVERAGE RATE FOR ALL FOUR PROJECTS, AND THUS BEAR MUCH OF THE RISK AND BENEFIT OF FLUCTUATIONS IN LOAD AND COST. AN AMOUNT FOR DEBT SERVICE WOULD BE CHARGED AT 2.6¢ PER KWH IN 1986, RISING TO 4.0¢ PER KWH BY 1990 FOR ALL SALES UP TO A PARTICULAR COMBINED FORECAST LOAD. THESE AMOUNTS FOR DEBT SERVICE WOULD BE IN ADDITION TO OPERATIONS AND MAINTENANCE COSTS. SALES ABOVE THE FORECAST WOULD BE DEEMED "INCENTIVE SALES" AND WOULD BE CHARGED AT 1.0¢ PER KWH LESS THAN THE REGULAR DEBT SERVICE AMOUNT. THIS LOWER RATE WOULD MAKE IT POSSIBLE TO ATTRACT LARGE INDUSTRIAL LOADS, AND WOULD GIVE THE COMMUNITIES AN ADDITIONAL INCENTIVE TO INCREASE PROJECT UTILIZATION. FINALLY, THE COMMUNITIES WOULD CONTRIBUTE A TOTAL OF $500,000 PER YEAR IN ADDITION TO OPERATIONS AND MAINTENANCE TO BUILD A FUND FOR RENEWALS AND REPLACEMENTS.

BECAUSE BOTH OPERATIONS AND MAINTENANCE AND DEBT SERVICE WOULD BE POOLED, THE WHOLESALE POWER RATE WOULD BE IDENTICAL FOR ALL COMMUNITIES. THIS MAKES IT POSSIBLE TO MARKET THE POWER FROM PROJECTS WITH HIGH UNIT COSTS OF OPERATIONS AND MAINTENANCE. THE POOLING OF OPERATIONS AND MAINTENANCE IS ONE REASON THAT A STATUTORY CHANGE IS REQUIRED IN ORDER TO IMPLEMENT THIS PROPOSAL. BY PASSING ON THE BENEFITS OF AN INCENTIVE RATE, THE COMMUNITIES CAN MARKET SUBSTANTIAL AMOUNTS OF POWER TO LARGE COMMERCIAL AND INDUSTRIAL LOADS THAT WOULD OTHERWISE DEVELOP THEIR OWN DIESEL GENERATION. THE INCENTIVE SALES INCREASE THE RATE OF RETURN TO THE STATE FROM 5+% TO OVER 6%. INCENTIVE SALES ALSO LOWER THE EFFECTIVE MELDED WHOLESALE POWER RATE TO THE COMMUNITIES. WITHOUT INCENTIVE SALES, THE FORECAST WHOLESALE POWER RATE WOULD FACE STIFF COMPETITION FROM ALTERNATIVE FORMS OF GENERATION , AND THE RETURN TO THE STATE WOULD BE SUBSTANTIALLY LOWER.

THEREFORE, I REQUEST THE FINANCE COMMITTEE GIVE THIS BILL FAVORABLE CONSIDERATION TODAY AND SUPPORT IT ON THE FLOOR IN THE NEXT FEW DAYS. IF YOU HAVE ANY TECHNICAL QUESTIONS BOB HEATH AND REPRESENTATIVES FROM THE COMMUNITIES ARE HERE TO ANSWER THEM.

SENATE FINANCE COMMITTEE
MAY 26, 1984
9:20 A.M.

CALL TO ORDER

CO-CHAIRMAN DON BENNETT CONVENED THE MEETING AT APPROXIMATELY 9:20 A.M.

PRESENT MEMBERS PRESENT: SENATORS BENNETT, FERGUSON, MULCAHY, SACKETT, AND V. FISCHER. SENATORS JOSEPHSON AND FAIKS CAME IN LATER.
OTHERS PRESENT: MIKE GREANY, DIRECTOR, LEGISLATIVE FINANCE; P.S. DHILLON, REVENUE ANALYST, LEGISLATIVE FINANCE; MILT BARKER, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE; COMMISSIONER HEATH, DEPARTMENT OF REVENUE; COMMISSIONER LYON, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT; REPRESENTATIVE HURLBERT; SENATOR KERTTULA; RICH UNDERKOFLER, CITY MANAGER, CITY OF PETERSBURG; DON KOENIGS, MAYOR, CITY OF PETERSBURG; KURT DZINICH, SENIOR ADVISOR, SENATOR ADVISORY COUNCIL; SUSAN WHITE, EXECUTIVE ASSISTANT, ALASKA POWER AUTHORITY; MARTHA FOX, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW; TERRY ELDER, DEPUTY COMMISSIONER, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT; AND STAFF FROM STATE OFFICES AND LEGISLATIVE OFFICES.

SUMMARY INFO

CSHB 684(FIN) AM AN ACT MAKING SPECIAL APPROPRIATIONS TO THE ALASKA POWER AUTHORITY; AND PROVIDING FOR AN EFFECTIVE DATE. DISCUSSION AND HELD IN COMMITTEE.

SENATOR FERGUSON WALKED THE COMMITTEE THROUGH THE PROPOSED SCS FOR CS FOR HB 684(FINANCE). HE THEN ASKED MR. LARRY CRAWFORD AND BILL BATT TO COME FORWARD AND DISCUSS THE PROPOSAL WITH THE COMMITTEE.

LARRY CRAWFORD

MR. LARRY CRAWFORD, EXECUTIVE DIRECTOR OF THE ALASKA POWER AUTHORITY CAME FORWARD TO TESTIFY AND INTRODUCED MR. BILL BATT, DIRECTOR OF FINANCE. SENATOR MULCAHY ASKED WHAT THE INTENT WAS OF THE ALASKA POWER AUTHORITY WITH REGARD TO SECTION 1, THE $210,000,000 AND THE POWER CONTRACTS. MR. CRAWFORD SAID THE INTENT OF THE POWER AUTHORITY WAS TO USE THE RENEGOTIATED AGREEMENTS AS THE BASIS FOR THE LOAN AND THE COMMUNITIES WOULD HAVE RATES BASED ON THOSE RENEGOTIATED AGREEMENTS. HE SAID THE ONLY TIME THEY WOULD ENFORCE THE EXISTING AGREEMENT WOULD BE WHERE THEY DID NOT HAVE A NEW RENEGOTIATED AGREEMENT.

SENATOR MULCAHY ASKED ABOUT CLARIFICATION ON SECTION 1. HE FELT THE APPROACH BEING TAKEN WOULD DO AWAY WITH THE RATE STABILIZATION APPROPRIATION THAT HAD BEEN LOOKED AT BEFORE WHEN GOING OUT TO THE BOND MARKET. HE SAID IT WAS HIS UNDERSTANDING THAT THE RATE STABILIZATION APPROPRIATION WOULD NOT BE NEEDED BECAUSE OF THE USE OF GENERAL FUNDS AND BECAUSE THE LANGUAGE IN THE AUTHORIZING BILL IS SUCH THAT THE INTEREST RATE CAN BE "BACKED IN."

MR. CRAWFORD SAID THIS WAS CORRECT, THAT THEY ARE LOOKING AT WHAT THE DEBT SERVICE PAYMENTS WOULD HAVE BEEN UNDER THE RENEGOTIATED AGREEMENT AND THEN THEY WILL BE RETURNING THE MONEY TO THE STATE IN ACCORDANCE WITH THOSE DEBT SERVICE PAYMENTS. THE INTEREST RATE IS THE DERIVED NUMBER AND LOOKS TO BE ABOUT AN 8% YIELD TO THE STATE ON THE $210,000,000 OVER THE LIFE OF THE LOAN. HE SAID THE PAYMENTS IN THE EARLY YEARS WILL BE LESS THAN IN THE LATER YEARS AND THEY CAN DO AWAY WITH THE RATE STABILIZATION FUND.

SCS FOR CSHB 539(FINANCE)

SENATOR FERGUSON WALKED THE COMMITTEE THROUGH THIS LEGISLATION. SECTIONS 1 THROUGH 3, CREATE THE POWER DEVELOPMENT REVOLVING FUND FOR THE PURPOSE OF IMPLEMENTING THE $210,000,000 LOAN FOR THE FOUR-DAM POOL PAY OUT. SECTION 4 ALLOWS THE CREATION FOR THE FOUR-DAM POOL.

SENATE FINANCE COMMITTEE
MAY 26, 1984
9:20 A.M.

CALL TO ORDER

CO-CHAIRMAN DON BENNETT CONVENED THE MEETING AT APPROXIMATELY 9:20 A.M.

PRESENT MEMBERS PRESENT: SENATORS BENNETT, FERGUSON, MULCAHY, SACKETT, AND V. FISCHER. SENATORS JOSEPHSON AND FAIKS CAME IN LATER.
OTHERS PRESENT: MIKE GREANY, DIRECTOR, LEGISLATIVE FINANCE; P.S. DHILLON, REVENUE ANALYST, LEGISLATIVE FINANCE; MILT BARKER, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE; COMMISSIONER HEATH, DEPARTMENT OF REVENUE; COMMISSIONER LYON, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT; REPRESENTATIVE HURLBERT; SENATOR KERTTULA; RICH UNDERKOFLER, CITY MANAGER, CITY OF PETERSBURG; DON KOENIGS, MAYOR, CITY OF PETERSBURG; KURT DZINICH, SENIOR ADVISOR, SENATOR ADVISORY COUNCIL; SUSAN WHITE, EXECUTIVE ASSISTANT, ALASKA POWER AUTHORITY; MARTHA FOX, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW; TERRY ELDER, DEPUTY COMMISSIONER, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT; AND STAFF FROM STATE OFFICES AND LEGISLATIVE OFFICES.

SUMMARY INFO

CSHB 684(FIN) AM AN ACT MAKING SPECIAL APPROPRIATIONS TO THE ALASKA POWER AUTHORITY; AND PROVIDING FOR AN EFFECTIVE DATE. DISCUSSION AND HELD IN COMMITTEE.

SENATOR FERGUSON WALKED THE COMMITTEE THROUGH THE PROPOSED SCS FOR CS FOR HB 684(FINANCE). HE THEN ASKED MR. LARRY CRAWFORD AND BILL BATT TO COME FORWARD AND DISCUSS THE PROPOSAL WITH THE COMMITTEE.

LARRY CRAWFORD

MR. LARRY CRAWFORD, EXECUTIVE DIRECTOR OF THE ALASKA POWER AUTHORITY CAME FORWARD TO TESTIFY AND INTRODUCED MR. BILL BATT, DIRECTOR OF FINANCE. SENATOR MULCAHY ASKED WHAT THE INTENT WAS OF THE ALASKA POWER AUTHORITY WITH REGARD TO SECTION 1, THE $210,000,000 AND THE POWER CONTRACTS. MR. CRAWFORD SAID THE INTENT OF THE POWER AUTHORITY WAS TO USE THE RENEGOTIATED AGREEMENTS AS THE BASIS FOR THE LOAN AND THE COMMUNITIES WOULD HAVE RATES BASED ON THOSE RENEGOTIATED AGREEMENTS. HE SAID THE ONLY TIME THE WOULD ENFORCE THE EXISTING AGREEMENT WOULD BE WHERE THEY DID NOT HAVE A NEW RENEGOTIATED AGREEMENT.

SENATOR MULCAHY ASKED ABOUT CLARIFICATION ON SECTION 1. HE FELT THE APPROACH BEING TAKEN WOULD DO AWAY WITH THE RATE STABILIZATION APPROPRIATION THAT HAD BEEN LOOKED AT BEFORE WHEN GOING OUT TO THE BOND MARKET. HE SAID IT WAS HIS UNDERSTANDING THAT THE RATE STABILIZATION APPROPRIATION WOULD NOT BE NEEDED BECAUSE OF THE USE OF GENERAL FUNDS AND BECAUSE THE LANGUAGE IN THE AUTHORIZING BILL IS SUCH THAT THE INTEREST RATE CAN BE "BACKED IN."

MR. CRAWFORD SAID THIS WAS CORRECT, THAT THEY ARE LOOKING AT WHAT THE DEBT SERVICE PAYMENTS WOULD HAVE BEEN UNDER THE RENEGOTIATED AGREEMENT AND THEN THEY WILL BE RETURNING THE MONEY TO THE STATE IN ACCORDANCE WITH THOSE DEBT SERVICE PAYMENTS. THE INTEREST RATE IS THE DERIVED NUMBER AND LOOKS TO BE ABOUT AN 8% YIELD TO THE STATE ON THE $210,000,000 OVER THE LIFE OF THE LOAN. HE SAID THE PAYMENTS IN THE EARLY YEARS WILL BE LESS THAN IN THE LATER YEARS AND THEY CAN DO AWAY WITH THE RATE STABILIZATION FUND.

SCS FOR CSHB 589(FINANCE)

SENATOR FERGUSON WALKED THE COMMITTEE THROUGH THIS LEGISLATION. SECTIONS 1 THROUGH 3, CREATE THE POWER DEVELOPMENT REVOLVING FUND FOR THE PURPOSE OF IMPLEMENTING THE $210,000,000 LOAN FOR THE FOUR-DAM POOL PAY OUT. SECTION 4 ALLOWS THE CREATION FOR THE FOUR-DAM POOL.

SENATE FINANCE COMMITTEE
MAY 26, 1984
9:20 A.M.

CALL TO ORDER

CO-CHAIRMAN DON BENNETT CONVENED THE MEETING AT APPROXIMATELY 9:20 A.M.

PRESENT MEMBERS PRESENT: SENATORS BENNETT, FERGUSON, MULCAHY, SACKETT, AND V. FISCHER. SENATORS JOSEPHSON AND FAIKS CAME IN LATER.
OTHERS PRESENT: MIKE GREANY, DIRECTOR, LEGISLATIVE FINANCE; P.S. DHILLON, REVENUE ANALYST, LEGISLATIVE FINANCE; MILT BARKER, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE; COMMISSIONER HEATH, DEPARTMENT OF REVENUE; COMMISSIONER LYON, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT; REPRESENTATIVE HURLBERT; SENATOR KERTTULA; RICH UNDERKOFLER, CITY MANAGER, CITY OF PETERSBURG; DON KOENIGS, MAYOR, CITY OF PETERSBURG; KURT DZINICH, SENIOR ADVISOR, SENATOR ADVISORY COUNCIL; SUSAN WHITE, EXECUTIVE ASSISTANT, ALASKA POWER AUTHORITY; MARTHA FOX, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW; TERRY ELDER, DEPUTY COMMISSIONER, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT; AND STAFF FROM STATE OFFICES AND LEGISLATIVE OFFICES.

SUMMARY INFO

CSHB 684(FIN) AM AN ACT MAKING SPECIAL APPROPRIATIONS TO THE ALASKA POWER AUTHORITY; AND PROVIDING FOR AN EFFECTIVE DATE. DISCUSSION AND HELD IN COMMITTEE.

SENATOR FERGUSON WALKED THE COMMITTEE THROUGH THE PROPOSED SCS FOR CS FOR HB 684(FINANCE). HE THEN ASKED MR. LARRY CRAWFORD AND BILL BATT TO COME FORWARD AND DISCUSS THE PROPOSAL WITH THE COMMITTEE.

LARRY CRAWFORD

MR. LARRY CRAWFORD, EXECUTIVE DIRECTOR OF THE ALASKA POWER AUTHORITY CAME FORWARD TO TESTIFY AND INTRODUCED MR. BILL BATT, DIRECTOR OF FINANCE. SENATOR MULCAHY ASKED WHAT THE INTENT WAS OF THE ALASKA POWER AUTHORITY WITH REGARD TO SECTION 1, THE $210,000,000 AND THE POWER CONTRACTS. MR. CRAWFORD SAID THE INTENT OF THE POWER AUTHORITY WAS TO USE THE RENEGOTIATED AGREEMENTS AS THE BASIS FOR THE LOAN AND THE COMMUNITIES WOULD HAVE RATES BASED ON THOSE RENEGOTIATED AGREEMENTS. HE SAID THE ONLY TIME THEY WOULD ENFORCE THE EXISTING AGREEMENT WOULD BE WHERE THEY DID NOT HAVE A NEW RENEGOTIATED AGREEMENT.

SENATOR MULCAHY ASKED ABOUT CLARIFICATION ON SECTION 1. HE FELT THE APPROACH BEING TAKEN WOULD DO AWAY WITH THE RATE STABILIZATION APPROPRIATION THAT HAD BEEN LOOKED AT BEFORE WHEN GOING OUT TO THE BOND MARKET. HE SAID IT WAS HIS UNDERSTANDING THAT THE RATE STABILIZATION APPROPRIATION WOULD NOT BE NEEDED BECAUSE OF THE USE OF GENERAL FUNDS AND BECAUSE THE LANGUAGE IN THE AUTHORIZING BILL IS SUCH THAT THE INTEREST RATE CAN BE "BACKED IN."

MR. CRAWFORD SAID THIS WAS CORRECT, THAT THEY ARE LOOKING AT WHAT THE DEBT SERVICE PAYMENTS WOULD HAVE BEEN UNDER THE RENEGOTIATED AGREEMENT AND THEN THEY WILL BE RETURNING THE MONEY TO THE STATE IN ACCORDANCE WITH THOSE DEBT SERVICE PAYMENTS. THE INTEREST RATE IS THE DERIVED NUMBER AND LOOKS TO BE ABOUT AN 8% YIELD TO THE STATE ON THE $210,000,000 OVER THE LIFE OF THE LOAN. HE SAID THE PAYMENTS IN THE EARLY YEARS WILL BE LESS THAN IN THE LATER YEARS AND THEY CAN DO AWAY WITH THE RATE STABILIZATION FUND.

SCS FOR CSHB 589(FINANCE)

SENATOR FERGUSON WALKED THE COMMITTEE THROUGH THIS LEGISLATION. SECTIONS 1 THROUGH 3, CREATE THE POWER DEVELOPMENT REVOLVING FUND FOR THE PURPOSE OF IMPLEMENTING THE $210,000,000 LOAN FOR THE FOUR-DAM POOL PAY OUT. SECTION 4 ALLOWS THE CREATION FOR THE FOUR-DAM POOL.

MEMORANDUM State of Alaska

TO: Jay Hogan, Associate Director
Division of Budget Review
Office of Management and Budget

DATE: May 1, 1985

FILE NO:

THRU: Lois Cook, Director
Division of Administrative Services

TELEPHONE NO:

XXXXFROM: Department of Commerce and Economic Development

SUBJECT: CSHB 195 (Fin.) Section 120 (page 29) Power Development Revolving Loan Fund

FROM: Margaret I. Hamley, Director
Division of Accounting and Collections
Department of Commerce and Economic Development

The Alaska Power Authority (APA) has identified $9,036,000 in reserves for claims as available for lapse in the Power Development RLF; See CSHB 195 (Fin.) Section 120.

The $9,036,000 identified by the APA is not currently on deposit in the PDRLF, nor does the APA have control over the entire sum. I am told that up to $7,194,803 will be available to the APA on May 15, 1985 when the variable rate demand notes mature for Terror Lake. That amount less any claims or expenses incurred from March 29, 1985 through May 15, 1985 is to be transferred back to the PDRLF by the APA and then would be available for reappropriation to the General Fund.

However, $1,841,197 in reserves for claims is on deposit with the Ketchikan Power Utility (KPU) as agent for the APA on the Swan Lake Project. The APA has requested those funds be returned and KPU has refused to do so.

I am not at all confident that this $9,036,000 will be available for reappropriation to the General Fund by July 1, 1985.

We understand that the Governor can veto a portion of the line item reappropriation, if necessary, but he would have to veto a corresponding project then as well to balance this bill. This could be avoided by correcting CSHB 195 before it is sent to the Governor.

LC/MIH/me0210
050185B

OFFICE OF
MANAGEMENT & BUDGET

BUDGET REVIEW

OFFICE OF
MANAGEMENT & BUDGET
MAY 1 1985
BUDGET REVIEW

02.001A(Rev. 10/79)

Initial Loan Principal	$196,000,000	Ramp Period (Years)	5		4-DAM POOL
Loan Interest Rate	4.00%	D. S. Entry Rate (c/kW.h)	2.00	LOAN REPAYMENT SCHEDULE	
Loan Term (Years)	40	Entry Rate Annual Escalation	6.05%		
Total Energy Capability (GW.h/yr)	378,607	D. S. Rate Ceiling (c/kW.h)	2.682840		CASE 4-A

Year	DEBT SERV COMPONENT (c/kW.h)	PAYMENT FROM ELEC REVENUE	ENERGY SALES (GW.h)	UTILIZ-ATION	CURRENT PRINCIPAL BALANCE	INTEREST DUE FROM 4-DAM POOL	ACTUAL PAY-MENT LESS INT. DUE	PRINCIPAL REPAYMENT DEFERRED	DEFERRED PRINCIPAL BALANCE
1985	2.00	3,104,120	155,206	40.99%	196,000,000	3,213,926	(109,806)	1,217,061	1,217,061
1986	2.12	3,849,550	181,496	47.94%	194,892,746	3,756,990	92,561	1,116,790	2,333,851
1987	2.25	4,306,077	191,437	50.56%	193,683,395	3,954,721	351,356	1,102,885	3,436,735
1988	2.39	4,751,347	199,181	52.61%	192,229,154	4,095,758	655,589	1,099,544	4,536,279
1989	2.53	5,212,398	206,042	54.42%	190,474,021	4,205,259	1,007,139	1,099,799	5,636,078
1990	2.68	5,714,288	212,994	56.25%	188,367,083	4,300,727	1,413,561	1,097,712	6,733,790
1991	2.68	5,877,217	219,067	57.86%	185,855,810	4,361,163	1,516,054	1,099,757	7,833,547
1992	2.68	6,087,552	226,907	59.93%	183,239,999	4,449,374	1,638,178	1,087,542	8,921,089
1993	2.68	6,336,412	236,183	62.38%	180,514,278	4,557,304	1,779,108	1,061,884	9,982,973
1994	2.68	6,596,916	245,893	64.95%	177,673,285	4,664,816	1,932,100	1,029,068	11,012,041
1995	2.68	6,853,020	255,439	67.47%	174,712,118	4,760,231	2,092,789	993,250	12,005,291
1996	2.68	6,990,569	260,566	68.82%	171,625,080	4,767,619	2,222,950	989,981	12,995,272
1997	2.68	7,133,591	265,897	70.23%	168,413,149	4,771,637	2,361,954	983,082	13,978,354
1998	2.68	7,283,428	271,482	71.71%	165,068,112	4,772,574	2,510,854	971,743	14,950,097
1999	2.68	7,440,669	277,343	73.25%	161,585,516	4,770,144	2,670,525	955,320	15,905,417
2000	2.68	7,605,529	283,488	74.88%	157,959,671	4,763,757	2,841,772	933,243	16,838,660
2001	2.68	7,732,481	288,220	76.13%	154,184,656	4,725,569	3,006,912	922,288	17,760,948
2002	2.68	7,781,390	290,043	76.61%	150,255,456	4,633,629	3,147,761	933,834	18,700,782
2003	2.68	7,831,907	291,926	77.11%	146,167,861	4,536,197	3,295,720	956,646	19,657,428
2004	2.68	7,884,572	293,889	77.62%	141,915,495	4,433,170	3,451,401	972,381	20,629,809
2005	2.68	7,939,463	295,935	78.16%	137,491,713	4,324,285	3,615,257	986,853	21,616,662
2006	2.68	7,996,661	298,067	78.73%	132,889,602	4,208,891	3,787,770	999,859	22,616,521
2007	2.68	8,056,300	300,290	79.31%	128,101,973	4,086,822	3,969,478	1,011,153	23,627,674
2008	2.68	8,118,488	302,608	79.93%	123,121,342	3,957,546	4,160,942	1,020,474	24,648,147
2009	2.68	8,183,279	305,023	80.56%	117,939,925	3,820,549	4,362,730	1,027,568	25,675,716
2010	2.68	8,250,833	307,541	81.23%	112,549,627	3,675,330	4,575,503	1,032,102	26,707,818
2011	2.68	8,321,231	310,165	81.92%	106,942,022	3,521,308	4,799,922	1,033,753	27,741,570
2012	2.68	8,394,633	312,901	82.65%	101,108,347	3,357,895	5,036,738	1,032,125	28,773,696
2013	2.68	8,471,148	315,753	83.40%	95,039,483	3,184,428	5,286,719	1,026,818	29,800,514
2014	2.68	8,550,882	318,725	84.18%	88,725,946	3,000,199	5,550,683	1,017,397	30,817,911
2015	2.68	8,634,023	321,824	85.00%	82,157,866	2,804,469	5,829,554	1,003,334	31,821,245
2016	2.68	8,720,652	325,053	85.85%	75,324,978	2,596,405	6,124,247	984,130	32,805,376
2017	2.68	8,810,983	328,420	86.74%	68,216,601	2,375,152	6,435,831	959,147	33,764,523
2018	2.68	8,905,124	331,929	87.67%	60,821,622	2,139,753	6,765,371	927,769	34,692,291
2019	2.68	9,003,262	335,587	88.64%	53,128,483	1,889,200	7,114,062	889,265	35,581,556
2020	2.68	9,105,559	339,400	89.64%	45,125,156	1,622,397	7,483,162	842,864	36,424,421
2021	2.68	9,212,202	343,375	90.69%	36,799,130	1,338,166	7,874,035	787,707	37,212,128
2022	2.68	9,323,352	347,518	91.79%	28,137,388	1,035,234	8,288,118	722,882	37,935,010
2023	2.68	9,439,197	351,836	92.93%	19,126,387	712,229	8,726,968	647,379	38,582,389
2024	2.68	9,559,978	356,338	94.12%	9,752,041	367,680	9,192,299	560,052	39,142,441
2025	1.34	4,825,870	361,030	95.36%	(310)	1,565,665	3,260,185		35,881,945
2026	1.32	4,825,870	365,921	96.65%		1,435,278	3,390,592		32,491,353
2027	1.30	4,825,870	371,019	98.00%		1,299,654	3,526,216		28,965,137
2028	1.28	4,825,870	376,334	99.40%		1,158,605	3,667,265		25,297,872
2029	1.27	4,825,870	378,607	100.00%		1,011,315	3,813,955		21,483,917
2030	1.27	4,825,870	378,607	100.00%		859,357	3,966,514		17,517,403
2031	1.27	4,825,870	378,607	100.00%		700,696	4,125,174		13,392,229
2032	1.27	4,825,870	378,607	100.00%		535,689	4,290,181		9,102,048
2033	1.27	4,825,870	378,607	100.00%		364,082	4,461,788		4,640,260
2034	1.27	4,825,870	378,607	100.00%		185,610	4,640,260		(0)
TOTALS		347,628,986	15,046,933			151,628,986	196,000,000	39,142,441	

COPPER VALLEY ELECTRIC ASSOCIATION, INC.
SERVING VALDEZ AND THE COPPER RIVER BASIN

HEADQUARTERS:
P.O. BOX 45
GLENNALLEN, AK 99588
(907) 822-3211

DISTRICT OFFICE:
P.O. BOX 927
VALDEZ, AK 99686
(907) 835-4301

April 12, 1985

Telecopied to John Hartle,
Legislative Aide to
Representative Sund and
also mailed

Representative John L. Sund
Room 411-C
Juneau, AK 99802

Dear Representative Sund:

The purpose of this letter is to explain the status of the unappropriated funds for the Solomon Gulch Project. These funds were appropriated to complete the acquisition and construction for the Solomon Gulch Hydroelectric Project. I understand that as of March 31, 1985, there is $1,153,594 committed for expenditures remaining yet to be expended. A justification on an item-by-item basis for this money is as indicated below:

(nearest $100)

1. ASC (Contractors) claim by Powerhouse Contractor including consultants fees, costs, attorneys fees: $ 200,000
This claim and related costs are expected to be settled at or under this amount. Both CVEA and APA have committed to a settlement in the amount of $205,000; the remaining funds are for completion of the settlement agreement, necessary close-out documents, final payment of consultants costs and attorney's fees. $50,000 of the claim will be reimbursed to APA by other parties to the litigation. This reimbursement is included in the above figure.

2. Claim for access to mine: $ 50,000
There is presently pending a lawsuit regarding alleged denial of access to mine. The claim involves the use of an old trail or road which has, as far as we can tell, not been used for several years. Since it is unknown what, if any claim claimant has, we have set this figure as an estimate for litigation and related expenses.

3. Condemnation action: $ 5,000
As part of the completion of the transmission line between the Solomon Gulch Power House and

Glennallen, Alaska, there needs to be removed, certain "danger trees". In one area, two persons have been unwilling to allow us to cut these trees and thus a condemnation action has been necessitated before those trees can be cut.

4. Miscellaneous attorneys fees and costs: $ 10,000
From time to time APA and/or CVEA must meet various regulatory requirements on the project. This is an estimate for legal fees associated with those requirements.

5. Reactor installation: $ 245,300
As part of the original construction project there remains a reactor to be installed at a location near Pumpstation No. 12 of the Trans-Alaska Pipeline. This reactor will improve the efficiency and produce more net useable generation from the Solomon Gulch Hydroelectric Project. The reactor has been ordered and paid for, except for $15,300 retainage included above, however, these funds are needed to install the reactor which is planned for this summer.

6. SCADA-System for remote operation: $ 10,000
In order to efficiently operate the project a SCADA system was contemplated. This figure represents the study funds needed for this years operation and it is part of the original construction. Once a final system has been selected, a request will be made for an appropriate capital expenditure.

7. Feeder relocation design: $ 4,000
This is the estimated remaining design cost needed to pay the outstanding feeder relocation design bill.

8. Reactor design: $ 10,000
This is the estimated design cost for the reactor (see item 5 above).

9. Penstock flow monitoring, final dam inspection, final drawings and studies necessary to close project: $ 150,000
As you are probably aware, the Federal Energy Regulatory Commission (FERC) project, requires a board of consultants to review the construction and then completion of each dam. We have reached the point now where the final completion meeting should occur. Additionally, it has been

determined that there are a number of studies and projects that need to be completed to finally close out the project.

10. APA administration costs: $ 70,000
Most of this amount is for APA administration costs relating to the projects listed in this letter and it has been estimated to be $70,000.

11. As-built survey and right-of-way for transmission line: $ 240,000
The transmission line needs an as-built survey completion of some minor right-of-way items. This estimate was received from Landfield Services who has been retained to do this work since they were involved with the original land acquisition on the project. An additional $2,000 has been added for other costs that may be incurred with regard to this work.

12. Transmission line and generator spare parts: $ 20,000
Most of the spare parts needed to operate the project have been acquired, however, it is estimated by CVEA and APA that in order to finally complete the necessary spare parts inventory, funds in this amount will have to be expended within the next year.

13. Metering: $ 10,000
To coordinate all metering on the project, a new meter needs to be installed which is considered part of the original construction; which is estimated to cost $10,000.

14. Pumpstation 11 reactor: $ 10,000
This represents the deductible on the insurance proceeds necessary to repair the Pumpstation 11 reactor. Repair is presently taking place.

15. Pumpstation 11 reactor protection scheme: $ 50,000
This upgrades the protection system for the Pumpstation 11 reactor which helps prevent future damage similar to what was experienced.

16. Oil for Pumpstation 11 reactor: $ 16,000
Oil is needed for the repaired reactor.

17. Miscellaneous: $ 1,200
Snow survey equipment.

18. Other Items

Study to raise level of dam and spillway: $ 50,000

Various studies were done by consultants regarding construction claims and studies contemplated during the acquisition phase regarding the efficiency of the project. It has been determined that it is possible to raise the level of the spillway, thus creating a greater impoundment of water for a longer period of time resulting in more useable energy from the project. Initial studies indicated that an additional one million kwh per year of sellable energy could be obtained for what is believed to be a relatively small investment. The amount requested is an amount for study in order to determine how best to accomplish this. If the study proves that the initial reviews of this project were as indicated, it could well be the most economical investment by the state for additional generation. This item is not directly part of the correct original acquisition and construction cost, however, it is an outgrowth of studies done to close out the acquisition and completion of the construction of the project and is accordingly related thereto.

Total Expenditures: $1,151,500

I wish to stress that despite the controversy surrounding the Four Dam Pool Power Sale Agreement and Negotiations, both APA and CVEA have tried to operate, maintain and complete both the acquisition and construction phase of the project in the most economical means possible.

Both APA and CVEA believe the hydroelectric projects should be operated and maintained in the best possible manner so that the maximum energy, with due regard for safety and efficiency are realized. At least from the standpoint of CVEA when the project was acquired by APA, these items generally were recognized as items that needed to be completed or finalized to bring the project in compliance with FERC standards and obtain the maximum energy and efficiency out of this project. CVEA had loan funds committed to perform this work. When the APA acquired these projects, it was understood this work would be completed by APA.

Accordingly, CVEA relinquished these loan commitments. Both CVEA and I believe APA have relied upon these appropriations

and made commitments in one form or another for each of the items noted above.

I have tried to coordinate our budget with the State budget's format. Unfortunately, that is not possible because of the manner in which the state classifies its amounts. However, this letter should clearly indicate the requirements necessary to complete the budget, based on the best information available to me today. Thank you for your attention to this very important matter. Please call me if you have any questions.

Very truly yours,

David L Highers /jy

David L. Highers
General Manager
Copper Valley Electric Assoc. Inc.

DH/jy/AEHIV61
cc: Mr. Bill Batt, APA Finance Director

NDEX 0803/852220R01 08-73-4-581

ACM2220-R01 CURRENT YEAR AUTHORIZATION BALANCES PAGE122

FISCAL YEAR TO DATE 03/31/85

	AUTHORIZATION	DISBURSEMENTS	TRANSFERS OUT	EXPENDITURES	RESTRICTIONS	BALANCE
OMMERCE	.....	.....	.....	.....	.....	.....
5-73-4-581 ENERGY DEVELOPMENT	COMMERCE & EC DEVLMT				SOLOMON GULCH	
FUND 100 ACCOUNT 7200	BUDGET COMPONENT 07.73.04.58.01		AK POWER AUTHORITY	SOLOMON GULCH	SLA81 CH92 FY82	
00 PERSONAL SERVICES	15,000.58					
TOTAL PERSONAL SERVICES	15,000.58					15,000.58
00 TRAVEL AND MOVING	11,771.43					
211 INSTATE TRANSPORTATN		1,736.25		1,736.25		
212 INSTATE PER DIEM		1,343.00		1,343.00		
213 OUTSIDE TRANSPORTATN		84.00		84.00		
214 OUTSIDE PER DIEM		45.00		45.00		
221 INSTATE TRANSPORTATN		75.00		75.00		
TOTAL TRAVEL AND MOVING	11,771.43	3,283.25		3,283.25		8,488.18
00 CONTRACTUAL SERVICES	1,983,674.57					
311 LONG DISTANCE TELE		80.16		80.16		
312 LOCAL SERVICE TELE		8.67		8.67		
316 MESSENGER SERVICE		37.50		37.50		
321 PHOTO PROCESSING		220.53		220.53		
322 PRINTING & BINDING		291.28		291.28		
325 ADVERTISING		210.93		210.93		
382 DATA PROCESSING SVC		1,137.35		1,137.35		
389 PROFESSIONAL SVC NCE		853,010.93	13,340.15	866,351.08	281,170.46	
391 INSURANCE & BONDS			1,491.82	1,491.82		
TOTAL CONTRACTUAL SERVICES	1,983,674.57	854,997.35	14,831.97	869,829.32	281,170.46	832,674.79
00 SUPPLIES & MATERIALS	6,023.92					
484 PHOTOGRAPHIC SUPPLYS		31.11		31.11		
TOTAL SUPPLIES & MATERIALS	6,023.92	31.11		31.11		5,992.81
00 MACHINERY/EQUIPMENT	11,013.29					
517 CONSTRUCTION/MAINT					1,192.49	
521 COMMUNICATIONS		744.60		744.60		
TOTAL MACHINERY/EQUIPMENT	11,013.29	744.60		744.60	1,192.49	9,076.20
UBF TOTAL SOLOMON GULCH	2,027,483.79	859,056.31	14,831.97	873,888.28	282,362.95	871,232.56
LEMENT						
GROUP 100	15,000.58					15,000.58
GROUP 200	11,771.43	3,283.25		3,283.25		8,488.18
GROUP 300	1,983,674.57	854,997.35	14,831.97	869,829.32	281,170.46	832,674.79
GROUP 400	6,023.92	31.11		31.11		5,992.81
GROUP 500	11,013.29	744.60		744.60	1,192.49	9,076.20
LEM TOTAL SOLOMON GULCH	2,027,483.79	859,056.31	14,831.97	873,888.28	282,362.95	871,232.56

Subcommittee
Version #1
Levy
4/12/85 ✓

Original sponsor: House Special Committee on State Loans

IN THE HOUSE

CS FOR HOUSE BILL NO. 219 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

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

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and <u>electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state,</u> none of whose utilities is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

* Sec. 2. AS 44.33.620(a) is amended to read:

(a) A loan from the fund <u>shall</u> [MUST] be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) [THE MARKET RATE OF INTEREST FOR A LOAN OF COMPARABLE

agreement is initially negotiated or renegotiated, of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund;

(2) the effect of the loan terms on the wholesale power costs to all utilities purchasing power from the initial project;

(3) the long-term benefits to consumers and communities of stable wholesale power costs;

(4) the affordability of initial wholesale power costs that result from the loan terms with utilities purchasing power from the initial project;

(5) increasing repayment, not to exceed five years, of debt service payment per kilowatt hour gradually over the initial period of a loan repayment schedule to the extent necessary to avoid significant rate increases to the consumer;

(6) the existing excess capacity of power projects; and

(7) the effects of increased capacity utilization, inflation, and alternative energy production costs over the life of the initial project.

* Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

(d) In (a) of this section "initial project" means the project described in AS 44.83.398(a).

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.625. PRICE REOPENERS. A power sales agreement for the sale of power from a power project financed with a loan under AS 44.33.610 must include a provision for periodic price reopeners.

* Sec. 5. AS 44.83.425(5) is amended to read:

(5) "qualified utility" means an electric utility or an

Utilities Commission to serve all or part of a market area that is served or will be served by the power project, [AND] that the authority determines is capable of operating and maintaining the power project.

Version #2
Levy
4/12/85

Original sponsor: House Special Committee on State Loans

IN THE HOUSE

CS FOR HOUSE BILL NO. 219 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

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

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and <u>electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state,</u> none of whose utilities is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

* Sec. 2. AS 44.33.620(a) is amended to read:

(a) <u>Except as provided in (d) of this section, a</u> [A] loan from the fund must be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(2) the estimated costs of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund.

* Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

(d) A loan from the fund to finance the initial project, as described in AS 44.83.398(a), shall be subject to the following terms:

(1) the loan must be amortized based on an annual interest rate not to exceed four percent, a term not to exceed 50 years, and a 40-year amortization period;

(2) the annual debt service payment per kilowatt hour for energy purchased by utilities from the initial project equals the total annual payment needed to amortize the loan on the terms set out in (1) of this subsection divided by the long-term average annual kilowatt hour capability of the initial project;

(3) repayment may be adjusted so that the debt service payment per kilowatt hour, as determined under (2) of this subsection, increases gradually over the first five years of the loan and remains fixed over the next 35 years; and

(4) deferred principal shall be repaid with interest in equal annual installments during the last 10 years of the loan.

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.625. PRICE REOPENERS. A power sales agreement for the sale of power from a power project financed with a loan under AS 44.33.610 must include a provision for a price opener after 15 years.

* Sec. 5. AS 44.83.425(5) is amended to read:

(5) "qualified utility" means an electric utility <u>or an</u>

Utilities Commission to serve all or part of a market area that is served or will be served by the power project, [AND] that the authority determines is capable of operating and maintaining the power project.

50 percentile

Alaska Department of Revenue Mean Forecast
World Oil Price -- Saudi Medium
($1983/bbl)

Fiscal Year	December 1984 Forecast
1985	$25.70
1986	24.36
1987	23.24
1988	22.81
1989	22.71
1990	23.08
1991	22.99
1992	23.13
1993	23.28
1994	23.43
1995	23.60
1996	23.76
1997	24.16
1998	24.56
1999	24.99
2000	25.42
2001	25.86

8378/350/2

AMENDMENT

TO: "Discussion Draft" HB 219

Page 2, Line 23:

Replace Section 4 with:

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.33. PRICE REOPENERS. A power sales agreement for the sale of power from a power project financed with a loan under AS 44.33.610 may include among its provisions an agreed schedule of wholesale power rates notwithstanding any other provisions of law and must include a provision for a price reopener after the first 15 years.

AMENDMENT

TO: HB 219

Page 2, Line 21:

Add a new section:

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.33. PRICE REOPENERS. A power sales agreement for the sale of power from a power project financed with a loan under AS 44.33.610 may include among its provisions an agreed schedule of wholesale power rates notwithstanding any other provisions of law and must include a provision for a price reopener after the first 15 years.

Renumber following sections accordingly

Levy
4/10/85

Original sponsor: House Special Committee on State Loans

DISCUSSION DRAFT

IN THE HOUSE

CS FOR HOUSE BILL NO. 219 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

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

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and regional electric authorities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state, none of whose utilities is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

* Sec. 2. AS 44.33.620(a) is amended to read:

(a) A loan from the fund shall [MUST] be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) [THE MARKET RATE OF INTEREST FOR A LOAN OF COMPARABLE SIZE AND DURATION AT THE TIME THE LOAN IS MADE; AND

(2)] the [ESTIMATED] costs, at the time the power sales agreement ~~loan~~ is ini-

or

tially negotiated [~~and at the time it~~] is renegotiated, of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund;

(2) the effect of the loan terms on the wholesale power costs to all utilities purchasing power from the initial project;

(3) the long-term benefits to consumers and communities of stable wholesale power costs;

(4) the affordability of initial wholesale power costs that result from the loan terms with utilities purchasing power from the initial project;

(5) increasing repayment, not to exceed five years, of debt service payment per kilowatt hour gradually over the initial period of a loan repayment schedule to the extent necessary to avoid significant rate increases to the consumer;

(6) the existing excess capacity of power projects; and

(7) the effects of increased capacity utilization, inflation, and alternative energy production costs over the life of the initial project.

* Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

(d) In (a) of this section "initial project" means the project described in AS 44.83.398(a).

* Sec. 4. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.625. PRICE REOPENERS. A power sales agreement for the sale of power from a power project financed with a loan under AS 44.33.610 must include a provision for periodic price reopeners. after the first 15 years.

* Sec. 5. AS 44.83.425(5) is amended to read:

(5) "qualified utility" means an electric utility or a regional electric authority established as an instrumentality of two or more electric utilities [THAT IS] certified by the Alaska Public

Utilities Commission to serve all or part of a market area that is served or will be served by the power project, [AND] that the authority determines is capable of operating and maintaining the power project.

The initial project offers a unique opportunity to share the infrastructure development in a sensible and equitable manner. the state or Federal Government has traditionally taken the responsibility for the infrastructure necessary to encourage statewide and/or regional economic development. The initial project has an excess capacity of approximately 59% at the present time. Of that 59% excess, approximately 49% is to be found in the Tyee project. The Tyee project, as an example, was built with excess capability because it is geographically well placed to aid regional and statewide energy and economic development. However, the interest on the excess capacity should be carried at state expense until such time as it is needed.

The current situation offers a unique opportunity for the communities and the state to share the burden of infrastructure development in a sensible and equitable manner. The provisions of HB 219 provide for the complete repayment of the principal and the maximum affordable interest rate which can be repaid under current conditions.

Repayment of the APA loan is computed at a fixed interest rate over a set term in order to yield a levelized debt service payment per kilowatt hour. Actual debt service is, in each year, the result of the payment of that portion of the levelized debt service amount corresponding to the fraction of the initial project's total capability which is actually sold in that year. The portion of the debt service amount not paid that year would have a principal component and an interest component. The principal component would be deferred to the end of the amortization period, to be repaid over the contract term remaining thereafter. The interest component is cancelled or treated as simply

unearned. The effect of this structure would be to establish a debt service rate which assumes the initial project is fully utilized and which remains level throughout the period of the loan.

ESSENTIAL LOAN CONDITIONS:

1. Interest rate of 4% on the fraction of the principal which corresponds to the fraction of initial project which is utilized in each contract year.
2. Principal amount of approximately $196 million.
3. Term of the loan is 50 years with a 40 year amortization period.
4. Annual debt service during the amortization period to be computed payment amount multiplied by a fraction, the numerator of which is the actual amount of energy sold that year, and the denominator of which is the total 378,607,000 kwh capability of the initial project.
5. Principal amounts of the loan not paid during the amortization period because of unsold capability shall be deferred until the fortieth year, and then repaid in equal installments without interest over the remaining ten years.

Pourchot

DISCUSSION DRAFT CSHB 219 (Finance)

Section 1. AS 42.05.711(b) is amended to read: ...(same)

Sec. 2. AS 44.33.620(a) is amended to read:

(a) A loan from the fund must be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

at the time of entering into a contract + renegotiations

[(1) the market rate of interest for loan of comparable size and duration at the time the loan is made; and]

Change to mean current at time of making loan

(1) the ~~current~~ [estimated] costs of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund . ;

(2) the effect of the loan terms on the wholesale power costs to all utilities purchasing power from the initial project;

(3) the affordability of initial wholesale power costs resulting from the loan terms on utilities purchasing power from the initial project;

(4) the benefits to consumers and communities of stable, certain wholesale power costs;

(5) existing or anticipated wholesale power prices for other state hydroelectric projects;

(6) increasing ~~repayment~~ of debt service payment per kilowatt hour gradually over the ~~initial period of~~ a loan repayment schedule to avoid significant rates increases to consumers ~~above existing levels~~;

5 yrs

(7) the current existing excess capacity of projects;

* (8) the long-term benefits to utilities and consumers of stable hydroelectric power costs;

* (9) the effects of increased capacity utilization, inflation, and alternative energy production costs over the life of the initial project.

* (10) power sale contracts no more than 35 years in duration with periodic price reopeners;

Sec. 3. AS 44.83.425(5) is amended to read: ....(same)

AMENDMENT

OFFERED IN THE HOUSE: BY: SUND

TO: _____ HOUSE BILL No. 219

SENATE BILL No. _____

PAGE: _____ LINE: _____

Page 1, line 13
Delete "regional electric authorities"
Replace with "electric operating entities"

Page 2, line 22, 23
Delete "a regional electric authority"
Replace with "an electric operating entity"

****

Purpose of amendment:

A term of art "regional electric authority" was inadvertantly used; the effect of using this term would be to deregulate an existing electric authority. The amendment would clarify the legislative intent and leave unchanged existing APUC regulation.

****

(2) the estimated costs of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund.

* Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

(d) A loan from the fund to finance the initial project, as described in AS 44.83.398(a), shall be subject to the following terms:

(1) the loan must be amortized based on an annual interest rate not to exceed four percent, a term not to exceed 50 years, and a 40-year amortization period;

(2) the annual debt service payment per kilowatt hour for energy purchased by utilities from the initial project equals the total annual payment needed to amortize the loan on the terms set out in (1) of this subsection divided by the long-term average annual kilowatt hour capability of the initial project;

(3) repayment may be adjusted so that the debt service payment per kilowatt hour as determined under (2) of this subsection, increases gradually over the first five years of the loan and remains fixed over the next 35 years; and

(4) deferred principal shall be repaid with interest in equal annual installments during the last 10 years of the loan.

* Sec. 4. AS 44.83.425(5) is amended to read:

(5) "qualified utility" means an electric utility or a regional electric authority established as an instrumentality of two or more electric utilities [THAT IS] certified by the Alaska Public Utilities Commission to serve all or part of a market area that is served or will be served by the power project, [AND] that the authority determines is capable of operating and maintaining the power project; [AND]

Introduced: 2/20/85
Referred: House Special Committee on State Loans, Resources and Finance

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

HOUSE BILL NO. 219

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

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

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and regional electric authorities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state, none of whose utilities is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

* Sec. 2. AS 44.33.620(a) is amended to read:

(a) Except as provided in (d) of this section, a [A] loan from the fund must be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) the market rate of interest for a loan of comparable size and duration at the time the loan is made; and

(2) the estimated costs of alternative sources of energy generation for utilities purchasing power from a project financed with a loan from the fund.

* Sec. 3. AS 44.33.620 is amended by adding a new subsection to read:

(d) A loan from the fund to finance the initial project, as described in AS 44.83.398(a), shall be subject to the following terms:

(1) the loan must be amortized based on an annual interest rate not to exceed four percent, a term not to exceed 50 years, and a 40-year amortization period;

(2) the annual debt service payment per kilowatt hour for energy purchased by utilities from the initial project equals the total annual payment needed to amortize the loan on the terms set out in (1) of this subsection divided by the long-term average annual kilowatt hour capability of the initial project;

(3) repayment may be adjusted so that the debt service payment per kilowatt hour, as determined under (2) of this subsection, increases gradually over the first five years of the loan and remains fixed over the next 35 years; and

(4) deferred principal shall be repaid with interest in equal annual installments during the last 10 years of the loan.

* Sec. 4. AS 44.83.425(5) is amended to read:

(5) "qualified utility" means an electric utility or a ~~regional electric authority~~ electric operating entity established as an instrumentality of two or more electric utilities [THAT IS] certified by the Alaska Public Utilities Commission to serve all or part of a market area that is served or will be served by the power project, [AND] that the authority determines is capable of operating and maintaining the power project.

Introduced: 2/20/85
Referred: House Special Committee on State Loans, Resources and Finance

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

HOUSE BILL NO. 219

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

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

* Section 1. AS 42.05.711(b) is amended to read:

(b) Public utilities owned and operated by a political subdivision of the state and [regional electric authorities] electric operating entities established as an instrumentality of two or more public utilities owned and operated by a political subdivision of the state, none of whose utilities is in competition with any other utility, are exempt from the provisions of this chapter, other than the provisions of AS 42.05.221 - 42.05.281, unless the owner and operator elects to be subject to all provisions of this chapter.

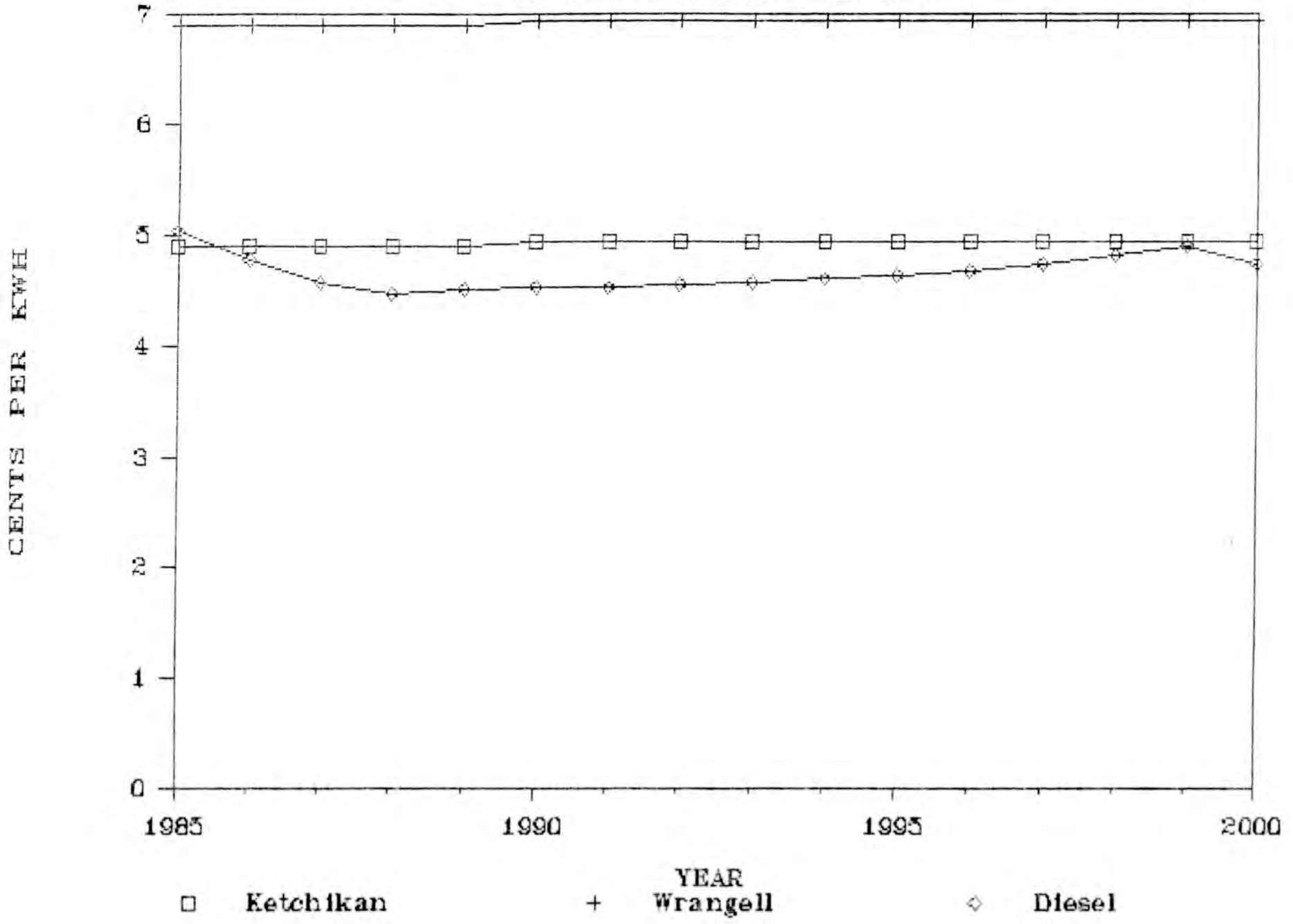
* Sec. 2. AS 44.33.620(a) is amended to read:

(a) Except as provided in (d) of this section, a [A] loan from the fund must be repaid in accordance with the terms that the department determines to be appropriate. In establishing the terms, including provision for a return to the state of an amount in excess of the principal amount of the loan, the department shall consider the revenue that the authority could reasonably derive from the sale of power from the projects based upon

(1) the market rate of interest for a loan of comparable size and duration at the time the loan is made; and

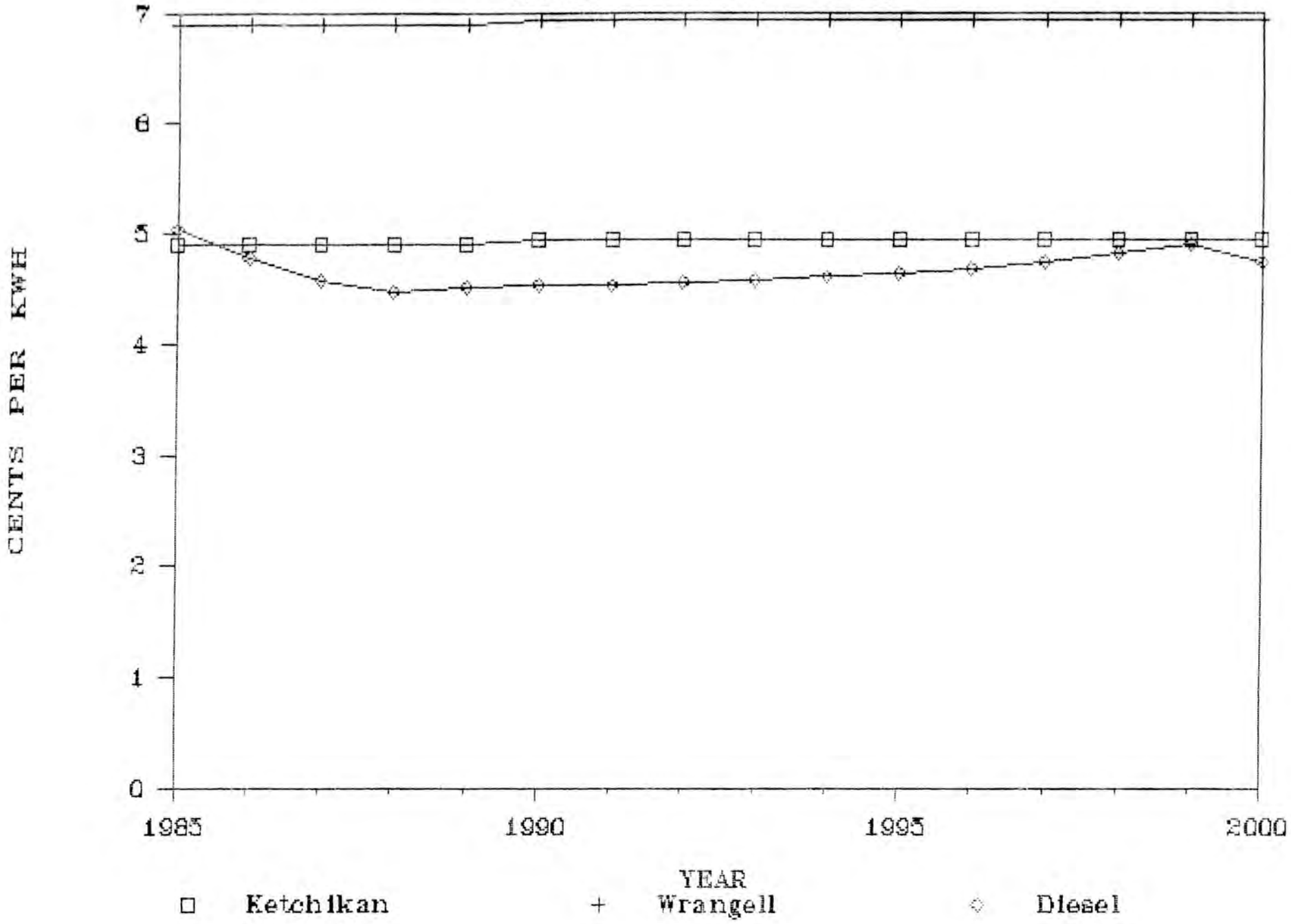
WHOLESALE POWER COST ALTERNATIVES

HB219 VS. DIESEL - CASE 2



WHOLESALE POWER COST ALTERNATIVES

HB219 VS. DIESEL – CASE 2



1984 SHCA NSD Forecast*
World Oil Price -- "Marker Crude"
($1983/bbl)

Year	Forecast
1985	$ 26.30
1986	26.30
1987	26.30
1988	26.30
1989	27.09
1990	27.90
1995	32.50
2000	40.00
2005	50.00
2010	60.00
2020	80.00
2030	90.00
2040	100.00
2050	110.00

* Sherman H. Clark Associates "no supply disruption" forecast. Extracted from "Alaska Power Authority Comments on the Federal Energy Regulatory Commission Draft Environmental Impact Statement of May 1984, Volume 3, Appendix I"; August 1984; p. 2-6.

Alaska Department of Revenue Mean Forecast
World Oil Price -- Saudi Medium
($1983/bbl)

Fiscal Year	December 1984 Forecast
1985	$25.70
1986	24.36
1987	23.24
1988	22.81
1989	22.71
1990	23.08
1991	22.99
1992	23.13
1993	23.28
1994	23.43
1995	23.60
1996	23.76
1997	24.16
1998	24.56
1999	24.99
2000	25.42
2001	25.86

KETCHIKAN PUBLIC UTILITIES

324 FRONT STREET KETCHIKAN, ALASKA 99901 TELEPHONE 907-225-3111

MUNICIPALLY OWNED
ELECTRIC WATER PHONE

April 26, 1985

Representative John Sund
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Subject: HB219

Dear John:

I just wanted to take this opportunity to formally thank you for efforts in creating a solution to the long term contract problems on the Swan Lake Project. Without the hard work of you and your staff in creating HB219, it is my firm conviction that we would not have progressed to the point where we can see the end of this overlong process.

If I can be of any assistance to you in the future you know you have only to contact me.

Thank you again to you and your staff.

Sincerely,

Charles E. Freeman

Charles E. Freeman
Mayor

RDN:CEF:LLM

007/D1

to the Department of Community and Regional Affairs for payment as a grant under AS 37.05.317 to the unincorporated community of Portage Creek for completion of the electrification and bulk fuel project.

* Sec. 118. The sum of $89,325,584 is appropriated to the general fund from the following enterprise funds:

Historical District Loan Fund (AS 45.98)	$ 500,000
Residential Energy Conservation Loan Fund (AS 45.89)	7,312,533
Power Development Revolving Loan Fund (AS 44.33.600)	14,000,000
World War II Veterans' Revolving Loan Fund (AS 26.15)	8,824,933
Mining Revolving Loan Fund (AS 27.09)	19,931,080
Fishery Product Revolving Loan Guarantee Account (AS 45.92)	38,757,118

* Sec. 119. Section 4, ch. 24, SLA 1984, page 70, line 25 is amended to read:

	APPROPRIATION ITEMS	GENERAL FUND
Shared Resource Computer/ Word Processing Application (ED 99)	345,000	345,000

* Sec. 120. The sum of $9,026,000 in reserves for claims is appropriated from the Power Development Revolving Loan Fund (AS 44.33.600) to the general fund.

* Sec. 121. Section 301, ch. 171, SLA 1984 (Alaska Housing Finance Corp. - $16,000,000) is repealed.

* Sec. 122. Section 28, ch. 82, SLA 1981, page 106, line 7 as amended by sec. 17, ch. 101, SLA 1982, is amended to read:

Proposed loan program lapse. These cash balances have been identified by the agencies as amounts over and above the FY 86 requirement.

Sec. ____ The sum of $102,325,664 is appropriated to the general fund from the following enterprise funds:

Historical District Loan Fund (AS 45.98)	$ 500,000
Mining Revolving Loan Fund (AS 27.09)	$19,931,080
Residential Energy Conservation Loan Fund (AS 45.89)	$ 7,312,533
Power Development Revolving Loan Fund (AS 44.33)	$14,000,000
Power Development Revolving Loan Fund (AS 44.33) Alaska Power Authority Estimated Reserve for Claims	$13,000,000 -*
Word War II Veterans Revolving Loan Fund (AS 26.10)	$ 8,824,933
Fishery Product Revolving Loan Guarantee Fund (AS 45.92)	$38,757,118

Sec. ____ The appropriation of $16,000,000 to the Alaska Housing Finance Corporation made in Section 301, Chapter 171, SLA 1984 is repealed.

* Per a phone conversation on April 1, 1985, the Alaska Power Authority staff has indicated that the amount available for lapse from Reserves for Claims should be reduced to $9,093,300. A written explanation will be provided this week.

Gov

Proposed appropriation bill for State loan programs. Net general fund effect is $11,910,653.

Sec. ____ The sum of $87,068,546 is appropriated to the general fund from the following enterprise funds:

Historical District Loan Fund (AS 45.98)	$ 500,000
Mining Revolving Loan Fund (AS 27.09)	$19,931,080
Residential Energy Conservation Loan Fund (AS 45.89)	$ 7,312,533
Power Development Revolving Loan Fund (AS 44.33)	$12,000,000
Word War II Veterans Revolving Loan Fund (AS 26.10)	$ 8,824,933
Fishery Product Revolving Loan Guarantee Fund (AS 45.92)	$38,500,000

Sec. ____ The unexpended and unobligated portion of the $4,000,000 appropriation made to the power project fund in the Alaska Power Authority (AS 44.83.170) in Sec. 16, Ch. 90, SLA 1981 is repealed.

Sec. ____ The sum of $102,979,199 is appropriated from the general fund for State loan programs to be allocated as follows:

DEPARTMENT OF EDUCATION

Commission on Postsecondary Education

Scholarship Revolving Loan Fund	$60,000,000

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

Division of Investments

Commercial Fishing Loan Program	$ 4,822,150
Alternative Technology and Energy Loan Program	$ 845,120
Fisheries Enhancement Loan Program	$ 811,929

De Long Mountains Regional Transportation Project

Alaska Industrial Development Authority Authority Economic Development Fund (AS 44.88.172)	$18,000,000

DEPARTMENT OF NATURAL RESOURCES

Division of Agriculture

Agricultural Revolving Loan Fund	$ 2,500,000
Grain Reserve Loan Fund	$ 1,000,000

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

Division of Housing Assistance

Housing Assistance Loan Fund	$15,000,000

Sec. ____ The sum of $225,000 in federal receipts for student loans and scholarships is appropriated to the scholarship revolving loan fund for the student loan program.

nmb/2729

MEMORANDUM State of Alaska

TO: Jay Hogan
Associate Director
Division of Budget Review
Office of Management and Budget

DATE: February 22, 1985
FILE NO: 2735
TELEPHONE NO: 465-3568

FROM: Guy Bell
Budget Analyst
Division of Budget Review
Office of Management and Budget

SUBJECT: Housing Assistance Loan Fund

Proposal: Reduction of the Governor's FY 86 general fund budget for the Housing Assistance Loan Fund (HALF) from $37 million to $15 million.

HALF was originated in the Department of Community and Regional Affairs' (DCRA) Housing Assistance Division to provide loans for nonconforming housing in both urban and rural areas. Because nonconforming housing does not meet minimum building standards, it cannot meet the minimum standards for financing through the Alaska Housing Finance Corporation's bonding programs.

In 1983, the Legislature expanded HALF to include all rural housing. This expansion was apparently the result of a perceived lack of service from AHFC to rural areas. It was felt that the rural public would be better served by DCRA's regional offices and direct lending authority. However, of the total HALF portfolio on June 30, 1984, only 1.8 percent represented direct loans from the Housing Assistance Division. The remaining 98.2 percent had been made by financial institutions.

Due to the minimal number of direct HALF loans to the rural areas, it can be argued that HALF has not accomplished a higher level of service than had AHFC, and that a shift of the conforming loan program back to AHFC would have little or no impact on the rural housing market.

Given the current level of pressure on the budget, the Governor could propose converting the HALF program to its original form, and to shift all lending for conforming housing back to AHFC. My estimates show that this would reduce the HALF general fund requirement in FY 86 from $37 million to $15 million, as nonconforming housing accounts for only 39 percent of the Housing Assistance Division's portfolio.

I have not confirmed my analysis with the Department of Community and Regional Affairs or AHFC. Furthermore, whether this would require a statutory change would need to be discussed with the Department of Law.

If you would like me to proceed further with this proposal, I will contact DCRA, AHFC and the Department of Law to verify my analysis.

MEMORANDUM

State of Alaska

CONFIDENTIAL

TO: John Shively, Chief of Staff
Office of the Governor

DATE: February 15, 1985

FILE NO:

TELEPHONE NO:

FROM: Franklin T. Elder, Deputy Commissioner
Department of Commerce and Economic Development

SUBJECT: Potential Loan Fund Lapses

An analysis of loan fund requirements and projected balances has revealed funds that could be reappropriated and one program that needs additional funds.

	Governor's FY '86 Budget	Recommended Changes	Possible Governor's Amended FY '86 Budget
Commercial Fisning	3,710,000	+ 1,112,150	4,822,150
Child Care	-	-	
Historical District	-	[500,000]	
Mining	-	[19,931,080]	
Alternative Energy	1,060,000	[214,880]	845,120
Res. Energy Consv.	-	[7,312,533]	
Bulk Fuel	-	-	
Fish Enhancement	2,071,700	[1,259,771]	811,929
Rural Electrifi-cation R.L.F.	2,000,000	[2,000,000]	
Power Dev. R.L.F.	-	[12,000,000]	
Power Project L.F.	-	[4,000,000]	
Small Business	Balance already goes to G.F.		
Tourism	Balance already goes to G.F.		
Water Resources	Balance already goes to G.F.		
Fishermen's Mortgage & Note	Balance goes to Comm. Fish. R.L.F.		
World War II Vets	-	[8,824,933]	
Net Available for Reappropriation		[54,931,047]	

We have reviewed current loan fund balances and estimated cash flow through FY '86, and we have refined the expected loan demand by fund. We believe that the above outlined reappropriation (and an addition to the Commerical Fishing Loan Program) could be done without closing any of the current programs.

The Power Authority projects an FY '85 requirement of $1.1 million for Rural Electrification Revolving Loan Fund (RERLF). This would leave a balance of $2.5 million currently authorized funding available for FY '86. Proposed revised RERLF regulations are expected to increase demand for RERLF funding, but there is much uncertainty as to the amount of increase. The $2.5 million estimated available funding for FY '86 represents a 127% increase over the estimated FY '85 RERLF demand.

The FY '86 request for $2 million additional RERLF funding could be deleted. If loan requests for FY '86 do, in fact, exceed the $2.5 million expected to be available, the loans could be postponed until FY '87.

If Petersburg joins the Four-Dam Pool program, then the $12.0 million won't be needed in the Power Development R.L.F., but we will not know for several months. If we reappropriate the funds and Petersburg doesn't join, we may have to renegotiate the 8% loan to the APA.

CH 90, SLA 81 appropriated $4.0 million to the APA for a Power Project Loan Fund loan to the city of Fairbanks. Nearly four years after the appropriation, Fairbanks has not applied for the loan. The APA understands that Fairbanks now wants a grant rather than a loan. Perhaps you should discuss this with Senator Fahrenkamp.

I believe the announcement of any reappropriation in the WWII Vets program could be tied to a discussion of the proposed linked deposit program which will offer an additional interest rate break to veterans and rural residents. I will continue to treat this information as confidential until I receive further word from you.

FTE/mst1531m
021585e

ALASKA POWER AUTHORITY

334 WEST 5th AVENUE · ANCHORAGE, ALASKA 99501

Phone: (907) 277-7641
(907) 276-0001

February 28, 1985

The Honorable Jan Faiks
Co-Chair, Senate Finance Committee
Pouch V
Juneau, Alaska 99811

Dear Senator Faiks:

Subsequent to the Senate Finance Committee meeting on February 18, 1985, the Alaska Power Authority has performed an in-depth review of the status of currently authorized capital projects. The enclosed analysis is the result of this review. In certain cases the material previously provided to the Senate Finance Committee on the CP-3 forms has been modified.

The analysis provides the funding status for each project. It describes the December 31, 1984 encumbrances for each project, including the amount of the encumbrance earned as of February 15, 1985, and the amount anticipated to be earned as of June 30, 1985, and shows where applicable the cancellation costs if the project is cancelled. Recommendations regarding lapse/cancellation of encumbrances are provided. Remaining unencumbered costs are also identified.

The analysis does not include the Bradley Lake Hydroelectric Project or the Susitna Hydroelectric Project due to the early stages of development of those projects.

Attachment A is a summary of projected potential fund lapses in capital and other continuing appropriations.

Also in accordance with the request from the Senate Finance Committee, Attachments B and C describe the expenditures through December 31, 1984 for the Solomon Gulch Hydroelectric Project and the Anchorage-Fairbanks Intertie Project.

We are prepared to discuss the enclosed material at the meeting scheduled for March 7, 1985.

Sincerely,

Larry D. Crawford

Larry D. Crawford
Executive Director

GD/LDC/amh

8556/354

ALASKA POWER AUTHORITY
CURRENTLY AUTHORIZED CONTINUING APPROPRIATIONS
PROJECTED POTENTIAL LAPSES

CAPITAL PROJECTS CP-3 Project Code(s)	Project Title	Lapse Amount
140, 840	Angoon Power	$139,891
190	Chakachamna	2,400
220	Crooked Creek Waste Heat	62,500
251	Fairbanks District Heating	1,836
260	Goodnews Bay Waste Heat	15,485
270, 272, 273, 530	Grant Lake	354,754
430	Old Harbor Hydroelectric Feasibility	844,952
440	Ouzinkie Waste Heat	149,045
490	Rural Feasibility	276,589
550	Skagway Wind	3,892
700	Waste Heat Recovery	2,408
770	Discretionary Funds	1,052
840	Pedro Bay	~~109,452~~ ∅
890	Anderson Coal Loan	50,000
Subtotal		$2,104,256
OTHER CONTINUING FUNDS		
Power Development Revolving Loan Fund (Ch. 171, SLA 1984)		12,000,000
Power Project Loan Fund - City of Fairbanks (Ch. 90, SLA 1981)		4,000,000(a) -?
Power Cost Assistance Program (Ch. 90, SLA 1981)		2,184,000(b) ?
Power Cost Equalization Program (Ch. 171, SLA 1984)		1,349,900(c) ?
Subtotal		$21,638,156
RESERVE FOR CLAIMS		
Solomon Gulch	$ -0-	
Tyee Lake	2,822,500	
Swan Lake	1,870,800	
Terror Lake	10,323,100	
Anchorage-Fairbanks Intertie	1,310,600	
Total Reserve for Claims		16,327,000(d)
TOTAL		$37,965,156

(a) Although funding for this Power Project Loan Fund loan was appropraited in 1981, the City of Fairbanks has not yet applied for this loan. Until recently the City of Fairbanks desired a grant rather than a loan. However, an election has now been scheduled for April 2, 1985 to obtain voter ratification of a bond package and this loan. Depending on the outcome of the election, this funding may be available for lapse.

(b) In addition to this continuing appropriation for the Power Cost Assistance Program (PCAP), the Power Authority projects a lapse of $676,100 from the Ch. 122, SLA 1984 appropriation for PCAP.

(c) Projected FY85 surplus of $1,669,600 less $319,700 carry-over to FY86 to fund projected shortfall.

(d) Amount shown as requested by the Senate Finance Committee. However, much if not all of this funding (or potentially even a larger amount) is anticipated to be required for settlement of claims. If this amount is lapsed, future supplemental appropriations will be required.

8473/352

ATTACHMENT A

ANALYSIS OF EXPENDITURES THRU 12-31-84

Project Title Anchorage-Fairbanks Intertie CP-3 Project Code(s) 130, 131, 132, 133

Expenditure Description	Amount
I. PROCUREMENT	
Tower Steel	$ 8,676,864
Guy Hardware	449,096
Guy Strand Wire	255,147
Insulators	792,743
Conductor Hardware	314,461
Shield Wire	196,774
Conductor Wire	4,293,240
Conductor and Shield Wire Accessories	433,090
Station Service Equipment	2,532,638
Relay and Control Panels	387,898
Static Var System	3,486,375
Communications System	319,149
Sub-Total	22,137,492
II. CONSTRUCTION	
T/L (South) Intertie Line (South)	26,873,436
T/L (North) Intertie Line (North)	20,290,926
Subs (South) Substations (South)	1,883,000
Subs (North) Substations (North)	2,259,600
Cantwell Substation	1,312,451
TeeLand Substation	974,453
Cantwell Distribution	872,771
Sub-Total	54,466,637
III. ENGINEERING AND CM	
Surveying Acquisition	1,141,098
Right-of-Way	424,617
Construction Management	5,359,018
Camp & Yard	800,275
Engineer	4,712,208
TeeLand Engineering	116,746
Sub-Total	12,553,962
IV. LAND RIGHTS	1,365,175
V. APA ADMINISTRATION	1,318,100
TOTAL	$91,841,366

ATTACHMENT B

ANALYSIS OF EXPENDITURES THRU 12-31-84

Project Title Solomon Gulch Hydroelectric Project — CP-3 Project Code(s) 581

Expenditure Description		Amount	
I. PROCUREMENT			
Turbines and generator		3,819,874	
Accessory electric equipment		890,942	
Sub-substation equipment		7,327,805	
Towers and fixtures		16,969,609	
Office furniture and equipment		3,535	
Transportation equipment		49,410	
Stores equipment		15,150	
Tools, shop and garage equipment		6,519	
Communication equipment		45,236	
	Subtotal	29,128,080	
II. CONSTRUCTION			
Structures and improvements - Generation		5,135,464	
Structures and improvements - Transmission		16,947,680	
Structures and improvements - General Plant		250,684	
Reservoirs, dam and waterways		12,951,312	
Roads		1,080,814	
	Subtotal	36,365,954	
III. ENGINEERING AND CONSTRUCTION MANAGEMENT		3,766,940	
IV. LAND RIGHTS			
Generation		64,520	
Transmission		84,574	
	Subtotal	149,094	
V. ALASKA POWER AUTHORITY ADMINISTRATION		192,804	
Total Cost		69,602,872	
Cash savings		(23,691,775)	(a)
Total cash disbursement		45,911,097	

(a) Solomon Gulch Acquisition - Cash Savings

Loans outstanding at time of acquisition:	
Federal Financing Bank (FFB)	$17,245,000
Rural Electrification Administration (REA)	44,858,959
Total Outstanding Debt	$62,103,959
Alaska Power Authority actions:	
Paid off the FFB loans	(17,245,000)
Established a Trust Fund to pay off the REA loans*	(21,167,185)
Total Cash Savings	$23,691,775

* The trust to date has generated excess intertest of over $842,900 which has been deposited into the state general fund.

MEMORANDUM State of Alaska

TO: Jay Hogan, Associate Director
Office of Management and Budget

DATE: April 19, 1985

FILE NO:

TELEPHONE NO:

FROM: Robert D. Heath, Executive Director
Alaska Power Authority

SUBJECT: Reserves for Claims Lapse

In February 1985 the Alaska Power Authority performed a review of the status of currently authorized capital projects to determine the amount of funding that was available for lapse. Attachment A is the summary of the projected potential lapses prepared at that time.

As requested by the Senate Finance Committee, the projected potential lapses included the "reserve for claims" for each energy program for Alaska project. The caution was added that much if not all of this funding (or potentially even a larger amount) was anticipated to be required for settlement of claims; and if the amount were lapsed, future supplemental appropriations would be required. The total reserves for claims included in Attachment A is $16.3 million. At the March 7, 1985 Senate Finance Committee, members were informed that the $16.3 million available for lapse would have to be reduced by $3.4 million plus interest for a claim on the Terror Lake project which was awarded after the February projected potential lapses report had been submitted (with interest, the amount of the awarded claim is now estimated to be $3.5 million).

The reserve for claims for each project was simply the difference between the appropriation for that project, expenditures to date, and the estimated expenditures required to complete the project.

In retrospect, the February estimates of expenditures required to complete the projects were too conservative. Not enough of an allowance was provided for unforeseen expenditures; and, in a few instances, items of future expenditure were not included through oversight.

After a more thorough review of the energy program for Alaska projects, the Power Authority now estimates that a net $3.7 million additional expenditures will be required to complete the projects than estimated in February. This will reduce the amount available for lapse by a corresponding amount. Attachment B identifies the increases and decreases to the February report and describes each increase and why the item was not included in the February report.

Attachment C summaries the above and other changes, including a reserve for legislative reappropriations, in the reserve for claims lapse amounts from the February report. The revised reserve for claims lapse projection is $8.1 million.

It should be noted that the above decrease in the amount of funding available for lapse as identified in Attachment A will be partially offset by a $2 million increase in the amount available for lapse in the Power Development Revolving Loan Fund (Ch. 171, SLA 1984). The lapse will be $14 million rather than the $12 million reported in Attachment A (see Attachment D).

Attachments as stated.
GD/RDH/it

9150/096

ALASKA POWER AUTHORITY
CURRENTLY AUTHORIZED CONTINUING APPROPRIATIONS
PROJECTED POTENTIAL LAPSES

CAPITAL PROJECTS
(CP-1)

Project Code(s)	Project Title	Lapse Amount
140, 640	Angoon Power	$139,891
190	Chakachamna	2,400
220	Crooked Creek Waste Heat	62,500
251	Fairbanks District Heating	1,836
260	Goodnews Bay Waste Heat	15,485
270, 272, 273, 530	Grant Lake	354,754
430	Old Harbor Hydroelectric Feasibility	844,952
440	Ouzinkie Waste Heat	149,045
490	Rural Feasibility	276,589
550	Skagway Wind	3,892
700	Waste Heat Recovery	2,408
770	Discretionary Funds	1,052
[redacted]	[redacted]	[redacted]
890	Anderson Coal Loan	50,000
Subtotal		1,904,804 ~~$2,104,256~~

Amount previously reappropriated

OTHER CONTINUING FUNDS

Power Development Revolving Loan Fund (Ch. 171, SLA 1984)	12,000,000
Power Project Loan Fund - City of Fairbanks (Ch. 90, SLA 1981)	4,000,000(a)
Power Cost Assistance Program (Ch. 90, SLA 1981)	2,184,000(b)
Power Cost Equalization Program (Ch. 171, SLA 1984)	1,349,900(c)
Subtotal	21,438,704 ~~$21,638,156~~

RESERVE FOR CLAIMS

Solomon Gulch	$ -0-	
Tyee Lake	2,822,500	
Swan Lake	1,870,800	
Terror Lake	10,323,100	
Anchorage-Fairbanks Intertie	1,310,600	
Total Reserve for Claims		16,327,000(d)
TOTAL		32,765,704 ~~$37,966,156~~

(a) Although funding for this Power Project Loan Fund loan was appropraited in 1981, the City of Fairbanks has not yet applied for this loan. Until recently the City of Fairbanks desired a grant rather than a loan. However, an election has now been scheduled for April 2, 1985 to obtain voter ratification of a bond package and this loan. Depending on the outcome of the election, this funding may be available for lapse.

(b) In addition to this continuing appropriation for the Power Cost Assistance Program (PCAP), the Power Authority projects a lapse of $676,100 from the Ch. 122, SLA 1984 appropriation for PCAP.

(c) Projected FY85 surplus of $1,669,600 less $319,700 carry-over to FY86 to fund projected shortfall.

(d) Amount shown as requested by the Senate Finance Committee. However, much if not all of this funding (or potentially even a larger amount) is anticipated to be required for settlement of claims. If this amount is lapsed, future supplemental appropriations will be required.

8473/352

ATTACHMENT A

ALASKA POWER AUTHORITY
INCREASES (DECREASES) TO ESTIMATED COSTS REQUIRED TO COMPLETE
PROJECTS FROM FEBRUARY 1985 REPORT TO LEGISLATURE

TYEE LAKE

$ [275,000]	Insurance Settlement
[150,000]	Interest Revenue
[128,276]	Contractual Commitments Reduction
$ [553,276]	

ANCHORAGE - FAIRBANKS INTERTIE

$ 450,000	SVS Modifications
150,000	Storage Yard Operations
500,000	Interim Maintenance and Operation
75,000	Cantwell Substation Oil Containment
135,600	Reserve for Construction, O&M, and Admin.
$1,310,600	Total

SVS Modification

The Intertie participating utilities have identified several operating concerns regarding the Static Var Systems (SVS) which are presently being reviewed. The cost identified is to perform additional system studies and accomplish any necessary modifications to reduce the potentially harmful start-up characteristics of the SVS on the existing utility system. The requirement was identified subsequent to the February 1985 report.

Storage Yard Operations

This item is for the continued operation and maintenance of the Eklutna storage yard for storage of spare parts, equipment and materials from the Intertie project. The budget request to establish an APA central storage facility was again deleted from the APA capital budget and the central yard is therefore not available to store and maintain this equipment. This cost was inadvertantly omitted in the February 1985 report.

Interim Maintenance and Operation

As a result of a major transformer failure at Goldhill Substation, the Intertie can only be placed in limited service until the transformer is repaired. During this interim period, because the full benefits of the Intertie are not available to offset the cost

of operation and maintenance the utilities do not consider the Intertie to be in commercial operation and are unwilling to absorb the cost of interim O & M. This interim cost must therefore be absorbed as a part of the project construction. This item was not identified until after the February report.

Cantwell Substation Oil Containment

This item provides for the addition of an oil containment structure at the Cantwell Substation to prevent any possible transformer oil leakage form entering the nearby stream. This item was previously identified however by oversight was not included in the February report.

Reserve for Construction, O & M and Administration

This item is a reserve for unidentified potential changes and costs for remaining construction, and O & M and administration of the project through it's completion. While it is probable that certain currently unanticipated costs will be encountered prior to the completion of the project, the exact amount of those costs are unknown at this time. The amount conservatively estimated here is the remaining balance of the unencumbered balance.

TERROR LAKE

$ 1,000,000	Land Acquisition
518,000	ADF&G Continuing Studies
403,000	Ebasco Contract Modification
100,000	"As-Built" Survey
141,000	Power Line Communications
409,000	Additional KEA Costs
300,000	Reserve for Interest
500,000	Reserve for Construction
$ 3,371,000	
[467,000]	Savings on Quantities
$ 2,904,000	

Land Acquisition

Allowance for obtaining indefinite rights to all project lands as required by Article 5 of the FERC license. Amount is estimated top exposure and could be much lower as a result of final negotiation. Item was not included in February 1985 report in error. FERC representative had verbally advised in September 1984 that land rights in perpetuity were required.

ADF&G Continuing Studies

Studies required are salmon monitoring studies through 1990, bear and goat and raptor studies through 1986. Amount does not include cost escalation or possible mitigative measures. Studies are required by Articles 40 and 42 of the FERC license. This item was not included in the February 1985 report as a construction cost since it will occur after construction is complete. An opinion on the legality of charging this cost to Operating and Maintenance of the project is pending. However, the item is not included in the O & M component of the operating budget and provision should be made for the costs in the existing capital appropriation.

Ebasco Contract Modification

This item included additional work by engineering and construction management contractor. Major portion of work is additional construction management due to delays in completion of the project and therefore need to extend project management and inspection personnel. Work also required consists of engineering support for arbitration and litigation, additional engineering support, review of vendor submittals, study of frequency control and contract administration and close out for general construction and owner procurement contracts. Item was included in February 1985 report although figure used was not current at that time.

As-Built Survey

This is a requirement of two existing property leases. This item was not included in the February 1985 report due to oversight.

Power Line Communication

This is a request for change order from SDADA contractor due to third party delays precluding contractor to complete his work. This was not included in February 28, 1985 report as the extent of the problem was not known until early April 1985.

Addition KEA Costs

This item included operator training and eight minor items of construction necessary to provide complete and operable facility. The extent and costs of these items were not known until a final inspection meeting of the project was held on March 28, 1985.

Reserve for Interest

This is a reserve for interest due contractors due to late payments and particularly due to shortage of funds with which to pay invoices. This item was not included in the February 1985 report due to oversight.

Reserve for Construction

This is a simple allowance to pay for unforeseen conditions (contingencies) and allow contracts to be closed out. Omission of the item from February 1985 report was an oversight.

ALASKA POWER AUTHORITY
RECONCILIATION OF "RESERVE FOR CLAIMS" LAPSE PROJECTIONS

	Tyee Lake	Swan Lake	Terror Lake	A-F Intertie	Total
LAPSE-FEBRUARY 1985 REPORT	$ 2,822,500	$ 1,870,800	$ 10,323,100	$ 1,310,600	$16,327,000
Corrections		-29,603	-100,000(b)		-129,603
CORRECTED LAPSE	$ 2,822,500	$ 1,841,197	$ 10,223,100	$ 1,310,600	$16,197,397
Claims Awarded Subsequent to February 1985 Report			-3,500,000(c)		-3,500,000
	$ 2,822,500	$ 1,841,197	$ 6,723,100	$ 1,310,600	$12,697,397
Expenditure Increases (-)/Decreases (+)	+553,276		-2,904,000	-1,310,600	-3,661,324
	$ 3,375,776	$ 1,841,197	$ 3,819,100	$ 0	$ 9,036,073
Legislative Reappropriations(d)	-900,000				-900,000
REVISED LAPSE PROJECTIONS	$ 2,475,776	$ 1,841,197	$ 3,819,100	$ 0	$ 8,136,073

(a) Projected lapse in Attachment A should have been $1,841,197 (see Exhibit E) rather than $1,870,800

(b) Projected lapse reflected in Attachment A was not calculated accurately in backup material (see Exhibit F)

(c) Award of claim to Kiewit-Groves through binding arbitration involving problem with excess water in the Terror Lake Tunnel.

(d) Reserve for reappropriation for the following projects:

$750,000	Transformer to provide electrical energy for Wrangell
150,000	Grant to the City of Cordova to reduce effective interest rate on Cooperative Financing Corporation loan from 11.5% to 8.5% for one year.
$900,000	

ACCOUNTING OF THE $198 MILLION DEPARTMENT OF COMMERCE AND DEVELOPMENT (DCED) LOAN (BY PROJECT)

Swan Lake Note	$ 26,165,000
Lake Tyee Note	50,000,000
Terror Lake Note	115,000,000
Total	$191,165,000
Working Capital and Renewals and Replacements	4,576,000
Total Loan	$195,741,000

NOTE: Previous projections calling for a funding requirement of $198 million included a contingency reserve of $2 million. Upon reevaluation, this reserve is no longer deemed appropriate. Therefore, $14 million of the $210 million appropriation is available for lapse.

ANALYSIS OF UNENCUMBERED BALANCE REQUIREMENTS

Project Title Swan Lake Hydroelectric Project

CP-3 Project Codes(s) 610, 611, 612, 613

Requirement Description	Amount	If Cost is ESSENTIAL to Project Completion, Explain Why
Reserved for litigation	$ 350,000	Ongoing legal costs associated with the settlement of claims.
Reserved for litigation (Solomon Gulch)	722,000	Ongoing legal costs associated with the settlement of Solomon Gulch claims. (The Solomon reserve for litigation is insufficient to meet anticipated costs.)
Reserve for claims	1,841,197*	
Construction reserve for minor modifications/adjustments of final inspection of dam	300,000	Final inspection of the dam will pinpoint which minor modifications need to be made to bring the plant to the Federal Energy Regulatory Commission license standard..
Equipment rescue for small tools, rolling equipment	450,000	Final inspection of the dam will pinpoint equipment - expenditures are necessary to bring the plant to the Federal Energy regulatory Commission license standard.
Reserve for microwave relocation aerial ball markers, stride lite, storage building, fencing	515,000	
Alaska Power Authority Administrative Costs	300,000	Personnel and travel expenses associated with the final stages of construction and the negotiations of power sales agreements inclusive of legal, financial analysis, and risk management costs.
	$4,478,197	

* Although this reserve is considered nonessential for project completion, the Alaska Power Authority does anticipate that this amount may be necessary for final resolution of claims and litigation for Swan Lake and other "Four Dam Pool" projects (Terror Lake, Solomon Gulch and Tyee Lake).

ANALYSIS OF UNENCUMBERED BALANCE REQUIREMENTS

Project Title Terror Lake Hydroelectric Project CP-3 Project Codes(s) 631, 632, 633

Requirement Description	Amount	If Cost is ESSENTIAL to Project Completion, Explain Why
Reserve for litigation	(a) 1,150,000	Ongoing legal costs associated with settlement of claims.
Reserve for Claims	10,223,100 ~~10,323,100~~*	
APA Administrative Expenses	200,000	Personnel and travel expenses associated with the final stages of construction and the negotiation of power sales agreements, inclusive of legal fees, financial analysis, and risk management costs.
Cost of Financing	200,000	Cost of short-term financing (interest expense loss in interest revenue)
Start-Up Costs	200,000	Cost required during testing period after completion of construction and prior to commercial operation.
	~~$11,973,100~~	

* Although this reserve is considered nonessential for project completion, the APA does anticipate that this amount may be necessary for final settlement of claims and litigation for Terror Lake and the other "Four Dam Pool" projects (Tyee Lake, Swan Lake, and Solomon Gulch).

(a) amount needs to be $10,223,100 rather than $10,323,100 to add-up to the $11,973,100 total

MEMORANDUM State of Alaska

TO: Guy Bell
Office of Management & Budget

DATE: March 29, 1985

FILE NO.

TELEPHONE NO.

FROM: Gloria Manni G. Manni
Director/Accounting & Audit

SUBJECT: FY85 General Fund Lapse Projects Reserve for Claims

This is to confirm today's phone conversation regarding the availability for lapse of the referenced funds.

Swan Lake Project:
The original source of these funds was the issuance of General Obligation Bonds on May 28, 1981 (interim financing). The bonds were redeemed at maturity on September 28, 1984, with proceeds from the Power Development Loan entered into by the Department of Commerce and Economic Development (DCED) and the Alaska Power Authority, Promissory Note No. 1 in the amount of $26,165,000. The monies intended for lapse are in the "Construction Fund" and "Construction Reserve Account" established by the City of Ketchikan. To date, the City has not complied to the Power Authority's request to transfer those funds to the Authority. 1870.8

Tyee Lake Project:
The original source of these funds was the issuance of Variable Rate Demand Notes (VRDN) on February 17, 1982 (interim financing). The VRDN were redeemed at maturity on January 2, 1985 with proceeds from the Power Development Loan entered into by the DCED and the Power Authority (Promissory Note No. 2 in the amount of $50,000,000). The monies intended for lapse are in the "Construction Fund" trust account established with Morgan Guaranty Trust Company of New York (MGT Co.). 2822.5

Terror Lake Project:
The source of these funds is the issuance of VRDN on June 22, 1982 (interim financing). The monies intended for lapse are in the "Construction Fund" and "Capitalized Interest Fund", irrevocable trust funds established with MGT Co. at the issuance of the notes. The maturity of the notes is on May 15, 1985, and funds will be available for lapse after such date upon redemption of the notes, in accordance with the terms of the authorizing resolution. Proceeds from the Power Development loan entered into by the DCED and the Power Authority, Promissory Note No. 3 in the amount of $115,000,000 have been deposited in the "Redemption Fund" at MGT Co. for the redemption of the notes. 10823.0

Before a journal voucher can be prepared for lapsing funds in these three projects the promissory notes in the Power Development Loan must be reduced by corresponding amounts, funds must be returned to the Power Development Loan Fund and, from there lapsed to the General Fund.

8880/083

02 CC1A(Rev. 10/79)

The Power Authority recommends that action to lapse funds from these projects is targeted after the maturity of Terror Lake VRDN on May 15, 1985, to allow for concurrent modification of the promissory notes and the repayment schedule of the Power Development Loan.

The amounts to be lapsed at the time will be reduced by the claims in the interim period.

Anchorage-Fairbanks Intertie: Lapse $1,310,600.
Funds are available in Ch. 171, SLA 1984, S319, p. 53., A/C 08-73-4-135.
Attached is pertinent journal voucher.

Please call me if you have any questions.

GM/ald

cc: Bill Batt, Alaska Power Authority
R.E. Etheridge, Alaska Power Authority

8880/083

KETCHIKAN PUBLIC UTILITIES

334 FRONT STREET KETCHIKAN, ALASKA 99901 TELEPHONE 907-225-3111

MUNICIPALLY OWNED
ELECTRIC WATER PHONE

April 30, 1985

Representative John Sund
Alaska State Legislature
Pouch B (MS 3100)
Juneau, Alaska 99811

Dear Representative Sund:

Attached is a computer analysis that forms the most promising basis for agreement in our current discussions with the Alaska Power Authority. As we mentioned to John Hartle, this model was proposed by Bob Heath and Gordon Harrison, and grew out of certain reservations expressed by the Power Authority staff in response to a prior proposal that was also made by Gordon Harrison. The model appears to offer an affordable wholesale power rate to the communities and a fair return to the state.

For purposes of comparison, we have also included a printout of the first Harrison proposal. As you can see, that proposal featured an agreed wholesale power rate schedule that was to cover both debt service and operations and maintenance (O & M). Debt service would be funded out of any revenues remaining after O & M was paid. A floor and ceiling rate of return on the state's investment would trigger either increased payments by the communities or an early retirement of principal debt.

The Power Authority staff felt that this type of agreement might be difficult to administer because it would make debt service revenues highly dependent on O & M costs over which they would exercise little control. They were also concerned that it placed the risks of inflation, low loads, and excessive O & M costs squarely on the state, without sufficient incentives to the communities to assure the state of a fair return. Of course the benefits of high loads and lower-than-projected O & M costs would also be enjoyed by the state.

The new proposal has the virtue of simplicity. Each community would pay for O & M at the actual pooled average rate for all four projects, and thus bear much of the risk and benefit of fluctuations in load and cost. In this example, "debt service", or an amount above O & M, would be charged at 2.6 cents/kWh in 1986, rising to 4 cents/kWh by 1990, for all sales up to a particular combined forecast load. Sales above the

forecast would be deemed "incentive sales" and would be charged at 1 cent/kWh less than the regular debt service amount. This lower rate would make it possible to attract large industrial loads, and would give the communities an additional incentive to increase project utilization. Finally, the communities would contribute a total of $500,000 per year in addition to O & M to build a fund for renewals and replacements.

Because both O & M and debt service would be pooled, the wholesale power rate would be identical for all communities. This makes it possible to market the power from projects with high unit costs of O & M. The pooling of O & M is one reason that a statutory change is required in order to implement this proposal.

The rate of return to the state in this model is primarily sensitive to changes in load. By passing on the benefits of an incentive rate, we believe the communities can market substantial amounts of additional power to potential large loads that would otherwise develop their own diesel generation. The incentive sales increase the rate of return to the state to over 6%. They also lower the effective melded wholesale power rate to the communities. Without incentive sales, the forecast wholesale power rate would face stiff competition from alternative forms of generation, and the return to the state would be substantially lower.

The rate of return to the state is based upon revenues which include interest on reserves and the communities' contribution to the renewal and replacement fund. These are capital costs paid in consideration of the state's risk, and dedicated to the long-term preservation of the state's investment in the projects. The benefit of these funds will extend well beyond the period for which rate certainty will be guaranteed to the communities. We have not attempted to estimate the extent to which these reserves would be drawn down to pay for claims or improvements, or when such costs would be incurred.

The models provided are as follows:

1. Case H1-1 is the original proposal without any large loads.
2. Case H1-2 is the original proposal with large loads added.
3. Case H2-1 is the new proposal without any large loads.
4. Case H2-2 is the new proposal with large loads added.

I hope you will find this information useful evaluating the legislation necessary to implement the proposal. Please let me know if I can provide anything further.

Very truly yours,

KETCHIKAN PUBLIC UTILITIES

Richard D. Newland
Utilities Manager

RDN:LLM
Enclosures
cc: Mayor & City Council
KPU Advisory Board
Doug Rosenberg, PTE&H
Four Dam Pool Members

PRESTON.1
(COM/Z6)
007/B6

Loan Principal ($=000's) $196,000
O & M Inflation Rate 4.00%
Rate of Return Floor 3.50%
Rate of Return Ceiling 8.00%
Change in Base Load Forecast 0.00%

Case Number M1-1
Internal Rate of Return (ROR) 5.9%

30-Apr-85

YEAR	BASELOAD SALES (MWH)	BASELOAD RATE (CENTS/KWH)	BASELOAD REVENUE ($=000's)	LARGE LOAD SALES (MWH)	LARGE LOAD RATE (CENTS/KWH)	LARGE LOAD REVENUE ($=000's)	TOTAL REVENUE (COL. D+G) ($=000's)	ACTUAL O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
1986	181,496	4.94	8,966	0	1.60	0	8,966	4,438	4,528	6,860	15,680	0	196,000	2,332	3.5%	11,298	6.22	1986
1987	191,437	5.44	10,414	0	1.80	0	10,414	4,616	5,799	6,860	15,680	0	196,000	1,061	3.5%	11,476	5.99	1987
1988	199,181	5.64	11,234	0	2.20	0	11,234	4,800	6,434	6,860	15,680	0	196,000	426	3.5%	11,660	5.85	1988
1989	206,042	6.09	12,548	0	2.50	0	12,548	4,992	7,556	6,860	15,680	0	196,000	0	3.9%	12,548	6.09	1989
1990	212,994	6.48	13,802	0	3.00	0	13,802	5,192	8,610	6,860	15,680	0	196,000	0	4.4%	13,802	6.48	1990
1991	219,067	6.58	14,415	0	3.00	0	14,415	5,400	9,015	6,860	15,680	0	196,000	0	4.6%	14,415	6.58	1991
1992	226,907	6.68	15,157	0	3.00	0	15,157	5,615	9,542	6,860	15,680	0	196,000	0	4.9%	15,157	6.68	1992
1993	236,183	6.78	16,013	0	3.00	0	16,013	5,840	10,173	6,860	15,680	0	196,000	0	5.2%	16,013	6.78	1993
1994	245,893	6.89	16,917	0	3.00	0	16,917	6,074	10,844	6,860	15,680	0	196,000	0	5.5%	16,917	6.88	1994
1995	255,439	6.98	17,830	0	3.00	0	17,830	6,317	11,513	6,860	15,680	0	196,000	0	5.9%	17,830	6.98	1995
1996	260,533	7.08	18,446	0	3.00	0	18,446	6,569	11,876	6,860	15,680	0	196,000	0	6.1%	18,446	7.08	1996
1997	265,897	7.18	19,091	0	3.00	0	19,091	6,832	12,259	6,860	15,680	0	196,000	0	6.3%	19,091	7.18	1997
1998	271,462	7.38	20,035	0	3.00	0	20,035	7,105	12,930	6,860	15,680	0	196,000	0	6.6%	20,035	7.38	1998
1999	277,243	7.48	20,745	0	3.00	0	20,745	7,390	13,356	6,860	15,680	0	196,000	0	6.8%	20,745	7.48	1999
2000	283,468	7.68	21,772	0	3.00	0	21,772	7,685	14,087	6,860	15,680	0	196,000	0	7.2%	21,772	7.68	2000
2001	288,220	7.88	22,712	0	3.00	0	22,712	7,993	14,719	6,860	15,680	0	196,000	0	7.5%	22,712	7.88	2001
2002	290,043	8.08	23,435	0	3.00	0	23,435	8,312	15,123	6,860	15,680	0	196,000	0	7.7%	23,435	8.08	2002
2003	291,926	8.28	24,171	0	3.00	0	24,171	8,645	15,527	6,860	15,680	0	196,000	0	7.9%	24,171	8.28	2003
2004	292,889	8.58	25,216	0	3.00	0	25,216	8,991	16,225	6,860	15,680	545	196,000	0	8.0%	25,216	8.58	2004
2005	295,935	8.88	26,279	0	3.00	0	26,279	9,350	16,929	6,860	15,680	1,249	195,455	0	8.0%	26,279	8.88	2005
2006	296,067	9.18	27,363	0	3.00	0	27,363	9,724	17,638	6,841	15,636	2,002	194,206	0	8.0%	27,363	9.18	2006
2007	300,290	9.48	28,467	0	3.00	0	28,467	10,113	18,354	6,797	15,536	2,818	192,204	0	8.0%	28,467	9.48	2007
2008	302,608	9.88	29,898	0	3.00	0	29,898	10,518	19,380	6,727	15,376	4,004	189,384	0	8.0%	29,898	9.88	2008
2009	305,023	10.18	31,051	0	3.00	0	31,051	10,938	20,113	6,629	15,151	4,942	185,383	0	8.0%	31,051	10.18	2009
2010	307,541	10.58	32,538	0	3.00	0	32,538	11,376	21,162	6,488	14,831	6,331	180,421	0	8.0%	32,538	10.58	2010
2011	310,165	10.98	34,056	0	3.00	0	34,056	11,831	22,225	6,315	14,434	7,791	174,089	0	8.0%	34,056	10.98	2011
2012	312,901	11.38	35,608	0	3.00	0	35,608	12,304	23,304	6,092	13,927	9,377	166,298	0	8.0%	35,608	11.38	2012
2013	315,753	11.88	37,511	0	3.00	0	37,511	12,796	24,715	5,820	13,304	11,411	155,921	0	8.0%	37,511	11.88	2013
2014	318,725	12.28	39,139	0	3.00	0	39,139	13,308	25,831	5,492	12,554	13,277	145,510	0	8.0%	39,139	12.28	2014
2015	321,824	12.78	41,129	0	3.00	0	41,129	13,841	27,289	5,093	11,641	15,648	132,232	0	8.0%	41,129	12.78	2015
2016	325,053	13.28	43,167	0	3.00	0	43,167	14,394	28,773	4,628	10,579	18,194	116,585	0	8.0%	43,167	13.28	2016
2017	328,420	13.67	44,888	0	3.00	0	44,888	14,970	29,918	4,080	9,327	20,592	96,390	0	8.0%	44,888	13.67	2017
2018	331,929	14.07	46,707	0	3.00	0	46,707	15,569	31,139	3,444	7,871	23,287	77,799	0	8.0%	46,707	14.07	2018
2019	335,587	14.49	48,631	0	3.00	0	48,631	16,192	32,439	2,723	6,224	26,215	54,571	0	8.0%	48,631	14.49	2019
2020	339,400	14.93	50,664	0	3.00	0	50,664	16,839	33,825	1,909	4,362	28,316	28,316	0	8.0%	50,664	14.93	2020
2021	343,375	15.38	52,816	0	3.00	0	52,816	17,513	35,304	991	0	0	0	0	0.0%	17,513	5.10	2021
2022	347,518	15.85	55,094	0	3.00	0	55,094	18,213	36,881	0	0	0	0	0	NA	18,213	5.24	2022
2023	351,836	16.34	57,506	0	3.00	0	57,506	18,942	38,564	0	0	0	0	0	NA	18,942	5.38	2023
2024	356,338	16.86	60,061	0	3.00	0	60,061	19,699	40,362	0	0	0	0	0	NA	19,699	5.52	2024
2025	361,030	17.39	62,769	0	3.00	0	62,769	20,487	42,282	0	0	0	0	0	NA	20,487	5.67	2025
2026	365,921	17.94	65,640	0	3.00	0	65,640	21,307	44,333	0	0	0	0	0	NA	21,307	5.82	2026
2027	371,019	18.51	68,686	0	3.00	0	68,686	22,159	46,526	0	0	0	0	0	NA	22,159	5.97	2027
2028	376,334	19.11	71,917	0	3.00	0	71,917	23,046	48,872	0	0	0	0	0	NA	23,046	6.12	2028
2029	78,607	19.73	74,704	0	3.00	0	74,704	23,967	50,736	0	0	0	0	0	NA	23,967	6.23	2029
2030	378,607	20.38	77,150	0	3.00	0	77,150	24,926	52,224	0	0	0	0	0	NA	24,926	6.58	2030
2031	378,607	21.05	79,694	0	3.00	0	79,694	25,923	53,770	0	0	0	0	0	NA	25,923	6.85	2031
2032	378,607	21.75	82,339	0	3.00	0	82,339	26,960	55,379	0	0	0	0	0	NA	26,960	7.12	2032
2033	378,607	22.47	85,091	0	3.00	0	85,091	28,038	57,052	0	0	0	0	0	NA	28,038	7.41	2033
2034	378,607	23.23	87,952	0	3.00	0	87,952	29,160	58,792	0	0	0	0	0	NA	29,160	7.70	2034
2035	378,607	24.02	90,928	0	3.00	0	90,928	30,326	60,602	0	0	0	0	0	NA	30,326	8.01	2035
2036	378,607	24.83	94,023	0	3.00	0	94,023	31,539	62,483	0	0	0	0	0	NA	31,539	8.33	2036
2037	378,607	25.68	97,242	0	3.00	0	97,242	32,801	64,441	0	0	0	0	0	NA	32,801	8.66	2037
	16,027,515			0		0	2,193,629	741,877	1,451,752	217,270	494,353	196,000	6,011,726	3,820		1,348,846		

Loan Principal ($=000's) $196,000 — Case Number HI-2 — 30-Apr-85

O & M Inflation Rate 4.00%

Internal Rate of Return (IOR) 6.0%

Rate of Return Floor 3.50%

Rate of Return Ceiling 8.00%

Change in Base Load Forecast 0.00%

YEAR	BASELOAD SALES (MWH)	BASELOAD RATE (CENTS/KWH)	BASELOAD REVENUE ($=000's)	LARGE LOAD SALES (MWH)	LARGE LOAD RATE (CENTS/KWH)	LARGE LOAD REVENUE ($=000's)	TOTAL REVENUE (COL. D+G) ($=000's)	ACTUAL O&M EXPENSE ($=000's)	BALANCE REMAINING FOR DEBT SV ($=000's)	MINIMUM RETURN (FLOOR) ($=000's)	MAXIMUM RETURN (CEILING) ($=000's)	ACTUAL PRINCIPAL RETIREMENT ($=000's)	NEW PRINCIPAL BALANCE ($=000's)	ADDITIONAL CAPITAL REQUIRED ($=000's)	ACTUAL RATE OF RETURN (%)	TOTAL REVENUE REQUIREMENT ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
1985	181,496	4.94	8,966	10,828	1.60	173	9,139	4,438	4,874	6,860	15,680	0	196,000	1,986	3.5%	11,125	5.78	1986
1987	191,457	5.44	10,414	21,656	1.80	390	10,804	4,616	6,578	6,860	15,680	0	196,000	282	3.5%	11,086	5.20	1987
1988	199,181	5.64	11,234	32,484	2.20	715	11,948	4,800	7,863	6,860	15,680	0	196,000	0	4.0%	11,948	5.16	1988
1989	206,842	6.09	12,548	42,312	2.50	1,058	13,606	4,992	9,671	6,860	15,680	0	196,000	0	4.9%	13,606	5.48	1989
1990	212,694	6.49	13,802	54,140	3.00	1,624	15,426	5,192	11,859	6,860	15,680	0	196,000	0	6.1%	15,426	5.77	1990
1991	219,067	6.53	14,415	54,140	3.00	1,624	16,039	5,400	12,264	6,860	15,680	0	196,000	0	6.3%	16,039	5.87	1991
1992	226,907	6.66	15,157	54,140	3.00	1,624	16,782	5,616	12,790	6,860	15,680	0	196,000	0	6.5%	16,782	5.97	1992
1993	236,185	6.78	16,013	54,140	3.00	1,624	17,637	5,840	13,422	6,860	15,680	0	196,000	0	6.8%	17,637	6.08	1993
1994	245,893	6.88	16,917	54,140	3.00	1,624	18,542	6,074	14,092	6,860	15,680	0	196,000	0	7.2%	18,542	6.18	1994
1995	255,439	6.93	17,830	54,140	3.00	1,624	19,454	6,317	14,761	6,860	15,680	0	196,000	0	7.5%	19,454	6.28	1995
1996	260,533	7.08	18,446	54,140	3.00	1,624	20,070	6,569	15,125	6,860	15,680	0	196,000	0	7.7%	20,070	6.38	1996
1997	265,897	7.18	19,091	54,140	3.00	1,624	20,716	6,832	15,508	6,860	15,680	0	196,000	0	7.9%	20,716	6.47	1997
1998	271,482	7.38	20,035	54,140	3.00	1,624	21,660	7,105	16,178	6,860	15,680	498	196,000	0	8.0%	21,660	6.65	1998
1999	277,243	7.49	20,745	54,140	3.00	1,624	22,369	7,390	16,604	6,860	15,680	924	195,502	0	8.0%	22,369	6.75	1999
2000	282,488	7.68	21,772	54,140	3.00	1,624	23,396	7,685	17,335	6,843	15,640	1,695	194,578	0	8.0%	23,396	6.91	2000
2001	288,220	7.88	22,712	54,140	3.00	1,624	24,336	7,993	17,968	6,810	15,566	2,401	192,883	0	8.0%	24,336	7.11	2001
2002	290,843	8.08	23,435	54,140	3.00	1,624	25,060	8,312	18,372	6,751	15,431	2,941	190,481	0	8.0%	25,060	7.28	2002
2003	291,926	8.28	24,171	54,140	3.00	1,624	25,796	8,645	18,775	6,667	15,238	3,537	187,540	0	8.0%	25,796	7.45	2003
2004	293,889	8.58	25,216	54,140	3.00	1,624	26,840	8,991	19,474	6,564	15,003	4,470	184,064	0	8.0%	26,840	7.71	2004
2005	295,935	8.89	26,279	54,140	3.00	1,624	27,903	9,350	20,177	6,440	14,720	5,457	179,511	0	8.0%	27,903	7.97	2005
2006	298,067	9.18	27,363	54,140	3.00	1,624	28,987	9,724	20,887	6,284	14,363	6,524	174,076	0	8.0%	28,987	8.23	2006
2007	300,290	9.48	28,467	54,140	3.00	1,624	30,092	10,113	21,603	6,093	13,926	7,677	167,552	0	8.0%	30,092	8.49	2007
2008	302,608	9.88	29,898	54,140	3.00	1,624	31,522	10,518	22,628	5,864	13,404	9,324	159,876	0	8.0%	31,522	8.84	2008
2009	305,023	10.18	31,051	54,140	3.00	1,624	32,676	10,938	23,361	5,596	12,790	10,571	150,652	0	8.0%	32,676	9.10	2009
2010	307,541	10.58	32,538	54,140	3.00	1,624	34,162	11,376	24,410	5,273	12,052	12,358	140,080	0	8.0%	34,162	9.45	2010
2011	310,165	10.98	34,056	54,140	3.00	1,624	35,680	11,831	25,474	4,903	11,206	14,267	127,722	0	8.0%	35,680	9.79	2011
2012	312,901	11.38	35,608	54,140	3.00	1,624	37,232	12,304	26,552	4,470	10,218	16,335	113,455	0	8.0%	37,232	10.14	2012
2013	315,753	11.88	37,511	54,140	3.00	1,624	39,136	12,796	27,963	3,971	9,076	18,887	97,120	0	8.0%	39,136	10.58	2013
2014	318,725	12.28	39,129	54,140	3.00	1,624	40,764	13,308	29,080	3,399	7,770	21,310	78,033	0	8.0%	40,764	10.97	2014
2015	321,824	12.78	41,129	54,140	3.00	1,624	42,753	13,841	30,537	2,738	6,259	24,278	54,920	0	8.0%	42,753	11.37	2015
2016	325,053	13.28	43,167	53,554	3.00	1,607	44,774	14,394	31,986	1,992	4,554	27,432	32,645	0	8.0%	44,774	11.82	2016
2017	328,420	13.67	44,888	50,187	3.00	1,506	46,394	14,970	32,930	1,143	2,612	5,213	5,213	0	8.0%	46,394	12.25	2017
2018	331,929	14.07	46,707	46,678	3.00	1,400	48,108	15,569	33,939	192	0	0	0	0	0.0%	15,569	4.11	2018
2019	335,587	14.49	48,631	43,020	3.00	1,291	49,921	16,192	35,020	0	0	0	0	0	NA	16,192	4.23	2019
2020	339,400	14.93	50,664	39,207	3.00	1,176	51,841	16,839	36,179	0	0	0	0	0	NA	16,839	4.45	2020
2021	343,375	15.38	52,816	35,232	3.00	1,057	53,873	17,513	37,418	0	0	0	0	0	NA	17,513	4.63	2021
2022	347,518	15.85	55,094	31,089	3.00	933	56,027	18,213	38,746	0	0	0	0	0	NA	18,213	4.81	2022
2023	351,836	16.34	57,506	26,771	3.00	803	58,309	18,942	40,170	0	0	0	0	0	NA	18,942	5.00	2023
2024	356,338	16.86	60,061	22,269	3.00	668	60,729	19,699	41,698	0	0	0	0	0	NA	19,699	5.20	2024
2025	361,030	17.39	62,769	17,577	3.00	527	63,296	20,487	43,336	0	0	0	0	0	NA	20,487	5.41	2025
2026	365,921	17.94	65,640	12,686	3.00	381	66,021	21,307	45,094	0	0	0	0	0	NA	21,307	5.63	2026
2027	371,019	18.51	68,686	7,588	3.00	228	68,913	22,159	46,982	0	0	0	0	0	NA	22,159	5.85	2027
2028	376,334	19.11	71,917	2,273	3.00	68	71,986	23,046	48,008	0	0	0	0	0	NA	23,046	6.09	2028
2029	78,607	19.73	74,704	0	3.00	0	74,704	23,967	50,736	0	0	0	0	0	NA	23,967	6.33	2029
2030	378,607	20.38	77,150	0	3.00	0	77,150	24,926	52,224	0	0	0	0	0	NA	24,926	6.58	2030
2031	378,607	21.05	79,694	0	3.00	0	79,694	25,923	53,770	0	0	0	0	0	NA	25,923	6.85	2031
2032	378,607	21.75	82,339	0	3.00	0	82,339	26,960	55,379	0	0	0	0	0	NA	26,960	7.12	2032
2033	378,607	22.47	85,091	0	3.00	0	85,091	28,038	57,052	0	0	0	0	0	NA	28,038	7.41	2033
2034	378,607	23.23	87,952	0	3.00	0	87,952	29,160	58,792	0	0	0	0	0	NA	29,160	7.70	2034
2035	378,607	24.02	90,928	0	3.00	0	90,928	30,326	60,602	0	0	0	0	0	NA	30,326	8.01	2035
2036	378,607	24.83	94,023	0	3.00	0	94,023	31,539	62,483	0	0	0	0	0	NA	31,539	8.33	2036
2037	378,607	25.68	97,242	0	3.00	0	97,242	32,801	64,441	0	0	0	0	0	NA	32,801	8.66	2037
	16,027,515			1,903,051		56,209	2,249,838	741,877	1,564,170	188,022	429,749	196,000	5,176,070	2,267		1,297,568		

Loan Principal ($-000's) $196,000
Inflation Rate 4.00%
Internal Rate of Return (ROR) 5.47%
Case Number H2-1

20-Apr-85

YEAR	BASELOAD SALES (MWH)	BASELOAD RATE (CENTS/KWH)	BASELOAD REVENUE ($-000's)	ADDITIONAL SALES (MWH)	ADDITIONAL RATE (CENTS/KWH)	ADDITIONAL REVENUE ($-000's)	TOTAL DEBT SVC ($-000's)	OPERATIONS & MAINTENANCE ADMIN ($-000's)	O&M ON-SITE ($-000's)	O&M R & R ($-000's)	O&M TOTAL ($-000's)	O&M RATE (CENTS/KWH)	TOTAL COST ($-000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
1986	181,496	2.6	4,719	0	1.6	0	4,719	663	3,576	500	4,939	2.7	9,658	5.3	1986
1987	191,437	2.8	5,360	0	1.8	0	5,360	898	3,719	500	5,117	2.7	10,477	5.5	1987
1988	199,181	3.2	6,374	0	2.2	0	6,374	933	3,868	500	5,301	2.7	11,675	5.9	1988
1989	206,042	3.5	7,211	0	2.5	0	7,211	971	4,023	500	5,493	2.7	12,705	6.2	1989
1990	212,994	4.0	8,520	0	3.0	0	8,520	1,010	4,183	500	5,693	2.7	14,213	6.7	1990
1991	219,067	4.0	8,763	0	3.0	0	8,763	1,050	4,351	500	5,901	2.7	14,663	6.7	1991
1992	226,907	4.0	9,076	0	3.0	0	9,076	1,092	4,525	500	6,117	2.7	15,193	6.7	1992
1993	236,182	4.0	9,447	0	3.0	0	9,447	1,136	4,706	500	6,341	2.7	15,789	6.7	1993
1994	245,893	4.0	9,836	0	3.0	0	9,836	1,181	4,894	500	6,575	2.7	16,411	6.7	1994
1995	255,439	4.0	10,218	0	3.0	0	10,218	1,228	5,090	500	6,818	2.7	17,036	6.7	1995
1996	260,573	4.0	10,421	0	3.0	0	10,421	1,277	5,293	500	7,071	2.7	17,492	6.7	1996
1997	265,897	4.0	10,636	0	3.0	0	10,636	1,329	5,505	500	7,334	2.8	17,970	6.8	1997
1998	271,482	4.0	10,859	0	3.0	0	10,859	1,382	5,725	500	7,607	2.8	18,466	6.8	1998
1999	277,241	4.0	11,094	0	3.0	0	11,094	1,437	5,954	500	7,891	2.8	18,985	6.8	1999
2000	283,488	4.0	11,340	0	3.0	0	11,340	1,494	6,192	500	8,187	2.9	19,526	6.9	2000
2001	288,220	4.0	11,529	0	3.0	0	11,529	1,554	6,440	500	8,494	2.9	20,023	6.9	2001
2002	290,042	-	11,602	0	3.0	0	11,602	1,616	6,698	500	8,814	3.0	20,416	7.0	2002
2003	291,926	4.0	11,677	0	3.0	0	11,677	1,681	6,966	500	9,147	3.1	20,824	7.1	2003
2004	293,889	4.0	11,756	0	3.0	0	11,756	1,748	7,244	500	9,493	3.2	21,248	7.2	2004
2005	295,935	4.0	11,837	0	3.0	0	11,837	1,818	7,534	500	9,852	3.3	21,690	7.3	2005
2006	298,067	4.0	11,923	0	3.0	0	11,923	1,891	7,835	500	10,226	3.4	22,149	7.4	2006
2007	300,290	4.0	12,012	0	3.0	0	12,012	1,967	8,149	500	10,615	3.5	22,627	7.5	2007
2008	302,608	4.0	12,104	0	3.0	0	12,104	2,045	8,475	500	11,020	3.6	23,124	7.6	2008
2009	305,023	4.0	12,201	0	3.0	0	12,201	2,127	8,814	500	11,441	3.8	23,642	7.8	2009
2010	307,541	4.0	12,302	0	3.0	0	12,302	2,212	9,166	500	11,879	3.9	24,180	7.9	2010
2011	310,165	4.0	12,407	0	3.0	0	12,407	2,301	9,533	500	12,334	4.0	24,740	8.0	2011
2012	312,901	4.0	12,516	0	3.0	0	12,516	2,393	9,914	500	12,807	4.1	25,323	8.1	2012
2013	315,753	4.0	12,630	0	3.0	0	12,630	2,488	10,311	500	13,299	4.2	25,929	8.2	2013
2014	318,725	4.0	12,749	0	3.0	0	12,749	2,588	10,723	500	13,811	4.3	26,560	8.3	2014
2015	321,824	4.0	12,873	0	3.0	0	12,873	2,691	11,152	500	14,344	4.5	27,217	8.5	2015
2016	325,053	4.0	13,002	0	3.0	0	13,002	2,799	11,598	500	14,897	4.6	27,900	8.6	2016
2017	328,420	4.0	13,137	0	3.0	0	13,137	2,911	12,062	500	15,473	4.7	28,610	8.7	2017
2018	331,929	4.0	13,277	0	3.0	0	13,277	3,027	12,545	500	16,072	4.8	29,349	8.8	2018
2019	335,587	4.0	13,423	0	3.0	0	13,423	3,149	13,047	500	16,695	5.0	30,119	9.0	2019
2020	339,400	4.0	13,576	0	3.0	0	13,576	3,274	13,568	500	17,343	5.1	30,919	9.1	2020
2021	343,375	4.0	13,735	0	3.0	0	13,735	3,405	14,111	500	18,017	5.2	31,752	9.2	2021
2022	347,518	4.0	13,901	0	3.0	0	13,901	3,542	14,676	500	18,717	5.4	32,618	9.4	2022
2023	351,836	4.0	14,073	0	3.0	0	14,073	3,683	15,263	500	19,446	5.5	33,519	9.5	2023
2024	356,338	4.0	14,254	0	3.0	0	14,254	3,831	15,873	500	20,204	5.7	34,457	9.7	2024
2025	361,030	4.0	14,441	0	3.0	0	14,441	3,984	16,508	500	20,992	5.8	35,433	9.9	2025
2026	365,921	4.0	14,637	0	3.0	0	14,637	4,143	17,168	500	21,812	6.0	36,449	10.0	2026
2027	371,019	4.0	14,841	0	3.0	0	14,841	4,309	17,855	500	22,664	6.1	37,505	10.1	2027
2028	376,334	4.0	15,053	0	3.0	0	15,053	4,481	18,569	500	23,551	6.3	38,604	10.3	2028
2029	378,607	4.0	15,144	0	3.0	0	15,144	4,661	19,312	500	24,473	6.5	39,617	10.5	2029
2030	378,607	4.0	15,144	0	3.0	0	15,144	4,847	20,085	500	25,432	6.7	40,576	10.7	2030
2031	378,607	4.0	15,144	0	3.0	0	15,144	5,041	20,888	500	26,429	7.0	41,573	11.0	2031
2032	378,607	4.0	15,144	0	3.0	0	15,144	5,243	21,724	500	27,466	7.3	42,610	11.3	2032
2033	378,607	4.0	15,144	0	3.0	0	15,144	5,452	22,593	500	28,545	7.5	43,689	11.5	2033
2034	378,607	4.0	15,144	0	3.0	0	15,144	5,670	23,496	500	29,667	7.8	44,811	11.8	2034
2035	378,607	4.0	15,144	0	3.0	0	15,144	5,897	24,436	500	30,833	8.1	45,978	12.1	2035
2036	378,607	4.0	15,144	0	3.0	0	15,144	6,133	25,413	500	32,047	8.5	47,191	12.5	2036
2037	378,607	4.0	15,144	0	3.0	0	15,144	6,378	26,430	500	33,308	8.8	48,453	12.8	2037
	16,027,515			0			633,639	144,263	597,781	26,000	768,044		1,401,683		

Loan Principal ($=000's) $196,000
Inflation Rate 4.00%
Internal Rate of Return (ROR) 6.10%
Case Number H2-2

30-Apr-85

YEAR	BASELOAD SALES (MWH)	BASELOAD RATE (CENTS/KWH)	BASELOAD REVENUE ($=000's)	ADDITIONAL SALES (MWH)	ADDITIONAL RATE (CENTS/KWH)	ADDITIONAL REVENUE ($=000's)	TOTAL DEBT SVC ($=000's)	OPERATIONS & MAINTENANCE ADMIN ($=000's)	OPERATIONS & MAINTENANCE ON-SITE ($=000's)	OPERATIONS & MAINTENANCE R & R ($=000's)	OPERATIONS & MAINTENANCE TOTAL ($=000's)	OPERATIONS & MAINTENANCE RATE (CENTS/KWH)	TOTAL COST ($=000's)	ACTUAL RATE REQUIRED (CENTS/KWH)	YEAR
A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
1986	181,496	2.6	4,719	10,828	1.6	173	4,892	863	3,576	500	4,939	2.6	9,831	5.1	1986
1987	191,437	2.8	5,360	21,656	1.8	390	5,750	898	3,719	500	5,117	2.4	10,867	5.1	1987
1988	199,181	3.2	6,374	32,484	2.2	715	7,089	933	3,868	500	5,301	2.3	12,390	5.3	1988
1989	206,042	3.5	7,211	42,312	2.5	1,058	8,269	971	4,023	500	5,493	2.2	13,762	5.5	1989
1990	212,994	4.0	8,520	54,140	3.0	1,624	10,144	1,010	4,183	500	5,693	2.1	15,837	5.9	1990
1991	219,067	4.0	8,763	54,140	3.0	1,624	10,387	1,050	4,351	500	5,901	2.2	16,288	6.0	1991
1992	226,907	4.0	9,076	54,140	3.0	1,624	10,700	1,092	4,525	500	6,117	2.2	16,817	6.0	1992
1993	236,183	4.0	9,447	54,140	3.0	1,624	11,072	1,136	4,706	500	6,341	2.2	17,413	6.0	1993
1994	245,893	4.0	9,836	54,140	3.0	1,624	11,460	1,181	4,894	500	6,575	2.2	18,035	6.0	1994
1995	255,439	4.0	10,218	54,140	3.0	1,624	11,842	1,228	5,090	500	6,818	2.2	18,660	6.0	1995
1996	260,533	4.0	10,421	54,140	3.0	1,624	12,046	1,277	5,293	500	7,071	2.2	19,116	6.1	1996
1997	265,897	4.0	10,636	54,140	3.0	1,624	12,260	1,329	5,505	500	7,334	2.3	19,594	6.1	1997
1998	271,482	4.0	10,859	54,140	3.0	1,624	12,483	1,382	5,725	500	7,607	2.3	20,090	6.2	1998
1999	277,243	4.0	11,094	54,140	3.0	1,624	12,718	1,437	5,954	500	7,891	2.4	20,609	6.2	1999
2000	283,468	4.0	11,340	54,140	3.0	1,624	12,964	1,494	6,192	500	8,187	2.4	21,151	6.3	2000
2001	288,220	4.0	11,529	54,140	3.0	1,624	13,153	1,554	6,440	500	8,494	2.5	21,647	6.3	2001
2002	290,043	4.0	11,602	54,140	3.0	1,624	13,226	1,616	6,698	500	8,814	2.6	22,040	6.4	2002
2003	291,926	4.0	11,677	54,140	3.0	1,624	13,301	1,681	6,966	500	9,147	2.6	22,448	6.5	2003
2004	293,889	4.0	11,756	54,140	3.0	1,624	13,380	1,748	7,244	500	9,493	2.7	22,872	6.6	2004
2005	295,935	4.0	11,837	54,140	3.0	1,624	13,462	1,818	7,534	500	9,852	2.8	23,314	6.7	2005
2006	298,067	4.0	11,923	54,140	3.0	1,624	13,547	1,891	7,835	500	10,226	2.9	23,773	6.7	2006
2007	300,290	4.0	12,012	54,140	3.0	1,624	13,636	1,967	8,149	500	10,615	3.0	24,251	6.8	2007
2008	302,608	4.0	12,104	54,140	3.0	1,624	13,729	2,045	8,475	500	11,020	3.1	24,749	6.9	2008
2009	305,023	4.0	12,201	54,140	3.0	1,624	13,825	2,127	8,814	500	11,441	3.2	25,266	7.0	2009
2010	307,541	4.0	12,302	54,140	3.0	1,624	13,926	2,212	9,166	500	11,879	3.3	25,804	7.1	2010
2011	310,165	4.0	12,407	54,140	3.0	1,624	14,031	2,301	9,533	500	12,334	3.4	26,364	7.2	2011
2012	312,901	4.0	12,516	54,140	3.0	1,624	14,140	2,393	9,914	500	12,807	3.5	26,947	7.3	2012
2013	315,753	4.0	12,630	54,140	3.0	1,624	14,254	2,488	10,311	500	13,299	3.6	27,554	7.4	2013
2014	318,725	4.0	12,749	54,140	3.0	1,624	14,373	2,588	10,723	500	13,811	3.7	28,184	7.6	2014
2015	321,824	4.0	12,873	54,140	3.0	1,624	14,497	2,691	11,152	500	14,344	3.8	28,841	7.7	2015
2016	325,053	4.0	13,002	53,554	3.0	1,607	14,609	2,759	11,598	500	14,897	3.9	29,506	7.8	2016
2017	328,420	4.0	13,137	50,187	3.0	1,506	14,642	2,911	12,062	500	15,473	4.1	30,116	8.0	2017
2018	331,929	4.0	13,277	46,678	3.0	1,400	14,678	3,027	12,545	500	16,072	4.2	30,750	8.1	2018
2019	335,587	4.0	13,423	43,020	3.0	1,291	14,714	3,149	13,047	500	16,695	4.4	31,409	8.3	2019
2020	339,400	4.0	13,576	39,207	3.0	1,176	14,752	3,274	13,568	500	17,343	4.6	32,095	8.5	2020
2021	343,375	4.0	13,735	35,232	3.0	1,057	14,792	3,405	14,111	500	18,017	4.8	32,809	8.7	2021
2022	347,518	4.0	13,901	31,089	3.0	933	14,833	3,542	14,676	500	18,717	4.9	33,551	8.9	2022
2023	351,836	4.0	14,073	26,771	3.0	803	14,877	3,683	15,263	500	19,446	5.1	34,323	9.1	2023
2024	356,338	4.0	14,254	22,269	3.0	668	14,922	3,831	15,873	500	20,204	5.3	35,125	9.3	2024
2025	361,030	4.0	14,441	17,577	3.0	527	14,969	3,984	16,508	500	20,992	5.5	35,961	9.5	2025
2026	365,921	4.0	14,637	12,686	3.0	381	15,017	4,143	17,168	500	21,812	5.8	36,829	9.7	2026
2027	371,019	4.0	14,841	7,588	3.0	228	15,068	4,309	17,855	500	22,664	6.0	37,732	10.0	2027
2028	376,334	4.0	15,053	2,273	3.0	68	15,122	4,481	18,569	500	23,551	6.2	38,672	10.2	2028
2029	378,607	4.0	15,144	0	3.0	0	15,144	4,661	19,312	500	24,473	6.5	39,617	10.5	2029
2030	378,607	4.0	15,144	0	3.0	0	15,144	4,847	20,085	500	25,432	6.7	40,576	10.7	2030
2031	378,607	4.0	15,144	0	3.0	0	15,144	5,041	20,888	500	26,429	7.0	41,573	11.0	2031
2032	378,607	4.0	15,144	0	3.0	0	15,144	5,243	21,724	500	27,466	7.3	42,610	11.3	2032
2033	378,607	4.0	15,144	0	3.0	0	15,144	5,452	22,593	500	28,545	7.5	43,689	11.5	2033
2034	378,607	4.0	15,144	0	3.0	0	15,144	5,670	23,496	500	29,667	7.8	44,811	11.8	2034
2035	378,607	4.0	15,144	0	3.0	0	15,144	5,897	24,436	500	30,833	8.1	45,978	12.1	2035
2036	378,607	4.0	15,144	0	3.0	0	15,144	6,133	25,413	500	32,047	8.5	47,191	12.5	2036
2037	378,607	4.0	15,144	0	3.0	0	15,144	6,378	26,430	500	33,308	8.8	48,453	12.8	2037
	16,027,515			1,903,051			689,847	144,263	597,781	26,000	768,044		1,457,892		

CITY OF WRANGELL, ALASKA

April 8, 1985

AGENDA
4-9-85
City Mgr Report

TO: WRANGELL CITY COUNCIL

FROM: JOYCE RASLER, CITY MANAGER

RE: 1985-86 BUDGET

I have prepared the Light Fund tentative budget for the 1985-86 fiscal year for continued Tyee purchases. I have also computed the generation with the diesel alternative based on the declining cost of diesel. We assume we will continue to purchase from Tyee under the same terms as the current agreement, however, even assuming we cannot reach an agreement and we generate our power by diesel, a rate reduction to the consumers is possible. Because of the fall in diesel costs and for the reasons set forth below, I recommend a ten percent (10%) rate reduction in the electrical rates effective with the July, 1985 billing.

The last rate increase was in December, 1979. Our rates were based on an average diesel cost of ninety five cents ($0.95) per gallon. The rates were also set sufficient to pay back to the General Fund all monies loaned through the years. The loan from General Fund has been reduced annually as shown in the following schedule:

Due to General Fund June 30,	1978	$540,970
	1979	689,561
	1980	602,340
	1981	285,294
	1982	108,203
	1983	160,939
	1984	-0-

In five years with our existing rates, we retired $689,561 to the General Fund. Our rates, with the contributions from the Federal Revenue Sharing have also been sufficient to rebuild most of our distribution system, with $138,000 budgeted in 1986 to complete the construction.

As stated, this proposed rate reduction <u>is not</u> a result of the Tyee rate we are now under, <u>it is</u> a result of the declining diesel costs. We would not have to increase rates if we return to diesel operation through a failure to reach an agreement with APA beyond June 30, 1985.

fv

Draft: April 23, 1985

SHORTCOMINGS OF PRICING APA POWER AS A PERCENTAGE OF AVOIDED COST

A. Problems for the purchasing utility (in the Alaskan context)*/

1. Loss of potential loads: Some or all potential large new loads that could increase project utilization will be lost, because such loads demand a higher degree of certainty over longer periods. Many such loads will either be met with private generation or cogeneration (e.g., Wrangell Forest Products) or will be lost entirely (e.g., Phillips). In the cogeneration case, the utility may be required by law to purchase excess cogenerated power from the private party, thus reducing the utility's own purchases from the APA project. In the case of loads lost because the economic activity is relocated (e.g., to the Lower 48), the community loses not only employment and taxes, but also the "induced" loads, i.e., increases in other community loads resulting from the economic activity represented by the primary load.

2. Ratemaking and billing problems: The utility must make its retail rates prospectively, yet its power costs will become known only retrospectively. Matching costs to rates during each rate period (and keeping rates fairly predictable for consumers), always a chore, becomes significantly more difficult.

3. Added administrative costs: A fairly sophisticated formula is needed to calculate true avoided cost, and the values for each variable in the formula must be recalculated at frequent (e.g., monthly) intervals. This would create some administrative burden even if (a) diesel were the only alternative, and (b) disputes with APA over the proper value for each variable never arose. (It is also difficult to continue getting realistic quotes for a large volume of diesel once the utility begins buying reduced volumes.) In practice, the difficulties are even greater because (a) the formula must accommodate other alternatives (e.g., cogeneration) as such alternatives become available, and (b) disputes with the APA over the value of individual variables are likely.

---

*/ Such pricing works well in power "pools" in which a sophisticated computer controls the generators of many producers on an instantaneous central-dispatch basis. The computer is programed to minimize total generation costs at all times, based on each generator's fuel cost, efficiency, and maximum/minimum operating guides. Cost savings made possible by using Utility A's generator rather than Utility B's to serve a portion of Utility B's load are "split" (usually on a 50/50 basis) through use of a share-the-savings rate the computer charges to Utility B and credits to Utility A. The actual rate for each transaction, and each utility's costs and savings for any given period, are known at once, facilitating utility ratemaking and billing. Nothing similar exists in Alaska, nor could it exist in the Four Dam Pool context where (a) the communities are not electrically interconnected, and (b) APA power is intended to displace thermal generation completely for most days of the year.

4. Regulatory costs: For the cooperatives (Kodiak and Copper Valley), whose retail rates are regulated by the Alaska PUC, rate filings and rate cases will become more frequent, more complex, and more costly. If the past is a guide, the APUC may also require the co-ops to raise/lower retail rates to "track" the fluctuating wholesale cost of power to the co-op, thus producing fluctuating retail rates.

5. Planning problems: The search for alternative sources of power supply with more predictable long-term costs would be intensified and simultaneously complicated. Presumably the planning process would be biased (rationally) toward predictability, even if the price of predictability were that somewhat higher retail rates might result from the more predictable alternatives.

6. Uncertain impact on utility financing: It is not clear that a utility would be able to finance additions to its distribution system and/or its generating plant as easily or inexpensively as would otherwise be the case, since the utility's revenue stream and its ability to maintain required coverage ratios and reserves would be somewhat unpredictable.

B. Problems for the State of Alaska as the seller of power

1. Reduced revenue: Compared with long-term contracts under the terms of HB 219 pricing method, power sold on a percentage-of-avoided-cost basis is likely to produce less total revenue for the State, even if one assumes that loads are equal in both cases. But loads will actually be less (see ¶ A.1. above). The loss of potential large new loads that would have produced more revenue for the State would make the comparative revenue disadvantage to the State worse.

2. Increased revenue risk: This would take two forms. First, the State would take the entire risk of further downward movement in the price of diesel and the cost of alternative resources, whereas under HB 219 the communities would bear that risk entirely. Second, because the utilities would be free, over time, to switch wholly or partially to other sources of supply, and because the utilities would have an incentive to investigate and pursue such other sources, the State would face some risk of losing even the existing loads of the utilities, as well as utility load growth.

3. Risk of negative rate of return (failure to cover current costs): This simply indicates the extreme to which the State's additional risk could take it. Under HB 219, the State is assured that (a) O&M costs will be completely paid by the utilities, and (b) some positive return, in addition to return of the principal, will be earned on the State's loan. If wholesale rates are tied to actual avoided costs of the utilities, however, a sufficiently great drop in actual avoided costs would result in the APA failing to cover even its O&M costs. In less extreme cases, APA might cover its O&M costs but fail to earn sufficient revenue to repay the principal and/or interest on the loan.

4. Added administrative costs: Administering such a pricing system would be just as complex and labor-intensive for the APA as it would be for the utilities.

4/22/85

MEMORANDUM

TO: Sen. Arliss Sturgulewski, Chair,
Senate Resources Committee

FROM: Rep. John Sund

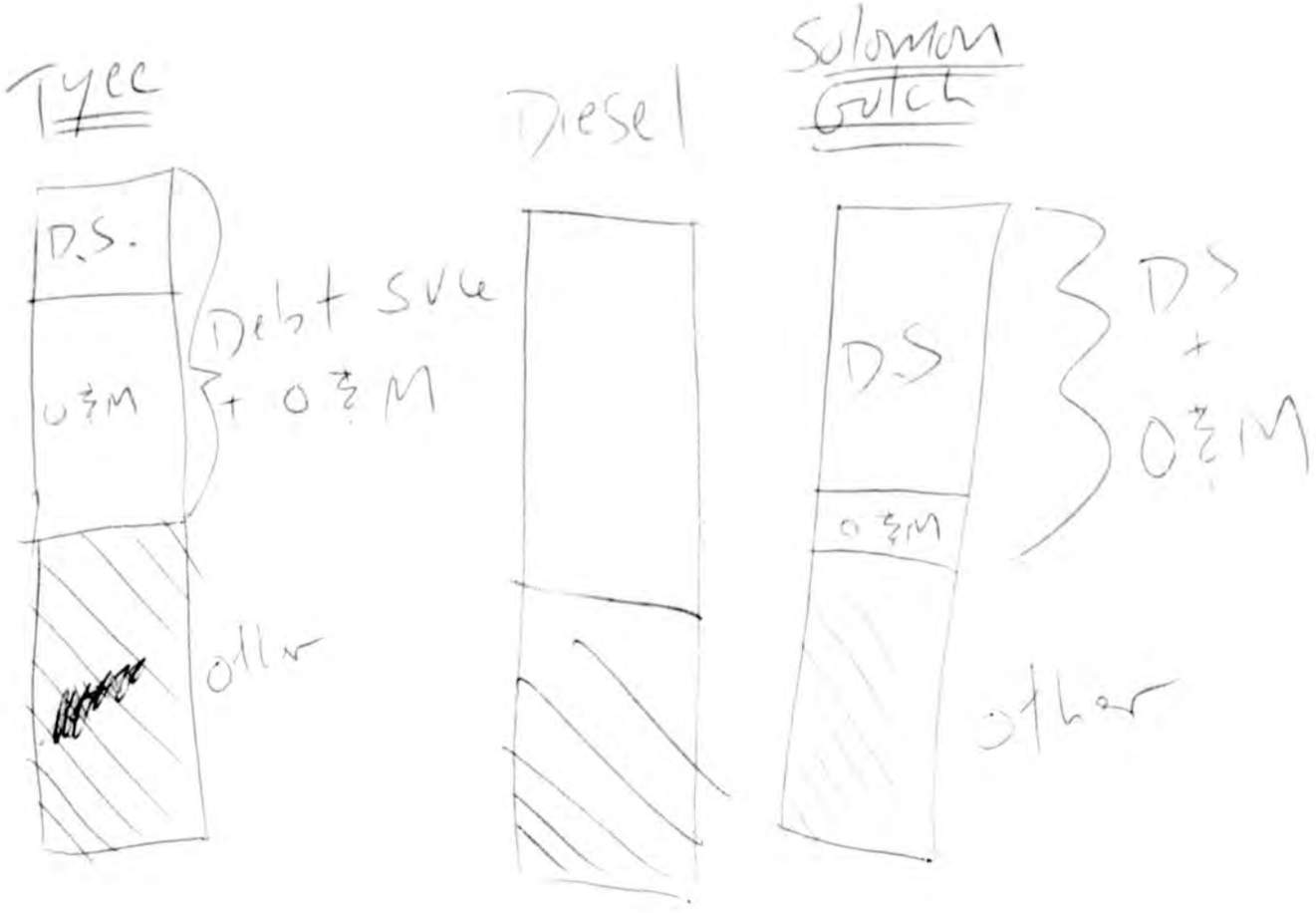
RE: HB 219 "An act relating to the applicability of the Alaska Public Utilities Commission Act to certain electric utilities; power development loans; and the energy program for Alaska."

The purpose of this bill is to settle the four-dam-pool financing problem. The Alaska Power Authority and the six four-dam-pool communities have been negotiating for 2½ years to try to reach power sales agreements acceptable to all parties. The issue is one of establishing a power sales rate that provides a reasonable return on the state's investment and also provides affordable electricity for the four-dam-pool communities.

Specifically, the problem is one of establishing terms for the $196 million loan appropriated last session ($210 million was appropriated; $196 million has been spent). This appropriation was used to pay off short-term bonds issued by the APA to complete construction on the four dams. The appropriation was structured as an unsecured loan from the

Cases

	Inflation Rate (%)	additional Sales (GWH/yr)
(Base Case)	6	0
	4	0
	6	25
	4	25
	6	50
	4	50


Tyee
D.S.
O&M
Debt svc
+ O&M
other
Diesel
Solomon Gulch
D.S
O&M
D.S
+
O&M
other

INFL RATE 4.00
ROR 4.83
R&R 500K

FISCAL YEAR	TOTAL SALES (GWh)	BASE SALES (GWh)	MORE (LESS) SALES (GWh)	OPERATIONS ADMIN ($000)	OPERATIONS ON-SITE ($000)	TOTAL O&M ($000)	BASE DEBT SERVICE ($000)	ADD DEBT SERVICE ($000)	TOTAL DEBT SERVICE ($000)	PROD COST ($000)
1985										
1986	181.5	181.5	0.0	863	3,576	4,939	4,719	0	4,719	9,658
1987	191.4	191.4	0.0	915	3,790	5,205	5,359	0	5,359	10,564
1988	199.2	199.2	0.0	970	4,018	5,487	6,374	0	6,374	11,862
1989	206.0	206.0	0.0	1,028	4,259	5,787	7,210	0	7,210	12,997
1990	213.0	213.0	0.0	1,090	4,514	6,104	8,520	0	8,520	14,624
1991	219.1	219.1	0.0	1,155	4,785	6,440	8,764	0	8,764	15,204
1992	226.9	226.9	0.0	1,224	5,072	6,796	9,076	0	9,076	15,872
1993	236.2	236.2	0.0	1,298	5,376	7,174	9,448	0	9,448	16,622
1994	245.9	245.9	0.0	1,376	5,699	7,575	9,836	0	9,836	17,411
1995	255.4	255.4	0.0	1,458	6,041	7,999	10,216	0	10,216	18,215
1996	260.6	260.6	0.0	1,546	6,403	8,449	10,424	0	10,424	18,873
1997	265.9	265.9	0.0	1,638	6,788	8,926	10,636	0	10,860	19,562
1998	271.5	271.5	0.0	1,737	7,195	9,432	10,860	0	11,092	20,292
1999	277.3	277.3	0.0	1,841	7,626	9,967	11,092	0	11,340	21,059
2000	283.5	283.5	0.0	1,951	8,084	10,535	11,340	0	11,528	21,875
2001	288.2	288.2	0.0	2,068	8,569	11,138	11,528	0	11,600	22,666
2002	290.0	290.0	0.0	2,193	9,083	11,776	11,600	0	11,676	23,376
2003	291.9	291.9	0.0	2,324	9,628	12,452	11,676	0	11,756	24,128
2004	293.9	293.9	0.0	2,464	10,206	13,170	11,756	0	11,836	24,926
2005	295.9	295.9	0.0	2,611	10,818	13,930	11,836	0	11,924	25,766
2006	298.1	298.1	0.0	2,768	11,467	14,736	11,924	0	12,012	26,660
2007	300.3	300.3	0.0	2,934	12,155	15,590	12,012	0	12,104	27,602
2008	302.6	302.6	0.0	3,110	12,885	16,495	12,104	0	12,200	28,599
2009	305.0	305.0	0.0	3,297	13,658	17,455	12,200	0	12,300	29,655
2010	307.5	307.5	0.0	3,495	14,477	18,472	12,300	0	12,408	30,772
2011	310.2	310.2	0.0	3,704	15,346	19,550	12,408	0	12,516	31,958
2012	312.9	312.9	0.0	3,927	16,267	20,693	12,516	0	12,632	33,209
2013	315.8	315.8	0.0	4,162	17,243	21,905	12,632	0	12,748	34,537
2014	318.7	318.7	0.0	4,412	18,277	23,189	12,748	0	12,872	35,937
2015	321.8	321.8	0.0	4,677	19,374	24,551	12,872	0	13,004	37,423
2016	325.1	325.1	0.0	4,957	20,536	25,994	13,004	0	13,136	38,998
2017	328.4	328.4	0.0	5,255	21,769	27,523	13,136	0	13,276	40,659
2018	331.9	331.9	0.0	5,570	23,075	29,145	13,276	0	13,424	42,421
2019	335.6	335.6	0.0	5,904	24,459	30,863	13,424	0	13,576	44,287
2020	339.4	339.4	0.0	6,258	25,927	32,685	13,576	0	13,736	46,261
2021	343.4	343.4	0.0	6,634	27,482	34,616	13,736	0	13,900	48,352
2022	347.5	347.5	0.0	7,032	29,131	36,663	13,900	0	14,072	50,563
2023	351.8	351.8	0.0	7,454	30,879	38,833	14,072	0	14,252	52,905
2024	356.3	356.3	0.0	7,901	32,732	41,133	14,252	0	14,440	55,385
2025	361.0	361.0	0.0	8,375	34,696	43,571	14,440	0	14,636	58,011
2026	365.9	365.9	0.0	8,878	36,778	46,155	14,636	0	14,840	60,791
2027	371.0	371.0	0.0	9,410	38,984	48,895	14,840	0	15,052	63,735
2028	376.3	376.3	0.0	9,975	41,323	51,798	15,052	0	15,144	66,850
2029	378.6	378.6	0.0	10,573	43,803	54,876	15,144	0	15,144	70,020
2030	378.6	378.6	0.0	11,208	46,431	58,139	15,144	0	15,144	73,283
2031	378.6	378.6	0.0	11,880	49,217	61,597	15,144	0	15,144	76,741
2032	378.6	378.6	0.0	12,593	52,170	65,263	15,144	0	15,144	80,407
2033	378.6	378.6	0.0	13,349	55,300	69,149	15,144	0	15,144	84,293
2034	378.6	378.6	0.0	14,150	58,618	73,267	15,144	0	15,144	88,411

SALES RATE				PV OF D.S.
TOTAL (c/kWh)	O & M (c/kWh)	B.O.S. (c/kWh)	A.O.S. (c/kWh)	($000)
				(196,000)
				1,800
5.3	2.7	2.6	1.6	4,502
5.5	2.7	2.8	1.8	4,877
6.0	2.8	3.2	2.2	5,533
6.3	2.8	3.5	2.5	5,970
6.9	2.9	4.0	3.0	6,730
6.9	2.9	4.0	3.0	6,604
7.0	3.0	4.0	3.0	6,524
7.0	3.0	4.0	3.0	6,478
7.1	3.1	4.0	3.0	6,434
7.1	3.1	4.0	3.0	6,374
7.2	3.2	4.0	3.0	6,204
7.4	3.4	4.0	3.0	6,039
7.5	3.5	4.0	3.0	5,882
7.6	3.6	4.0	3.0	5,731
7.7	3.7	4.0	3.0	5,589
7.9	3.9	4.0	3.0	5,420
8.1	4.1	4.0	3.0	5,202
8.3	4.3	4.0	3.0	4,995
8.5	4.5	4.0	3.0	4,798
8.7	4.7	4.0	3.0	4,608
8.9	4.9	4.0	3.0	4,428
9.2	5.2	4.0	3.0	4,255
9.5	5.5	4.0	3.0	4,090
9.7	5.7	4.0	3.0	3,933
10.0	6.0	4.0	3.0	3,782
10.3	6.3	4.0	3.0	3,640
10.6	6.6	4.0	3.0	3,502
10.9	6.9	4.0	3.0	3,372
11.3	7.3	4.0	3.0	3,246
11.6	7.6	4.0	3.0	3,127
12.0	8.0	4.0	3.0	3,013
12.4	8.4	4.0	3.0	2,904
12.8	8.8	4.0	3.0	2,799
13.2	9.2	4.0	3.0	2,700
13.6	9.6	4.0	3.0	2,605
14.1	10.1	4.0	3.0	2,514
14.6	10.6	4.0	3.0	2,427
15.0	11.0	4.0	3.0	2,344
15.5	11.5	4.0	3.0	2,264
16.1	12.1	4.0	3.0	2,188
16.6	12.6	4.0	3.0	2,116
17.2	13.2	4.0	3.0	2,047
17.8	13.8	4.0	3.0	1,980
18.5	14.5	4.0	3.0	1,901
19.4	15.4	4.0	3.0	1,813
20.3	16.3	4.0	3.0	1,729
21.2	17.2	4.0	3.0	1,650
22.3	18.3	4.0	3.0	1,574
23.4	19.4	4.0	3.0	1,501

INFL RATE 4.00
ROR 4.83
RLR 500K

FISCAL YEAR	TOTAL SALES (GWh)	BASE SALES (GWh)	MORE (LESS) SALES (GWh)	OPERATIONS ADMIN ($000)	OPERATIONS ON-SITE ($000)	TOTAL O&M ($000)	BASE DEBT SERVICE ($000)	ADD DEBT SERVICE ($000)	TOTAL DEBT SERVICE ($000)	PROD COST ($000)
1985										
1986	181.5	181.5	0.0	863	3,576	4,939	4,719	0	4,719	9,658
1987	191.4	191.4	0.0	898	3,719	5,116	5,359	0	5,359	10,475
1988	199.2	199.2	0.0	934	3,867	5,301	6,374	0	6,374	11,675
1989	206.0	206.0	0.0	971	4,022	5,493	7,210	0	7,210	12,703
1990	213.0	213.0	0.0	1,010	4,183	5,693	8,520	0	8,520	14,213
1991	219.1	219.1	0.0	1,050	4,350	5,900	8,764	0	8,764	14,664
1992	226.9	226.9	0.0	1,092	4,524	6,116	9,076	0	9,076	15,192
1993	236.2	236.2	0.0	1,136	4,705	6,341	9,448	0	9,448	15,789
1994	245.9	245.9	0.0	1,181	4,893	6,575	9,836	0	9,836	16,411
1995	255.4	255.4	0.0	1,228	5,089	6,818	10,216	0	10,216	17,034
1996	260.6	260.6	0.0	1,278	5,293	7,070	10,424	0	10,424	17,494
1997	265.9	265.9	0.0	1,329	5,504	7,333	10,636	0	10,636	17,969
1998	271.5	271.5	0.0	1,382	5,725	7,607	10,860	0	10,860	18,467
1999	277.3	277.3	0.0	1,437	5,954	7,891	11,092	0	11,092	18,983
2000	283.5	283.5	0.0	1,495	6,192	8,186	11,340	0	11,340	19,526
2001	288.2	288.2	0.0	1,554	6,439	8,494	11,528	0	11,528	20,022
2002	290.0	290.0	0.0	1,617	6,697	8,814	11,600	0	11,600	20,414
2003	291.9	291.9	0.0	1,681	6,965	9,146	11,676	0	11,676	20,822
2004	293.9	293.9	0.0	1,748	7,244	9,492	11,756	0	11,756	21,248
2005	295.9	295.9	0.0	1,818	7,533	9,852	11,836	0	11,836	21,688
2006	298.1	298.1	0.0	1,891	7,835	10,226	11,924	0	11,924	22,150
2007	300.3	300.3	0.0	1,967	8,148	10,615	12,012	0	12,012	22,627
2008	302.6	302.6	0.0	2,045	8,474	11,019	12,104	0	12,104	23,123
2009	305.0	305.0	0.0	2,127	8,813	11,440	12,200	0	12,200	23,640
2010	307.5	307.5	0.0	2,212	9,165	11,878	12,300	0	12,300	24,178
2011	310.2	310.2	0.0	2,301	9,532	12,333	12,408	0	12,408	24,741
2012	312.9	312.9	0.0	2,393	9,913	12,806	12,516	0	12,516	25,322
2013	315.8	315.8	0.0	2,489	10,310	13,298	12,632	0	12,632	25,930
2014	318.7	318.7	0.0	2,588	10,722	13,810	12,748	0	12,748	26,558
2015	321.8	321.8	0.0	2,692	11,151	14,343	12,872	0	12,872	27,215
2016	325.1	325.1	0.0	2,799	11,597	14,896	13,004	0	13,004	27,900
2017	328.4	328.4	0.0	2,911	12,061	15,472	13,136	0	13,136	28,608
2018	331.9	331.9	0.0	3,028	12,543	16,071	13,276	0	13,276	29,347
2019	335.6	335.6	0.0	3,149	13,045	16,694	13,424	0	13,424	30,118
2020	339.4	339.4	0.0	3,275	13,567	17,342	13,576	0	13,576	30,918
2021	343.4	343.4	0.0	3,406	14,110	18,016	13,736	0	13,736	31,752
2022	347.5	347.5	0.0	3,542	14,674	18,716	13,900	0	13,900	32,616
2023	351.8	351.8	0.0	3,684	15,261	19,445	14,072	0	14,072	33,517
2024	356.3	356.3	0.0	3,831	15,871	20,203	14,252	0	14,252	34,455
2025	361.0	361.0	0.0	3,984	16,506	20,991	14,440	0	14,440	35,431
2026	365.9	365.9	0.0	4,144	17,167	21,810	14,636	0	14,636	36,446
2027	371.0	371.0	0.0	4,310	17,853	22,663	14,840	0	14,840	37,503
2028	376.3	376.3	0.0	4,482	18,567	23,549	15,052	0	15,052	38,601
2029	378.6	378.6	0.0	4,661	19,310	24,471	15,144	0	15,144	39,615
2030	378.6	378.6	0.0	4,848	20,082	25,430	15,144	0	15,144	40,574
2031	378.6	378.6	0.0	5,042	20,886	26,427	15,144	0	15,144	41,571
2032	378.6	378.6	0.0	5,243	21,721	27,464	15,144	0	15,144	42,608
2033	378.6	378.6	0.0	5,453	22,590	28,543	15,144	0	15,144	43,687
2034	378.6	378.6	0.0	5,671	23,494	29,665	15,144	0	15,144	44,809

SALES RATE				PV OF D.S. ($000)
TOTAL (¢/kWh)	O & M (¢/kWh)	B.O.S (¢/kWh)	A.O.S (¢/kWh)	
				(196,000)
				1,800
5.3	2.7	2.6	1.6	4,502
5.5	2.7	2.8	1.8	4,877
5.9	2.7	3.2	2.2	5,533
6.2	2.7	3.5	2.5	5,970
6.7	2.7	4.0	3.0	6,730
6.7	2.7	4.0	3.0	6,604
6.7	2.7	4.0	3.0	6,524
6.7	2.7	4.0	3.0	6,478
6.7	2.7	4.0	3.0	6,434
6.7	2.7	4.0	3.0	6,374
6.7	2.7	4.0	3.0	6,204
6.8	2.8	4.0	3.0	6,039
6.8	2.8	4.0	3.0	5,882
6.8	2.8	4.0	3.0	5,731
6.9	2.9	4.0	3.0	5,589
6.9	2.9	4.0	3.0	5,420
7.0	3.0	4.0	3.0	5,202
7.1	3.1	4.0	3.0	4,995
7.2	3.2	4.0	3.0	4,798
7.3	3.3	4.0	3.0	4,608
7.4	3.4	4.0	3.0	4,428
7.5	3.5	4.0	3.0	4,255
7.6	3.6	4.0	3.0	4,090
7.8	3.8	4.0	3.0	3,933
7.9	3.9	4.0	3.0	3,782
8.0	4.0	4.0	3.0	3,640
8.1	4.1	4.0	3.0	3,502
8.2	4.2	4.0	3.0	3,372
8.3	4.3	4.0	3.0	3,246
8.5	4.5	4.0	3.0	3,127
8.6	4.6	4.0	3.0	3,013
8.7	4.7	4.0	3.0	2,904
8.8	4.8	4.0	3.0	2,799
9.0	5.0	4.0	3.0	2,700
9.1	5.1	4.0	3.0	2,605
9.2	5.2	4.0	3.0	2,514
9.4	5.4	4.0	3.0	2,427
9.5	5.5	4.0	3.0	2,344
9.7	5.7	4.0	3.0	2,264
9.8	5.8	4.0	3.0	2,188
10.0	6.0	4.0	3.0	2,116
10.1	6.1	4.0	3.0	2,047
10.3	6.3	4.0	3.0	1,980
10.5	6.5	4.0	3.0	1,901
10.7	6.7	4.0	3.0	1,813
11.0	7.0	4.0	3.0	1,729
11.3	7.3	4.0	3.0	1,650
11.5	7.5	4.0	3.0	1,574
11.8	7.8	4.0	3.0	1,501

INFL RATE 6.00
ROR 5.17
REP 500K

FISCAL YEAR	TOTAL SALES (GWh)	BASE SALES (GWh)	MORE (LESS) SALES (GWh)	OPERATIONS ADMIN ($000)	OPERATIONS ON-SITE ($000)	TOTAL O&M ($000)	BASE DEBT SERVICE ($000)	ADD DEBT SERVICE ($000)	TOTAL DEBT SERVICE ($000)	PROD COST ($000)
1985										
1986	206.5	181.5	25.0	863	3,576	4,939	4,719	400	5,119	10,058
1987	216.4	191.4	25.0	915	3,790	5,205	5,359	450	5,809	11,014
1988	224.2	199.2	25.0	970	4,018	5,487	6,374	550	6,924	12,412
1989	231.0	206.0	25.0	1,028	4,259	5,787	7,210	625	7,835	13,622
1990	238.0	213.0	25.0	1,090	4,514	6,104	8,520	750	9,270	15,374
1991	244.1	219.1	25.0	1,155	4,785	6,440	8,764	750	9,514	15,954
1992	251.9	226.9	25.0	1,224	5,072	6,796	9,076	750	9,826	16,622
1993	261.2	236.2	25.0	1,298	5,376	7,174	9,448	750	10,198	17,372
1994	270.9	245.9	25.0	1,376	5,699	7,575	9,836	750	10,586	18,161
1995	280.4	255.4	25.0	1,458	6,041	7,999	10,216	750	10,964	18,965
1996	285.6	260.6	25.0	1,546	6,403	8,449	10,424	750	11,174	19,623
1997	290.9	265.9	25.0	1,638	6,788	8,926	10,636	750	11,386	20,312
1998	296.5	271.5	25.0	1,737	7,195	9,432	10,860	750	11,610	21,042
1999	302.3	277.3	25.0	1,841	7,626	9,967	11,092	750	11,842	21,809
2000	308.5	283.5	25.0	1,951	8,084	10,535	11,340	750	12,090	22,625
2001	313.2	288.2	25.0	2,068	8,569	11,138	11,528	750	12,278	23,416
2002	315.0	290.0	25.0	2,193	9,083	11,776	11,600	750	12,350	24,126
2003	316.9	291.9	25.0	2,324	9,628	12,452	11,676	750	12,426	24,878
2004	318.9	293.9	25.0	2,464	10,206	13,170	11,756	750	12,506	25,676
2005	320.9	295.9	25.0	2,611	10,818	13,930	11,836	750	12,586	26,516
2006	323.1	298.1	25.0	2,768	11,467	14,736	11,924	750	12,674	27,410
2007	325.3	300.3	25.0	2,934	12,155	15,590	12,012	750	12,762	28,352
2008	327.6	302.6	25.0	3,110	12,885	16,495	12,104	750	12,854	29,349
2009	330.0	305.0	25.0	3,297	13,658	17,455	12,200	750	12,950	30,405
2010	332.5	307.5	25.0	3,495	14,477	18,472	12,300	750	13,050	31,522
2011	335.2	310.2	25.0	3,704	15,346	19,550	12,408	750	13,158	32,708
2012	337.9	312.9	25.0	3,927	16,267	20,693	12,516	750	13,266	33,959
2013	340.8	315.8	25.0	4,162	17,243	21,905	12,632	750	13,382	35,287
2014	343.7	318.7	25.0	4,412	18,277	23,189	12,748	750	13,498	36,687
2015	346.8	321.8	25.0	4,677	19,374	24,551	12,872	750	13,622	38,173
2016	350.1	325.1	25.0	4,957	20,536	25,994	13,004	750	13,754	39,748
2017	353.4	328.4	25.0	5,255	21,769	27,523	13,136	750	13,886	41,409
2018	356.9	331.9	25.0	5,570	23,075	29,145	13,276	750	14,026	43,171
2019	360.6	335.6	25.0	5,904	24,459	30,863	13,424	750	14,174	45,037
2020	364.4	339.4	25.0	6,258	25,927	32,685	13,576	750	14,326	47,011
2021	368.4	343.4	25.0	6,634	27,482	34,616	13,736	750	14,486	49,102
2022	372.5	347.5	25.0	7,032	29,131	36,663	13,900	750	14,650	51,313
2023	376.8	351.8	25.0	7,454	30,879	38,833	14,072	750	14,822	53,655
2024	378.6	356.3	22.3	7,901	32,732	41,133	14,252	669	14,921	56,054
2025	378.6	361.0	17.6	8,375	34,696	43,571	14,440	528	14,968	58,539
2026	378.6	365.9	12.7	8,878	36,778	46,155	14,636	381	15,017	61,172
2027	378.6	371.0	7.6	9,410	38,984	48,895	14,840	228	15,068	63,963
2028	378.6	376.3	2.3	9,975	41,323	51,798	15,052	69	15,121	66,919
2029	378.6	378.6	0.0	10,573	43,803	54,876	15,144	0	15,144	70,020
2030	378.6	378.6	0.0	11,208	46,431	58,139	15,144	0	15,144	73,283
2031	378.6	378.6	0.0	11,880	49,217	61,597	15,144	0	15,144	76,741
2032	378.6	378.6	0.0	12,593	52,170	65,263	15,144	0	15,144	80,407
2033	378.6	378.6	0.0	13,349	55,300	69,149	15,144	0	15,144	84,293
2034	378.6	378.6	0.0	14,150	58,618	73,267	15,144	0	15,144	88,411

SALES RATE				PV OF D.S. ($000)
TOTAL (c/kWh)	O & M (c/kWh)	B.O.S. (c/kWh)	A.O.S. (c/kWh)	
				(196,000)
				1,800
5.0	2.4	2.6	1.6	4,867
5.2	2.4	2.8	1.8	5,252
5.6	2.4	3.2	2.2	5,953
6.0	2.5	3.5	2.5	6,404
6.6	2.6	4.0	3.0	7,205
6.6	2.6	4.0	3.0	7,031
6.7	2.7	4.0	3.0	6,905
6.7	2.7	4.0	3.0	6,814
6.8	2.8	4.0	3.0	6,725
6.9	2.9	4.0	3.0	6,624
7.0	3.0	4.0	3.0	6,418
7.1	3.1	4.0	3.0	6,218
7.2	3.2	4.0	3.0	6,029
7.3	3.3	4.0	3.0	5,847
7.4	3.4	4.0	3.0	5,676
7.6	3.6	4.0	3.0	5,481
7.7	3.7	4.0	3.0	5,242
7.9	3.9	4.0	3.0	5,015
8.1	4.1	4.0	3.0	4,799
8.3	4.3	4.0	3.0	4,593
8.6	4.6	4.0	3.0	4,397
8.8	4.8	4.0	3.0	4,210
9.0	5.0	4.0	3.0	4,032
9.3	5.3	4.0	3.0	3,862
9.6	5.6	4.0	3.0	3,701
9.8	5.8	4.0	3.0	3,548
10.1	6.1	4.0	3.0	3,401
10.4	6.4	4.0	3.0	3,262
10.7	6.7	4.0	3.0	3,129
11.1	7.1	4.0	3.0	3,003
11.4	7.4	4.0	3.0	2,883
11.8	7.8	4.0	3.0	2,767
12.2	8.2	4.0	3.0	2,658
12.6	8.6	4.0	3.0	2,554
13.0	9.0	4.0	3.0	2,454
13.4	9.4	4.0	3.0	2,360
13.8	9.8	4.0	3.0	2,269
14.3	10.3	4.0	3.0	2,183
14.9	10.9	4.0	3.0	2,089
15.5	11.5	4.0	3.0	1,993
16.2	12.2	4.0	3.0	1,901
16.9	12.9	4.0	3.0	1,814
17.7	13.7	4.0	3.0	1,731
18.5	14.5	4.0	3.0	1,648
19.4	15.4	4.0	3.0	1,567
20.3	16.3	4.0	3.0	1,490
21.2	17.2	4.0	3.0	1,417
22.3	18.3	4.0	3.0	1,347
23.4	19.4	4.0	3.0	1,281

INFL RATE 4.00
ROR 5.17
R&R 500K

FISCAL YEAR	TOTAL SALES (GWh)	BASE SALES (GWh)	MORE (LESS) SALES (GWh)	OPERATIONS ADMIN ($000)	OPERATIONS ON-SITE ($000)	TOTAL O&M ($000)	BASE DEBT SERVICE ($000)	ADD DEBT SERVICE ($000)	TOTAL DEBT SERVICE ($000)	PROD COST ($000)
1985										
1986	206.5	181.5	25.0	863	3,576	4,939	4,719	400	5,119	10,058
1987	216.4	191.4	25.0	898	3,719	5,116	5,359	450	5,809	10,925
1988	224.2	199.2	25.0	934	3,867	5,301	6,374	550	6,924	12,225
1989	231.0	206.0	25.0	971	4,022	5,493	7,210	625	7,835	13,328
1990	238.0	213.0	25.0	1,010	4,183	5,693	8,520	750	9,270	14,963
1991	244.1	219.1	25.0	1,050	4,350	5,900	8,764	750	9,514	15,414
1992	251.9	226.9	25.0	1,092	4,524	6,116	9,076	750	9,826	15,942
1993	261.2	236.2	25.0	1,136	4,705	6,341	9,448	750	10,198	16,539
1994	270.9	245.9	25.0	1,181	4,893	6,575	9,836	750	10,586	17,161
1995	280.4	255.4	25.0	1,228	5,089	6,818	10,216	750	10,966	17,784
1996	285.6	260.6	25.0	1,278	5,293	7,070	10,424	750	11,174	18,244
1997	290.9	265.9	25.0	1,329	5,504	7,333	10,636	750	11,386	18,719
1998	296.5	271.5	25.0	1,382	5,725	7,607	10,860	750	11,610	19,217
1999	302.3	277.3	25.0	1,437	5,954	7,891	11,092	750	11,842	19,733
2000	308.5	283.5	25.0	1,495	6,192	8,186	11,340	750	12,090	20,276
2001	313.2	288.2	25.0	1,554	6,439	8,494	11,528	750	12,278	20,772
2002	315.0	290.0	25.0	1,617	6,697	8,814	11,600	750	12,350	21,164
2003	316.9	291.9	25.0	1,681	6,965	9,146	11,676	750	12,426	21,572
2004	318.9	293.9	25.0	1,748	7,244	9,492	11,756	750	12,506	21,998
2005	320.9	295.9	25.0	1,818	7,533	9,852	11,836	750	12,586	22,438
2006	323.1	298.1	25.0	1,891	7,835	10,226	11,924	750	12,674	22,900
2007	325.3	300.3	25.0	1,967	8,148	10,615	12,012	750	12,762	23,377
2008	327.6	302.6	25.0	2,045	8,474	11,019	12,104	750	12,854	23,873
2009	330.0	305.0	25.0	2,127	8,813	11,440	12,200	750	12,950	24,390
2010	332.5	307.5	25.0	2,212	9,165	11,878	12,300	750	13,050	24,928
2011	335.2	310.2	25.0	2,301	9,532	12,333	12,408	750	13,158	25,491
2012	337.9	312.9	25.0	2,393	9,913	12,806	12,516	750	13,266	26,072
2013	340.8	315.8	25.0	2,489	10,310	13,298	12,632	750	13,382	26,680
2014	343.7	318.7	25.0	2,588	10,722	13,810	12,748	750	13,498	27,308
2015	346.8	321.8	25.0	2,692	11,151	14,343	12,872	750	13,622	27,965
2016	350.1	325.1	25.0	2,799	11,597	14,896	13,004	750	13,754	28,650
2017	353.4	328.4	25.0	2,911	12,061	15,472	13,136	750	13,886	29,358
2018	356.9	331.9	25.0	3,028	12,543	16,071	13,276	750	14,026	30,097
2019	360.6	335.6	25.0	3,149	13,045	16,694	13,424	750	14,174	30,868
2020	364.4	339.4	25.0	3,275	13,567	17,342	13,576	750	14,326	31,668
2021	368.4	343.4	25.0	3,406	14,110	18,016	13,736	750	14,486	32,502
2022	372.5	347.5	25.0	3,542	14,674	18,716	13,900	750	14,650	33,366
2023	376.8	351.8	25.0	3,684	15,261	19,445	14,072	750	14,822	34,267
2024	378.6	356.3	22.3	3,831	15,871	20,203	14,252	669	14,921	35,124
2025	378.6	361.0	17.6	3,984	16,506	20,991	14,440	528	14,968	35,959
2026	378.6	365.9	12.7	4,144	17,167	21,810	14,636	381	15,017	36,827
2027	378.6	371.0	7.6	4,310	17,853	22,663	14,840	228	15,068	37,731
2028	378.6	376.3	2.3	4,482	18,567	23,549	15,052	69	15,121	38,670
2029	378.6	378.6	0.0	4,661	19,310	24,471	15,144	0	15,144	39,615
2030	378.6	378.6	0.0	4,848	20,082	25,430	15,144	0	15,144	40,574
2031	378.6	378.6	0.0	5,042	20,886	26,427	15,144	0	15,144	41,571
2032	378.6	378.6	0.0	5,243	21,721	27,464	15,144	0	15,144	42,608
2033	378.6	378.6	0.0	5,453	22,590	28,543	15,144	0	15,144	43,687
2034	378.6	378.6	0.0	5,671	23,494	29,665	15,144	0	15,144	44,809

SALES RATE				PV OF D.S. ($000)
TOTAL (c/kWh)	O & M (c/kWh)	B.D.S. (c/kWh)	A.D.S. (c/kWh)	
				(196,000)
				1,800
5.0	2.4	2.6	1.6	4,867
5.2	2.4	2.8	1.8	5,252
5.6	2.4	3.2	2.2	5,953
5.9	2.4	3.5	2.5	6,404
6.4	2.4	4.0	3.0	7,205
6.4	2.4	4.0	3.0	7,031
6.4	2.4	4.0	3.0	6,905
6.4	2.4	4.0	3.0	6,814
6.4	2.4	4.0	3.0	6,725
6.4	2.4	4.0	3.0	6,624
6.5	2.5	4.0	3.0	6,418
6.5	2.5	4.0	3.0	6,218
6.6	2.6	4.0	3.0	6,029
6.6	2.6	4.0	3.0	5,847
6.7	2.7	4.0	3.0	5,676
6.7	2.7	4.0	3.0	5,481
6.8	2.8	4.0	3.0	5,242
6.9	2.9	4.0	3.0	5,015
7.0	3.0	4.0	3.0	4,799
7.1	3.1	4.0	3.0	4,593
7.2	3.2	4.0	3.0	4,397
7.3	3.3	4.0	3.0	4,210
7.4	3.4	4.0	3.0	4,032
7.5	3.5	4.0	3.0	3,862
7.6	3.6	4.0	3.0	3,701
7.7	3.7	4.0	3.0	3,548
7.8	3.8	4.0	3.0	3,401
7.9	3.9	4.0	3.0	3,262
8.0	4.0	4.0	3.0	3,129
8.1	4.1	4.0	3.0	3,003
8.3	4.3	4.0	3.0	2,883
8.4	4.4	4.0	3.0	2,767
8.5	4.5	4.0	3.0	2,658
8.6	4.6	4.0	3.0	2,554
8.8	4.8	4.0	3.0	2,454
8.9	4.9	4.0	3.0	2,360
9.0	5.0	4.0	3.0	2,269
9.2	5.2	4.0	3.0	2,183
9.3	5.3	4.0	3.0	2,089
9.5	5.5	4.0	3.0	1,993
9.8	5.8	4.0	3.0	1,901
10.0	6.0	4.0	3.0	1,814
10.2	6.2	4.0	3.0	1,731
10.5	6.5	4.0	3.0	1,648
10.7	6.7	4.0	3.0	1,567
11.0	7.0	4.0	3.0	1,490
11.3	7.3	4.0	3.0	1,417
11.5	7.5	4.0	3.0	1,347
11.8	7.8	4.0	3.0	1,281

INFL RATE 6.00
ROE 5.49
R&D 500K

FISCAL YEAR	TOTAL SALES (GWh)	BASE SALES (GWh)	MORE (LESS) SALES (GWh)	OPERATIONS ADMIN ($000)	OPERATIONS ON-SITE ($000)	TOTAL O&M ($000)	BASE DEBT SERVICE ($000)	ADD DEBT SERVICE ($000)	TOTAL DEBT SERVICE ($000)	PROD COST ($000)
1985										
1986	231.5	181.5	50.0	863	3,576	4,939	4,719	800	5,519	10,458
1987	241.4	191.4	50.0	915	3,790	5,205	5,359	900	6,259	11,464
1988	249.2	199.2	50.0	970	4,018	5,487	6,374	1,100	7,474	12,962
1989	256.0	206.0	50.0	1,028	4,259	5,787	7,210	1,250	8,460	14,247
1990	263.0	213.0	50.0	1,090	4,514	6,104	8,520	1,500	10,020	16,124
1991	269.1	219.1	50.0	1,155	4,785	6,440	8,764	1,500	10,264	16,704
1992	276.9	226.9	50.0	1,224	5,072	6,796	9,076	1,500	10,576	17,372
1993	286.2	236.2	50.0	1,298	5,376	7,174	9,448	1,500	10,948	18,122
1994	295.9	245.9	50.0	1,376	5,699	7,575	9,836	1,500	11,336	18,911
1995	305.4	255.4	50.0	1,458	6,041	7,999	10,216	1,500	11,716	19,715
1996	310.6	260.6	50.0	1,546	6,403	8,449	10,424	1,500	11,924	20,373
1997	315.9	265.9	50.0	1,638	6,788	8,926	10,636	1,500	12,136	21,062
1998	321.5	271.5	50.0	1,737	7,195	9,432	10,860	1,500	12,360	21,792
1999	327.3	277.3	50.0	1,841	7,626	9,967	11,092	1,500	12,592	22,559
2000	333.5	283.5	50.0	1,951	8,084	10,535	11,340	1,500	12,840	23,375
2001	338.2	288.2	50.0	2,068	8,569	11,138	11,528	1,500	13,028	24,166
2002	340.0	290.0	50.0	2,193	9,083	11,776	11,600	1,500	13,100	24,876
2003	341.9	291.9	50.0	2,324	9,628	12,452	11,676	1,500	13,176	25,628
2004	343.9	293.9	50.0	2,464	10,206	13,170	11,756	1,500	13,256	26,426
2005	345.9	295.9	50.0	2,611	10,818	13,930	11,836	1,500	13,336	27,266
2006	348.1	298.1	50.0	2,768	11,467	14,736	11,924	1,500	13,424	28,160
2007	350.3	300.3	50.0	2,934	12,155	15,590	12,012	1,500	13,512	29,102
2008	352.6	302.6	50.0	3,110	12,885	16,495	12,104	1,500	13,604	30,099
2009	355.0	305.0	50.0	3,297	13,658	17,455	12,200	1,500	13,700	31,155
2010	357.5	307.5	50.0	3,495	14,477	18,472	12,300	1,500	13,800	32,272
2011	360.2	310.2	50.0	3,704	15,346	19,550	12,408	1,500	13,908	33,458
2012	362.9	312.9	50.0	3,927	16,267	20,693	12,516	1,500	14,016	34,709
2013	365.8	315.8	50.0	4,162	17,243	21,905	12,632	1,500	14,132	36,037
2014	368.7	318.7	50.0	4,412	18,277	23,189	12,748	1,500	14,248	37,437
2015	371.8	321.8	50.0	4,677	19,374	24,551	12,872	1,500	14,372	38,923
2016	375.1	325.1	50.0	4,957	20,536	25,994	13,004	1,500	14,504	40,498
2017	378.4	328.4	50.0	5,255	21,769	27,523	13,136	1,500	14,636	42,159
2018	378.6	331.9	46.7	5,570	23,075	29,145	13,276	1,401	14,677	43,822
2019	378.6	335.6	43.0	5,904	24,459	30,863	13,424	1,290	14,714	45,577
2020	378.6	339.4	39.2	6,258	25,927	32,685	13,576	1,176	14,752	47,437
2021	378.6	343.4	35.2	6,634	27,482	34,616	13,736	1,056	14,792	49,408
2022	378.6	347.5	31.1	7,032	29,131	36,663	13,900	933	14,833	51,496
2023	378.6	351.8	26.8	7,454	30,879	38,833	14,072	804	14,876	53,709
2024	378.6	356.3	22.3	7,901	32,732	41,133	14,252	669	14,921	56,054
2025	378.6	361.0	17.6	8,375	34,696	43,571	14,440	528	14,968	58,539
2026	378.6	365.9	12.7	8,878	36,778	46,155	14,636	381	15,017	61,172
2027	378.6	371.0	7.6	9,410	38,984	48,895	14,840	228	15,068	63,963
2028	378.6	376.3	2.3	9,975	41,323	51,798	15,052	69	15,121	66,919
2029	378.6	378.6	0.0	10,573	43,803	54,876	15,144	0	15,144	70,020
2030	378.6	378.6	0.0	11,208	46,431	58,139	15,144	0	15,144	73,283
2031	378.6	378.6	0.0	11,880	49,217	61,597	15,144	0	15,144	76,741
2032	378.6	378.6	0.0	12,593	52,170	65,263	15,144	0	15,144	80,407
2033	378.6	378.6	0.0	13,349	55,300	69,149	15,144	0	15,144	84,293
2034	378.6	378.6	0.0	14,150	58,618	73,267	15,144	0	15,144	88,411

SALES RATE				PV OF D.S ($000)
TOTAL (c/kWh)	O & M (c/kWh)	B.D.S (c/kWh)	A.D.S (c/kWh)	
				(196,000)
				1,800
4.7	2.1	2.6	1.6	5,232
5.0	2.2	2.8	1.8	5,625
5.4	2.2	3.2	2.2	6,367
5.8	2.3	3.5	2.5	6,832
6.3	2.3	4.0	3.0	7,670
6.4	2.4	4.0	3.0	7,448
6.5	2.5	4.0	3.0	7,275
6.5	2.5	4.0	3.0	7,139
6.6	2.6	4.0	3.0	7,007
6.6	2.6	4.0	3.0	6,865
6.7	2.7	4.0	3.0	6,624
6.8	2.8	4.0	3.0	6,391
6.9	2.9	4.0	3.0	6,170
7.0	3.0	4.0	3.0	5,958
7.2	3.2	4.0	3.0	5,760
7.3	3.3	4.0	3.0	5,540
7.5	3.5	4.0	3.0	5,281
7.6	3.6	4.0	3.0	5,035
7.8	3.8	4.0	3.0	4,802
8.0	4.0	4.0	3.0	4,579
8.2	4.2	4.0	3.0	4,370
8.5	4.5	4.0	3.0	4,169
8.7	4.7	4.0	3.0	3,979
8.9	4.9	4.0	3.0	3,799
9.2	5.2	4.0	3.0	3,627
9.4	5.4	4.0	3.0	3,466
9.7	5.7	4.0	3.0	3,311
10.0	6.0	4.0	3.0	3,164
10.3	6.3	4.0	3.0	3,024
10.6	6.6	4.0	3.0	2,892
10.9	6.9	4.0	3.0	2,767
11.3	7.3	4.0	3.0	2,646
11.7	7.7	4.0	3.0	2,516
12.2	8.2	4.0	3.0	2,391
12.6	8.6	4.0	3.0	2,272
13.1	9.1	4.0	3.0	2,160
13.7	9.7	4.0	3.0	2,053
14.3	10.3	4.0	3.0	1,952
14.9	10.9	4.0	3.0	1,856
15.5	11.5	4.0	3.0	1,765
16.2	12.2	4.0	3.0	1,678
16.9	12.9	4.0	3.0	1,597
17.7	13.7	4.0	3.0	1,519
18.5	14.5	4.0	3.0	1,442
19.4	15.4	4.0	3.0	1,367
20.3	16.3	4.0	3.0	1,296
21.2	17.2	4.0	3.0	1,228
22.3	18.3	4.0	3.0	1,164
23.4	19.4	4.0	3.0	1,104

INFL RATE 4.00
ROR 5.49
R&R 500K

FISCAL YEAR	TOTAL SALES (GWh)	BASE SALES (GWh)	MORE (LESS) SALES (GWh)	OPERATIONS ADMIN ($000)	OPERATIONS ON-SITE ($000)	TOTAL O&M ($000)	BASE DEBT SERVICE ($000)	ADD DEBT SERVICE ($000)	TOTAL DEBT SERVICE ($000)	PROD COST ($000)
1985										
1986	231.5	181.5	50.0	863	3,576	4,939	4,719	800	5,519	10,458
1987	241.4	191.4	50.0	898	3,719	5,116	5,359	900	6,259	11,375
1988	249.2	199.2	50.0	934	3,867	5,301	6,374	1,100	7,474	12,775
1989	256.0	206.0	50.0	971	4,022	5,493	7,210	1,250	8,460	13,953
1990	263.0	213.0	50.0	1,010	4,183	5,693	8,520	1,500	10,020	15,713
1991	269.1	219.1	50.0	1,060	4,350	5,900	8,764	1,500	10,264	16,164
1992	276.9	226.9	50.0	1,092	4,524	6,116	9,076	1,500	10,576	16,692
1993	286.2	236.2	50.0	1,136	4,705	6,341	9,448	1,500	10,948	17,289
1994	295.9	245.9	50.0	1,181	4,893	6,575	9,836	1,500	11,336	17,911
1995	305.4	255.4	50.0	1,228	5,089	6,818	10,216	1,500	11,716	18,534
1996	310.6	260.6	50.0	1,278	5,293	7,070	10,424	1,500	11,924	18,994
1997	315.9	265.9	50.0	1,329	5,504	7,333	10,636	1,500	12,136	19,469
1998	321.5	271.5	50.0	1,382	5,725	7,407	10,860	1,500	12,360	19,967
1999	327.3	277.3	50.0	1,437	5,954	7,891	11,092	1,500	12,592	20,483
2000	333.5	283.5	50.0	1,495	6,192	8,186	11,340	1,500	12,840	21,026
2001	338.2	288.2	50.0	1,554	6,439	8,494	11,528	1,500	13,028	21,522
2002	340.0	290.0	50.0	1,617	6,697	8,814	11,600	1,500	13,100	21,914
2003	341.9	291.9	50.0	1,681	6,965	9,146	11,676	1,500	13,176	22,322
2004	343.9	293.9	50.0	1,748	7,244	9,492	11,756	1,500	13,256	22,748
2005	345.9	295.9	50.0	1,818	7,533	9,852	11,836	1,500	13,336	23,188
2006	348.1	298.1	50.0	1,891	7,835	10,226	11,924	1,500	13,424	23,650
2007	350.3	300.3	50.0	1,967	8,148	10,615	12,012	1,500	13,512	24,127
2008	352.6	302.6	50.0	2,045	8,474	11,019	12,104	1,500	13,604	24,623
2009	355.0	305.0	50.0	2,127	8,813	11,440	12,200	1,500	13,700	25,140
2010	357.5	307.5	50.0	2,212	9,165	11,878	12,300	1,500	13,800	25,678
2011	360.2	310.2	50.0	2,301	9,532	12,333	12,408	1,500	13,908	26,241
2012	362.9	312.9	50.0	2,393	9,913	12,806	12,516	1,500	14,016	26,822
2013	365.8	315.8	50.0	2,489	10,310	13,298	12,632	1,500	14,132	27,430
2014	368.7	318.7	50.0	2,588	10,722	13,810	12,748	1,500	14,248	28,058
2015	371.8	321.8	50.0	2,692	11,151	14,343	12,872	1,500	14,372	28,715
2016	375.1	325.1	50.0	2,799	11,597	14,896	13,004	1,500	14,504	29,400
2017	378.4	328.4	50.0	2,911	12,061	15,472	13,136	1,500	14,636	30,108
2018	378.6	331.9	46.7	3,028	12,543	16,071	13,276	1,401	14,677	30,748
2019	378.6	335.6	43.0	3,149	13,045	16,694	13,424	1,290	14,714	31,408
2020	378.6	339.4	39.2	3,275	13,567	17,342	13,576	1,176	14,752	32,094
2021	378.6	343.4	35.2	3,406	14,110	18,016	13,736	1,056	14,792	32,808
2022	378.6	347.5	31.1	3,542	14,674	18,716	13,900	933	14,833	33,549
2023	378.6	351.8	26.8	3,684	15,261	19,445	14,072	804	14,876	34,321
2024	378.6	356.3	22.3	3,831	15,871	20,203	14,252	669	14,921	35,124
2025	378.6	361.0	17.6	3,984	16,506	20,991	14,440	528	14,968	35,959
2026	378.6	365.9	12.7	4,144	17,167	21,810	14,636	381	15,017	36,827
2027	378.6	371.0	7.6	4,310	17,853	22,663	14,840	228	15,068	37,731
2028	378.6	376.3	2.3	4,482	18,567	23,549	15,052	69	15,121	38,670
2029	378.6	378.6	0.0	4,661	19,310	24,471	15,144	0	15,144	39,615
2030	378.6	378.6	0.0	4,848	20,082	25,430	15,144	0	15,144	40,574
2031	378.6	378.6	0.0	5,042	20,886	26,427	15,144	0	15,144	41,571
2032	378.6	378.6	0.0	5,243	21,721	27,464	15,144	0	15,144	42,608
2033	378.6	378.6	0.0	5,453	22,590	28,543	15,144	0	15,144	43,687
2034	378.6	378.6	0.0	5,671	23,494	29,665	15,144	0	15,144	44,809

SALES RATE				PV OF O.S. ($000)
TOTAL (c/kWh)	O & M (c/kWh)	B.O.S. (c/kWh)	A.O.S. (c/kWh)	
				(196,000)
				1,800
4.7	2.1	2.6	1.6	5,232
4.9	2.1	2.8	1.8	5,625
5.3	2.1	3.2	2.2	6,367
5.6	2.1	3.5	2.5	6,832
6.2	2.2	4.0	3.0	7,670
6.2	2.2	4.0	3.0	7,448
6.2	2.2	4.0	3.0	7,275
6.2	2.2	4.0	3.0	7,139
6.2	2.2	4.0	3.0	7,007
6.2	2.2	4.0	3.0	6,865
6.3	2.3	4.0	3.0	6,624
6.3	2.3	4.0	3.0	6,391
6.4	2.4	4.0	3.0	6,170
6.4	2.4	4.0	3.0	5,958
6.5	2.5	4.0	3.0	5,760
6.5	2.5	4.0	3.0	5,540
6.6	2.6	4.0	3.0	5,281
6.7	2.7	4.0	3.0	5,035
6.8	2.8	4.0	3.0	4,802
6.8	2.8	4.0	3.0	4,579
6.9	2.9	4.0	3.0	4,370
7.0	3.0	4.0	3.0	4,169
7.1	3.1	4.0	3.0	3,979
7.2	3.2	4.0	3.0	3,799
7.3	3.3	4.0	3.0	3,627
7.4	3.4	4.0	3.0	3,466
7.5	3.5	4.0	3.0	3,311
7.6	3.6	4.0	3.0	3,164
7.7	3.7	4.0	3.0	3,024
7.9	3.9	4.0	3.0	2,892
8.0	4.0	4.0	3.0	2,767
8.1	4.1	4.0	3.0	2,646
8.2	4.2	4.0	3.0	2,516
8.4	4.4	4.0	3.0	2,391
8.6	4.6	4.0	3.0	2,272
8.8	4.8	4.0	3.0	2,160
8.9	4.9	4.0	3.0	2,053
9.1	5.1	4.0	3.0	1,952
9.3	5.3	4.0	3.0	1,856
9.5	5.5	4.0	3.0	1,765
9.8	5.8	4.0	3.0	1,678
10.0	6.0	4.0	3.0	1,597
10.2	6.2	4.0	3.0	1,519
10.5	6.5	4.0	3.0	1,442
10.7	6.7	4.0	3.0	1,367
11.0	7.0	4.0	3.0	1,296
11.3	7.3	4.0	3.0	1,228
11.5	7.5	4.0	3.0	1,164
11.8	7.8	4.0	3.0	1,104

SCOMM
#50:27

4/10

COMMITTEE REPORT

HOUSE

(5)

FURTHER: FINANCE

3/13/85

Date: 4/9/85

The Committee on HOUSE SPECIAL COMMITTEE ON STATE LOANS has had HB 283

"An Act relating to historical property loans."

under consideration and recommends:

[/] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

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

and recommends _____

[ ] AND attaches a "Letter of Intent" [3] New Fiscal Note 5/14/85

[ ] Zero Fiscal Note Attached

[ ] reports it back without recommendation

[ ] referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

_____

CHAIRMAN

A

ALASCOM

Telegram

04017

NL ANCHORAGE AK 68 04-08 1410 AST

PMS

'85 APR 8 PM 4 06

REP JOHN L. SUND
RM 411 CAPITOL BLDG
JUNEAU AK 99801

0384

THE ALASKA ASSOCIATION FOR HISTORIC PRESERVATION STRONGLY SUPPORTS HOUSE BILL 283. THE BILL EXPANDS THE USEABILITY OF AN OTHERWISE EXCELLENT PROGRAM. NO NEW FUNDING IS REQUESTED.

BOARD MEMBERS

TOM BECK	ROBERT GOLDBERG	CHARLES HAWKES
JUDITH BITTNER	JANE HAIGH	KIM HUNTER
PAUL CHATTEY	MIKE KENNEDY	DONNA LANE
NANCY DAVIS	BILL LISTON	TOM LIVINGSTON
JIM EDE	WILDA MARSTON	JANET MATHESON
JOAQLIN ESTUS	JANE MCCABE	STEVE PETERSON
JIM RAPP	TIM SMITH	MIKE YARBOROUGH

L-0167-0 1601876

FISCAL NOTE

Revision Date:

REQUEST
Bill/Resolution No.: HB 283
Title: Historic Property Loans

Sponsor: M.M. Miller
Requestor: Loans Committee
Date of Request: 4/4/85

FISCAL DETAIL
Agency Affected: Natural Resources
Program Category Affected: NRMEC

BRU, Program or Subprogram(s) Affected:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES		$12.0	$12.0	$13.0	$13.0	$14.0
200 TRAVEL		$ 3.0	$ 3.0	$ 4.0	$ 4.0	$ 5.0
300 CONTRACTUAL		$ .2	$ .2	$ .3	$ .3	$ .4
400 SUPPLIES		$ .2	.2	.3	.3	.4
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		$15.4	$15.4	$17.6	$17.6	$19.8
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		$15.4	$15.4	$17.6	$17.6	$19.8
FEDERAL FUNDS						
OTHER						
TOTAL		$15.4	$15.4	$17.6	$17.6	$19.8

POSITIONS:

FULL-TIME		1/6	1/6	1/6	1/6	1/6
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

The Historic Sites Advisory Committee, chaired by the State Historic Preservation Officer within the DNR Division of Parks and Outdoor Recreation, reviews plans for projects that are under consideration for historic district loans. If the loans become available to properties that are not within historic districts, the number of loans and therefore the number of plans to review could increase to as many as 20 or 30 a year from the current 1 or 2. Approximately 2 months of an

Prepared By: Carol Wilson Phone: 465-2400
Division: Commissioner's Office Date: 4/8/85

Approved by Commissioner: Norman D Arnold Date:
Agency: Department of Natural Resources

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

7/1/84

historical architect's time would be required for each fiscal year to review the plans for proposed projects. Travel money would be used by the architect to travel to the site of the historic propoerty for any necessary pre-loan examinations and to travel to the property after the work is completed to inspect results. A small amount of contractual and supplies money is needed for the purchase of film and film processing, for use in photographing historic property projects.

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 283

Title: "An Act relating to historical property loans."

Sponsor: Rep. M.M. Miller

Requestor:

Date of Request:

FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.

Program Category Affected: Development

BRU, Program or Subprogram(s) Affected: Division of Investments

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL		2.0	2.0	2.0	2.0	2.0
300 CONTRACTUAL		2.0	2.0	2.0	2.0	2.0
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		4.0	4.0	4.0	4.0	4.0
LOANS ~~XXXXXXX~~		2,000.0	2,000.0	2,000.0	2,000.0	2,000.0
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		4.0	4.0	4.0	4.0	4.0
FEDERAL FUNDS						
OTHER						
TOTAL		4.0	4.0	4.0	4.0	4.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

See attached.

Paul B. Arnoldt

Prepared By: Paul B. Arnoldt, Director Phone: 465-2510

Division: Investments Date: 4/9/85

Approved by Commissioner: Loren H. Lounsbury Date: 4/9/85

Agency: Commerce and Economic Development

Distribution (by Agency preparing fiscal note):

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

7/1/84

2018W4885b

HB 283
Analysis

An increased fiscal expenditure will be needed to handle the additional loans applied for and processed by the department, for the associated staff required to expeditiously and properly provide this service to the public. It is estimated that between 20 to 30 applications will be processed each year. The division's existing loan examiners will assume the burden of these extra loans.

Consideration of these applications would also require more meetings of the division's loan committees, additional management and clerical responsibilities, and extra work for the loan closers. This fiscal note assumes that these additional burdens will be absorbed.

Fiscal costs:

Travel to inspect collateral, interview applicants, and inform public	$2,000
$2,000 is included for modification and reprinting of the existing loan application packets, the State Loan Pamphlet.	$2,000

2018W4885b

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 283
Title: "An Act relating to historical property loans."
Sponsor: M.M. Miller
Requestor:
Date of Request:

FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.
Program Category Affected: Economic Development
BRU, Program or Subprogram(s) Affected: Accounting & Collections

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

As the Division of Investments anticipates minimal increased loan demand, the Division of Accounting & Collections is submitting a zero fiscal note.

Prepared By: Margaret I. Hamley, Director Phone: 465-2555
Division: Accounting & Collections Date: 4-8-85

Approved by Commissioner: Loren H. Lounsbury Date: 4/9/85
Agency: Commerce and Economic Development

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

7/1/84

2063W4885a

Department of Commerce & Economic Development / POSITION PAPER

House Bill 283 "An Act relating to historical property loans."

Legislation would expand the Historical District Loan Program by: (1) allowing structures, buildings, sites, or objects identified as important in State or national history to be considered for loans without being in a Historical District as is currently required, and (2) the removal of first lien requirement.

Currently the Department of Commerce and Economic Development is averaging about one loan per year under the existing Historical District Loan Act. With the passage of this bill, additional properties will qualify for these loans across the State, including properties not in the Historical Districts. The actual number of increased applications for loans will depend on the approval criteria of the Historic Sites Advisory Committee, as their approval is required before a loan may be processed. This bill opens up the historical property loan money to the rural areas of the State. This bill is anticipated to increase the number of applications processed, and will impact upon the Historical District Loan Fund.

After careful review of the changes to the Historical District Loan Act, as proposed by the Alaska Association for Historic Preservation, the Alaska State Historic Preservation Officer and the City and Borough of Juneau, the Department of Commerce and Economic Development recommends the following:

AS 45.98.020 should be rewritten to clarify its purpose

1. to incorporate the changes recommended in SB 78;

2. to merge proposed new subsection (b) into section 020; and

3. to clarify what is meant by "identified as important in state or national history" by limiting eligibility to structures on the National Register of Historic Places, as was proposed by the State Historic Preservation Officer.

AS 45.98.020 as proposed would then read:

Sec. 45.98.020 HISTORICAL <u>PROPERTY</u> [DISTRICT] LOANS. Upon endorsement and plan approval by a local historical <u>landmark or</u> district commission established under AS 29.48.108 <u>, if the property is within its jurisdiction,</u> and the <u>approval</u> [RECOMMENDATION] of a majority of the members of the Historic Sites Advisory Committee, the Department of Commerce and Economic Development may make loans to a person, firm, business or municipality subject to applicable laws for the restoration, improvement, rehabilitation, or maintenance of <u>a historic</u> [A] structure <u>, building, site, or object that</u> [WHICH] is

(1) [WITHIN THE BOUNDARIES OF A HISTORICAL DISTRICT ESTABLISHED UNDER AS 29.48.110;

(2)] listed in the National Register of Historic Places [IDENTIFIED AS IMPORTANT IN STATE OR NATIONAL HISTORY AS PROVIDED FOR IN AS 29.48.110(b)]; or [AND]

(2)a [(3) ANOTHER] building or structure within a historical district, that is [AND] suitable for superficial modification so that it can conform to the period or motif of the surrounding buildings or structures that are the reason for the areas designation as a historical district;

The result of these amendments would be to expand the Historic Property Loans to include over 200 places on the National Register of Historic Places, and still provide loans to properties in Historic Districts. They also allow for an orderly administrative process for dealing with loans. Since there is currently only about $913,000 in the loan fund, appropriations to the fund should be considered or the current balance will be easily expended.

If 10% of the 200 places on the National Register of Historic Places apply for loans each year, at an average loan value of $150,000, then an additional $2 million will be needed in the loan budget.

Loren H. Lounsbury, Commissioner

Date: 4/9/85

2079W4985a

Offered: 3/12/85
Referred: Finance

Original sponsor: Rules/Governor

IN THE SENATE

BY THE LABOR AND COMMERCE COMMITTEE

CS FOR SENATE BILL NO. 78 (L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making miscellaneous amendments to state loan programs administered by the Department of Commerce and Economic Development; and providing for an effective date."

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

* Section 1. AS 16.10.310(a) is amended to read:

(a) The department may

(1) make loans to

(A) individual commercial fishermen who have been state residents for a continuous period of two years immediately preceding the date of application for a loan under AS 16.10.300 - 16.10.370 and have had a crewmember or commercial fishing license under AS 16.05.480 or a permit under AS 16.43 for the year immediately preceding the date of application and any other two of the past five years, and who actively participated in the fishery during those periods, for the purchase of entry permits;

(B) <u>an individual for the repair, restoration, or upgrading of existing vessels and gear, for the purchase of entry permits and gear, and for the construction and purchase of vessels, if the individual</u> [AN INDIVIDUAL WHO] has been a state resident for a continuous period of two years immediately preceding the date of application for a loan under AS 16.10.300 - 16.10.370, <u>and either</u> [WHO]

(i) because of lack of training or lack of

employment opportunities in the area of residence does not have occupational opportunities available other than commercial fishing; or

(ii) is economically dependent on commercial fishing for a livelihood and for whom commercial fishing has been a traditional way of life [FOR THE INDIVIDUAL] in Alaska [, FOR THE REPAIR, RESTORATION OR UPGRADING OF EXISTING VESSELS AND GEAR, FOR THE PURCHASE OF ENTRY PERMITS AND GEAR, AND FOR THE CONSTRUCTION AND PURCHASE OF VESSELS;

(C) CORPORATIONS, PARTNERSHIPS, OR JOINT VENTURES, 100 PERCENT OF WHICH ARE OWNED BY INDIVIDUAL COMMERCIAL FISHERMEN WHO HAVE BEEN STATE RESIDENTS FOR A CONTINUOUS PERIOD OF TWO YEARS IMMEDIATELY PRECEDING THE DATE OF APPLICATION FOR A LOAN UNDER AS 16.10.310(a)(1)(B) AND HAVE HAD A CREWMEMBER OR COMMERCIAL FISHING LICENSE UNDER AS 16.05.480 OR A PERMIT UNDER AS 16.43 FOR THE YEAR IMMEDIATELY PRECEDING THE DATE OF APPLICATION AND ANY OTHER TWO OF THE PAST FIVE YEARS, AND WHO ACTIVELY PARTICIPATED IN THE FISHERY DURING THAT PERIOD, FOR THE REPAIR, RESTORATION OR UPGRADING OF EXISTING VESSELS AND GEAR, FOR THE PURCHASE OF GEAR, AND FOR THE CONSTRUCTION AND PURCHASE OF VESSELS];

(2) designate agents and delegate its powers to them as necessary;

(3) adopt regulations necessary to carry out its functions;

(4) establish amortization plans for repayment of loans, which may include extensions for poor fishing seasons or for adverse market conditions for Alaskan products;

(5) enter into agreements with private lending intuitions, other state agencies, or agencies of the federal government, to carry out the purposes of AS 16.10.300 - 16.10.370;

(6) enter into agreements with other agencies or organizations to create an outreach program to make loans under AS 16.10.300 - 16.10.370 in rural areas of the state;

(7) allow an assumption of a loan if

(A) the applicant has been a state resident for a continuous period of two years immediately preceding the date of the request for an assumption; and

(B) approval of the assumption would be consistent with the purposes of AS 16.10.300 - 16.10.370; it is not necessarily inconsistent with the purposes of AS 16.10.300 - 16.10.370 to approve an assumption by an applicant who does not meet the loan eligibility requirements as they exist at the time of the application;

(8) prequalify loan applicants and charge a fee not to exceed $100 for prequalification.

* Sec. 2. AS 16.10.310 is amended by adding a new subsection to read:

(c) In determining whether an individual commercial fisherman is reasonably likely to be able to repay a loan made under AS 16.10.300 - 16.10.370, the commissioner shall consider the individual commercial fisherman's income from commercial fishing and from all other sources.

* Sec. 3. AS 16.10.315 is amended to read:

Sec. 16.10.315. ALLOCATION OF LOANS. The department shall allocate at least 10 percent of the money that is appropriated for a state fiscal year to make loans under AS 16.10.310 for loans of $35,000 or less made under AS 16.10.310(a)(1)(B) [AND (C)]. An allocation made under this section terminates on April 15 of the state fiscal year for which the allocation is made.

* Sec. 4. AS 16.10.320(a) is amended to read:

(a) Except as permitted in (h) of this section, a [A] loan

under AS 16.10.300 - 16.10.370 [16.10.310 - 16.10.370]

(1) may not exceed a term of 15 years, except for extensions under AS 16.10.310(a)(4);

(2) may not bear interest exceeding 10-1/2 percent;

(3) must [SHALL] be secured by a first priority lien and appropriate security agreement; and

(4) may not exceed 90 percent of the appraised value of the collateral used to secure the loan[, EXCEPT THAT A LOAN GRANTED UNDER AS 16.10.333 FOR THE PURCHASE OF AN ALASKA LIMITED ENTRY PERMIT MAY NOT EXCEED AN AMOUNT DETERMINED IN ACCORDANCE WITH (f) OR (h) OF THIS SECTION].

* Sec. 5. AS 16.10.320(d) is amended to read:

(d) The total of balances outstanding on loans [LOANS] made to a borrower under AS 16.10.310(a)(1)(A) may not exceed [A TOTAL OF] $300,000. The total of balances outstanding on loans [LOANS] made to a borrower under AS 16.10.310(a)(1)(B) [OR (C)] may not exceed [A TOTAL OF] $100,000. [A LOAN TO AN ASSOCIATE OF THE BORROWER IS CONSIDERED TO BE A LOAN TO THE BORROWER. FOR THE PURPOSES OF THIS SECTION, "ASSOCIATE OF THE BORROWER" MEANS

(1) A CORPORATION OR OTHER ORGANIZATION OF WHICH THE BORROWER IS AN OFFICER, DIRECTOR OR PARTNER, OR IS, DIRECTLY OR INDIRECTLY, THE BENEFICIAL OWNER OF 10 PERCENT OR MORE ON ANY CLASS OF EQUITY SECURITIES;

(2) A PERSON WHO IS, DIRECTLY OR INDIRECTLY, THE BENEFICIAL OWNER OF 10 PERCENT OR MORE OF ANY CLASS OF EQUITY SECURITIES OF THE BORROWER;

(3) A TRUST OR OTHER ESTATE IN WHICH THE BORROWER HAS A SUBSTANTIAL BENEFICIAL INTEREST OR AS TO WHICH THE BORROWER SERVES AS TRUSTEE OR IN A SIMILAR FIDUCIARY CAPACITY.]

* Sec. 6. AS 16.10.320(e) is amended to read:

(e) Two or more individual commercial fishermen who each satisfy the requirements specified in AS 16.10.310(a)(1)(B) may jointly, whether operating as a corporation, partnership, joint venture, or otherwise, obtain a commercial fishing loan for the repair, restoration, or upgrading of an existing vessel and gear, for the purchase of gear, and for the construction [OF A FISHING VESSEL] or the purchase of a [AN EXISTING] fishing vessel. Loans granted under this subsection

[(1)] may not exceed the amount specified in (d) of this section multiplied by the number of qualified commercial fishermen applying for the loan [;

(2) MAY NOT EXCEED A TERM OF 15 YEARS;

(3) SHALL BE SECURED BY A FIRST PRIORITY LIEN AND APPROPRIATE SECURITY AGREEMENT;

(4) MAY NOT BEAR INTEREST EXCEEDING 10-1/2 PERCENT; AND

(5) MAY NOT EXCEED 90 PERCENT OF THE APPRAISED VALUE OF THE COLLATERAL USED TO SECURE THE LOAN].

* Sec. 7. AS 16.10.320(i) is amended to read:

(i) If a loan is made to a borrower under AS 16.10.310(a)(1)(A), a subsequent loan may not be made to the borrower [OR AN ASSOCIATE OF THE BORROWER] under AS 16.10.310(a)(1)(B) [OR (C)]. If a loan is made to a borrower under AS 16.10.310(a)(1)(B) [OR (C)], a subsequent loan may be made to the borrower [OR AN ASSOCIATE OF THE BORROWER] under AS 16.10.310(a)(1)(A) if the total of the balances outstanding on loans received by the borrower [OR THE ASSOCIATE] under AS 16.10.310 does not exceed $300,000.

* Sec. 8. AS 16.10.333(a) is amended to read:

(a) Loans under AS 16.10.310(a) [AS 16.10.320(a)] may be made to an individual commercial fisherman for the purchase of a limited entry permit upon certification by the commission that the fisherman is a person who qualifies as a transferee for the permit under AS 16.43 and the regulations adopted by the commission.

* Sec. 9. AS 16.10.335 is amended to read:

Sec. 16.10.335. DEFAULT AND FORECLOSURE. (a) If the debtor defaults upon a note for which a limited entry permit has been pledged as security under AS 16.10.333 or [UNDER AS] 16.10.338, the commissioner shall provide the debtor, by both [REGISTERED OR] certified and first class mail sent to the debtor's last known address on file with the commissioner, with a notice of default that [WHICH] includes

(1) a description of the security given for the note including the number assigned to the pledged permit by the commission;

(2) the date upon which the default occurred;

(3) the amount of arrearages as of the date of the notice, the total amount remaining on the note less unearned interest, and the amount of daily interest;

(4) a statement that the debtor may, within 15 days after [OF] the postmark date of the notice, request a hearing to submit evidence showing the debtor has not defaulted;

(5) a statement that the note may be reinstated if brought current within 60 days after [FROM] the postmark date of the notice;

(6) a statement that the note may be paid in full less unearned interest within 120 days after [FROM] the postmark date of the notice;

(7) the place where reinstatement or payment in full may be made; and

(8) a notice in at least 10-point bold type stating:

"IMPORTANT: YOUR FAILURE TO REINSTATE OR PAY THIS NOTE IN FULL BY THE DATE SPECIFIED WILL RESULT IN A FORFEITURE OF ALL RIGHTS TO THE PERMIT AND THE POSSIBILITY OF LEGAL ACTION BEING INSTITUTED AGAINST YOU."

(b) In each case of a limited entry permit being pledged as security under AS 16.10.333 or 16.10.338, the debtor shall maintain on file with the department an address where notice of default is to be sent, if necessary, and where that notice will be timely received by the debtor.

(c) Upon presentation of evidence of mailing in accordance with (a) of this section, the receipt of the notice of default by the debtor will be presumed for all purposes. This presumption is rebuttable by presentation of evidence sufficient to demonstrate lack of receipt of notice through no fault of the debtor. Upon presentation of evidence sufficient to prove lack of receipt of notice through no fault of the debtor, the notice is a nullity.

(d) Upon good cause shown, the commissioner may waive any of the time limits in (a) of this section, if the department receives from the debtor or the debtor's representative a request for the waiver before the expiration of the time limit for which the waiver is sought.

(e) Except as otherwise provided in (c) and (d) of this section, upon [UPON] the debtor's failure to satisfy the note within the time specified in (a)(6) of this section, the debtor's interest in the permit is terminated by operation of law without further notice. Any entry permit cards issued to the debtor under the permit must [SHALL] be cancelled immediately upon receipt by the commission of a certificate of termination containing a copy of the notice required by (a) of this section issued by the commissioner.

* Sec. 10. AS 16.10.339 is amended to read:

Sec. 16.10.339. REGULATIONS. The [COMMISSION, WITH THE APPROVAL OF THE] department[,] shall adopt regulations to implement AS 16.10.-333 - 16.10.337.

* Sec. 11. AS 16.10 is amended by adding a new section to read:

Sec. 16.10.355. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under AS 16.10.300 - 16.10.370 or former AS 16.10.650 - 16.10.720. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years, but may not be by lease.

* Sec. 12. AS 16.10 is amended by adding a new section to read:

Sec. 16.10.507. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the fisheries enhancement revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 16.10.520 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 13. AS 16.10 is amended by adding a new section to read:

Sec. 16.10.555. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under AS 16.10.500 - 16.10.620. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 14. AS 26.15 is amended by adding a new section to read:

Sec. 26.15.085. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 15. AS 26.15 is amended by adding a new section to read:

Sec. 26.15.095. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the Alaska World War II veterans' revolving fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 26.15.040 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 16. AS 27.09 is amended by adding a new section to read:

Sec. 27.09.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the mining loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 27.09.010 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 17. AS 27.09 is amended by adding a new section to read:

Sec. 27.09.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired

through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 18. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.242. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the child care facility revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 44.33.245 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 19. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.272. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under AS 44.33.240 - 44.33.275. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 20. AS 45.87 is amended by adding a new section to read:

Sec. 45.87.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the bulk fuel revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans

made under this chapter or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 21. AS 45.87 is amended by adding new sections to read:

Sec. 45.87.040. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

Sec. 45.87.060. REGULATIONS. The department shall adopt regulations to implement this chapter.

* Sec. 22. AS 45.88 is amended by adding a new section to read:

Sec. 45.88.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established, as a special account within the revolving loan fund established under AS 45.88.010, the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.88.020 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 23. AS 45.88 is amended by adding a new section to read:

Sec. 45.88.050. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 24. AS 45.89 is amended by adding a new section to read:

Sec. 45.89.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the residential energy conservation fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.89.030 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 25. AS 45.89 is amended by adding new sections to read:

Sec. 45.89.050. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

Sec. 45.89.070. REGULATIONS. The department shall adopt regulations to implement this chapter.

* Sec. 26. AS 45.90 is amended by adding a new section to read:

Sec. 45.90.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the tourism revolving fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.90.020 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 27. AS 45.90 is amended by adding a new section to read:

Sec. 45.90.050. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 28. AS 45.95 is amended by adding a new section to read:

Sec. 45.95.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 29. AS 45.95 is amended by adding a new section to read:

Sec. 45.95.065. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the small business revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.95.020 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 30. AS 45.98 is amended by adding a new section to read:

Sec. 45.98.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the historical district revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may

expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under this chapter, or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 31. AS 45.98.020 is amended to read:

Sec. 45.98.020. HISTORICAL DISTRICT LOANS. Upon endorsement and plan approval by a local historical district commission established under AS 29.48.108 and the recommendation of a majority of the members of the Historic Sites Advisory Committee, the Department of Commerce and Economic Development may make loans to a person, firm, business or municipality subject to applicable laws for the restoration, improvement, rehabilitation, or maintenance of

(1) a structure which is [(1)] within the boundaries of a historical district established under AS 29.48.110 and [;]

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

(2) a [(3) ANOTHER] building or structure within a historical district, that is [AND] suitable for superficial modification so that it can conform to the period or motif of the surrounding buildings or structures that are the reason for the area's designation as a historical district.

* Sec. 32. AS 45.98 is amended by adding a new section to read:

Sec. 45.98.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 33. AS 16.10.310(b), 16.10.320(f), and 16.10.333(f) are

repealed.

* Sec. 34. This Act takes effect July 1, 1985.

Alaska State Legislature

House of Representatives

House Judiciary Committee

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-4990

MEMO: March 13, 1985

TO: Rep. John Sund
Chairman, House Committee on Loans

FROM: Rep. M. Mike Miller

RE: HB 283/Historical properties loans

This bill was introduced today's date, and would revise the eligibility for loans under the existing historical district loan program. Attached is a letter of explanation from Ms. Janet McCabe explaining the reasons for introducing the bill.

I would appreciate your scheduling of this bill at your committee's convenience, understanding that more pressing issues may occupy your committee as the session deadline approaches.

At such time as you may schedule a hearing on this bill, the following people should be notified:

Janet McCabe (Anchorage): 272-2119
Alaska Association for Historic Preservation

Steve Peterson (Anchorage): 272-3567 (days)
Chairman, Anchorage Landmarks Commission
1835 Northwestern, Anch.

Judy Bittner (Anchorage): 265-4140 (days)
State historical preservation officer
Office of History and Archaeology

Laurie Bender (Anchorage):
Planner
Municipality of Anchorage

Greg Winegar (Juneau): 465-2510
Juneau Regional Office
Division of investments/Commerce & Ec. Development

Bob Speed of my office will be dealing with this bill for me, if you or your staff have any questions. Please feel free to discuss this with me about the bill at any time.

THE ALASKA ASSOCIATION

OLD CITY HALL 524 WEST FOURTH AVENUE SUITE 203 ANCHORAGE ALASKA 99501 TELEPHONE (907) 274-2311

Honorable Mike Miller (Juneau)
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Mike:

As follow-up to our discussion about amending the historic properties loan legislation I'm enclosing a suggested draft which could be used by Legislative Affairs as they develop a bill for your introduction.

Basically, AAHP would like to see the following accomplished:

1. Amend the AS 45.98 so that historic structures outside of districts can also qualify for state loans. Eligibility should be based on the recommendation of the local landmarks commission and the State Historic Sites Advisory Commission or, where there is no local commission, on the recommendation of the State Historic Sites Advisory Commission alone. We feel that this last provision is important because a number of Alaska's historic structures, particularly roadhouses and churches, are outside the jurisdiction of a municipality with an historic landmarks commission.

2. Delete Sec. 45.98.040(6) which requires that the state loan be in first lien position and amend Sec. 45.98.040(3) so that the total of all loans may not exceed 85 percent of the appraised value. This change would be consistent with other state loan programs which do not require a first lien position. The first lien requirement has been a major obstacle to use of the program.

We have discussed these changes with staff in the Department of Commerce and Economic Development. They have not identified any problem with the changes and have indicated that they would give the program a wider useability.

I understand from them that the amount currently available in the loan fund is about $950,000. We recommend that this level be sustained annually.

Your interest and support is much appreciated. Please let me know if AAHP can be of assistance after the bill is introduced. I'll be in Juneau March 7 and 8 and will stop by to see you at that time.

Sincerely,

Janet

Janet McCabe
Executive Director

Enclosure

cc:
Greg Winegar, Dept of Commerce and Economic Development
Steve Peterson and Tom Beck, Cochairmen, Anchorage Historic Landmarks Commission
Board Members, AAHP

DRAFT: HISTORICAL PROPERTIES AND DISTRICT LOANS
AMENDMENTS PROPOSED BY AAHP

Underlining indicates new language or other changes.

Section. 45.98.110. Creation of historical properties and historical district revolving loan fund. There is created in the Department of Commerce and Economic Development a historical properties and historical district revolving loan fund (Sec. 3 ch139 SLA 1977).

Sec. 45.98.020. Historical properties and historical district loans. Upon endorsement and plan approval by a local historical landmark or district commission established under AS 29.48.108 and the recommendation of a majority of the Historic Sites Advisory Committee, or, in the absence of a local historic landmark or district commission, upon the recommendation of the Historic Sites Advisory Committee, the Department of Commerce and Economic Development may make loans to a person, firm, business or municipality subject to applicable laws for the restoration, improvement, rehabilitation, or maintenance of an historic building, structure, site, or object ~~which is~~. Properties in historic districts shall be:

(Continue with (1), (2), (3) as written.)

Sec. 45.98.040. Limitation on Loans

(3) the loans shall be secured by acceptable collateral and the total of all loans may not exceed 85 percent of the appraised value of the collateral offered as security;

(6) The state has a lien on the property accepted as collateral to the extent of its portion of the loan. DELETE REMAINDER OF (6).

CITY/BOROUGH OF JUNEAU
ALASKA'S CAPITAL CITY

February 7, 1985

The Honorable Mike M. Miller
House of Representatives
State of Alaska
Pouch V
Juneau, Alaska 99811

Dear Representative Miller:

Enclosed is a copy of City and Borough of Juneau Resolution No. 1079 regarding the Historic District Loan Program.

This resolution was adopted on January 7, 1985, and is provided for your information.

Sincerely,

Phyllis Larson

Phyllis Larson
Secretary

Enclosure

155 South Seward Street, Juneau, Alaska 99801

Presented by: The Manager
Introduced: 01/07/85
Drafted by: G.L.

RESOLUTION OF THE CITY AND BOROUGH OF JUNEAU, ALASKA

Serial No. 1079

A RESOLUTION URGING THE LEGISLATURE TO EXPAND THE HISTORIC DISTRICT LOAN PROGRAM TO STRUCTURES THAT ARE ON THE NATIONAL REGISTER OF HISTORIC PLACES.

WHEREAS, AS 45.98.010 through .070 establishes the Historical District Revolving Loan Fund, and

WHEREAS, said fund may be used to make loans for the purpose of restoration, improvement, rehabilitation, or maintenance of structures within a historical district established by a municipality, and

WHEREAS, no structure outside such a district qualifies for a loan from the fund, and

WHEREAS, there are structures on the National Register of Historic Places outside such districts that should also quality for loans from the fund;

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF CITY AND BOROUGH OF JUNEAU, ALASKA:

1. That the city urges the introduction and adoption by the legislature of legislation that would amend the Alaska Historical District Loan Act (AS 45.98.010-070) to permit loans to be made to owners of structures on the National Register of Historic Places without regard to whether such structures are within the boundaries of a historical district established by a municipality.

2. That copies of this resolution shall be sent Governor Sheffield, Senator Bill Ray, Representative Mike Miller, Representative Jim Duncan, and Esther Wunnicke, Commissioner of the Alaska Department of Natural Resources.

Adopted this 7th day of January, 1985.

Mayor

Attest:

Acting Clerk

Municipality of Anchorage

POUCH 6-650
ANCHORAGE, ALASKA 99502-0650
(907) 264-4111

TONY KNOWLES, MAYOR

DEPARTMENT OF PLANNING

January 30, 1985

Representative Mike M. Miller
P.O. Box 1494
Juneau, Alaska 99802

Dear Mr. Miller:

The Historic District Revolving Loan Fund was legislated into being in 1977 as a result of your efforts. It is a program with great potential, especially today with declining federal assistance to historic preservation. The record will show however that the program has been largely underutilized for several reasons, including the difficulties in establishing historic districts and the relatively low level of loan funds for projects. The Anchorage Historic Landmarks Preservation Commission would like to see an amendment to the loan program. Consequently, we are now writing to you as the original co-sponsor of the bill and as persons concerned about our state's heritage resources, and asking for your assistance in amending of the loan provisions.

Specifically we would like to see five points changed:

1. The loan program should be made available for single historic structures/buildings which are not necessarily located in Historic Districts.

   Nationwide historic districts have often evolved as a response to individual preservation efforts. Exemplative rehabilitation of one or two buildings can initiate an awaking of public awareness and cu'tural appreciation resulting in the restoration of ther properties. Thus, if funds are made available r single structures there is a wider possibility of us and potential spin-off effects whereby other property owners become inclined to restore their buildings.

2. Any building which is on the National Register of Historic Places or is declared historically significant

by the State Historic Site Advisory Commission should qualify for the state loan funds. The existing requirement that a local historic society or commission approve the property is not feasible in some remote and isolated communities.

3. Loan ceilings should be increased for Historic Districts to $2,500,000. The $250,000 limit as now amended is adequate for individual structures.

4. A set amount of dollars (for example $750,000 to 1,000,000) should be kept in the Historic Loan Fund. This will avoid the depletion of the short-term future restoration funds before funds begin to flow back via loan payments. By subsidizing the loan fund for a few years, future projects will be insured.

5. Unlike other state loan programs, the Historic Loan Fund requires that the State be in a 1st lien position on any project using loans. We find this encumbering and prefer to see the State take a 2nd lien position in keeping with other state programs.

Your support in facilitating these changes is much appreciated. We are most willing to assist you in any way we can to see this fine program go forward.

Sincerely,

Steven M. Peterson
Co-Chairman, Anchorage Historic
Landmark Preservation Commission

jbl/hll

2001 Turnagain Parkway
Anchorage, Alaska 99503
April 7, 1985

Representative John Sund
Chairman, House Loans
Pouch V
Juneau, Alaska 99811

Dear Representative Sund:

I am writing to urge your support of House Bill 283 on historic preservation loans. HB 283 will make preservation loans available for historic properties not within the boundaries of an historic district with the approval of a majority of the members of the Historic Sites Advisory Council. It will also delete the present requirement that a state loan be in first position, a requirement that had made the loans unusable for many. Passage of HB 283 would be an aid to historic preservation in Alaska by making available the $950,000 in the preservation loan fund to more people throughout the state.

Sincerely,

Wilda Marston

Wilda Marston
Alaskan Advisor
National Trust for Historic
Preservation

cc: Alaska Association for Historic Preservation
Anchorage delegation

A

ALASCOM Telegram

04017

NL ANCHORAGE AK 68 04-08 1410 AST

PMS

'85 APR 8 PM 4 06

REP JOHN L. SUND
RM 411 CAPITOL BLDG
JUNEAU AK 99801

0384

THE ALASKA ASSOCIATION FOR HISTORIC PRESERVATION STRONGLY SUPPORTS HOUSE BILL 283. THE BILL EXPANDS THE USEABILITY OF AN OTHERWISE EXCELLENT PROGRAM. NO NEW FUNDING IS REQUESTED.

BOARD MEMBERS

TOM BECK	ROBERT GOLDBERG	CHARLES HAWKES
JUDITH BITTNER	JANE HAIGH	KIM HUNTER
PAUL CHATTEY	MIKE KENNEDY	DONNA LANE
NANCY DAVIS	BILL LISTON	TOM LIVINGSTON
JIM EDE	WILDA MARSTON	JANET MATHESON
JOAQLIN ESTUS	JANE MCCABE	STEVE PETERSON
JIM RAPP	TIM SMITH	MIKE YARBOROUGH

L-0167-0 1601876

Alaska State Legislature

House of Representatives

REPRESENTATIVE
JOHN L. SUND

Box 6440
KETCHIKAN, ALASKA 99901
(907) 225-5552

WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4919

CHAIR, HOUSE SPECIAL COMMITTEE ON LOANS
VICE-CHAIR, JUDICIARY COMMITTEE
MEMBER, SPECIAL COMMITTEE ON OIL AND GAS
MEMBER, RESOURCES COMMITTEE

May 2, 1985

Chris Rabich Campbell
601 Pittinger Street
Ketchikan, Alaska 99901

Dear Mrs. Campbell:

Thank you for your letter regarding House Bill 283. I am happy to hear that you are putting such effort into preserving Ketchikan's history.

HB 283 went through two hearings in my Loans Committee. It was passed out with excellent recommendations. It is now in the Finance Committee awaiting a hearing. The bill will have my support every step of the way.

Your comments on the bill are appreciated. It is efforts such as yours that deserve support and assistance.

Sincerely,

John Sund
Representative

Chris Rabich Campbell
601 Pittinger Street
Ketchikan, Alaska 99901
225-5359

Representative John Sund
Chairman, House Loans
Pouch V
Juneau, Alaska 99811

24 April 1985

Dear John,

I am writing to express my support of HB 283. My husband, Doug Campbell and I own a house built by Mrs. Evelyn Valentine's father in 1924. We have lovingly worked on it for 4 years and it has been time consuming because we are conscientously ~~been~~ striving to maintain the historic integrity of the house. We intend to nominate it to the National Register of Historic Places.

One thing we need to do is to re-roof the house. Originally it had a cedar shake roof, and we would like to put on fire treated cedar shakes as did our neighbor, Fran Broderick. This will be a very expensive endeavor, and we understand that matching Federal Historic Preservation funds for these types of projects are unavailable. Hence, it would be terrific if we could apply for a lower interest loan as described in HB 283, which I learned about through The Alaska Association for Historic Preservation newsletter.

I am sure you are aware of the citizens' of Ketchikan interest in historic preservation. There is an active Historic Commission, of which my husband is a member, and the Creek Street Review Board, of which my husband is chairperson. The objectives of both groups include maintaining the historic integrity of our lovely community. Unfortunately, niether group was informed about HB 283 until I received my newsletter. If they had, I am sure you would have heard from both entities by now.

Our house, visible from the junction of Bawden and Park, is virtually one of Ketchikan's landmarks. Several oldtimers, like Bob Young, have expressed to us their pleasure in the fact that we are fixing up our home. On numerous occasions we have spotted tourists photographing or drawing our home. We love it, and cordially invite you to drop by any time to see what we're up to and how we would apply loans from HB 283.

In closing, there has been a massive effort in recent years to inventory historic properties in specific Alaskan communities. This has generated a great deal of interest on the part of members of these communities in the history of their towns and the historical integrity of their homes. I believe that HB 283 is a logical extension of this effort. It is only natural that homeowners, after learning how neat their places are, will want to fix them up to maintain the historic integrity--and you can bet that these same people will be looking for funding sources (for example, a fire treated cedar shake roof is far more expensive and labor intensive than a baked enamel roof). I hope that you and other representives recognize and support the kind of economic incentive that HB 283 offers.

Sincerely,

Chris Rabich Campbell

Chris Rabich Campbell

cc Representative Mike Miller
Janet McCabe, Executive Director, AAHP

KOOTZNOOWOO
HERITAGE FOUNDATION, LTD.

Box 182
Angoon, Alaska 99820
907-788-3779

October 11, 1985

Representative John Sund
Chairman
House Committee on State Loans
Pouch V
Juneau, AK 99811

Dear Representative Sund:

The Kootznoowoo Heritage Foundation urges you to support the passage of House Bill 283, introduced by Representative Mike Miller, of Juneau last Session. The bill is presently in House Finance and will need your support to move through the House this coming session, and then through the Senate.

This legislation is critical for the survival of the Historical District Revolving Loan Fund, under AS 45.98.010.

This program enables Alaskans to hold onto their heritage at the same time that we improve the historic districts of our communities, many of which are in disrepair. Our historic buildings are living testimony to the rich heritage we share as Alaskans. When restored these historic monuments provide a source of civic pride and a viable tourist attraction for the many Alaskan communities seeking to develop tourism as a source of economic stability.

We urge you to support this critical program and to work towards the passage of House Bill 283.

Sincerely,

Sarah Robinson
Executive Director

VEH

10 October 1985

Representative John Sund
Chairman, House Loans
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Sund:

Upon reading about House Bill 283 in the July-September 1985 issue of "Heritage" (published by the Alaska Division of Parks and Outdoor Recreation, Office of History and Archaeology), I am writing to you in support of this bill and the three amendments proposed by Representative Mike M. Miller, to wit: (1) loans may be made to projects that are not within the boundaries of an historic district with the approval of the majority of the members of the Historic Sites Advisory Committee; (2) deletion of the requirement that the state be able to take a first lien on the loan, rather than a secondary lien; and (3) owners of structures listed on or eligible for the National Register will be able to apply for State of Alaska Historical District Revolving Loan Fund loans.

Thank you for supporting this bill, which I consider to be very worthwhile legislation.

Sincerely,

Virginia E. Heiner

VEH:s

Copies: Representative Mike Davis, District 19
Representative Mike M. Miller

Virginia E. Heiner • P.O. Box 80433 • College, Alaska 99708 • (907) 455-6153

Municipality of Anchorage

POUCH 6-650
ANCHORAGE, ALASKA 99502-0650
(907) 264-4111

TONY KNOWLES
MAYOR

DEPARTMENT OF PLANNING

January 30, 1985

Representative Mike M. Miller
P.O. Box 149
Juneau, Alaska 99802

Dear Mr. Miller:

The Historic District Revolving Loan Fund was legislated into being in 1977 as a result of your efforts. It is a program with great potential, especially today with declining federal assistance to historic preservation. The record will show however that the program has been largely underutilized for several reasons, including the difficulties in establishing historic districts and the relatively low level of loan funds for projects. The Anchorage Historic Landmarks Preservation Commission would like to see an amendment to the loan program. Consequently, we are now writing to you as the original co-sponsor of the bill and as persons concerned about our state's heritage resources, and asking for your assistance in amending of the loan provisions.

Specifically we would like to see five points changed:

1. The loan program should be made available for single historic structures/buildings which are not necessarily located in Historic Districts.

   Nationwide historic districts have often evolved as a response to individual preservation efforts. Exemplative rehabilitation of one or two buildings can initiate an awaking of public awareness and cultural appreciation resulting in the restoration of other properties. Thus, if funds are made available for single structures there is a wider possibility of use and potential spin-off effects whereby other property owners become inclined to restore their buildings.

2. Any building which is on the National Register of Historic Places or is declared historically significant

by the State Historic Site Advisory Commission should qualify for the state loan funds. The existing requirement that a local historic society or commission approve the property is not feasible in some remote and isolated communities.

3. Loan ceilings should be increased for Historic Districts to $2,500,000. The $250,000 limit as now amended is adequate for individual structures.

4. A set amount of dollars (for example $750,000 to 1,000,000) should be kept in the Historic Loan Fund. This will avoid the depletion of the short-term future restoration funds before funds begin to flow back via loan payments. By subsidizing the loan fund for a few years, future projects will be insured.

5. Unlike other state loan programs, the Historic Loan Fund requires that the State be in a 1st lien position on any project using loans. We find this encumbering and prefer to see the State take a 2nd lien position in keeping with other state programs.

Your support in facilitating these changes is much appreciated. We are most willing to assist you in any way we can to see this fine program go forward.

Sincerely,

Steven M. Peterson
Co-Chairman, Anchorage Historic
Landmark Preservation Commission

jbl/hll

SCOMM

#50:28

Pat-file

March 1, 1985

The Honorable Al Adams
House of Representatives
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Al:

In a joint effort, the City, the Chamber of Commerce, the area realtors and financial institutions in the City of Homer have been working hard to develop an equitable program for the entire State on the DCRA owner-occupied rural housing loan program.

We know that several bills have been filed recently concerning this issue; however, we feel that no action taken to date addresses the problems, such as economic base, lack of services, etc., that apply to all the areas of our State.

The restrictions in the previously-filed bills which apply to mileage factors and population factors eliminate this rural home-loan program from many of the truly rural areas of the State such as the communities of Hope, Cordova, Seward, Ninilchik and so on.

We feel that we have come up with a good, workable solution! If the program were rewritten so that this rural-home-loan program could only be used for single-family/duplex, owner-occupied dwellings and only applicable in any area of the State that has sixty-five (65%) percent or less of its residential structures connected to a public water and sewer system, we think it would come very close to addressing the original intent of the program.

Your consideration of this input will be much appreciated.

Sincerely,

Gail Phillips
Chairman
Homer Chamber of Commerce Legislative Committee

cc: Commissioner Emil Notti
Dept. of Community and Regional Affairs



April 5, 1985

The Honorable Representative John Sund
Chairman, House Special Committee on Loans
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Representative Sund:

As Chairman of the House Special Committee on Loans, we urge you to consider and work for the passage of House Bill 303 concerning the DCRA rural home loan program.

In previous correspondence to the Legislature (copy attached), the Homer Chamber of Commerce suggested language that would make this program an equitable one across the State. That language stated: "that DCRA home loans would apply only to single family/duplex, owner-occupied dwellings located in an area of the State that has 65% or less of its residential structures connected to a public water and sewer system."

We note that Bill #303 is in your Committee and cannot move on to House CRA or House Finance until your committee acts on it. We would urge you and your committee to consider the overall benefit to the State of this program, and to move on it this session.

Your assistance in getting this bill passed through your committee will be very much appreciated.

Sincerely,

Gail Phillips

Gail Phillips
Chairman, Legislative Committee

attachment

cc: Representative Sam Cotten, Committee Member
Representative Jack Fuller, Committee Member
Representative Jim Duncan, Committee Member
Representative Rich Uehling, Committee Member

Post Office Box 541 • Homer, Alaska 99603 • (907) 235-7740

Commissioner Emil Notti, Dept. of Community & Regional Affairs

DELIVER TO: JUDM

ORIGINAL
SENT: 04/09/85 TIME: 15:24
FROM: LIOF
SUBJECT: POM/FAIRBANKS AN
PRINT DATE: 04/09/85 TIME: 15:25

2

TO: REPS. SUND, COTTEN, FULLER, DUNCAN, UEHLING

REP. RINGSTAD AND SENATOR BENNETT

FROM: JANET MATHESON, BOX 80567, FAIRBANKS 99708

PHONE: 452-4640

RE: HB 283 HISTORICAL PROPERTY LOAN ACT

AS A MEMBER OF FAIRBANKS PRESERVATION COMMUNITY I WOULD LIKE TO URGE PASSAGE OF HB283 ALLOWING HISTORIC STRUCTURES OUTSIDE HISTORIC DISTRICTS TO QUALIFY FOR STATE LOANS. IT IS IMPORTANT THAT THE STATE HISTORIC SITES ADVISORY COMMISSION RECOMMEND ELIGIBILITY WHERE NO HISTORIC LAND MARKS COMMISSION EXISTS. PLEASE CONTACT ME IF YOU NEED FURTHER INFORMATION.

SCOMM

#50:29

5/3

COMMITTEE REPORT

HOUSE

HEALTH, EDUCATION AND SOCIAL SERVICES

(5) FURTHER: FINANCE

4/8/85

Date: 4/8/85

The Committee on HOUSE SPECIAL COMMITTEE ON LOANS has had HB 357

"An Act relating to the use of student loans to pay child care expenses."

under consideration and recommends:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

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

and recommends _____

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

[✓] reports it back without recommendation

[ ] referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

_____

CHAIRMAN

Introduced: 4/8/85
Referred: House Special Committee on State Loans, Health, Education & Social Services and Finance

IN THE HOUSE

BY GRUENBERG, KOPONEN AND SHULTZ

HOUSE BILL NO. 357

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the use of student loans to pay child care expenses."

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

* Section 1. AS 14.43.120(a) is amended to read:

(a) Proceeds from scholarship loans may only be used for books, tuition and required fees, child care expenses, and for room and board, however the maximum loan award may not exceed the cost of books, tuition and required fees for commuting students

* Sec. 2. AS 14.43.640(d) is amended to read:

(d) Proceeds from a teacher scholarship loan may be used only for undergraduate expenses of books, tuition, required fees, room and board, child care expenses, and the transportation expense for two round trips between the loan recipient's home and school.

14-0690
Levy
2/18/85✓

IN THE HOUSE

BY THE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the use of student loans to pay child care expenses."

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

* Section 1. AS 14.43.120(a) is amended to read:

(a) Proceeds from scholarship loans may only be used for books, tuition and required fees, child care expenses, and for room and board, however the maximum loan award may not exceed the cost of books, tuition and required fees, and room and board.

* Sec. 2. AS 14.43.640(d) is amended to read:

(d) Proceeds from a teacher scholarship loan may be used only for undergraduate expenses of books, tuition, required fees, room and board, child care expenses, and the transportation expense for two round trips between the loan recipient's home and school, however the maximum loan award may not exceed the cost of books, tuition and required fees, and room and board & transportation.

HB 357 - STUDENT LOANS FOR CHILD CARE EXPENSES

I HAD NO INTENTION OF INCREASING THE AMOUNT OF MONEY FOR THE STUDENT LOAN PROGRAM WHEN I CONTEMPLATED INTRODUCING HB 357.

RATHER, I ENVISIONED IT AS A VEHICLE TO ALLOW STUDENTS TO USE THEIR EXISTING STUDENT LOAN FUNDS FOR THE PURPOSES OF CHILD CARE.

ALLOWING STUDENT LOANS TO BE USED TO PAY CHILD CARE EXPENSES WOULD GRANT THE STUDENT A FEDERAL INCOME TAX DEDUCTION AND A STATE OF ALASKA CHILD CARE CREDIT.

A VERY SMALL NUMBER OF STUDENTS RECEIVE DAY CARE ASSISTANCE (5% OF 2100 PERSONS ARE FULL TIME STUDENTS/2.9% ARE PART TIME STUDENTS). LESS THAN 200 STUDENTS RECEIVED DAY CARE ASSISTANCE IN THE HIGHEST USE MONTH IN 1984: DR. ROMESBURG CLAIMS ON HIS FISCAL NOTE THAT OVER 500 LOAN APPLICANTS (31.5%) WOULD CLAIM CHILD CARE CREDIT, ALTHOUGH THERE ARE ALMOST 9,000 STUDENTS GOING TO SCHOOL IN-STATE RECEIVING STUDENT LOANS. THIS MUST INDICATE THAT THE MAJORITY OF STUDENTS WHO ARE PARENTS HAVE THEIR CHILDREN IN UNLICENSED CHILD CARE (ASSUMING IT IS LESS EXPENSIVE), ARE ON THE WAITING LIST FOR DAY CARE ASSISTANCE, CAN ONLY AFFORD TO ATTEND SCHOOL PART-TIME OR HAVE NON-FINANCIAL CHILD CARE ARRANGEMENTS (FAMILY, FRIENDS ETC.).

THE BENEFIT TO THE STATE OF ALASKA IS THAT THE MONEY USED FOR CHILD CARE WOULD BE A LOAN, TO BE PAID BACK, AND MAY LESSEN THE DEMAND FOR DAY CARE ASSISTANCE.

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
(907) 465-4920

TUESDAY, APRIL 23, 1985
3:30 p.m.
Room 124 (House Judiciary)

* HB 357 "An Act relating to the use of student loans to pay child care expenses."

Loan Programs: General Fund Recommendations for FY 86.

THURSDAY, APRIL 25, 1985
3:30 p.m.
Room 124 (House Judiciary)

* HB 378 "An Act relating to interest rates on state loan programs; and providing for an effective date."

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

* indicates first public hearing

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 357

Title: RE: Student Loan Expenses For Child Care

Sponsor: Gruenberg, Koponen, Shultz

Requestor: Gruenberg

Date of Request: 4/19/85

FISCAL DETAIL

Agency Affected: Education

Program Category Affected: Postsecondary Education Commission

BRU, Program or Subprogram(s) Affected: Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	N.A.	-0-	-0-	-0-	-0-	-0-
CAPITAL	N.A.	9,640.0	9,920.0	10,206.0	10,489.5	10,773.0
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	9,640.0	9,920.0	10,206.0	10,489.5	10,773.0
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

See Attached

Prepared By: Kerry D. Romenburg, Executive Director Phone: 465-2854

Division: Alaska Commission on Postsecondary Education Date: 4/22/85

Approved by Commissioner: Date:

Agency:

Distribution (by Agency preparing fiscal note):

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

7/1/84

FISCAL NOTE FOR HB 357

(a) Assumptions:

1. Child care expenses are an add-on expense in addition to those eligible expenses currently in statute, i.e., there is no trade-off, only additional program cost.

2. Child care expenses may be claimed by both male and female applicants.

3. 53.6% of current FY85 Alaska Student Loan recipients indicate dependents on their loan applications. Of these, 60.0% will have at least one dependent under the age of six, and of these, 98.0% will claim child care expenses. Therefore, approximately 31.5% of all applicants will claim child care expenses.

4. University of Alaska, Fairbanks standard student budget provides $268 per month for child care expense per eligible dependent ($2,400 per academic year).

5. Approximately 75% of those eligible would receive the additional $2,400. Others would not--due to loan maximums.

(b) Comment:

1. This cost will either be a new program cost, in General Fund appropriation, or will result in loans to fewer persons.

MEMORANDUM

TO: ALL REPRESENTATIVES
FROM: MAX GRUENBERG
RE: HB 357 - USE OF STUDENT LOANS TO PAY CHILD CARE EXPENSES
DATE: APRIL 22, 1985

HB 357 HAS TWO PROVISIONS:

1. AS 14.43.120 (a) applies to the student loan program, and would allow the proceeds from student loans to be used to pay child care expenses.

2. AS 14.43.640 (d) applies to the teacher scholarship loan fund, and would allow the proceeds from those student loans to be used for child care expenses.

Effect of amendments. — The 1984 amendment, effective July 6, 1984, in subsection (a), added "and to pay the costs of collecting student loans that are in default if those costs are not recovered from the student" at the end of the first sentence and substituted "loan fund" for "fund shall be used to make new scholarship loans" in the second sentence and "money estimated to be" for "funds" and "is" for "are" in the third sentence.

Sec. 14.43.095. Financial aid committee. (a) The student financial aid committee is composed of the members of the Alaska Commission on Postsecondary Education. The commission may delegate its functions under AS 14.43.090 — 14.43.160 to a committee of its members, with augmented membership as the commission considers appropriate. The executive officer of the commission is the executive secretary of the committee. The Alaska Commission on Postsecondary Education shall administer the program established by AS 14.43.090 — 14.43.160.

(b) Members of the committee serve without compensation but are entitled to per diem and travel expenses authorized by law for boards and commissions.

(c) The committee shall make an annual report reviewing the work of the committee to the governor and the legislature.

(d) The committee shall meet at least once a year. The meetings shall be held at the call of the chairman or upon petition by two members. (§ 1 ch 98 SLA 1971; am § 2 ch 156 SLA 1972; am § 5 ch 78 SLA 1974; am § 3 ch 136 SLA 1974; AS 14.40.753; am § 57 ch 6 SLA 1984)

Effect of amendments. — The 1984 amendment, effective February 14, 1984, substituted "and the legislature" for "the legislature and the private colleges and universities where students receiving tuition grants are enrolled" in subsection (c).

Sec. 14.43.100. Applications. (a) Applications shall be submitted to the executive secretary of the committee.

(b) A person whose loan application is not recommended or presented to the committee by the executive secretary may appeal to the committee through the chairman of the committee and the committee shall consider the application. (§ 1 ch 98 SLA 1971; am § 3 ch 156 SLA 1972; am § 4 ch 136 SLA 1974; AS 14.40.755; am § 58 ch 6 SLA 1984)

Effect of amendments. — The 1984 amendment, effective February 14, 1984, deleted "or grant" following "loan" in subsection (b).

Sec. 14.43.120. Conditions of loans. (a) Proceeds from scholarship loans may only be used for books, tuition and required fees, and for room and board.

(b) The loans may only be used to attend a career education program or a college or university approved by the commission, and, if the loans are federally insured, by the United States Commissioner of Education.

(b) The legislature further finds that existing programs have failed to increase the proportion of Natives teaching in rural schools. Therefore, it is the intent of the legislature to establish the teacher scholarship loan program to encourage rural high school graduates to return to rural schools as teachers and relieve the conditions described in this section. (§ 1 ch 121 SLA 1984)

Sec. 14.43.610. Program established. There is established the teacher scholarship loan program to provide an incentive for rural high school graduates to pursue teaching careers in rural elementary and secondary schools in the state. (§ 1 ch 121 SLA 1984)

Sec. 14.43.620. Teacher scholarship revolving loan fund. There is created a teacher scholarship revolving loan fund. The fund shall be used to make scholarship loans to students selected under AS 14.43.600 — 14.43.700. All repayments of principal and interest on teacher scholarship loans shall be paid into the teacher scholarship revolving loan fund and shall be used to make new teacher scholarship loans. If estimated funds available from teacher scholarship loan repayments are inadequate to fully fund estimated teacher scholarship loans for any fiscal year, additional funding from the general fund may be requested and appropriated for that year. (§ 1 ch 121 SLA 1984)

Sec. 14.43.630. Administration. (a) The teacher scholarship loan program shall be administered by the student financial aid committee (AS 14.43.095) in accordance with regulations adopted by the committee. The committee shall

(1) allocate the loan awards available for teacher scholarship loans annually to local school boards giving a preference to rural school districts; and

(2) develop and distribute to the local school boards an application form for teacher scholarship loans; the form shall include a requirement that the applicant supply a high school academic transcript and a statement of intent to enter a teaching career at the elementary or secondary school level in the state.

(b) The local school boards shall select the recipients of the teacher scholarship loans according to the criteria in AS 14.43.650. (§ 1 ch 121 SLA 1984)

Sec. 14.43.640. Conditions of loans. (a) The conditions provided in AS 14.43.120 apply to teacher scholarship loans except as otherwise provided in this section.

(b) If a borrower meets the conditions provided in (a) of this section and is employed as a teacher in a rural elementary or secondary school, the portion of the loan that shall be paid by the state, notwithstanding AS 14.43.120(j), is the following percentages of the total loan received plus interest up to a total of 100 percent of the total loan:

(1) one year employment, 15 percent;
(2) two years employment, an additional 15 percent;
(3) three years employment, an additional 15 percent;
(4) four years employment, an additional 25 percent;
(5) over four years employment, an additional 30 percent.

(c) A loan may not exceed $7,500 in a school year.

(d) Proceeds from a teacher scholarship loan may be used only for undergraduate expenses of books, tuition, required fees, room and board, and the transportation expense for two round trips between the loan recipient's home and school. (§ 1 ch 121 SLA 1984)

Sec. 14.43.650. Selection criteria. (a) To be eligible for a teacher scholarship loan, a student must

(1) be a graduate of a public or private high school in the state, with sufficient credits to be admitted to an accredited college or university;

(2) be enrolled in or show evidence of intent to enroll in a degree program directed at a teaching career at the elementary or secondary school level;

(3) meet the conditions set by the student's local school board with respect to the district's requirements for teachers in particular subject areas; and

(4) submit to the local school board an application provided by the student financial aid committee under AS 14.43.630(a)(3); an application may be submitted six months before graduation from high school.

(b) A local school board shall award teacher scholarship loans giving a preference to applicants from rural schools who meet the qualifications for a loan and taking into account the applicants' academic records.

(c) A student may not be awarded a scholarship loan under AS 14.43.090 — 14.43.160 and a teacher scholarship loan under AS 14.43.600 — 14.43.700 for the same school year. (§ 1 ch 121 SLA 1984)

Legislative history reports. — For legislative letter of intent, see 1984 Senate Journal at p. 3117.

Sec. 14.43.700. Definition. In AS 14.43.600 — 14.43.700, "rural" means

(1) a community in the second, third, or fourth judicial district of the state with a population of 4,500 or less that is not connected by road or rail to Anchorage or Fairbanks; or

(2) a community in the first judicial district of the state with a population of 4,500 or less. (§ 1 ch 121 SLA 1984)

SCOMM
#50:30

(Oct. 1988) (2-7) ABE 10 7/8 %
30-YEAR) (7-10) 13%

Introduced: 4/15/85
Referred: House Special Committee
on State Loans and Finance

IN THE HOUSE BY ADAMS AND BINKLEY

HOUSE BILL NO. 378

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the interest rate on state loan programs; and providing for an effecti. date."

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

* Section 1. AS 37.05.035 is amended by adding a new subsection to read:

(b) Notwithstanding any other provision of law, the interest rate for loan programs administered by the state or an instrumentality of the state shall increase by one-half percent October 1 of each year until the interest rate is equal to

(1) the prevailing market rate for each type of loan; or

(2) the cost of funds, if the loan program is financed by the sale of bonds or other indebtedness.

* Sec 2. This Act takes effect October 1, 1985.

(Ag REVOLVING LOAN FUND)

HOAF LOAN PROGRAM low-

END OF MARKET.

STUDENT LOAN

4-BILLION

CONCEPT - PRI

Buy DOWN 5% INCREASE/REDUCE/FINANCED TO MORGAGE BUY DOWN PROGRAM/PAY OFF BONDS LIMITED $90,000.00 LOAN - 5th YEAR - Best Interest Rate when they are determined Application

Alaska HOUSING FINANCE CORPORATION

— RESEARCH / QUESTION / WHAT SEE

April 24, 1985

The Honorable Rick Halford
Alaska State Senate
Pouch V
Juneau, AK 99811

Dear Senator Halford:

The enclosed packet, Exhibit I, is presented in response to your request that the effect of modifications to the current level of subsidy be reviewed. The two alternatives chosen to be analyzed were as follows:

Case A: Subsidy reduced to 2-1/2% effective October 1, 1985.

Case B: Subsidy initially reduced to 2-1/2% effective October 1, 1985 and further reduced to 2% beginning October 1, 1986.

The summary on Page 1 of Exhibit I demonstrates the estimated effect of the changes on subsidy requirements and Revolving Fund balances.

You made a second request related to ways the program might be modified to assist the Corporation in being able to accommodate future loan financing activity with existing resources of the Revolving Fund. One proposal would be to provide a substitute for the existing subsidy structure used in the taxable bond funded program. Currently the mortgage note rate is written based upon a 3% rate reduction from the "cost of funds" for the first $90,000 of a loan. This results in a 3% subsidy for the life of the loan. The proposal calls for the same effective initial note rate with payments increased annually until they are at a level sufficient to pay the principal and interest due on the loan at the unsubsidized rate. This type of a loan is generally referred to in the mortgage lending industry as a "buy-down loan".

The stated note rate would be "bought down" to a subsidized effective rate through an allocation of funds in a pledged account. As the borrower's payments are increased, the required subsidy draws out of the pledged account are reduced until eventually no further draws are required. The borrower would be signing up for a 30 year fixed rate loan with gradually reducing payment assistance provided by AHFC.

Telephone (907) 276-5599
235 East 8th Avenue
Third Floor
P.O. Box 101020
Anchorage, Alaska 99510

This type of a loan would be similar to loans assisted under our Home Ownership Assistance ("HOF") Program. Under the HOF program, the borrower signs a note at the standard AHFC interest rate with additional monthly payment assistance provided to reduce the effective rate to as low as 6%. The HOF assistance is reduced as the borrower's income increases. The buy-down mortgage will have annual increases in the monthly payments beginning in the second year and continuing until the borrower's payments equal those required on an unsubsidized basis.

The following compares the buy-down mortgage with the current ABE structure. Also enclosed are two graphs which demonstrate the difference in payments and subsidies:

	ABE Mortgage	Buy-Down Mortgage Proposal
Effective mortgage rate	10% for life of loan.	10% first year increasing to 13%.
Stated note rate	10%	13%
Borrower's mortgage payment terms	Initial payments based upon 30 yr. fixed rate loan with annual monthly payment increases of 5% beginning in years 4 through 9.	Initial payments based upon 30 yr. fixed rate loan with annual monthly payment increases of 5% beginning in years 2 through 5*.
Gross AHFC subsidy (assuming loan goes to term)	$32,246	$7,320
Present value of subsidy discounted at 10%	$17,992	$6,092

* Period of increasing payments may vary depending upon loan amounts and interest rate levels.

Standard underwriting guidelines allow for qualification of the borrower at the initial bought-down rate provided that the annual increases in mortgage payments do not exceed 7-1/2%. In our examples we have assumed only 5% annual increases.

The buy-down mortgage has the advantage of reducing the amount of subsidy for loans purchased under the taxable program by approximately two-thirds. This would be accomplished without precluding anyone from the benefits of home ownership who is currently qualified under the existing program.

In connection with the implementation of the buy-down program, consideration may be given to relaxing the Corporation's requirements of continued owner occupancy. Since the loan will be unsubsidized in approximately 5 years, it is possible the program could look at initial owner occupancy and the "one loan per resident" criteria as being sufficient. Since conventional long term fixed rate financing now imposes a "due on sale" clause, the buy-down loans would have to remain non-assumable.

I hope the above is useful in your review of AHFC's mortgage loan financing program. If I can be of further assistance, please let me know.

Sincerely,

Mark K. Cameron

Mark K. Cameron
Acting Executive Director

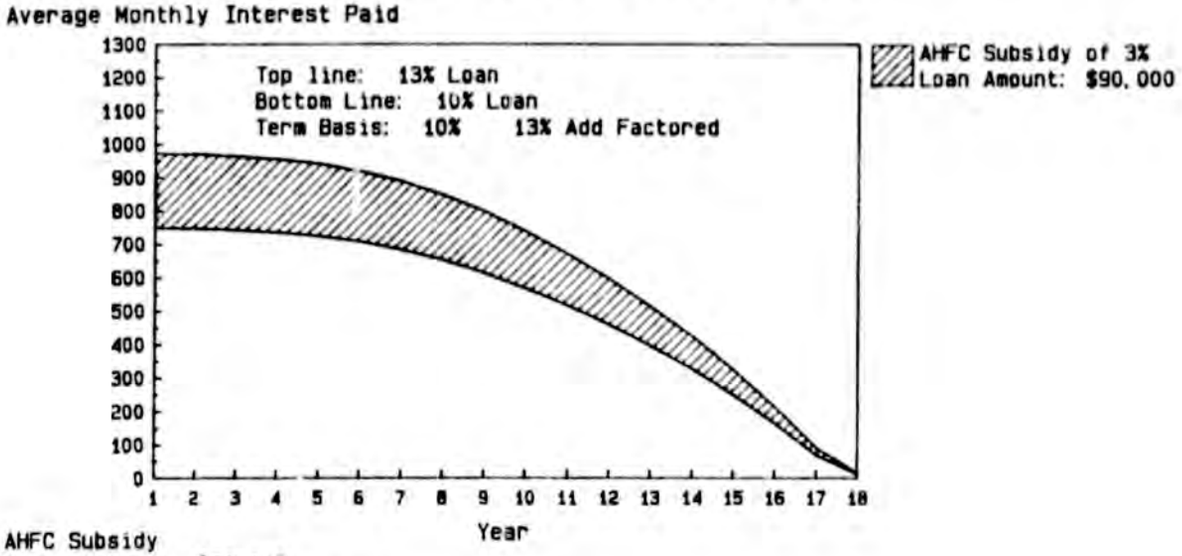
MKC:lmg

Enclosures

Graph A

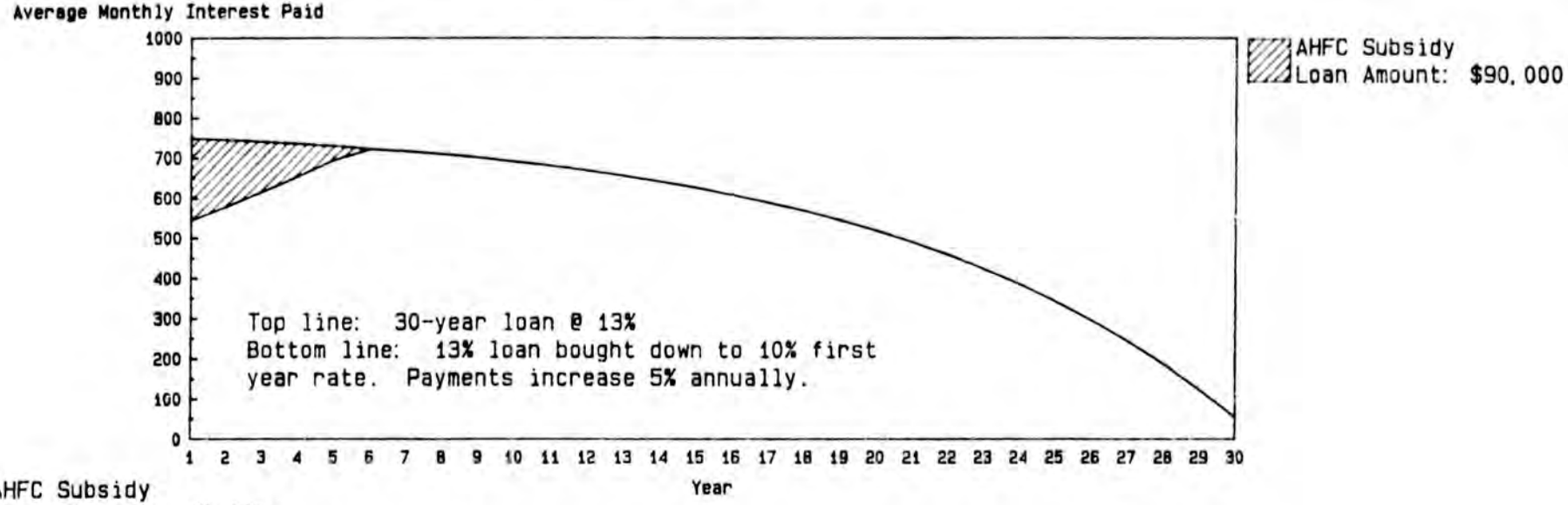
ALASKA HOUSING FINANCE CORPORATION

ABE Mortgage Subsidy
Monthly Interest Difference @ 10% & 13%



AHFC Subsidy
Gross Amount: $32,246
Present Value @ 10%: $17,992

PROPOSED BUY-DOWN MORTGAGE SUBSIDY
13% Loan Bought Down to an Effective 10%
First Year Rate

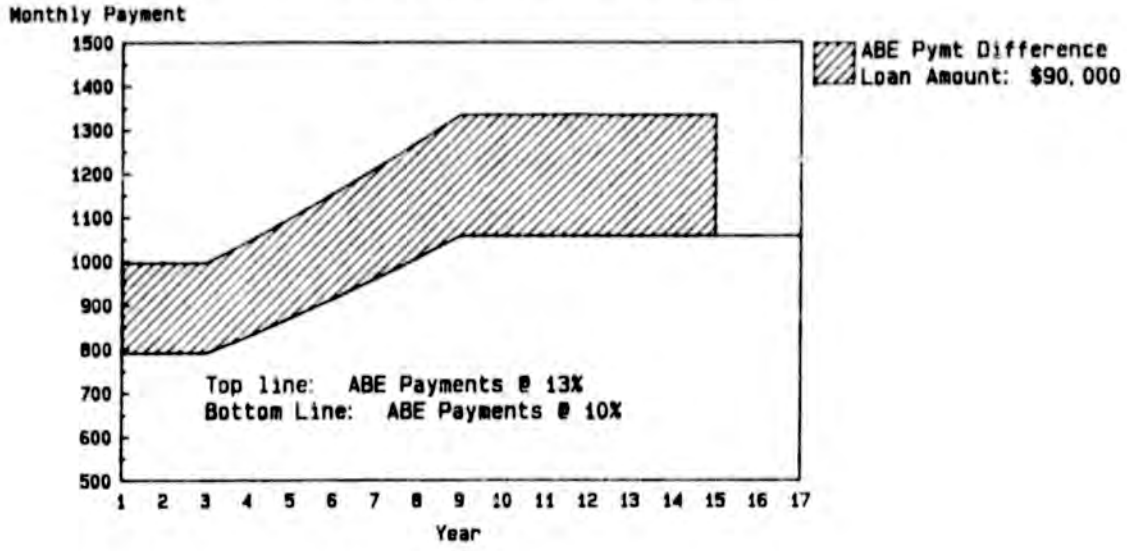


AHFC Subsidy
Gross Amount: $7,320
Present Value @ 10 %: $6,092

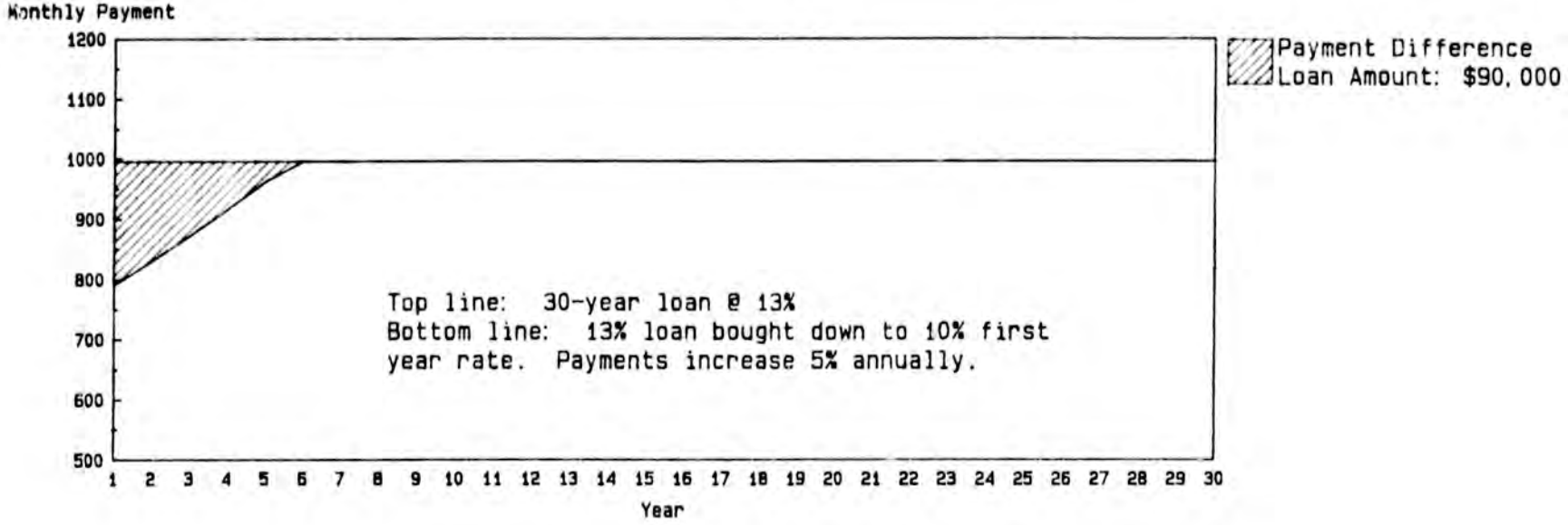
Graph B

ALASKA HOUSING FINANCE CORPORATION

ABE Mortgage Payment Comparison
Subsidized for the life of the loan



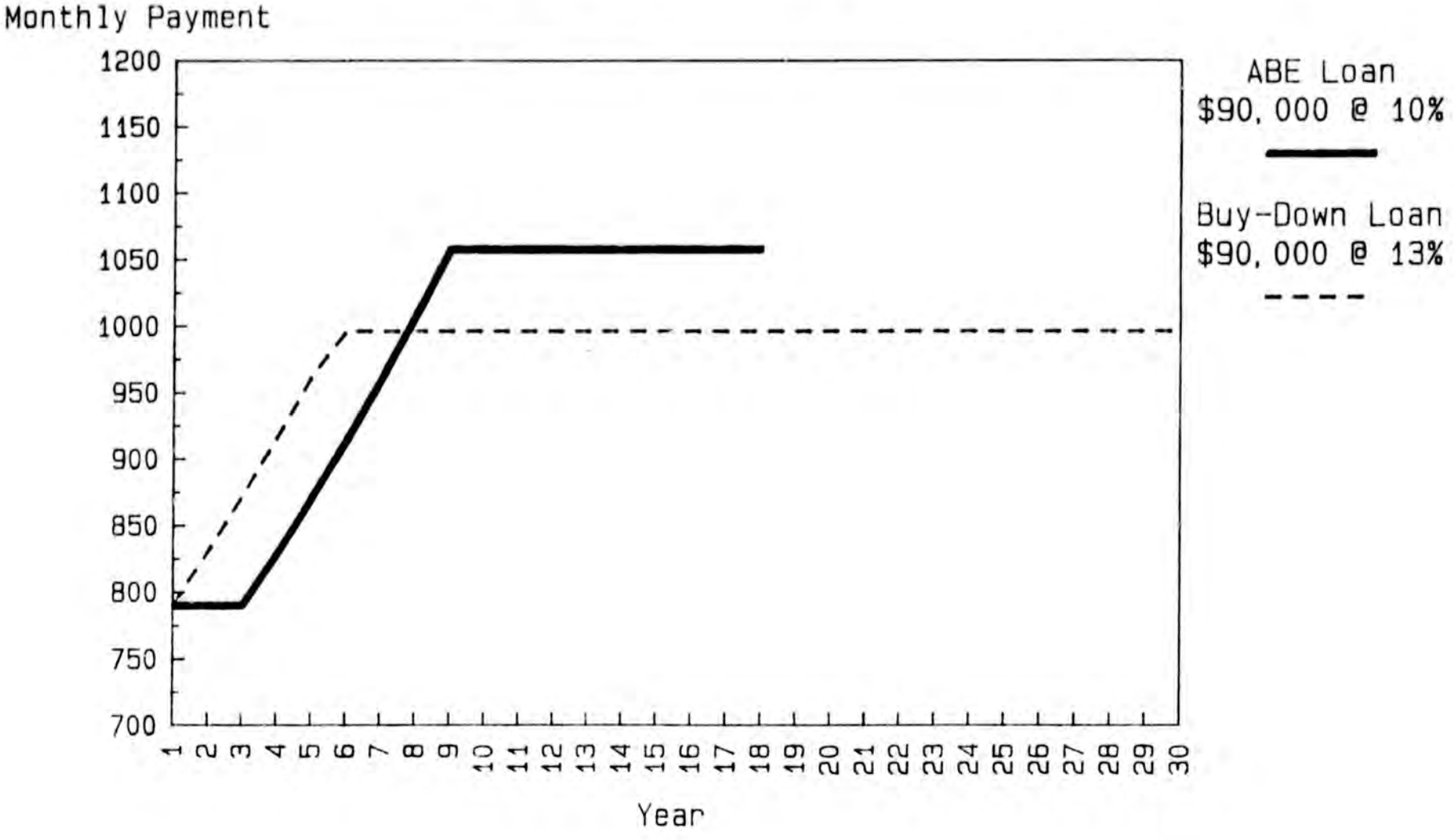
PROPOSED BUY-DOWN MORTGAGE PAYMENT COMPARISON
13% Loan Bought Down to an Effective 10%
First Year Rate



Graph C

ALASKA HOUSING FINANCE CORPORATION

Comparison of Monthly Payments
ABE Mortgage - vs - Buy-Down Loan



Alaska HOUSING FINANCE CORPORATION

April 16, 1985

The Honorable Jan Faiks
Alaska State Senate
Pouch V
Juneau, AK 99811

Dear Senator Faiks:

Enclosed please find a booklet containing lending and financing activity projections along with an analysis of Revolving Fund activity and balance estimates. The first section of the booklet contains projections based upon existing programs, while the second section presents the same information adjusted to reflect the changes expected should legislation in the form of that contained in SB 281 be implemented.

The projections are extremely sensitive to fluctuations in mortgage demand. Fairly low levels of mortgage activity are reflected in the analysis. Recent activity which has been at record lows provided the base for the estimates.

Total mortgage demand for FY 89 is projected to be reduced from $870 to $480 million under the provisions of SB 281. Subsequent to FY 89, the only program which would continue would be the tax-exempt financed Veterans Mortgage Program with annual activity of $175 to $225 million per year. These bonds would be issued on a non-subsidized basis.

The effect of SB 281 on Revolving Fund balances is dramatic. At the end of FY 89 without changing the program, $27 million in liquid assets would be in the General Account of the Revolving Fund after receiving an additional appropriation of $100 million. This compares to a projected liquid asset balance without any future appropriations of $287 million if SB 281 is effected, representing a net difference of $360 million.

You have asked whether the Corporation would need future legislative appropriations were SB 281 to become law and $50 million reappropriated to the State General Fund. As demonstrated in the summary of Exhibit A, projected liquid assets of the Revolving Fund are substantially in excess of $50 million. Accordingly, such a reappropriation in connection with a phasing out of the Corporation's loan programs is not expected to result in future appropriation requests.

If I can be of further assistance in any way, please let me know.

Sincerely,

Mark K. Cameron

Mark K. Cameron
Acting Executive Director

MKC:lmg

Enclosure

Note: complete packet with booklet will be [illegible]

(907) 276-[illegible]
235 East 8th Avenue
Third Floor
P.O. Box 101020
Anchorage, Alaska 99510

EXHIBIT A

Senate Finance Committee Hearing

SB 281

April 18, 1985

ALASKA HOUSING FINANCE CORPORATION

Exhibit A - Table of Contents

	Page
Summary of Exhibit A	1
Analysis of Projected Effects of SB 281 - Graph	2
Section 1 - Current Programs	
Projections for Fiscal Year 1986	
Revolving Fund Activity	3
Mortgage Demand and Financings	4
Projections for Fiscal Year 1987	
Revolving Fund Activity	5
Mortgage Demand and Financings	6
Projections for Fiscal Year 1988	
Revolving Fund Activity	7
Mortgage Demand and Financings	8
Projections for Fiscal Year 1989	
Revolving Fund Activity	9
Mortgage Demand and Financings	10
Section 2 - As Modified by SB 281	
Projections for Fiscal Year 1986	
Revolving Fund Activity	11
Mortgage Demand and Financings	12
Projections for Fiscal Year 1987	
Revolving Fund Activity	13
Mortgage Demand and Financings	14
Projections for Fiscal Year 1988	
Revolving Fund Activity	15
Mortgage Demand and Financings	16
Projections for Fiscal Year 1989	
Revolving Fund Activity	17
Mortgage Demand and Financings	18

NOTE: Projections have been based upon recent mortgage application volume. Bonding and subsidy projections are extremely sensitive to fluctuations in mortgage demand.

ALASKA HOUSING FINANCE CORPORATION

Summary of Exhibit A

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

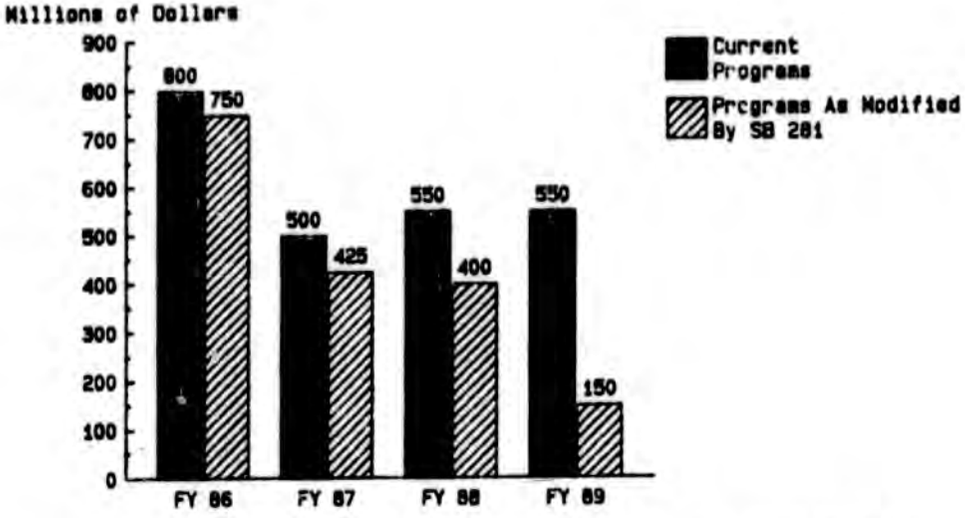
As Modified By SB 281	Bonds Issued	Est. Mtg. Demand All Programs	Related Subsidy Transfers	Revolving Fund Liquid Assets (General Account) End of FY	Level of Subsidy
FY 86	750	726	126	205	2-1/2% eff. 10-1-85
FY 87	425	634	45	198	2% eff. 10-8-86
FY 88	400	527	14	231	1-1/2% eff. 10-1-87
FY 89	150	480	-0-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

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

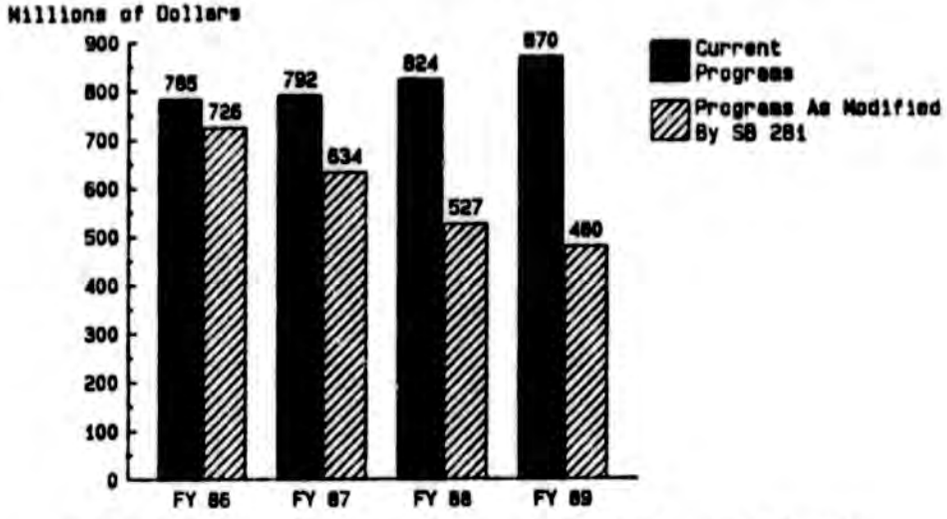
* Anticipates receipt of $100 million appropriation in FY 89.

ALASKA HOUSING FINANCE CORPORATION
Analysis of the Projected Effects of SB 281

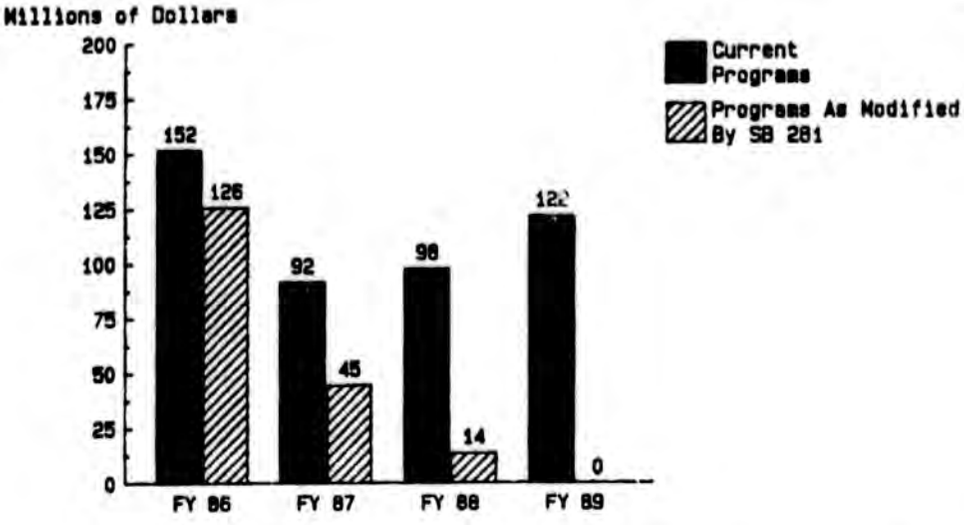
BONDS ISSUED



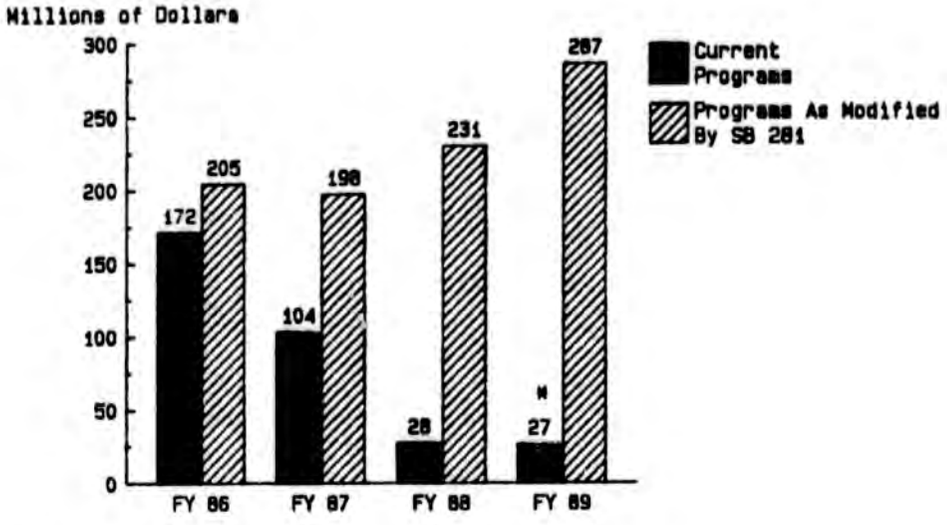
ESTIMATED MORTGAGE DEMAND
ALL PROGRAMS



RELATED SUBSIDY TRANSFERS



REVOLVING FUND LIQUID ASSETS
GENERAL ACCOUNT END OF FISCAL YEAR



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

M Anticipates receipt of $100 million appropriation in FY 89.

2

SECTION 1

Current Programs

04/15/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1986
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1985	$110	-0-	$202	$142	$ 93	$547
Prepayments and principal reductions	(8)	$ 8		(13)	13	-0-
Earnings		11			38	49
Home ownership assistance subsidies		(7)				(7)
IMB earnings released					16	16
Non-bonded mortgage programs						
Second mortgages				10	(10)	-0-
Mobile home loans	12	(12)		28	(28)	-0-
Reduction in loans warehoused			(50)		50	-0-
Increase in HOF account	30			(30)		-0-
Required subsidy transfers	___	___	___	___	(152)	(152)
Balance: June 30, 1986	$144	-0-	$152	$137	$ 20	$453

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-3A

04/15/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1986
(In Millions)

	Mortgage Loan Funds Available 7-1-85	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 86	Mortgage Loan Funds Available 6-30-86
Bonded Programs								
Taxable First Mortgage Program	$ 62(4)	$ 60(1)	$150	$ (2)	$ 42	$ 40	$280	$ 72
First Mortgage Veterans Program State Guaranteed Bonds	209	17(2)	150	(4)	18	(14)	250	126
First Time Homebuyers Program Home Mortgage Bonds	75	5(2)	200	(6)	32	(26)	205	75
Internally Funded Programs								
Second Mortgage Program	-0-	10(3)					10	
Mobile Home Loan Program	-0-	40(3)	___	___	___	___	40	___
	$346	$132	500	$(12)	92	-0-	$785	$273
Deferred FNMA Note Closings			300		60			
			$800		$152			

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

(4) Includes amounts related to subsequent issuance of $300 million collateral notes to be sold directly to FNMA.

MKC-5A

F

04/15/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1987
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1986	$144	-0-	$152	$137	$ 20	$453
Prepayments and principal reductions	(10)	$ 10		(10)	10	-0-
Earnings		14			28	42
Home ownership assistance subsidies		(9)				(9)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				7	(7)	-0-
Mobile home loans	15	(15)		20	(20)	-0-
Reduction in loans warehoused			(50)		50	-0-
Required subsidy transfers	___	___	___	___	(92)	(92)
Balance: June 30, 1987	$149	-0-	$102	$154	$ 2	$407

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-25

04/15/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary Based Upon Subsidy Restructure Proposal
Mortgage Demand and Proposed Bond Financing
Fiscal Year 1987
(In Millions)

	Mortgage Loan Funds Available 7-1-86	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 87	Mortgage Loan Funds Available 6-30-87
Bonded Programs								
Taxable First Mortgage Program	$ 72	$ 65(1)	$150	$ (3)	$ 42	$ 40	$295	$ 71
First Mortgage Veterans Program State Guaranteed Bonds	126	20(2)	150	(4)	18	(14)	240	56
First Time Homebuyers Program Home Mortgage Bonds	75	7	200	(6)	32	(26)	215	67
Internally Funded Programs								
Second Mortgage Program	-0-	7(3)					7	
Mobile Home Loan Program	-0-	35(3)	___	___	___	___	35	___
	$273	$134	$500	$(13)	$ 92	-0-	$792	$194

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-11A

04/15/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1988
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1987	$149	-0-	$102	$154	$ 2	$407
Prepayments and principal reductions	(12)	$ 12		(13)	13	-0-
Earnings		14			20	34
Home ownership assistance subsidies		(10)				(10)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				5	(5)	-0-
Mobile home loans	16	(16)		19	(19)	-0-
Reduction in loans warehoused			(75)		75	-0-
Required subsidy transfers	___	___	___	___	(98)	(98)
Balance: June 30, 1988	$153	-0-	$ 27	$165	$ 1	$346

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

04/15/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1988
(In Millions)

	Mortgage Loan Funds Available 7-1-87	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 88	Mortgage Loan Funds Available 6-30-88
Bonded Programs								
Taxable First Mortgage Program	$ 71	$ 65(1)	$150	$ (3)	$ 42	$ 44	$319	$ 50
First Mortgage Veterans Program State Guaranteed Bonds	56	27(2)	200	(6)	24	(18)	230	53
First Time Homebuyers Program Home Mortgage Bonds	67	11(2)	200	(6)	32	(26)	235	43
Internally Funded Programs								
Second Mortgage Program		5(3)					5	
Mobile Home Loan Program	___	35(3)	___	___	___	___	35	___
	$194	$143	$550	$(15)	$ 98	-0-	$824	$146

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-27

8

04/15/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1989
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1988	$153	-0-	$ 27	$165	$ 1	$346
Prepayments and principal reductions	(12)	$ 12		(15)	15	-0-
Earnings		14			18	32
Home ownership assistance subsidies		(11)				(11)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				5	(5)	-0-
Mobile home loans	15	(15)		20	(20)	-0-
Reduction in loans warehoused						-0-
FY 89 legislative appropriation					100	100
Required subsidy transfers	___	___	___	___	(122)	(122)
Balance: June 30, 1989	$156	-0-	$ 27	$175	-0-	$358

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-23

04/15/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1989
(In Millions)

	Mortgage Loan Funds Available 7-1-88	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 89	Mortgage Loan Funds Available 6-30-89
Bonded Programs								
Taxable First Mortgage Program	$ 50	$ 65(1)	$350	$ (6)	$ 98	$ 18	$544	$ 31
First Mortgage Veterans Program State Guaranteed Bonds	53	35(2)	200	(6)	24	(18)	220	68
First Time Homebuyers Program Home Mortgage Bonds	43	23(2)					66	-0-
Internally Funded Programs								
Second Mortgage Program	-0-	5(3)					5	
Mobile Home Loan Program	-0-	35(3)					35	
	$146	$163	$550	$(12)	$122	-0-	$870	$ 99

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-26

01

SECTION 2

As Modified by SB 281

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1986
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1985	$110	-0-	$202	$142	$ 93	$547
Prepayments and principal reductions	(8)	$ 8		(13)	13	-0-
Earnings		11			41	52
Home ownership assistance subsidies		(7)				(7)
IMB earnings released					16	16
Non-bonded mortgage programs						
Second mortgages				9	(9)	-0-
Mobile home loans	12	(12)		25	(25)	-0-
Reduction in loans warehoused						-0-
Increase in HOF account	30			(30)		-0-
Required subsidy transfers	___	___	___	___	(126)	(126)
Balance: June 30, 1986	$144	-0-	$202	$133	$ 3	$482

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

SB 281 Rev.

Level of subsidy 2-1/2% 10-1-85

04/15/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1986
(In Millions)

	Mortgage Loan Funds Available 7-1-85	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 86	Mortgage Loan Funds Available 6-30-86
Bonded Programs								
Taxable First Mortgage Program	$ 62(4)	$ 60(1)	$125	$ (2)	$ 30	$ 27	$259	$ 43
First Mortgage Veterans Program State Guaranteed Bonds	209	17(2)	125	(3)	12	(9)	231	120
First Time Homebuyers Program Home Mortgage Bonds	75	5(2)	200	(6)	24	(18)	190	90
Internally Funded Programs								
Second Mortgage Program	-0-	9(3)					9	
Mobile Home Loan Program	-0-	37(3)					37	
	$346	$128	450	$(11)	66	-0-	$726	$253
Deferred FNMA Note Closings			300		60			
			$750		$126			

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

(4) Includes amounts related to subsequent issuance of $300 million collateral notes to be sold directly to FNMA.

MKC-5B

12

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1987
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1986	$144	-0-	$202	$133	$ 3	$482
Prepayments and principal reductions	(10)	$ 10		(10)	10	-0-
Earnings		14			33	47
Home ownership assistance subsidies		(8)				(8)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				6	(6)	-0-
Mobile home loans	16	(16)		12	(12)	-0-
Reduction in loans warehoused			(25)		25	-0-
Required subsidy transfers	___	___	___	___	(45)	(45)
Balance: June 30, 1987	$150	-0-	$177	$141	$ 21	$489

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-25A

SB 281 Rev.

Level of subsidy 2% 10-1-86

04/15/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary Based Upon Subsidy Restructure Proposal
Mortgage Demand and Proposed Bond Financing
Fiscal Year 1987
(In Millions)

	Mortgage Loan Funds Available 7-1-86	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 87	Mortgage Loan Funds Available 6-30-87
Bonded Programs								
Taxable First Mortgage Program	$ 43	$ 65(1)	$125	$ (3)	$ 25	$ 12	$236	$ 31
First Mortgage Veterans Program State Guaranteed Bonds	120	20(2)	100	(2)	4	(2)	192	48
First Time Homebuyers Program Home Mortgage Bonds	90	7	200	(6)	16	(10)	172	125
Internally Funded Programs								
Second Mortgage Program	-0-	6(3)					6	
Mobile Home Loan Program	-0-	28(3)					28	
	$253	$126	$425	$(11)	$ 45	-0-	$634	$204

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-118

14

SB 281 Rev. 04/15/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1988
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1987	$150	-0-	$177	$141	$ 21	$489
Prepayments and principal reductions	(12)	$ 12		(13)	13	-0-
Earnings		14			35	49
Home ownership assistance subsidies		(7)				(7)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				3	(3)	-0-
Mobile home loans	19	(19)		11	(11)	-0-
Reduction in loans warehoused			(35)		35	-0-
Required subsidy transfers	___	___	___	___	(14)	(14)
Balance: June 30, 1988	$157	-0-	$142	$142	$ 89	$530

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-24A

SB 281 Rev.

Level of subsidy 1-1/2% 10-1-87

04/15/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1988
(In Millions)

	Mortgage Loan Funds Available 7-1-87	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 88	Mortgage Loan Funds Available 6-30-88
Bonded Programs								
Taxable First Mortgage Program	$ 31	$)	$ 50	$ (1)	$ 8		$119	$ 34
First Mortgage Veterans Program State Guaranteed Bonds	48	27(2)	150	(4)			185	36
First Time Homebuyers Program Home Mortgage Bonds	125	11(2)	200	(6)	6		190	146
Internally Funded Programs								
Second Mortgage Program		3(3)					3	
Mobile Home Loan Program	___	30(3)	___	___	___	___	30	___
	$204	$136	$400	$(11)	$ 14	-0-	$527	$216

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-27A

91

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1989
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1988	$157	-0-	$142	$142	$ 89	$530
Prepayments and principal reductions	(12)	$ 12		(15)	15	-0-
Earnings		15			40	55
Home ownership assistance subsidies		(7)				(7)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				2	(2)	-0-
Mobile home loans	20	(20)		10	(10)	-0-
Reduction in loans warehoused			(92)		92	-0-
Transfer of HOF Account excess	(35)			35		-0-
Required subsidy transfers	___	___	___	___	-0-	-0-
Balance: June 30, 1989	$130	-0-	$ 50	$174	$237	$591

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

SB 281 Rev.

Level of subsidy 1% 10-1-88

04/15/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1989
(In Millions)

	Mortgage Loan Funds Available 7-1-88	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 89	Mortgage Loan Funds Available 6-30-89
Bonded Programs								
Taxable First Mortgage Program	$ 34	$ 65(1)					$ 99	-0-
First Mortgage Veterans Program State Guaranteed Bonds	36	35(2)	$150	$ (4)			180	$ 37
First Time Homebuyers Program Home Mortgage Bonds	146	23(2)					169	-0-
Internally Funded Programs								
Second Mortgage Program	-0-	2(3)					2	
Mobile Home Loan Program	-0-	30(3)					30	
	$216	$155	$150	$ (4)	-0-	-0-	$480	$ 37

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-26A

81

ALASKA HOUSING FINANCE CORPORATION

Testimony Regarding SB 281

"An Act Relating to the Interest Rate on State Loan Programs; and Providing for an Effective Date"

General Comments

The Alaska Housing Finance Revolving Fund is doing what it was intended to accomplish. Projections based upon recent lending activity indicate that additional appropriations will not be necessary until FY 89. While the request in FY 89 could be approximately $100 million, the return of assets pledged to initial taxable bond offerings could fund FY 90, 91, 92 and a portion of FY 93's activity. The $100 million needed in FY 89 would represent an annual average of less than $17 million for the six years ending in FY 92.

The Corporation maximizes the utilization of State capital through leveraging. The annual subsidy transfers from the Revolving Fund average 12% to 15% of the actual amount of mortgages purchased.

The leveraging effect is even greater when consideration is given to the multiple benefits of the program. Residents are afforded the opportunity to purchase a home who would not have the benefits of homeownership without AHFC and those who find themselves in need of a larger home to accommodate a growing family have reasonable rate financing available in both the sale of their smaller home and the acquisition of the new home. In addition to these benefits to the homebuyer and seller, the economic base of the State is diversified through stimulation of the housing market. Over half the loans the Corporation purchases are for newly constructed residences.

Effects of SB 281 on AHFC

On October 1, 1988 the level of subsidy will be reduced to 1% and the Corporation will in all likelihood cease operating all but the tax-exempt bond funded Veterans Mortgage Program with annual activity in the range of $175 to $225 million. The federal authorization for the tax-exempt bond funded first time homebuyers program ceases in 1987. With only a 1% difference in rates on the first $90,000 of a loan, it is questionable whether the Corporation would be able to compete with the conventional markets which have much more flexibility in accessing the capital markets and arranging financing facilities than a public corporation. The Corporation is probably the only provider of secondary mortgage financing which makes commitments to purchase individual loans from lending institutions. These commitments are binding only upon AHFC and are valid for an initial 4 month period. Should conventional mortgage rates fall below AHFC's at any time during that commitment period, borrowers may opt to cancel their commitment. The applicant's exposure is limited to the 1/2 of 1% commitment fee charged by AHFC. The risk to the Corporation is that it will not be able to acquire mortgage loans necessary to pledge to the bonds. With only a 1% difference between AHFC rates and conventional sources of financing, the risk to the Corporation and the bondholders that loans will not be originated and the bonds required to be retired ("called") early is fairly high. Accordingly, it is extremely questionable whether the Corporation will determine the issuance of the bonds at a 1% subsidy level is worth the risks.

The Revolving Fund is expected to have liquid assets of $287 million at the end of FY 89 if the programs are phased out pursuant to SB 281. This projection is based upon receipt of the $16 million FY 85 appropriation and no reappropriation of current assets.

The bill could have a significant impact on housing activity. Uncertainty over continuity of loan programs has historically resulted in stimulation of the housing market accompanied by rising values. The flurry of activity to obtain the last of the subsidized loans could be followed by a major depression in both activity and residential values. The situation could be further aggravated by zero or negative economic growth in the State, resulting in part from a diminishing level of local government and capital project support from the State and reduction in oil related activity as increasing exploration costs face off against lower oil prices.

To protect the security for future loan originations, imposition of a 10% or 15% minimum down payment may be required. This would replace the current terms of 0% down veterans financing and 5% down conventional program loan terms.

To protect the security for bonds previously issued which are collateralized by residential loans, a restriction against financing of new construction may be necessary. Fewer homes would be constructed, thereby reducing the inventory of homes on the market. This would assist in maintaining the value of the existing residential housing stock, a large portion of which are financed with loans pledged as security to in excess of $4 billion in Corporation bonds outstanding.

The hardest hit by increasing interest rates will be the low to moderate income resident. Those of modest means generally do not have the same number of financing alternatives available as those who are doing fairly well and desiring to trade up to a larger house, often extracting equity in the process.

Questions Related to SB 281

The bill is unclear whether the 1/2% increase is to apply to the entire loan amount or just the subsidized portion. AHFC statutes provide for a "blended" mortgage rate with only the first $90,000 of a mortgage loan subsidized. The borrower is charged the Corporation's "cost of funds" on the excess of the loan over $90,000. If the 1/2% increase is to apply to the entire loan amount, we will be charging more than our cost of funds on the portion of a loan in excess of $90,000.

Is it possible to have the 1/2% annual increase spread out such that each quarter the rate would rise 1/8 of 1%? The October 1 effective date for the increases comes at the down cycle of the housing market. While this may be beneficial for the construction industry, the mortgage lenders and AHFC will be faced with a rush of activity each summer followed by several months with virtually no mortgage demand. While the 1/2% increases may mean only $30 to $35 more in payments each month, the buyer psychology will be such that all of

the activity which would have normally occurred in October, November and December will be accelerated into the months of August and September. This will have two adverse consequences. It will be extremely difficult for AHFC and the mortgage lenders to provide timely service to the borrowers. The potential for a boom/bust situation will also be aggravated as each January we wait to see if buyers will go back to the real estate market after the last 1/2% rate increase.

More legislative direction is necessary in determining the desired effect of the changes on the Home Ownership Assistance (HOF) Program. On October 1, 1988 when AHFC shuts down all but the tax-exempt Veterans Mortgage Program, the rate to a HOF recipient will have been increased from its current effective rate of 6% to only 8%. While the non-HOF home purchaser will only have a 1% difference in rates, those who would have otherwise qualified for 8% financing will have to obtain conventional financing which is currently in the area of 13-1/4% to 13-1/2%. The low-end of the housing market will be devastated since the number of those qualifying to purchase homes in that price range will be drastically reduced. The buy versus rent equation now generally comes up with an answer that buying is more advantageous. If the financing is at 13.5%, the answer will not be the same unless rents also escalate by the same degree.

Summary

The funds are in place to allow the Corporation to continue to leverage the financing of residential real estate at below market rates several years into the future.

SB 281 will effectively kill all but the tax-exempt Veterans Mortgage Program by October 1, 1988. In the process of increasing interest rates, low to moderate income families who are either desiring to purchase a home or sell one will be adversely impacted. The Corporation has a lengthy history of assisting low to moderate income residents. This assistance, provided since 1973, would also be phased out.

The impact of SB 281 on the housing market could be severe. This would particularly be the case if the State economy is also struggling and conventional interest rates rising. Program changes would be considered to assist in reducing the Corporation's exposure to increased foreclosures and delinquencies.

EXHIBIT B

Senate Finance Committee Hearing

SB 281

April 18, 1985

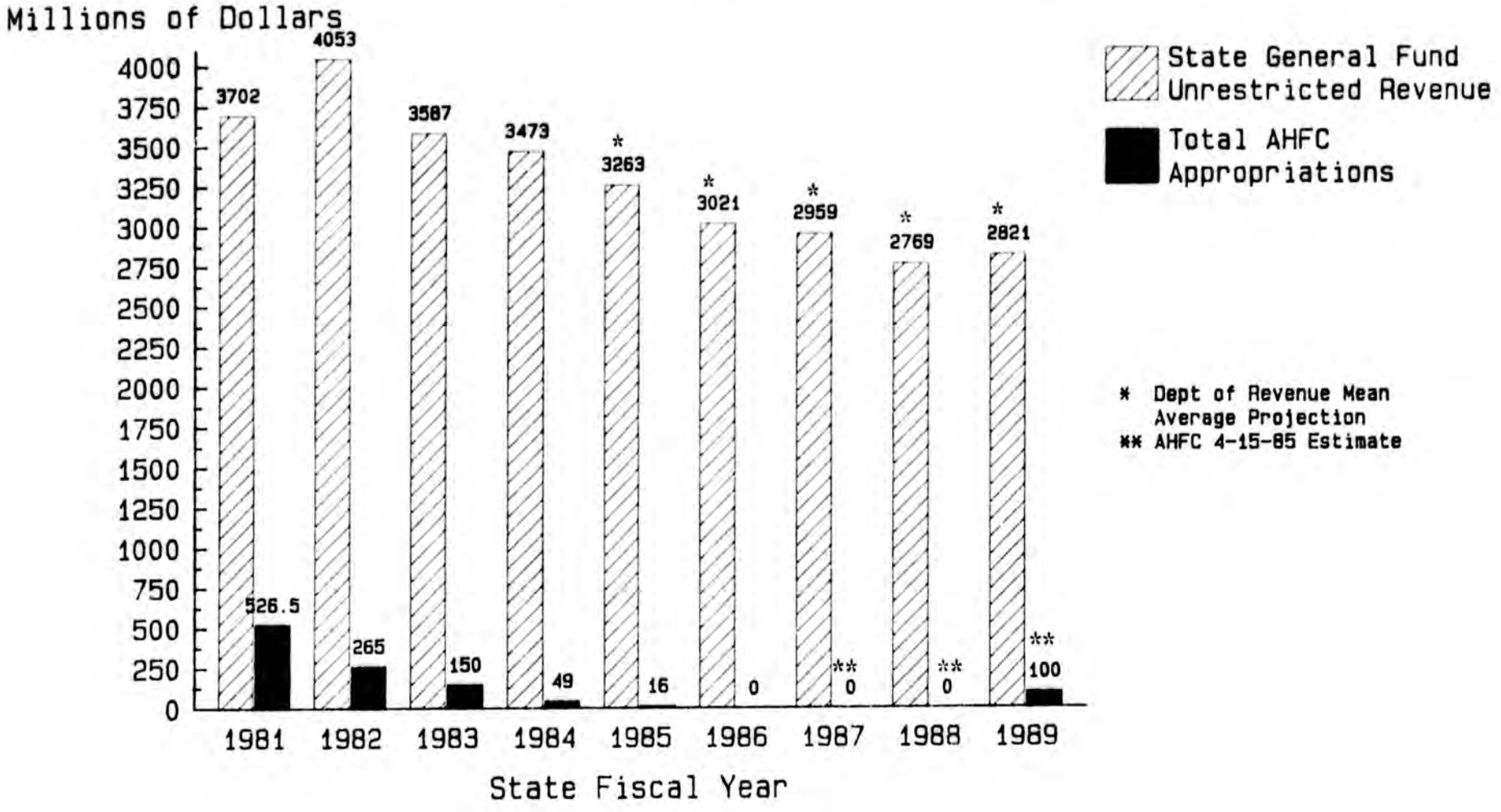
ALASKA HOUSING FINANCE CORPORATION

PROGRAM OVERVIEW

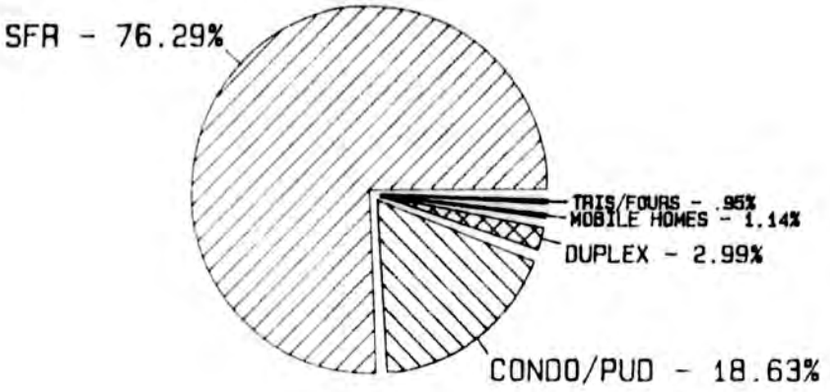
Table of Contents

	Page
State General Fund Unrestricted Revenues vs. AHFC Appropriations - Graph	1
Dwelling Type - New vs. Existing - Graph	2
First Time Homeowner/State Veteran - Graph	3
Loan Summary - Mortgages Purchased	
All First Mortgages	4
Taxable First Mortgages	5
Tax-Exempt MSBTA Mortgages	6
State Guaranteed Bonds - Veterans Mortgage Program	7
Mobile Home Loans	8
Home Ownership Assistance Program	9
Pledged Account Mortgages	10
Subsidy, Bonding and Mortgage Levels - Graph	11

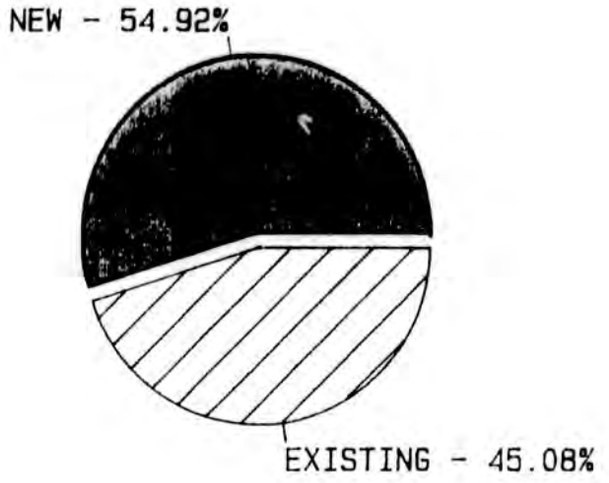
STATE GENERAL FUND UNRESTRICTED REVENUES
- VS -
TOTAL AHFC APPROPRIATIONS



ALASKA HOUSING FINANCE CORPORATION
SUMMARY OF ALL FIRST MORTGAGES PURCHASED
Fiscal Year 1985 Thru 3/31/85

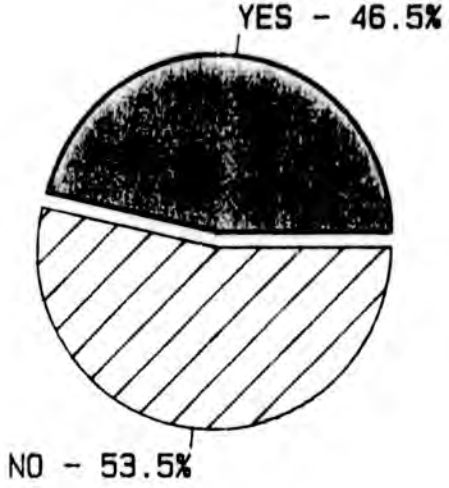


Dwelling Type

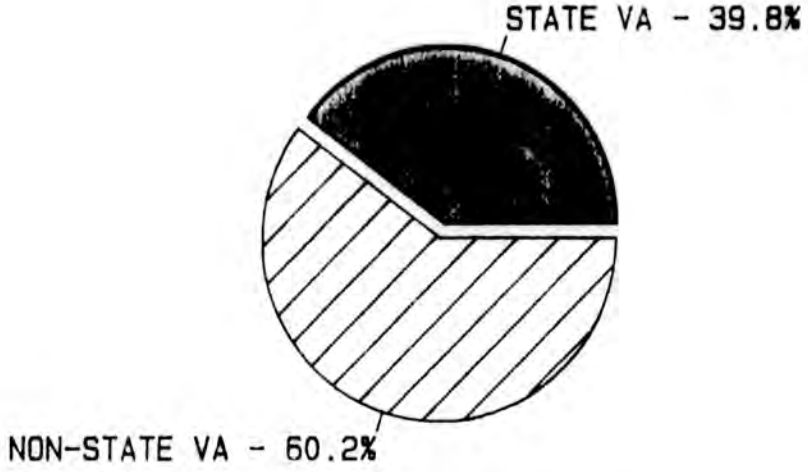


New or Existing Dwelling

ALASKA HOUSING FINANCE CORPORATION
SUMMARY OF ALL FIRST MORTGAGES PURCHASED
Fiscal Year 1985 Thru 3/31/85



First Time Homeowner



Veteran Eligibility

DATE 3/31/85

ALASKA HOUSING FINANCE CORPORATION

ALL FIRST MORTGAGES

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1983	%	FY 1984	%	FY 1985 THRU(3/31/85)	%
SALES PRICE		105,807		120,754		123,545	
APPRAISED VALUE		108,430		123,572		126,371	
NOTE AMOUNT		93,012		106,003		106,912	
MONTHLY INCOME		4,059		4,536		4,490	
AGE OF BORROWER		33.7		34.7		35.1	
SIZE OF HOUSEHOLD		2.5		2.7		2.7	
LOAN TO SALES PRICE RATIO		87.91%		87.78%		86.54%	
WEIGHTED AVG INT. RATE		10.73%		10.09%		11.22%	
MONTHLY P&I		877.14		943.72		1,036.98	
DWELLING TYPE..	SFR	5,989	69.72	8,821	74.13	4,624	76.29
	CONDO	2,036	23.70	2,083	17.50	924	15.25
	DUPLX	287	3.34	476	4.00	181	2.99
	PUD	268	3.12	361	3.03	205	3.38
	MOHM			5	.04	69	1.14
	TRI-PLEX	4	.05	40	.34	20	.33
	FOUR PLEX	6	.07	114	.96	38	.63
NEW/EXISTING....	NEW	5,382	62.65	6,814	57.26	3 329	54.92
	EXISTING	3,208	37.35	5,086	42.74	2,732	45.08
1ST TIME HOMEOWNER..	YES	4,461	51.93	5,445	45.76	2,816	46.46
	NO	4,129	48.07	6,455	54.24	3,245	53.54
INSURANCE TYPE.....	FHA					0	.00
	VA	814	9.48	2,073	17.42	1,161	19.16
	CONVA	7,776	90.52	9,827	82.58	4,900	80.84
ELIGIBILITY.....	STVA	2,391	27.83	4,915	41.30	2,414	39.83
	NON-STVA	6,199	72.17	6,985	58.70	3,647	60.17
						0	.00
ORIG. PRINCIPAL BALANCE		798,968,900.00		1,261,435,600.00		647,996,650.00	
ORIG. NUMBER OF LOANS		8,590		11,900		6,061	

DATE 3/31/85

ALASKA HOUSING FINANCE CORPORATION

TAXABLE FIRST MORTGAGES

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1983	%	FY 1984	%	FY 1985 THRU[3/31/85]	%
SALES PRICE		117,418		135,722		123,399	
APPRAISED VALUE		120,477		139,275		126,531	
NOTE AMOUNT		99,764		113,460		104,768	
MONTHLY INCOME		4,614		5,174		4,455	
AGE OF BORROWER		35.5		34.6		33.4	
SIZE OF HOUSEHOLD		2.7		2.7		2.5	
LOAN TO SALES PRICE RATIO		84.96%		83.60%		84.90%	
WEIGHTED AVG INT. RATE		11.53%		10.72%		11.73%	
MONTHLY P&I		999.53		1,068.85		1,056.23	
DWELLING TYPE..	SFR	3,408	74.64	3,368	73.03	2,544	71.97
	CONDO	755	16.54	548	11.88	612	17.31
	DUPLX	207	4.53	359	7.78	157	4.44
	PUD	186	4.07	183	3.97	120	3.39
	MOHM					48	1.36
	TRI-PLEX	4	.09	40	.87	16	.45
	FOUR PLEX	6	.13	114	2.47	38	1.07
NEW/EXISTING....	NEW	2,640	57.82	2,542	55.12	2,021	57.17
	EXISTING	1,926	42.18	2,070	44.88	1,514	42.83
1ST TIME HOMEOWNER..	YES	1,372	30.05	1,187	25.74	1,653	46.76
	NO	3,194	69.95	3,425	74.26	1,882	53.24
INSURANCE TYPE.....	FHA					0	.00
	VA	314	6.88	114	2.47	154	4.36
	CONVA	4,252	93.12	4,498	97.53	3,381	95.64
ELIGIBILITY.....	STVA	1,274	27.90	451	9.78	262	7.41
	NON-STVA	3,292	72.10	4,161	90.22	3,273	92.59
						0	.00
ORIG. PRINCIPAL BALANCE		455,521,850.00		523,278,050.00		370,353,950.00	
ORIG. NUMBER OF LOANS		4,566		4,612		3,535	

DATE 3/31/85

ALASKA HOUSING FINANCE CORPORATION

TAX EXEMPT MSBTA FIRST MORTGAGES

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1983	%	FY 1984	%	FY 1985 THRU[3/31/85]	%
SALES PRICE		85,059		88,458		90,041	
APPRAISED VALUE		87,153		90,846		92,483	
NOTE AMOUNT		79,654		82,777		84,415	
MONTHLY INCOME		3,074		3,055		3,102	
AGE OF BORROWER		30.3		30.4		30.7	
SIZE OF HOUSEHOLD		2.2		2.3		2.3	
LOAN TO SALES PRICE RATIO		93.65%		93.58%		93.75%	
WEIGHTED AVG INT. RATE		9.88%		9.89%		10.58%	
MONTHLY P&I		692.83		720.35		777.78	
DWELLING TYPE..	SFR	1,882	59.24	2,020	61.74	284	65.44
	CONDO	1,200	37.77	1,173	35.85	139	32.03
	DUPLX	33	1.04	26	.79	3	.69
	PUD	62	1.95	50	1.53	4	.92
	MOHM			3	.09	4	.92
	TRI-PLEX					0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	2,294	72.21	2,226	68.03	259	59.68
	EXISTING	883	27.79	1,046	31.97	175	40.32
1ST TIME HOMEOWNER..	YES	2,814	88.57	2,873	87.81	379	87.33
	NO	363	11.43	399	12.19	55	12.67
INSURANCE TYPE.....	FHA					0	.00
	VA	251	7.90	363	11.09	81	18.66
	CONVA	2,926	92.10	2,909	88.91	353	81.34
ELIGIBILITY.....	STVA	546	17.19	448	13.69	61	14.06
	NON-STVA	2,631	82.81	2,824	86.31	373	85.94
						0	.00
ORIG. PRINCIPAL BALANCE		253,061,600.00		270,847,450.00		36,636,000.00	
ORIG. NUMBER OF LOANS		3,177		3,272		434	

DATE 3/31/85

ALASKA HOUSING FINANCE CORPORATION

STATE GUARANTEED BONDS - VETERANS MORT.

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1983	%	FY 1984	%	FY 1985 THRU[3/31/85]	%
SALES PRICE		122,747		129,877		130,743	
APPRAISED VALUE		125,123		132,573		133,132	
NOTE AMOUNT		112,348		116,362		115,204	
MONTHLY INCOME		4,823		5,009		4,837	
AGE OF BORROWER		37.8		38.4		38.7	
SIZE OF HOUSEHOLD		3.0		3.1		3.1	
LOAN TO SALES PRICE RATIO		91.53%		89.59%		88.11%	
WEIGHTED AVG INT. RATE		9.06%		9.51%		10.54%	
MONTHLY P&I		909.44		982.01		1,058.24	
DWELLING TYPE..	SFR	391	81.20	3,433	85.48	1,796	85.85
	CONDO	65	13.43	362	9.01	173	8.27
	DUPLX	10	2.07	91	2.27	21	1.00
	PUD	18	3.31	128	3.19	81	3.87
	MOHM			2	.05	17	.81
	TRI-PLEX					4	.19
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	247	51.03	2,046	50.95	1,049	50.14
	EXISTING	237	48.97	1,970	49.05	1,043	49.86
1ST TIME HOMEOWNER..	YES	200	41.32	1,385	34.49	784	37.48
	NO	284	56.68	2,631	65.51	1,308	62.52
INSURANCE TYPE.....	FHA					0	.00
	VA	210	43.39	1,596	39.74	926	44.26
	CONVA	274	56.61	2,420	60.26	1,166	55.74
ELIGIBILITY.....	STVA	484	100.00	4,016	100.00	2,091	99.95
	NON-STVA					1	.05
						0	.00
ORIG. PRINCIPAL BALANCE		54,376,200.00		467,310,100.00		241,006,700.00	
ORIG. NUMBER OF LOANS		484		4,016		2,092	

RINT

DATE 3/31/85

ALASKA HOUSING FINANCE CORPORATION

MOBILE HOMES

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1983	%	FY 1984	%	FY 1985 THRU(3/31/85)	%
SALES PRICE		33,864		38,433		40,775	
APPRAISED VALUE		35,041		40,425		42,631	
NOTE AMOUNT		31,376		36,861		41,648	
MONTHLY INCOME		2,864		2,895		2,848	
AGE OF BORROWER		31.9		32.1		31.8	
SIZE OF HOUSEHOLD		2.5		2.5		2.4	
LOAN TO SALES PRICE RATIO		92.65%		95.91%		102.14%	
WEIGHTED AVG INT. RATE		11.39%		10.22%		10.96%	
MONTHLY P&I		343.30		372.50		444.82	
DWELLING TYPE..	SFR					0	.00
	CONDO					0	.00
	DUPLX					0	.00
	PUD					0	.00
	MOHM	1,872	100.00	1,619	100.00	593	100.00
	TRI-PLEX					0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	390	20.83	312	19.27	84	14.17
	EXISTING	1,482	79.17	1,307	80.73	509	85.83
1ST TIME HOMEOWNER..	YES	1,249	66.72	1,142	70.54	453	76.39
	NO	623	33.28	477	29.46	140	23.61
INSURANCE TYPE.....	FHA					0	.00
	VA	4	.21	10	.62	22	3.71
	CONVA	1,868	99.79	1,609	99.38	526	88.70
ELIGIBILITY.....	STVA	263	14.05	333	20.57	74	12.48
	NON-STVA	1,609	85.95	1,286	79.43	474	79.93
						0	.00
ORIG. PRINCIPAL BALANCE		58,735,850.00		59,677,888.00		24,697,547.00	
ORIG. NUMBER OF LOANS		1,872		1,619		593	

DATE 3/31/85

ALASKA HOUSING FINANCE CORPORATION

RECEIVING HOME OWNERSHIP SUBSIDY

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1983	%	FY 1984	%	FY 1985 THRU(3/31/85)	%
SALES PRICE		74,320		77,505		74,792	
APPRAISED VALUE		75,258		78,345		75,759	
NOTE AMOUNT		69,798		73,177		71,982	
MONTHLY INCOME		1,993		2,116		2,276	
AGE OF BORROWER		29.5		30.0		30.4	
SIZE OF HOUSEHOLD		1.8		2.2		2.2	
LOAN TO SALES PRICE RATIO		93.92%		94.42%		96.24%	
WEIGHTED AVG INT. RATE		10.31%		9.93%		11.16%	
MONTHLY P&I		628.66		639.55		702.03	
DWELLING TYPE..	SFR	433	39.98	580	47.62	470	42.34
	CONDO	641	59.19	586	48.11	427	38.47
	DUPLX					0	.00
	PUD	9	.83	7	.58	14	1.26
	MOHM			45	3.69	199	17.93
	TRI-PLEX					0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	735	67.87	832	68.31	601	54.14
	EXISTING	348	32.13	386	31.69	509	45.86
1ST TIME HOMEOWNER..	YES	846	78.12	976	80.13	921	82.97
	NO	237	21.88	242	19.87	189	17.03
INSURANCE TYPE.....	FHA					0	.00
	VA			20	1.64	196	17.66
	CONVA	1,083	100.00	1,198	98.36	897	80.81
ELIGIBILITY.....	STVA	77	7.11	96	7.88	166	14.95
	NON-STVA	1,006	92.89	1,122	92.12	927	83.51
						0	.00
ORIG. PRINCIPAL BALANCE		75,590,900.00		89,130,193.00		79,900,516.00	
ORIG. NUMBER OF LOANS		1,083		1,218		1,110	

DATE 3/31/85

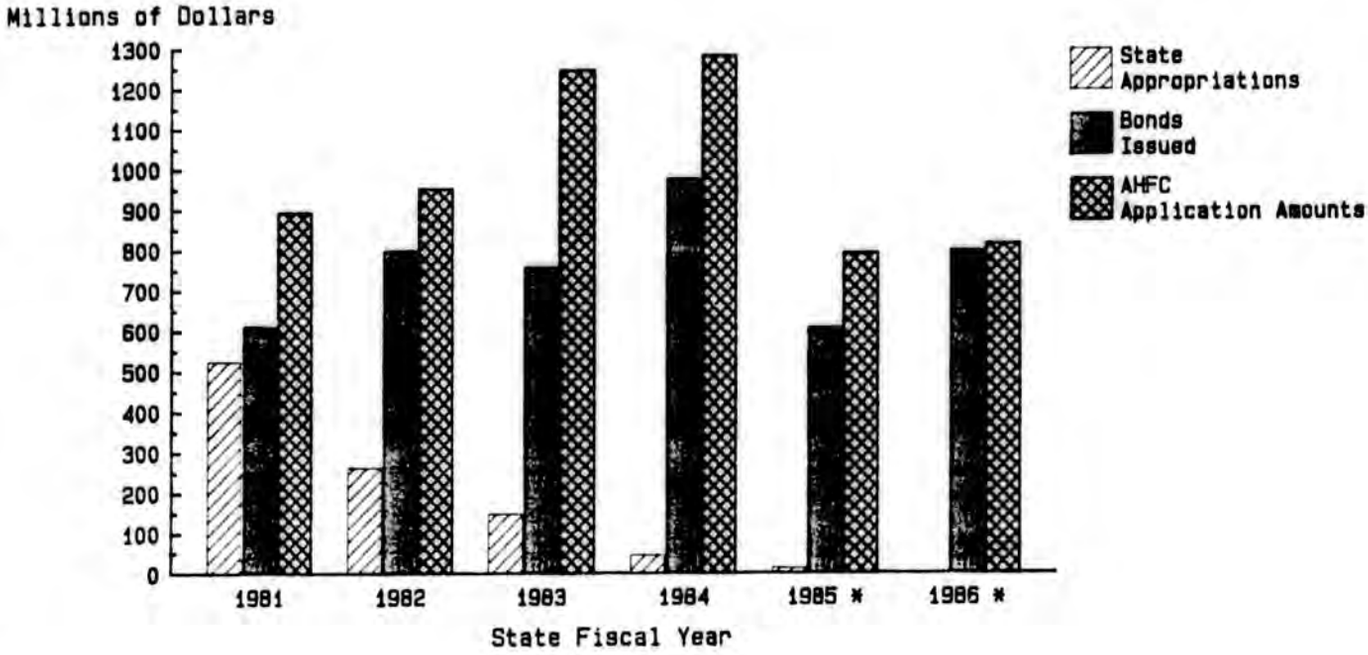
ALASKA HOUSING FINANCE CORPORATION

PLEDGED ACCOUNT MORTGAGES

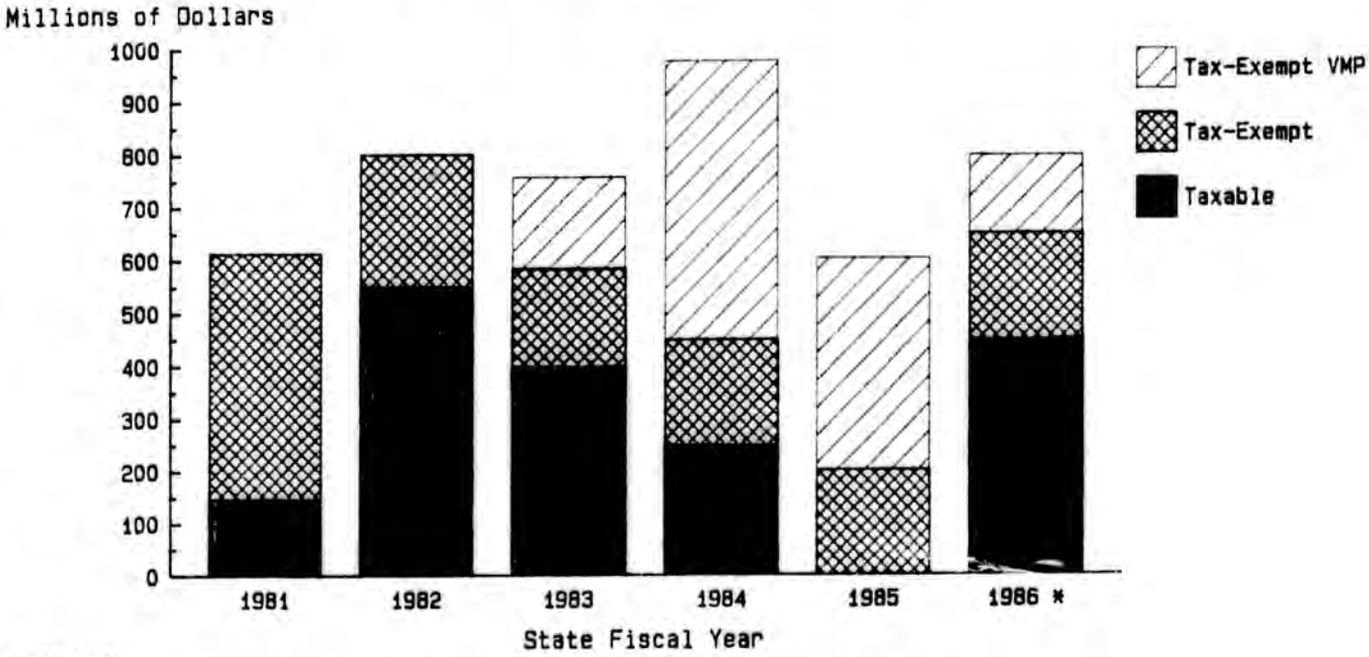
LOAN SUMMARY MORTGAGES PURCHASED

		FY 1983	%	FY 1984	%	FY 1985 THRU[3/31/85]	%
SALES PRICE		106,938		121,863		128,949	
APPRAISED VALUE		109,776		124,969		132,550	
NOTE AMOUNT		96,656		107,572		114,523	
MONTHLY INCOME		3,438		3,489		3,922	
AGE OF BORROWER		31.8		34.0		34.6	
SIZE OF HOUSEHOLD		2.4		2.5		2.6	
LOAN TO SALES PRICE RATIO		90.39%		88.27%		88.81%	
WEIGHTED AVG INT. RATE		11.49%		10.41%		11.62%	
MONTHLY P&I		969.97		983.00		1,144.86	
DWELLING TYPE..	SFR	165	69.33	181	69.88	221	77.00
	CONDO	56	23.53	52	20.08	36	12.54
	DUPLX	3	1.26	13	5.02	16	5.57
	PUD	14	5.88	13	5.02	14	4.88
	MOHM					0	.00
	TRI-PLEX					0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	161	67.65	147	56.76	148	51.57
	EXISTING	77	32.35	112	43.24	139	48.43
1ST TIME HOMEOWNER..	YES	98	41.18	103	39.77	95	33.10
	NO	140	58.82	156	60.23	192	66.90
INSURANCE TYPE.....	FHA					0	.00
	VA					1	.35
	CONVA	238	100.00	259	100.00	286	99.65
ELIGIBILITY.....	STVA	23	10.50	64	24.71	81	28.22
	NON-STVA	215	89.50	195	75.29	206	71.78
						0	.00
ORIG. PRINCIPAL BALANCE		23,004,150.00		27,861,250.00		32,868,050.00	
ORIG. NUMBER OF LOANS		238		259		287	

ALASKA HOUSING FINANCE CORPORATION
SUBSIDY, BONDING & MORTGAGE LEVELS



ALASKA HOUSING FINANCE CORPORATION
SUMMARY OF BONDS ISSUED BY TYPE



* Projected

FY 1984 does not include $ 175 million of financing arranged under agreements to deliever collateralized notes to FNMA.

FY 1985 does not include $ 75 million of financing arranged under an agreement to deliever collateralized notes to FNMA.



ALASKA HOUSING FINANCE CORPORATION

EXHIBIT I

Effect of Subsidy Modifications

Presented at the Request of

The Honorable Rick Halford

April 24, 1985

ALASKA HOUSING FINANCE CORPORATION

Exhibit I - Table of Contents

	Page
Analysis of Subsidy Reduction Alternatives	1
Section 1 - Base Case (Current Program)	
Projections for Fiscal Year 1986	
Revolving Fund Activity	2
Mortgage Demand and Financings	3
Projections for Fiscal Year 1987	
Revolving Fund Activity	4
Mortgage Demand and Financings	5
Projections for Fiscal Year 1988	
Revolving Fund Activity	6
Mortgage Demand and Financings	7
Projections for Fiscal Year 1989	
Revolving Fund Activity	8
Mortgage Demand and Financings	9
Section 2 - Case A	
Projections for Fiscal Year 1986	
Revolving Fund Activity	10
Mortgage Demand and Financings	11
Projections for Fiscal Year 1987	
Revolving Fund Activity	12
Mortgage Demand and Financings	13
Projections for Fiscal Year 1988	
Revolving Fund Activity	14
Mortgage Demand and Financings	15
Projections for Fiscal Year 1989	
Revolving Fund Activity	16
Mortgage Demand and Financings	17

ALASKA HOUSING FINANCE CORPORATION

Exhibit I - Table of Contents
(continued)

	Page
Section 3 - Case B	
Projections for Fiscal Year 1986	
Revolving Fund Activity	18
Mortgage Demand and Financings	19
Projections for Fiscal Year 1987	
Revolving Fund Activity	20
Mortgage Demand and Financings	21
Projections for Fiscal Year 1988	
Revolving Fund Activity	22
Mortgage Demand and Financings	23
Projections for Fiscal Year 1989	
Revolving Fund Activity	24
Mortgage Demand and Financings	25

NOTE: Projections have been based upon recent mortgage application volume. Bonding and subsidy projections are extremely sensitive to fluctuations in mortgage demand.

ALASKA HOUSING FINANCE CORPORATION

Analysis of Subsidy Reduction Alternatives
(in Millions)

	Bonds Issued	Est. Mtg. Demand All Programs	Related Subsidy Transfers	Revolving Fund Liquid Assets (General Account) End of Year	Revolving Fund All Assets End of Year	Future Value at End of FY Compounded at 10% Annually $16 Mill.	$25 Mill.	$34 Mill.	$50 Mill.
Base Case (Current Program)									
FY 86	800	785	152	172	453	17.6	27.5	37.4	55.0
FY 87	500	792	92	104	407	19.4	30.3	41.1	60.6
FY 88	550	824	98	28	346	21.3	33.3	45.3	66.6
FY 89	550	870	122	27*	358*	23.4	36.6	49.8	73.2
Case A - 2-1/2% eff. from 10-1-85									
FY 86	750	726	120	208	485	17.6	27.5	37.4	55.0
FY 87	475	756	66	174	471	19.4	30.3	41.1	60.6
FY 88	600	789	88	117	429	21.3	33.3	45.3	66.6
FY 89	500	826	92	52	378	23.4	36.6	49.8	73.2
Case B - 2-1/2% eff. from 10-1-85 2% eff. from 10-1-86									
FY 86	750	726	120	208	485	17.6	27.5	37.4	55.0
FY 87	425	634	35	205	503	19.4	30.3	41.1	60.6
FY 88	525	660	43	199	514	21.3	33.3	45.3	66.6
FY 89	400	690	48	190	520	23.4	36.6	49.8	73.2

NOTE: The above Revolving Fund projections anticipate receipt of $16 million FY 85 appropriation and retention of all assets of the Alaska Housing Finance Revolving Fund. To determine the effect of various levels of reappropriation, use the schedule of future values to reduce the indicated balance of liquid assets in the General Account and total of All Assets.

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

SECTION 1

Base Case (Current Program)

Base Case

04/15/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1986
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1985	$110	-0-	$202	$142	$ 93	$547
Prepayments and principal reductions	(8)	$ 8		(13)	13	-0-
Earnings		11			38	49
Home ownership assistance subsidies		(7)				(7)
IMB earnings released					16	16
Non-bonded mortgage programs						
Second mortgages				10	(10)	-0-
Mobile home loans	12	(12)		28	(28)	-0-
Reduction in loans warehoused			(50)		50	-0-
Increase in HOF account	30			(30)		-0-
Required subsidy transfers	___	___	___	___	(152)	(152)
Balance: June 30, 1986	$144	-0-	$152	$137	$ 20	$453

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-3A

Base Case

04/15/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1986
(In Millions)

	Mortgage Loan Funds Available 7-1-85	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 86	Mortgage Loan Funds Available 6-30-86
Bonded Programs								
Taxable First Mortgage Program	$ 62(4)	$ 60(1)	$150	$ (2)	$ 42	$ 40	$280	$ 72
First Mortgage Veterans Program State Guaranteed Bonds	209	17(2)	150	(4)	18	(14)	250	126
First Time Homebuyers Program Home Mortgage Bonds	75	5(2)	200	(6)	32	(26)	205	75
Internally Funded Programs								
Second Mortgage Program	-0-	10(3)					10	
Mobile Home Loan Program	-0-	40(3)					40	
	$346	$132	500	$(12)	92	-0-	$785	$273
Deferred FNMA Note Closings			300		60			
			$800		$152			

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

(4) Includes amounts related to subsequent issuance of $300 million collateral notes to be sold directly to FNMA.

Base Case

04/15/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1987
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1986	$144	-0-	$152	$137	$ 20	$453
Prepayments and principal reductions	(10)	$ 10		(10)	10	-0-
Earnings		14			28	42
Home ownership assistance subsidies		(9)				(9)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				7	(7)	-0-
Mobile home loans	15	(15)		20	(20)	-0-
Reduction in loans warehoused			(50)		50	-0-
Required subsidy transfers	___	___	___	___	(92)	(92)
Balance: June 30, 1987	$149	-0-	$102	$154	$ 2	$407

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-25

Base Case

04/15/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary Based Upon Subsidy Restructure Proposal
Mortgage Demand and Proposed Bond Financing
Fiscal Year 1987
(In Millions)

	Mortgage Loan Funds Available 7-1-86	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 87	Mortgage Loan Funds Available 6-30-87
Bonded Programs								
Taxable First Mortgage Program	$ 72	$ 65(1)	$150	$ (3)	$ 42	$ 40	$295	$ 71
First Mortgage Veterans Program State Guaranteed Bonds	126	20(2)	150	(4)	18	(14)	240	56
First Time Homebuyers Program Home Mortgage Bonds	75	7	200	(6)	32	(26)	215	67
Internally Funded Programs								
Second Mortgage Program	-0-	7(3)					7	
Mobile Home Loan Program	-0-	35(3)	—	—	—	—	35	—
	$273	$134	$500	$(13)	$ 92	-0-	$792	$194

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-11A

51

Base Case

04/15/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1988
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1987	$149	-0-	$102	$154	$ 2	$407
Prepayments and principal reductions	(12)	$ 12		(13)	13	-0-
Earnings		14			20	34
Home ownership assistance subsidies		(10)				(10)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				5	(5)	-0-
Mobile home loans	16	(16)		19	(19)	-0-
Reduction in loans warehoused			(75)		75	-0-
Required subsidy transfers	___	___	___	___	(98)	(98)
Balance: June 30, 1988	$153	-0-	$ 27	$165	$ 1	$346

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-24

Base Case

04/15/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1988
(In Millions)

	Mortgage Loan Funds Available 7-1-87	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 88	Mortgage Loan Funds Available 6-30-88
Bonded Programs								
Taxable First Mortgage Program	$ 71	$ 65(1)	$150	$ (3)	$ 42	$ 44	$319	$ 50
First Mortgage Veterans Program State Guaranteed Bonds	56	27(2)	200	(6)	24	(18)	230	53
First Time Homebuyers Program Home Mortgage Bonds	67	11(2)	200	(6)	32	(26)	235	43
Internally Funded Programs								
Second Mortgage Program		5(3)					5	
Mobile Home Loan Program	___	35(3)	___	___	___	___	35	___
	$194	$143	$550	$(15)	$ 98	-0-	$824	$146

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

Base Case

04/15/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1989
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1988	$153	-0-	$ 27	$165	$ 1	$346
Prepayments and principal reductions	(12)	$ 12		(15)	15	-0-
Earnings		14			18	32
Home ownership assistance subsidies		(11)				(11)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				5	(5)	-0-
Mobile home loans	15	(15)		20	(20)	-0-
Reduction in loans warehoused						-0-
FY 89 legislative appropriation					100	100
Required subsidy transfers	___	___	___	___	(122)	(122)
Balance: June 30, 1989	$156	-0-	$ 27	$175	-0-	$358

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-23

Base Case

04/15/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1989
(In Millions)

	Mortgage Loan Funds Available 7-1-88	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 89	Mortgage Loan Funds Available 6-30-89
Bonded Programs								
Taxable First Mortgage Program	$ 50	$ 65(1)	$350	$ (6)	$ 98	$ 18	$544	$ 31
First Mortgage Veterans Program State Guaranteed Bonds	53	35(2)	200	(6)	24	(18)	220	68
First Time Homebuyers Program Home Mortgage Bonds	43	23(2)					66	-0-
Internally Funded Programs								
Second Mortgage Program	-0-	5(3)					5	
Mobile Home Loan Program	-0-	35(3)					35	
	$146	$163	$550	$(12)	$122	-0-	$870	$ 99

(1) Housing and Improved Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-26

6

SECTION 2

Case A

SECTION 2

Case A

Case A - 2-1/2% subsidy effective 10-1-85
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1986
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1985	$110	-0-	$202	$142	$ 93	$547
Prepayments and principal reductions	(8)	$ 8		(13)	13	-0-
Earnings		11			38	49
Home ownership assistance subsidies		(7)				(7)
IMB earnings released					16	16
Non-bonded mortgage programs						
Second mortgages				9	(9)	-0-
Mobile home loans	12	(12)		25	(25)	-0-
Reduction in loans warehoused						-0-
Increase in HOF account	30			(30)		-0-
Required subsidy transfers	___	___	___	___	(120)	(120)
Balance: June 30, 1986	$144	-0-	$202	$133	$ 6	$485

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-3D

Case A - 2-1/2% level of subsidy effective 10-1-85
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1986
(In Millions)

	Mortgage Loan Funds Available 7-1-85	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 86	Mortgage Loan Funds Available 6-30-86
Bonded Programs								
Taxable First Mortgage Program	$ 62(4)	$ 60(1)	$125	$ (2)	$ 30	$ 21	$259	$ 37
First Mortgage Veterans Program State Guaranteed Bonds	209	17(2)	125	(3)	12	(9)	231	120
First Time Homebuyers Program Home Mortgage Bonds	75	5(2)	200	(6)	18	(12)	190	90
Internally Funded Programs								
Second Mortgage Program	-0-	9(3)					9	
Mobile Home Loan Program	-0-	37(3)					37	
	$346	$128	450	$(11)	60	-0-	$726	$247
Deferred FNMA Note Closings			300		60			
			$750		$120			

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

(4) Includes amounts related to subsequent issuance of $300 million collateral notes to be sold directly to FNMA.

MKC-5D

Case A - 2-1/2% subsidy effective 10-1-85
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1987
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1986	$144	-0-	$202	$133	$ 6	$485
Prepayments and principal reductions	(11)	$ 11		(11)	11	-0-
Earnings		14			33	47
Home ownership assistance subsidies		(8)				(8)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				7	(7)	-0-
Mobile home loans	17	(17)		18	(18)	-0-
Reduction in loans warehoused			(35)		35	-0-
Required subsidy transfers	___	___	___	___	(66)	(66)
Balance: June 30, 1987	$150	-0-	$167	$147	$ 7	$471

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-25C

Case A - 2-1/2% subsidy effective 10-1-85
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary Based Upon Subsidy Restructure Proposal
Mortgage Demand and Proposed Bond Financing
Fiscal Year 1987
(In Millions)

	Mortgage Loan Funds Available 7-1-86	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 87	Mortgage Loan Funds Available 6-30-87
Bonded Programs								
Taxable First Mortgage Program	$ 37	$ 65(1)	$150	$ (3)	$ 36	$ 21	$280	$ 26
First Mortgage Veterans Program State Guaranteed Bonds	120	20(2)	125	(3)	12	(9)	230	35
First Time Homebuyers Program Home Mortgage Bonds	90	7	200	(6)	18	(12)	204	93
Internally Funded Programs								
Second Mortgage Program	-0-	7(3)					7	
Mobile Home Loan Program	-0-	35(3)	___	___	___	___	35	___
	$247	$134	$475	$(12)	$ 66	-0-	$756	$154

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-110

13

Case A - 2-1/2% subsidy effective 10-1-85
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1988
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1987	$150	-0-	$167	$147	$ 7	$471
Prepayments and principal reductions	(12)	$ 12		(13)	13	-0-
Earnings		14			28	42
Home ownership assistance subsidies		(9)				(9)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				5	(5)	-0-
Mobile home loans	17	(17)		18	(18)	-0-
Reduction in loans warehoused			(55)		55	-0
Required subsidy transfers	___	___	___	___	(88)	(88)
Balance: June 30, 1988	$155	-0-	$112	$157	$ 5	$429

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-24C

Case A - 2-1/2% subsidy effective 10-1-85
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1988
(In Millions)

	Mortgage Loan Funds Available 7-1-87	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 88	Mortgage Loan Funds Available 6-30-88
Bonded Programs								
Taxable First Mortgage Program	$ 15	$ 65(1)	$200	$ (2)	$ 48	$ 28	$303	$ 51
First Mortgage Veterans Program State Guaranteed Bonds	35	27(2)	200	(6)	20	(14)	223	39
First Time Homebuyers Program Home Mortgage Bonds	93	11(2)	200	(6)	20	(14)	223	81
Internally Funded Programs								
Second Mortgage Program		5(3)					5	
Mobile Home Loan Program	___	35(3)	___	___	___	___	35	___
	$143	$143	$600	$(14)	$ 88	-0-	$789	$171

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-27C

15

Case A - 2-1/2% subsidy effective 10-1-85
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1989
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1988	$155	-0-	$112	$157	$ 5	$429
Prepayments and principal reductions	(12)	$ 12		(14)	14	-0-
Earnings		14			24	38
Home ownership assistance subsidies		(10)				(10)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				5	(5)	-0-
Mobile home loans	16	(16)		19	(19)	-0-
Reduction in loans warehoused			(70)		70	-0-
FY 89 legislative appropriation						-0-
Required subsidy transfers	___	___	___	___	(92)	(92)
Balance: June 30, 1989	$159	-0-	$ 42	$167	$ 10	$378

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-23C

Case A - 2-1/2% subsidy effective 10-1-85
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1989
(In Millions)

	Mortgage Loan Funds Available 7-1-88	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 89	Mortgage Loan Funds Available 6-30-89
Bonded Programs								
Taxable First Mortgage Program	$ 37	$ 65(1)	$300	$ (5)	$ 72	$ 14	$462	$ 21
First Mortgage Veterans Program State Guaranteed Bonds	39	35(2)	200	(6)	20	(14)	220	54
First Time Homebuyers Program Home Mortgage Bonds	81	23(2)					104	-0-
Internally Funded Programs								
Second Mortgage Program	-0-	5(3)					5	
Mobile Home Loan Program	-0-	35(3)	—	—	—	—	35	—
	$157	$163	$500	$(11)	$ 92	-0-	$826	$ 75

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-26C

17

SECTION 3

Case B

Case B - 2-1/2% level of subsidy effective 10-1-85
2% level of subsidy effective 10-1-86
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1986
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1985	$110	-0-	$202	$142	$ 93	$547
Prepayments and principal reductions	(8)	$ 8		(13)	13	-0-
Earnings		11			38	49
Home ownership assistance subsidies		(7)				(7)
IMB earnings released					16	16
Non-bonded mortgage programs						
Second mortgages				9	(9)	-0-
Mobile home loans	12	(12)		25	(25)	-0-
Reduction in loans warehoused						-0-
Increase in HOF account	30			(30)		-0-
Required subsidy transfers	___	___	___	___	(120)	(120)
Balance: June 30, 1986	$144	-0-	$202	$133	$ 6	$485

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-3C

Case B - 2-1/2% lev l of subsidy effective 10-1-85
2% level of subsidy effective 10-1-86
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1986
(In Millions)

	Mortgage Loan Funds Available 7-1-85	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 86	Mortgage Loan Funds Available 6-30-86
Bonded Programs								
Taxable First Mortgage Program	$ 62(4)	$ 60(1)	$125	$ (2)	$ 30	$ 21	$259	$ 37
First Mortgage Veterans Program State Guaranteed Bonds	209	17(2)	125	(3)	12	(9)	231	120
First Time Homebuyers Program Home Mortgage Bonds	75	5(2)	200	(6)	18	(12)	190	90
Internally Funded Programs								
Second Mortgage Program	-0-	9(3)					9	
Mobile Home Loan Program	-0-	37(3)					37	
	$346	$128	450	$(11)	60	-0-	$726	$247
Deferred FNMA Note Closings			300		60			
			$750		$120			

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

(4) Includes amounts related to subsequent issuance of $300 million collateral notes to be sold directly to FNMA.

MKC-5C

61

Case B - 2-1/2% level of subsidy effective 10-1-85
2% level of subsidy effective 10-1-86
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1987
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1986	$144	-0-	$202	$133	$ 6	$485
Prepayments and principal reductions	(10)	$ 10		(10)	10	-0-
Earnings		14			34	48
Home ownership assistance subsidies		(8)				(8)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				6	(6)	-0-
Mobile home loans	16	(16)		19	(19)	-0-
Reduction in loans warehoused						-0-
Required subsidy transfers	___	___	___	___	(35)	(35)
Balance: June 30, 1987	$150	-0-	$202	$148	$ 3	$503

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-25B

Case B - 2-1/2% level of subsidy effective 10-1-85
2% level of subsidy effective 10-1-86
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary Based Upon Subsidy Restructure Proposal
Mortgage Demand and Proposed Bond Financing
Fiscal Year 1987
(In Millions)

	Mortgage Loan Funds Available 7-1-86	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 87	Mortgage Loan Funds Available 6-30-87
Bonded Programs								
Taxable First Mortgage Program	$ 37	$ 65(1)	$125	$ (3)	$ 25	$ 2	$228	$ 23
First Mortgage Veterans Program State Guaranteed Bonds	120	20(2)	100	(2)	4	(2)	200	40
First Time Homebuyers Program Home Mortgage Bonds	90	7	200	(6)	6		172	125
Internally Funded Programs								
Second Mortgage Program	-0-	6(3)					6	
Mobile Home Loan Program	-0-	28(3)					28	
	$247	$126	$425	$(11)	$ 35	-0-	$634	$188

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-11C

12

Case B - 2-1/2% level of subsidy effective 10-1-85
2% level of subsidy effective 10-1-86
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1988
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1987	$150	-0-	$202	$148	$ 3	$503
Prepayments and principal reductions	(11)	$ 11		(12)	12	-0-
Earnings		14			36	50
Home ownership assistance subsidies		(9)				(9)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				5	(5)	-0-
Mobile home loans	16	(16)		19	(19)	-0-
Reduction in loans warehoused			(10)		10	-0-
Required subsidy transfers	___	___	___	___	(43)	(43)
Balance: June 30, 1988	$155	-0-	$192	$160	$ 7	$514

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-24B

Case B - 2-1/2% level of subsidy effective 10-1-85
2% level of subsidy effective 10-1-86
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1988
(In Millions)

	Mortgage Loan Funds Available 7-1-87	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 88	Mortgage Loan Funds Available 6-30-88
Bonded Programs								
Taxable First Mortgage Program	$ 23	$ 65(1)	$150	$ (3)	$ 30	$ 4	$235	$ 34
First Mortgage Veterans Program State Guaranteed Bonds	40	27(2)	175	(3)	7	(4)	200	42
First Time Homebuyers Program Home Mortgage Bonds	125	11(2)	200	(6)	6	-0-	185	151
Internally Funded Programs								
Second Mortgage Program		5(3)					5	
Mobile Home Loan Program	___	35(3)	___	___	___	___	35	___
	$188	$143	$525	$(12)	$ 43	-0-	$660	$227

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-27B

23

Case B - 2-1/2% level of subsidy effective 10-1-85
2% level of subsidy effective 10-1-86
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

Projected Revolving Fund Activity

Fiscal Year 1989
(In Millions)

	HOF Account		General Account			
			Loans & Net Mtg. Securities			
	Loans	Investments	Conforming	Non-Conforming	Investments	Total
Balance: July 1, 1988	$155	-0-	$192	$160	$ 7	$514
Prepayments and principal reductions	(12)	$ 12		(13)	13	-0-
Earnings		14			37	51
Home ownership assistance subsidies		(10)				(10)
IMB earnings released					13	13
Non-bonded mortgage programs						
Second mortgages				5	(5)	-0-
Mobile home loans	16	(16)		19	(19)	-0-
Reduction in loans warehoused			(10)		10	-0-
FY 89 legislative appropriation						-0-
Required subsidy transfers	___	___	___	___	(48)	(48)
Balance: June 30, 1989	$159	-0-	$182	$171	$ 8	$520

NOTE: The composition of the General Account will vary between conforming loans and investment securities depending upon the closing out of the recently sold issues. The current composition is felt to be reflective of the anticipated future mix.

MKC-23B

Case B - 2-1/2% level of subsidy effective 10-1-85
2% level of subsidy effective 10-1-86
No reappropriation

04/23/85

ALASKA HOUSING FINANCE CORPORATION

SPECIAL MORTGAGE LOAN PURCHASE PROGRAM

Summary of Mortgage Demand and Proposed Bond Financing
Fiscal Year 1989
(In Millions)

	Mortgage Loan Funds Available 7-1-88	Program Repayments and Earnings	Bond Proceeds	Sales Costs	Subsidy	Subsidy Allocation	Estimated Mortgage Demand FY 89	Mortgage Loan Funds Available 6-30-89
Bonded Programs								
Taxable First Mortgage Program	$ 34	$ 65(1)	$200	$ (4)	$ 40	$ 2	$276	$ 61
First Mortgage Veterans Program State Guaranteed Bonds	42	35(2)	200	(6)	8	(2)	200	77
First Time Homebuyers Program Home Mortgage Bonds	151	23(2)					174	-0-
Internally Funded Programs								
Second Mortgage Program	-0-	5(3)					5	
Mobile Home Loan Program	-0-	35(3)					35	
	$227	$163	$400	$(10)	$ 48	-0-	$690	$138

(1) Housing and Insured Mortgage Bond prepayments.

(2) Represents amounts made available for recycling subject to federal restrictions as to borrower and residence.

(3) Portion of earnings and prepayments of Revolving Fund including HOF Account.

MKC-26B

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 378

Title: An act relating to the interest rate on State loan programs

Sponsor: Adams and Binkley

Requestor:

Date of Request: April 19, 1985

FISCAL DETAIL

Agency Affected: Commerce & Economic Developm

Program Category Affected: Economic Development

BRU, Program or Subprogram(s) Affected: Accounting & Collections

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE		80.2	258.4	484.1	750.5	1,048.8

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS Attach a separate page if necessary

Data was provided by the Division of Investments for current market interest rates for the various loan programs and the resulting decreased loan demand.

The fiscal impact to revenue is the net interest rate increase of .5 percent per year, as proposed in HB 378. All active loan programs administered by DCED have been included.

Prepared By: Margaret I. Hamley, Director — Phone: 465-2555

Division: Accounting & Collections — Date: 4-23-85

Approved by Commissioner: Loren H. Lounsbury — Date: 4/23/85

Agency: Commerce & Economic Development

Distribution (by Agency preparing fiscal note):

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

7/1/84

0126M

HB 378
FISCAL NOTE - REVENUE ANALYSIS

ESTIMATED CHANGE IN LOAN DEMAND FOR EACH .5% INCREASE IN INTEREST RATE:

	CF	BF	CC	HD	M	AE	REC	FE
Statutory Rate	10.50	10.52	7.00	7.50	10.00	5.00 15.00	10.52	9.50
Market Rate	14.50	12.50	14.00	15.00	15.50	17.50	17.50	15.50
Decreased Loan Demand								
FY '86	none	none	none	none	none	none	none	none
FY '87	2%	none	none	none	5%	none	5%	none
FY '88	2%	none	none	none	5%	none	5%	none
FY '89	2%	none	none	none	5%	none	5%	none
FY '90	2%	none	none	none	5%	none	5%	none

Estimates provided by Division of Investments, Department of Commerce and Economic Development, as of April 16, 1985.

- -

SUMMARY OF FISCAL IMPACT: REVENUE (based on Division of Investments' assumptions above)

	FY '86	FY '87	FY '88	FY '89	FY '90
Commercial Fish	$38,010	$132,525	$264,749	$431,176	$ 627,707
Bulk Fuel	2,625	5,250	7,875	10,500	10,500
Child Care	1,504	6,006	13,493	22,758	36,076
Historical Districts	750	3,191	6,777	12,072	18,892
Mining	24,000	63,624	92,309	108,876	110,855
Alternative Energy	10,307	40,025	87,885	152,524	232,394
Residential Energy Conservation	3,000	7,811	11,058	12,587	12,220
Fisheries Enhancement	Ø	Ø	Ø	Ø	Ø
TOTAL	$80,196	$258,432	$484,146	$750,493	$1,048,644

Fiscal impact revenue analysis prepared by Division of Accounting and Collections

0126M-2

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 378

Title: Rates on State loan programs.

Sponsor: Adams

Requestor:

Date of Request:

FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.

Program Category Affected: Development

BRU, Program or Subprogram(s) Affected: Division of Investments

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		10.0	10.0	10.0	10.0	10.0
400 SUPPLIES		10.0				
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		20.0	10.0	10.0	10.0	10.0
CAPITAL		-0-	-0-	-0-	-0-	-0-
REVENUE		-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND		20.0	10.0	10.0	10.0	10.0
FEDERAL FUNDS						
OTHER						
TOTAL		20.0	10.0	10.0	10.0	10.0

POSITIONS:

FULL-TIME		-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

$10,000 is requested for a one-time charge to prepare and distribute copies of regulations for public comment relating to determination of the existing market rate for each program, and revision and reprinting of the State loan applications and pamphlets. A continuing cost of $10,000 is required for a contractor to determine market rates for each program on a yearly basis in a manner that would be defensible in court.

Paul B. Arnoldt

Prepared By: Paul B. Arnoldt, Director Phone: 465-2510

Division: Investments Date: 4/17/85

Approved by Commissioner: Loren H. Lounsbury Date: 4/17/85

Agency: Commerce and Economic Development

Distribution (by Agency preparing fiscal note):

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

7/1/84

2159W41785c

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 378

Title: RE: Interest Rates on State Loans

Sponsor: Adams, Binkley

Requestor: Sund

Date of Request:

FISCAL DETAIL

Agency Affected: Education

Program Category Affected: Postsecondary Education

BRU, Program or Subprogram(s) Affected: Student Loan Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		20.0				
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	N.A.	20.0	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE	N.A.	N.A.	(85.6)	(295.4)	1,671.8	(1,297.0)

FUNDING: (Thousands of Dollars)

GENERAL FUND		20.0	(85.6)	(295.4)	(1,671.8)	(1,297.0)
FEDERAL FUNDS						
OTHER						
TOTAL		20.0				

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Note there is a one year lag between attached chart and fiscal impact. This is due to the effective date of the Bill.

Prepared By: Kerry D. Romesburg, Executive Director Phone: 465-2854

Division: Alaska Commission on Postsecondary Education Date: 4/22/85

Approved by Commissioner: Date:

Agency:

Distribution (by Agency preparing fiscal note):

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

7/1/84

Increase loan interest rates by 1/2% per year, until it reaches 8%, retain other current terms.

(a) Fiscal Impact:

Year of Impact	BORROWING YEAR FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	Total Impact
FY86	$ -0-	$	$	$	$	$	$	$	$	$	$	$	$	$ -0-
FY87	-0-	-0-												-0-
FY88	46.8	-0-	-0-											46.8
FY89	91.2	85.6	-0-	-0-										176.8
FY90	136.8	167.0	128.4	-0-	-0-									432.2
FY91	204.2	250.2	250.5	171.1	-0-	-0-								876.0
FY92	208.8	373.7	375.4	333.9	214.0	-0-	-0-							1,505.8
FY93	208.8	382.1	560.5	500.5	417.4	256.7	-0-	-0-						2,326.0
FY94	208.8	382.1	573.1	747.3	625.6	500.9	256.7	-0-	-0-					3,294.5
FY95	208.8	382.1	573.1	764.1	934.1	750.7	500.9	256.7	-0-	-0-				4,370.5
FY96	208.8	382.1	573.1	764.1	955.1	1,225.1	750.7	500.9	256.7	-0-	-0-			5,616.6
FY97	208.8	382.1	573.1	764.1	955.1	1,146.2	1,225.1	750.7	500.9	256.7	-0-	-0-		6,762.8
FY98	162.0	382.1	573.1	764.1	955.1	1,146.2	1,146.2	1,225.1	750.7	500.9	256.7	-0-	-0-	7,862.2
FY99	117.6	296.5	573.1	764.1	955.1	1,146.2	1,146.2	1,146.2	1,225.1	750.7	500.9	256.7	-0-	8,878.4
FY00	72.0	215.1	444.7	764.1	955.1	1,146.2	1,146.2	1,146.2	1,146.2	1,225.1	750.7	500.9	256.7	9,769.2

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH B
JUNEAU, ALASKA 99811
PHONE: (907) 465-4700

949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508
PHONE: (907) 563-1073

April 23, 1985

POSITION PAPER

RE: HOUSE BILL 378

SPONSOR: REPRESENTATIVES ADAMS AND BINKLEY

Program Effects of the Bill:

This bill seeks to raise the interest rates on loan programs administered by the state or an instrumentality of the state by one half percent annually until the rate charged equals the prevailing market rate. Neither this bill nor the other sections of this statute really define "prevailing market rate," although AS 37.05.035(a) gives each loan program agency the right to determine prevailing market rate if none exists.

For the purpose of determining the effects of this bill on our rural loan programs, we used the current FHA/VA rate of 13 percent, and tried to determine what effect this rate would have on our loan program activity if that rate were in effect today. Our average loan amount on our Rural Owner-Occupied Loan Program for FY 84 and FY 85 year to date is $89,929. Using this figure and our current interest rate of 9.875 percent, a borrower must have a monthly income of at least $2,3[illegible] to qualify for this loan amount. This is assuming the house payment is their only monthly obligation, which is often the case in rural Alaska. In FY 84 and year to date FY 85, 88.6 percent of our borrowers had incomes greater than or equal to this amount. Using the same loan amount and a 13 percent interest rate and the same assumption about the house payment being the sole monthly obligation of the borrower, it would require a monthly income of $2,985 to qualify. Only 74 percent of our current borrowers could have met this monthly income amount.

We realize that this bill would not increase the interest rate overnight, however, with construction costs increasing approximately three percent per year, the eventual effects of this legislation on the Rural Housing Loan Program would be more devastating than even the current year figures demonstrated, since we assumed construction costs would remain constant and a larger loan amount would not be required to buy the same house in the future.

The intent and purpose of this loan program, to upgrade and improve the housing stock in rural Alaska and make homeownership a reality for more rural Alaskans, would be seriously compromised.

The effects on the Rural Nonowner-Occupied Loan Program would virtually put the program out of business. Most of the projects we are financing today are just breaking even with a 10.5 percent interest rate and the high operating costs incurred in the rural areas. An interest rate any higher than this would make the vast majority of the projects economically nonviable.

To summarize, the increase in interest rates proposed by this bill would put homeownership out of the reach of most rural residents once again. We would see a run on the loan programs during the first few years by those seeking to own homes before the ideal is out of their reach. We would see people buying or building homes before they are financially stable or emotionally ready for homeownership. This will result in higher delinquency rates and more foreclosures.

One last item to be addressed is the effect of this bill on the Homeownership Assistance Fund. The demand on the fund would be significantly increased with the greater differential between the current program interest rate and the six percent rate to which we can subsidize the payments. A portion of any savings the state may realize by eliminating the subsidy in interest rates in whole would be consumed by the greater subsidies used by individual borrowers under the Homeownership Assistance Program.

Comments:

Another aspect that should be examined is the overall effect this bill would have on the state economy. The construction business and service industries constitute a large part of this state's economy. It is estimated that 20 people are employed by every real estate sales transaction that takes place on an existing structure. These would be people at the lending institutions, mortgage companies, credit unions, title insurance firms, real estate brokerage firms, appraisal firms, surveyors, mortgage insurance firms, tax service firms and firms dealing in fire, hazard, flood or homeowners insurance.

The numbers can grow to as much as 60 - 75 jobs when you are dealing with new construction, depending on the size of the project and whether it is a contractor or an owner builder doing the construction. These figures were supplied to the Housing Assistance Division by Dave Ribachi, an Anchorage realtor at a HAD training workshop.

With the slowdown that would be brought about in the market due to the higher interest rates - and based on most economic projections, that is the direction interest rates are expected to go - the unemployment rates will probably increase, or at least not decrease. The state will incur greater costs in welfare and unemployment compensation as a result of this increase. The communities relying upon property taxes will see their tax base growth diminished due to the slowdown in development and market values.

If the intent of HB 378 is to take the State out of the lending business, the State should face this directly by not appropriating money for those loan programs. An across the board increase of interest rates, however, is not an equitable solution to phase out these programs. By increasing interest rates, the income level criteria is raised for loan recipients, making loans less accessible to lower income families. If the goal of HB 378 is to affect interest rates in themselves, we recommend that the committee defer to the Governor's bill HB 109--which establishes a fixed, market-tied interest rate that is based on the U.S. Treasury rate plus adjustments for administration and risk.

Emil Notti, Commissioner

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: HB 378

Title: Interest Rates on State loan programs

Sponsor:

Requestor: Rep. Adams & Binkley

Date of Request:

FISCAL DETAIL

Agency Affected: DCRA

Program Category Affected:

BRU, Program or Subprogram(s) Affected:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-		
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		-0-	-0-	-0-		
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-		

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: JJ for Clark Boston Phone: 561-0900

Division: Housing Assistance Division Date: 4/23/85

Approved by Commissioner: Emil Notti Date: 4/23/85

Agency: Community & Regional Affairs

Distribution (by Agency preparing fiscal note):

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

7/1/84

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date:

REQUEST
Bill/Resolution No.: HB 378
Title: An Act relating to the interest rate on state loan programs
Sponsor: Adams, Binkley
Requestor:
Date of Request:

FISCAL DETAIL
Agency Affected: Department of Revenue
Program Category Affected:
SRU, Program or Subprogram(s) Affected: Alaska Housing Finance Corporation

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUNDS						
FEDERAL FUNDS						
OTHER	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

see attachment

Prepared by: Mark R. Cameron. Phone:
Division: Alaska Housing Finance Corporation Date:

Approved by Commissioner: Bruce Botelho Date: 7/29/85
Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

7/1/84

HB 378 - Attachment

Please refer to Exhibit A prepared for SB 281 for a hearing before the Senate Finance Committee for an analysis of the fiscal impact of this bill. If HB 378/SB 281 were to pass in the present form AHFC would not expect to be in for a loans appropriation request in FY 1989 of $100 million.

Exhibit B is a program overview of the Corporation's current acitvities.

Exhibit I contains alternatives that the Corporation was requested to look at by the Senate Finance Committee. Included is a letter to Senator Halford outlining a proposed mortgage "buy down" program which could reduce the amount of subsidy for the taxable mortgage program by as much as two-thirds.



April 22, 1985

Representative John Sund, Chairman
House Special Committee on Loans
Pouch V
Juneau, Alaska 99811

Attention: John Hartle, Administrative Assistant

Re: HB 378

Dear Mr. Hartle,

The Anchorage Woman's Club FREE Committee is pleased to write this letter in support of HB 378. We understand that this bill is the companion to SB 281 and will raise interest rates on all State loan programs by one-half percent per year until they reach the going market rate or cost of funds.

I am enclosing for the House Special Committee on Loans members a copy of our written testimony presented to the Senate Finance Committee's hearing on SB 281, copies of our position paper on Alaska State Loan Programs and an announcement concerning our recently produced video on the loan programs.

Please feel free to contact me (349-6531) or my co-chairman Sarah Schierhorn (279-5305) if we can be or further assistance.

Sincerely,

Pamela Lambe, Co-Chairman
Tax & Economic Development Subcommittee
AWC FREE Committee

P.O. Box 4-2955 • Anchorage, Alaska 99509
A committee of the GFWC Anchorage Woman's Club

TESTIMONY REGARDING SB 281

A BILL RAISING INTEREST RATES ON STATE LOAN PROGRAMS
BY 1/2 PERCENT PER YEAR UNTIL THEY REACH MARKET RATES
OR COST OF FUNDS

TESTIMONY BY PAM LAMBE AND SARAH SCHIERHORN
AWC FREE COMMITTEE

The FREE Committee recommends passage of SB 281. We applaud the sponsors for recognizing the need for this legislation and for filing the bill. The action demonstrates to us the sponsors awareness of the gravity of the revenue decline and their desire to take action to bring State expenditures in line with current revenues.

To summarize the State's investment in loan programs as of June 30, 1984:

1 - The combined outstanding balance of State loan programs was approximately $5 billion.

2 - Of that $5 billion, $3.8 billion has been funded by bonded indebtedness and the balance by State appropriation.

3 - Of the $3.8 billion in bonded indebtedness, $3.5 billion funds AHFC debt.

There are more than 40 loan programs and funds administered by various State agencies and State chartered public corporations.

From FY 81 to FY 85, the State appropriated $2.6 billion to these programs.

Most programs were originated in response to a real need. You will remember market interest rates peaking in the 20% range not too long ago. Today we are experiencing lower, stable interest rates.

Three studies of loan programs published since 1981 generally conclude that government subsidy and competition with private enterprise is not wise. The most recent study by the FREE Committee specifically recommends that the State reduce and eventually eliminate dollar contributions to loan programs by making programs self-supporting and revolving and by eliminating interest subsidies.

SB 281 would accomplish this recommendation in a fair way by treating all programs equally and by using the stair-step mechanism of a one-half percent per year interest increase.

This approach enables consumers to plan financing. If the rules are set now, consumers can assess various finance options. As program interest rates approach market rates, competition among the various sources of financing should result in lower market interest rates.

SB 281 will assure a gradual phase out of interest subsidies providing for a soft landing for the consumer.

SCOMM

#50:31

Tony Knowles
Mayor

Municipal Light & Power

1200 EAST FIRST AVENUE — ANCHORAGE, ALASKA 99501-1685
TELEPHONE (907) 279-7671

Since 1932

February 24, 1986

Representative John Sund
Chairman
Special House Committee on Loans
Alaska State Legislature
Room 411
Capitol Building
Juneau, Alaska 99811

Dear Representative Sund:

To assist in your deliberation on HB477 please find enclosed Anchorage Assembly Resolution No. AR 85-267, a Resolution relating to the Power Development Fund, passed and approved by the Anchorage Municipal Assembly on December 17, 1985.

Also enclosed is a copy of a letter from Mayor Knowles of Anchorage to Governor Sheffield expressing the need for an improved transmission line between Anchorage and the Kenai so that Bradley Lake power and power displaced by Bradley Lake can be transmitted to Anchorage and points north. Legislative action may be necessary to insure the availability of Bradley Lake power to all railbelt utilities and consumers.

Very truly yours,

Thomas R. Stahr
General Manager
Municipal Light & Power

TRS/slg
Encls.

APPROVED
Date: 12-17-85

RECEIVED
FEB 24 2 05 PM '86
L & P DEPT.

Submitted by: Assemblyman Baker

For reading: November 26, 1985

ANCHORAGE, ALASKA
AR NO. 85- 767

A RESOLUTION RELATING TO THE POWER DEVELOPMENT FUND

WHEREAS the Assembly has expressed its commitment to the development of energy programs for Alaska as established in AS 44.83.380; and

WHEREAS an integral part of these programs include meeting the long-term energy needs of Alaska's railbelt citizens; and

WHEREAS the Power Development Fund provides Alaskans with a savings account to meet these energy needs; and

WHEREAS the Assembly continues its commitment to power projects previously approved as part of the state's energy programs, including the Railbelt power projects; and

WHEREAS the Alaska State Legislature expressed its continued support for the state to proceed with the licensing procedures for the Susitna projects through its expression of Legislative Intent which accompanied the project's $200 million appropriation for Fiscal Year 1986 in chapter 96 SLA 84; and

WHEREAS a recent court decision invalidated the appropriation to the Susitna project in Fiscal Year 1986;

BE IT RESOLVED the Assembly encourages the Legislature to reaffirm its commitment to meeting the Railbelt's energy needs through appropriations to the Power Development Fund for this purpose.

PASSED AND APPROVED by the Anchorage Municipal Assembly this 17th day of December, 1985

Chairman

ATTEST:

Municipal Clerk

Municipality of Anchorage

OFFICE OF THE MAYOR

November 13, 1985

Honorable Bill Sheffield
Governor of the State of Alaska
Third Floor, State Capitol
Pouch A
Juneau, Alaska 99811

Dear Governor Sheffield:

Anchorage has supported the construction of the Bradley Lake Hydroelectric project because we believe it constitutes a critical element in the long term power supply for Anchorage and the surrounding areas. With the Alaska Intertie operational, Bradley Lake should logically become an integral part of the Railbelt's power supply and should be so constituted.

Over the past several years Anchorage has repeatedly requested of the Alaska Power Authority that provisions be made so that Anchorage can contract for and receive Bradley Lake power. To meet our requirements it is necessary to have an improved transmission line connection with Bradley Lake, or in the interim, to have contractual arrangements such that Anchorage would be entitled to its share of Bradley power when the necessary transmission circuits are built. Since our latest request, which was for the interim accomodation only, has been summarily dismissed, we have no further recourse but to appeal to you.

It is not only the customers of Anchorage's municipal electric utility that are being deprived of Bradley power, but all consumers in Anchorage and north to Fairbanks. Even though Chugach Electric Association has contracted for a large increment of Bradley power this power cannot reach their customers in Anchorage but can only be used to meet wholesale commitiments on the Kenai. Therefore as presently constituted Bradley Lake is of no benefit to Alaskans outside the Kenai and even the displaced generation cannot be effectively used elsewhere. The deficiencies of the existing transmission will also militate against reliability on the Kenai because to a great extent they will remain electrically isolated from the remainder of the Railbelt's interconnected

system. The improved Kenai to Anchorage transmission link will result in a strong electrical connection from Homer to Fairbanks thus maximizing reliability and insuring that the rate and rate stabilizing benefits of the Bradley Lake Project will become available to nearly three-quarters of all Alaskans.

Considering that the Bradley Lake Hydroelectric project will cost nearly as much as the Four Dam Pool combined, it is incumbent that it be configured to benefit the maximum number of Alaskans as possible. Certainly to restrict for all time these benefits just to consumers whose utilities can take delivery of Bradley Lake power at the time the power comes on line is discriminatory. And at the same time to delay initial studies on the transmission facilities necessary to provide the wider benefit is shortsighted.

We request that you ask the Alaska Power Authority to immediately commence preliminary studies on a Kenai-Anchorage tie line of adequate capacity and reliability at a minimum to transmit to Anchorage the power displaced by Bradley Lake and to modify the conditional sales contracts for Bradley power to allow other utilities to opt in on equal terms; i.e., post card rates, at such time as adequate transmission becomes available.

Very truly yours,

Tony Knowles
Mayor

April 23, 1986

PRELIMINARY BUDGET ESTIMA E

Railbelt Alternatives Study
(Thousands of Dollars)

Tasks	Personal Services and Contractor Overhead		Direct Costs*
A. Review Utility System Data Base	$ 20.0		$ 5.0
B. Load Forecast (Incl. ISER and Battelle)	60.0		10.0
C. Power Supply Alternatives			
1. Gas Price Forecasts	80.0		5.0
2. Gas Supply	10.0		5.0
3. Gas Plant Characteristics	10.0		3.0
4. North Slope Natural Gas	40.0		12.0
5. Coal Price Forecasts	50.0		6.0
6. Coal Plant Characteristics	40.0		5.0
7. Oil Price Forecasts	40.0		5.0
8. Non-Susitna Hydro	60.0		10.0
9. Other Alternatives	30.0		6.0
10. Conservation	80.0		12.0
11. Devil Canyon	10.0		5.0
D. Financial Evaluations	10.0		2.0
E. Supply Plans			
1. Inflation, Interest, Discount	20.0		5.0
2. Methodology	30.0		10.0
3. Develop plan	80.0		20.0
F. Related Issues	10.0		6.0
G. Progress Meetings	40.0		20.0
H. Final Report Production/Printing	40.0		5.0**
I. Management/Contract Admin.	60.0		5.0
SUBTOTAL	820.0	+	163.0
	=	983.0	
J. Contingency (20%)		197.0	
TOTAL		$ 1,180.0	

4013/592/1

Additional Costs:

Harza-Ebasco	
1. Replying to inquiries, document control and limited admin. support.	100.0
2. Devil Canyon: Upstream storage investigation	225.0
APA	
1. Staff and expense related to alternatives study	125.0
2. Matching funds for study of Anchorage-Kenai Intertie	150.0
Finance Team	100.0
Additional Costs Subtotal	700.0
Contingency (20%)	140.0
GRAND TOTAL	$2020.0

* Direct costs include travel, telecommunications, per diem, computer time etc.

** Cost based on Harza-Ebasco providing typing and printing services for 300 copies of a 300 page report.

Note: No costs are included for public hearings other than the monthly steering committee meetings.

SCOMM
#50:32

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 01/28/86

REQUEST

Bill/Resolution No. : HB 479
Title : An Act Relating to Biomass Fuel Systems

Sponsor : Representative Duncan
Requestor : House Labor & Commerce
Date of Request :

FISCAL DETAIL

Agency Affected : Commerce & Economic Dev.
BRU : Investments

Components : Economic Development

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

It is anticipated that any new loan demand created as a result of HB 479 will be absorbed within the existing funding available under the Alternative Energy Loan Program. New loan application processing will also be absorbed by existing staff within the division.

Prepared by : Paul B. Arnoldt, Director — Phone : 465-2510
Division : Investments — Date : 1/28/86

Approved by Commissioner : Loren H. Lounsbury — Date : 1/24/86
Agency : Commerce & Economic Development

Distribution (by Agency preparing fiscal note) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

Utermohle
1/29/86

Original sponsor: Duncan

IN THE HOUSE

BY THE LABOR AND COMMERCE COMMITTEE

CS FOR HOUSE BILL NO. 479 (L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to biomass fuel systems."

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

* Section 1. AS 45.88.500(a) is amended to read:

(a) In this chapter, "alternative energy system"

(1) means a source of thermal, mechanical, or electrical energy which is not dependent on oil or gas or a nuclear fuel for the supply of energy for space heating and cooling, refrigeration and cold storage, electrical power, mechanical power, or the heating of water;

(2) includes

(A) an alternative energy property as defined by 26 U.S.C. 48 (1)(3)(A), (Sec. 301, P.L. 95-618, Internal Revenue Code);

(B) a method of architectural design and construction which provides for the collection, storage, and use of direct radiation from the sun;

(C) a woodstove with a catalytic converter, [OR] a catalytic converter for a wood stove, or a catalytic fireplace insert; [AND]

(D) a steam, hot water, or ducted hot air central heating system that uses wood or coal for fuel; and

(E) a stove or furnace that uses biomass fuel produced from any organic matter that is available on a renewable basis, including agricultural crops and agricultural waste and residue, wood waste residue, animal waste, municipal waste, and aquatic

plants;

(3) does not include, unless described in (2)(C) of this subsection,

(A) a stove that uses only firewood [WOOD], coal, or oil for fuel; or

(B) a fireplace or fireplace insert.

HB 475, cont'd

Introduced Jan. 15, and referred to the State Affairs and Finance Committee.

Insurance Rate Hike (notice)

HOUSE BILL 476, by Rep. M.M. Miller by request. Requires an insurer who increases premium or adds a surcharge to an auto insurance policy because of an accident in which the insured or a person covered by the policy was at fault to give written notice of the increase or surcharge at least 15 days before it takes effect, stating the reason for the change and the right of appeal.

Introduced Jan. 15, and referred to the Community and Regional Affairs and Judiciary Committees.

Energy Funding

HOUSE BILL NO. 477, by the Rules Committee by request of the Governor. See SENATE BILL 347, page 14, identical.

Introduced Jan. 15, and referred to the House Special Loans and Finance Committees.

Moose Hunting (stamp)

HOUSE BILL NO. 478, by Martin. Requires the Dept. of Revenue to establish a moose habitat conservation stamp program similar to the one established for waterfowl, and to set aside receipts in the fish and game fund to be used for enhancement and maintenance of moose habitat in the state.

Introduced Jan. 15 and referred to the Resources and Finance Committees.

Energy Loans

HOUSE BILL NO. 479, by Rep. Duncan. Adds to those alternative energy and heating systems which are eligible for alternative energy loans systems which use biomass fuel produced from any organic matter that is available on a renewable basis, such as agricultural crops, waste and residue, animal waste, municipal waste and acquatic plants.

Introduced Jan. 16 and referred to the Labor and Commerce, Loans and Finance Committees.

Corporal Punishment (prohibited)

HOUSE BILL NO. 480, by Reps. Koponen and Davis. Prohibits anyone employed by a private or public school from inflicting corporal punishment or bodily pain on a student; permits the use of reasonable and necessary restraint on a student to protect the student or others from physical harm, to obtain possession of a dangerous weapon or object, or to protect property from serious harm.

Introduced Jan. 16, and referred to Health, Education & Social Services and State Affairs Committees.

not know it. It's real easy
d with blasting caps," he

caps are small metalic
few inches in length, usu-
d to a length of electrical
red is suggesting Juneau
p an eye open for such
heir homes. If a blasting
d, Windred recommends
olice to remove it.
led police to several
sting caps and containers
dynamite stored in the
d Windred. Other explo-
sive material was found following a search of a suspect's bedroom, he said.

According to Windred, the stolen blasting caps may be linked to a series of unexplained explosions in recent months. On Dec. 29, a door at Floyd Dryden Middle School was blown open with blasting caps. Several area mail boxes may also have been blown up with the stolen material, he said.

Police are investigating possible violations of laws regulating storage of explosives at the suspect contractor's work site. Police will not release the name of the contractor under investigation until charges are filed, Windred said.

Meanwhile, two Juneau teenagers are expected to be charged with misconduct involving a weapon in the first degree following the investigation into last Friday's bomb threat at the high school.

According to police, a 14-year-old student allegedly brought the explosive materials to the school to sell or give to a 17-year-old male student. Police have not identified the person who made the threat.

"Quite a few kids knew this transaction was going to take place," said Windred.

The threat resulted in the closure of the high school and adjoining Marie Drake Middle School. Students were sent home after a search located a bag containing four blasting caps and a two-and-a-half pound container of gelatine dynamite in an unassigned high school locker.

The material was removed from the school without incident.



ASSOCIATED PRESS

ion may be cut short.

launch window of only a
nents of the current mis-
mbitious schedule of 15

Please turn to Page 14

New law allows use of some wood stoves during air alert

Ordinance changes how burning bans are called

By BETSY LONGENBAUGH
THE JUNEAU EMPIRE

There's new hope on the horizon for local residents who want to keep their wood stoves burning all winter.

Beginning Wednesday, local residents who own stoves that meet Juneau City-Borough emission standards may keep their fires burning during wood smoke alerts.

In the belief that the approved stoves won't let smoke get in your eyes, the Juneau City-Borough Assembly recently approved an ordinance that allows the stoves to burn and sets up new criteria for declaring wood smoke bans.

That new criteria calls for two types of wood smoke bans – a wood smoke alert and a wood smoke emergency. Under an alert, owners of approved wood stoves who have municipal permits may continue to burn. Under an emergency, no wood stoves are allowed to burn.

Steve Gilbertson, the municipal lands and resources manager, is in charge of monitoring the air quality of Mendenhall Valley and enforcing the new ordinance. He said Friday he hopes that only air alerts will occur in the future, with air emergencies necessary in the event of extreme pollution in the valley.

"I think people have to realize this is at an experimental stage," he added.

Gilbertson also said his office now has applications for people who own approved wood stoves. In order to use those stoves during alerts, they must have permits

Please turn to Page 14

Lemon Creek vicinity to be monitored for wood smoke

THE JUNEAU EMPIRE

Lemon Creek residents may want to buy warm slippers for next winter, as their neighborhood will probably end up being subject to its own wood stove bans.

The Lemon Creek area is one place that will feel the impact of a comprehensive ordinance regulating wood stove use that was approved by the Juneau City-Borough Assembly several weeks ago.

At the urging of some assembly members, municipal staff agreed to begin monitoring the Lemon Creek area with an eye to regulating wood stove use. This winter, however, there isn't the necessary equipment in the area to effectively measure wood smoke pollution.

In next year's municipal budget, staff will be seeking $25,000 to buy a wood smoke monitor for the area. Once installed, the device will allow municipal officials to call for wood smoke bans in Lemon Creek, as well as the Mendenhall Valley.

Steve Gilbertson, lands and resources manager, said he expects the municipality may call separate wood smoke bans in each area, depending on weather conditions. He said it is now impossible to predict how often bans may be necessary in Lemon Creek.

"We do not have a lot of data for the area," said Gilbertson.

He added, however, that his office has received a lot of calls from Lemon Creek area residents who complained of wood smoke pollution.

The new proposed smoke alert area in Lemon Creek extends from the Juneau Christian School, including

Please turn to Page 14

.....Page 4
.....Pages 6-7
ocks.....Page 13

WEATHER

Rain showers continuing through Tuesday, Page 14

Juneau Empire
1-13-86

Woodsmoke...

Continued from Page 1

from the city. The free permits are good for two years.

Gilbertson said the approved wood stoves have two things in common – very low emission standards and certification from Oregon.

Because the municipality is basing its new ordinance on a similar law in Oregon, it is accepting that state's testing procedures for wood stoves.

Many of the approved stoves – there are now 10 on the list – have catalytic converters. Others use pellet fuel to reach the low emission standards.

Gilbertson said at least four other stoves, some of which are for sale locally, have gone through the tests, but are not yet certified. He said he expects a new list from Oregon by the end of this month.

Until then, he said he can only recommend the 10 stoves on the approved list. They are:

- Blaze King "King," a catalytic converter stove.
- Earth Stove 1000-C, a catalytic converter stove.
- Turbo 10, a catalytic converter stove.
- Fisher Tech IV, a catalytic fireplace insert.
- Timber Eze 477, a catalytic wood stove.
- Vista 640, a non-catalytic wood stove.
- Pellefier FS-1, a non-catalytic stove that burns pellet fuel.
- Whitfield, a non-catalytic stove that burns pellet fuel.
- Collins Hopper, an add-on devise that burns pellet fuel.

Those wood stoves that are on this list and sell locally cost about $1,000, not including installation.

The assembly hopes to eventually have all stoves in the city-borough meet the emission standards. To meet this goal, the new ordinance calls for all wood stoves installed and sold in Juneau to meet the Oregon emission standards beginning Aug. 1.

Gilbertson expects the most successful enforcement of this new regulation to come from the building department, which issues permits for wood stove installations.

Steve Shows, who assigns building inspections, said a building permit is required for any new installation, including replacement of an existing stove. The permits and their accompanying inspections are free and are designed to make sure wood stoves are safely installed, he said.

"Home owners are sometimes not getting a building permit and installing a stove, sometimes properly, sometimes not," he said.

During the past year, the municipality has been aided in its inspection effort by some insurance companies who now require proof of wood stove inspections before offering insurance, said Shows.

"This is the greatest plus we have seen," he said.

Shows said that "nine times out of 10," wood stoves that are inspected were installed incorrectly.

He said that currently he is able to schedule inspections with a day's notice. Those who want inspections should call a 24-hour recording phone 586-1703, before 7:30 a.m. on the day they want an inspection.

To receive a permit, they should come into the municipal building department and fill out a form. They will also receive a brochure on proper stove installation.

Lemon Creek...

Continued from Page 1

Sunny Point, back to Lemon Creek basin and to Vanderbilt Hill.

Gilbertson also said many Juneau residents remain unclear about where the boundaries are for the Mendenhall Valley wood smoke alert area.

They could be described as having a southern boundary of the airport area, an north boundary of the glacier recreational area, an east boundary running along the base of Thunder Mountain and a west boundary that bisects the Mendenhall Peninsula.

Not included in the ban are the Auke Lake area and Fritz Cove Road.

Shuttle...

Continued from Page 1

The flight plan today was devoted mainly to astronomy, and Steve Hawley spent the morning pointing two ultraviolet telescopes at star targets in a search for luminous clouds of ultraviolet radiation.

Mission Control awakened the astronauts today with the theme song from the movie "Animal House." The control center said several of the astronauts were fans of the movie, and commander Robert Gibson responded, "It sounds like our secret is out."

Columbia shed its postponement jinx with a spectacular predawn liftoff Sunday, and 9½ hours later the crew launched the world's most powerful commercial communications satellite, RCA's $50 million Satcom KU-1.

"It's on its way," Mission Control radioed after a rocket engine ignited to propel the satellite toward stationary orbit 22,300 miles above the Earth.

RCA, which paid the National Aeronautics and Space Administration $14.2 million for the delivery, said Satcom will be capable of providing video and audio communications for all of the United States except Alaska, transmitting a signal powerful enough to be received by dish antennas as small as three feet.

Nelson and Hawley will have an exclusive view of the comet as it nears the sun on its once-every-76-years swing through this part of the solar system.

"You can't observe Halley's from the ground as it makes its closest approach to the sun in January because of the sun's brightness," explained S. Alan Stern of the University of Colorado, who is principal investiga-

Nelson, who will operate the CHAMP cameras, said in an interview before the flight, "We'll be taking some photographs and spectral measurements for the purpose of documenting the comet, and we'll be doing it from above the atmosphere where we can get a real clear look at it. We're going to use the apparatus over the course of three flights, so we should be able to get a good consistent set of data on Halley's."

Stern said the instruments "primarily will be looking at water. The comet is basically an ice ball, and when the sun melts the ice, it breaks the water down into constituents. We'll study these to learn about the comet's atmosphere."

Hawley will use two telescopes to search the universe for sources of luminous clouds of ultraviolet radiation.

"Only in the last 10 years have we begun to look at the universe in the ultraviolet wavelength," he said before the mission. "The reason for that is that the observatories on Earth being beneath the atmosphere are not able to observe these wavelengths because the atmosphere is opaque to UV radiation. So we'll be getting some very fundamental data and will be dealing with questions as to where the UV emission comes from."

He said the knowledge would help astronomers mask out the UV background and thus improve the data from the $1.2 billion Hubble Space Telescope, which will be launched from a shuttle next October.

One of the telescopes also will be trained on the comet.

Rep. Bill Nelson, a Florida Democrat riding as a con-

NCIL
ard of trustees of Juneau Arts nities Council will meet at 7:30 Northern Light United Church. mbers and interested persons to attend.

STAR
neau Lodge No. 147, F. and meet at 7:30 tonight. All Masons are urged to attend.

D
ns of practically any skill level re enthusiastic about forming a of Alaska-Juneau pep band are ntact the UAJ office of student t 789-4528.

ESSURE
ood pressure testing will be con- he Mountain View Senior Cen- 1:30 a.m. to 1:30 p.m. Tuesday. ment is necessary. Call 586-3736 formation.

S

g set off in the Cedar Park area. ere set on fire.

tip

irefighters are reminding resi- every home should have at least tinguisher and everyone in the uld know how to use it. The Gla- nteer Fire Department offers s on use of fire extinguishers. ation, call 789-7554.

nce calls

Volunteer Fire Department services teams responded to ver the weekend:
al call: At 9:49 a.m. Friday, tient, stable, transported to morial Hospital.
vehicle accident: At 10:06 p.m. gan Drive and the Mendenhall injuries minor, both patients nsport.
a calls: At 2:29 a.m. Saturday, no transport; at 11:51 a.m. ld choking, mother dislodged the child was stable and taken tal by the family; at 2:01 a.m. r cuts, patient taken to the hos-

Volunteer Fire Department services teams responded to er the weekend:
al calls: At 9:34 a.m. Friday, a tient, stable, transported to the t 11:48 a.m. Sunday, no details patient stable, transported to l; at 2:50 p.m. Sunday, patient minal pain, stable condition, d to hospital.

RECEIVED
JAN 6 1986

January 3, 1986

Senator Bill Ray
Representative Duncan
Representative Miller
P.O. Box V
State Capitol
Juneau, Alaska 99811

Re: State of Alaska
Alternative energy Loans

Dear Senator and Representatives:

We are soon providing an alternative to wood burning stoves in the Juneau area and I understand that this is presently available in Anchorage.

Our product is a pelletized wood and other fuel which burns in specially constructed stoves and burns smoke free.

I am enclosing a couple of articles for your further information.

To meet new ordinances in Juneau, many people will have to replace their wood burning stoves.

I understand that under present law, Alternative Energy Loans are available for catalytic equipped wood stoves, or catalytic converters.

Therefore it would be appreciated if the present law could be amended to authorize loans for biomass pellet fuel burning stoves or furnaces.

Steve Gilbertson, Juneau's Air Quality Control Officer, advised me that he and D.E.C. officials are in favor of this amendment.

I believe the law in question is included in A.S.45.88.010:500.

If you would like further information regarding this, I will be happy to discuss what I have with you.

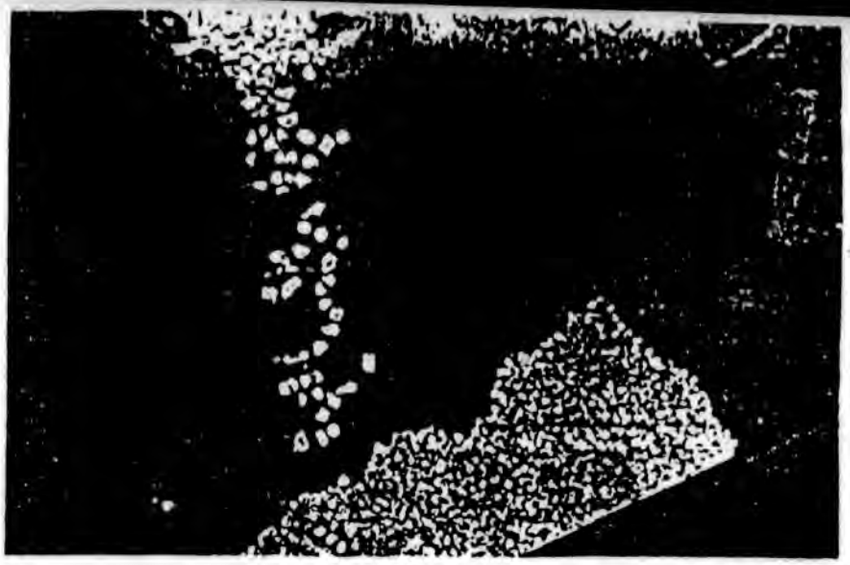
Thanking you in advance for your consideration.

Very truly yours,

Larry Traeger

Larry Traeger
546 Hemlock
Juneau, Alaska 99801

Phone: 586 3250



Heating homes with pellets

Mount Angel manufacturer designs and sells innovative, affordable furnaces

By DALE STOWELL
Of the Independent

MOUNT ANGEL — Randy Traeger shrugs as he considers the complexity of his pelletized wood burning furnace designs.

"To me, it don't look like nothing super," he says. "Once you've horsed around with it for 15 years, it doesn't seem like that much."

But he seems to know he's on to something as he cites statistics that indicate his wood furnaces burn cleaner than do natural gas or oil furnaces for as little as half the cost for fuel.

Traeger, owner and president of Traeger Industries, has been designing woodstoves and furnaces for more than 20 years and is optimistic that his latest design will catch on.

The fuel source is the most novel aspect of the new furnaces, which have been on the market since fall. Biomass pellets, produced from waste products such as pine shavings or rye stubble, are what the newly designed heating devices consume.

One ton of pellets, which costs about $100, produces as much heat as two cords of wood but leaves substantially less waste. About .6 of one percent of the pellets remain as ash — approximately two gallons of ash per ton of fuel.

During cold weather, the average home requires about one 50 pound bag per day, Traeger estimated. Average yearly consumption would be in the neighborhood of four tons, he added.

Traeger's thermostatically-controlled stove and furnace designs also attempt to transfer all of the heat produced in the units to the space in the home to be heated.

And Traeger points out another advantage to the pellet-burning systems. "They burn clean. There isn't any smoke. You can stick your nose right in the (smoke) stack."

The major drawback is availability of fuel. Traeger has several hundred tons of it stockpiled to meet the needs of customers who have purchased pellet-burning equipment. It isn't readily available anywhere else in the area.

The fuel, which resembles rabbit food pellets, has existed for several decades, Traeger said. But companies producing it have come and gone due to a lack of demand.



Randy Traeger (above) has designed and is marketing heating systems which burn pine pellets (top photo). Traeger says the new heating units burn cleaner than gas or oil at nearly half the cost for fuel. (Photos by Dale Stowell)

"There's been several plants that have been around and gone broke," he said. "There's the concept of making pelletized fuel. That's fine. But you've got to have something to burn it in. Most of them are looking at commercial applications, but a commercial application can dry up on you very quickly — just a little change in price and they'll switch from one (fuel) to the other."

Before Traeger's design, availability of fuel wasn't the only problem in home-heating pellet applications. In earlier designs, the pellets didn't burn completely, and the furnace fire would sometimes burn back into the fuel supply.

Traeger cured the problems without knowing what caused them in other furnaces. "I really didn't look at anybody's design," he said. "I never paid any attention to them. There's no use in reinventing the wheel over again. It was a matter of taking it apart and putting it together again, taking it apart and putting it together again."

After Traeger put it together again and it worked to his satisfaction, he began developing different home heating uses. His designs range from an indoor furnace that produces nothing but home heat, to an outdoor pellet pump that will provide heat for home, hot water and even clothes drying. All of the Traeger Industries products are built at the company shop in Mount Angel.

The furnaces are also outside of Department of Environmental Quality regulations that apply to woodstoves. Traeger predicts that many wood stove manufacturers will be forced out of business by continued tightening of regulations for testing and emissions. However, he added, pellet-burning furnaces would pass even the most stringent DEQ requirements.

Traeger knows of only five other pelletized-fuel furnace manufacturers in the country, but believes that the heat producing devices will increase in popularity in time.

He points to the state of Minnesota as an example of forward thinking about the new heating concept. Traeger, as well as other pelletized-fuel furnace manufacturers, recently donated equipment to the state as part of a Minnesota low-income heating assistance program. The state will pay for installation of the furnaces.

"The concept is, if they give people pelletized fuel, they can heat twice as many homes for the same cost as supplying them money to buy natural gas or oil," Traeger said.

According to Traeger, Minnesota also has state funds available for research and development of pelletized-fuel manufacturing and use. "They're just out after it," he said. "They're way ahead of everyone else."

Back home, Traeger said sales of the new furnaces have been good — almost better than he's wanted them to be. "I really want to go through the winter just testing it, getting a few out," he said. "It's kind of run away from us. It's been super good."





RECEIVED
JAN 1 3 1986

STATE OF ALASKA
THE LEGISLATURE

POUCH V STATE CAPITOL
JUNEAU ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M January 13, 1986

SUBJECT: Alternative energy loans for biomass fuel stoves (Work Order 14-1546)

TO: Representative Jim Duncan

FROM: George Utermohle
Legislative Counsel

I.

The draft bill that you requested is attached. The bill amends the definition of "alternative energy system" to expressly include stoves and furnaces that use biomass fuels. The effect of this amendment is to allow the Alternative Energy Revolving Loan Fund to make loans for the purchase of biomass fuel stoves and furnaces.

II.

You also asked whether the Alaska Industrial Development Authority (A.I.D.A.) can aid processors of biomass fuels.

In brief, A.I.D.A. does have the power to make loans, to insure loans, and to assist private lenders to make loans to processors of biomass fuels.

A.I.D.A. was created to provide means of financing and means of facilitating financing for

> the establishment, operation, and development of industrial, manufacturing, and business enterprises, including, without limitation, facilities for transportation, facilities for pollution control and waste disposal, facilities for the local furnishing of gas, facilities for water, facilities for industrial parks, mass commuting vehicles, facilities for local district heating or cooling, parking facilities, or a storage or training facility relating to a plant or facility. (AS 44.88.010(a)(5))

The list of facilities eligible for assistance is only illustrative and in no way restricts the kinds of projects that A.I.D.A. can support.

Provided that a project is located in Alaska and will generate additional employment, A.I.D.A. has the authority to insure loans, to make loans, or to assist private lenders in making loans for the project (AS 44.88.080(12),(13), and (15)). A.I.D.A. defines "project" to include

> (A) a plant or facility used or intended for use
>
> (i) in connection with making, processing, preparing, or producing in any manner, goods, products or substances of any kind or nature or in connection with developing or utilizing a natural resource, or extracting, smelting, transporting, converting, assembling or producing in any manner, minerals, raw materials, chemicals, compounds, alloys, fibers, commodities and materials, products or substances of any kind or nature;
>
> (ii) as an industrial park; in connection with transportation; for the prevention, limitation or control of pollution; for the disposal of sewage or solid waste; for the local furnishing of gas; for the furnishing of water; as or in connection with mass commuting vehicles; for local district heating or cooling; as a parking facility; or as a storage or training facility directly related to a plant or facility described in this paragraph;
>
> (B) a plant or facility used or intended for use in connection with a business enterprise;
>
> (C) commercial activity by a small enterprise;
> (AS 44.88.220(8))

This definition is broad enough to cover the facilities and equipment necessary to manufacture or produce any form of biomass fuel.

Therefore, processors of biomass fuels are eligible to apply for loans from A.I.D.A. No amendment of the Alaska Industrial Development Authority statutes is necessary.

GU:mkr
M2:020
Enclosure

APPENDIX 1

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY

STANDARD METHOD FOR MEASURING THE EMISSIONS AND EFFICIENCIES OF RESIDENTIAL WOODSTOVES

June 8, 1984

TABLE OF CONTENTS

		Page
SECTION 1:	SCOPE AND PURPOSE	1
SECTION 2:	TEST FACILITY AND APPLIANCE INSTALLATION	1
SECTION 3:	TEST EQUIPMENT AND INSTRUMENTATION	3
SECTION 4:	TEST FUEL REQUIREMENTS	7
SECTION 5:	APPLIANCE OPERATING PROCEDURE	10
SECTION 6:	TEST METHODOLOGY AND CALCULATIONS	14
SECTION 7:	TEST DATA	23
SECTION 8:	CATALYTIC COMPONENT CERTIFICATION REQUIREMENTS	25

SECTION 1: SCOPE AND PURPOSE

1.1 SCOPE

1.1.1 This document prescribes a standard method of testing woodstoves to obtain particulate emission factors based on useful heat output for appliances that produce less than 1.5×10^5 Btu/hr.

1.1.2 A woodstove is defined as a woodfired appliance with a closed fire chamber which maintains an air/fuel ratio of less than 30 during the burning of 90 percent or more of the fuel mass consumed in the low firing cycle. The low firing cycle means less than or equal to 25 percent of the maximum burn rate achieved with doors closed or the minimum burn achievable, whichever is greater.

1.2 PURPOSE

1.2.1 The purpose of this document is to:

a. Establish a uniform procedure for appliance operation to be used in conjunction with a standardized test method for obtaining woodstove emission and efficiency performance data.

b. Specify the types of test equipment and establish standard performance requirements for the equipment used for performing such tests.

c. Specify data required and calculations to be used.

1.3 METHOD FOR USING THIS STANDARD

1.3.1 Determine from Section 1.1.1 and 1.1.2 whether this standard is applicable for the appliance to be tested.

1.3.2 Verify that the test facility and equipment is in accordance with Sections 2 and 3.

1.3.3 Test and calculate results in accordance with Sections 5, 6, and 7.

SECTION 2: TEST FACILITY AND APPLIANCE INSTALLATION

2.1 DESCRIPTION OF TEST FACILITY

2.1.1 The testing will be conducted in an area with a height for atmospheric discharge of flue effluent at 15 ± 1 foot (4.6 ± 0.3m) above the top surface of the scale.

2.1.2 The flue exit shall freely communicate with the laboratory, that is, the area shall have essentially the same pressure such that no artificial draft is imposed on the appliance.

2.1.3 The test chamber room temperature shall be maintained between 65° F and 90° F (18° C and 32° C) during the course of any test.

2.1.4 Air velocities within 2 feet (0.6m) of the test appliance and exhaust system shall be less than 50 feet/minute (0.25 m/s) without a fire in the unit.

2.1.5 All calorimeter rooms must meet the specific criteria in the June, 1982 Wood Heating Alliance document, Standard for Testing the Heating Performance of Wood-Fired Closed Combustion Chamber Heating Appliances, for accuracy verification and calibration procedures before conducting appliance performance testing.

2.2 APPLIANCE INSTALLATION FOR FREE STANDING STOVES

2.2.1 Unless specified differently by the manufacturers, the flue pipe shall be made of No. 24 gauge black steel and shall have an insulated metal solid pack type chimney above the particulate and combustion gas sample probe port locations with a minimum 1 inch (2.5 cm) solid pack material.

2.2.2 The flue shall extend to 15 ± 1 feet (4.6 ± 0.3m) above the platform scale on which the appliance is located. All flue pipe cracks or joints shall be sealed.

2.2.3 The appliance and parts shall be assembled and installed in conformance with the manufacturer's published installation instructions.

2.3 APPLIANCE INSTALLATION FOR FIREPLACE INSERTS

2.3.1 Fireplace inserts shall be installed on the platform scale with R 12 insulation applied to all surfaces not normally exposed to the room to be heated. The appliance parts and exhaust system shall be assembled and installed in conformance with the manufacturer's published installation instructions.

2.3.2 The flue pipe shall consist of an insulated metal solid pack type chimney positively connected from the appliance flue outlet, extending to the particulate and combustion gas sample probe port locations with a minimum 1 inch (2.5 cm) solid pack material.

SECTION 3: TEST EQUIPMENT AND INSTRUMENTATION

3.1 TEST EQUIPMENT SET-UP

3.1.1 The equipment to be used for emissions and efficiency testing is illustrated in Figure 3.1 and described below.

3.2 TEST FUEL WEIGHT

3.2.1 The balance used to weigh the fuel shall be accurate to ± 0.1 pound (0.05 kg).

3.2.2 The appliance to be tested shall be centrally placed on a platform scale. The scale shall have a monitor or other feature such that the weight change of the fuel loads may be continuously displayed. The scale shall be capable of reading weights to 0.1 pound (0.05 kg) and shall have a tare feature.

3.3 FLUE GAS TEMPERATURES

3.3.1 Flue gas temperatures shall be determined with a thermocouple or other temperature sensing device at a height of 8 to 9 feet (2.4 - 2.7 m) from the top surface of the scale. The temperature sensing device shall be located in the center of the flue gas stream.

3.3.2 The temperature sensor and associated display and recording equipment shall have a resolution of 1°F (0.5°C).

3.4 STOVE SURFACE TEMPERATURES

3.4.1 Stove surface temperatures shall be determined with a shielded temperature sensing device placed at 5 locations on the appliance's exterior surfaces. Temperature locations shall be centrally positioned on the top, two sidewall, bottom and back combustion chamber surfaces (not on heat shields) if these surfaces are exposed while testing. Surface temperature locations for unusual design shapes (spherical, etc.) shall be positioned to conform to the intent of the locations described.

3.4.2 The temperature sensing device and associated display shall have a resolution of 1°F (0.5°C).

3.5 STOVE COMBUSTION TEMPERATURES

3.5.1 Radiation shielded thermocouple(s) or other equivalent temperature sensing device(s) shall be located in the primary and secondary (if applicable) combustion chambers to measure gas temperatures at a location where direct flame impingement on the sensing device does not normally occur. If a catalytic

combustor is part of the stove's combustion features, an additional thermocouple must be located in the permanent temperature monitoring port required in Section 8.4.1.

3.5.2 The temperature sensing devices and associated display shall have a resolution of 1°F (0.5°C).

3.6 FLUE GAS COMPOSITION

3.6.1 Dry flue gas composition shall be measured with continuous combustion gas analyzers to include percent by volume (dry basis) carbon monoxide, carbon dioxide, and oxygen. Samples shall be extracted at the same height as flue gas temperature measurements and withdrawn through a probe and tubing made of inert materials. The probe shall be bent into the flow of the flue gases.

3.6.2 A gas stream sample conditioner using a glass fiber filter is required in line before the analyzer. The sample conditioner shall include two impingers encased in an ice bath, one water trap and a silica gel trap in sequence.

3.6.3 Minimum performance specifications for accuracy and precision for the combustion gas analyzers and recorders include:

Drift $\leq \pm$ 1% of full scale per 8 hours
Repeatability $\pm$ 1% of full scale
Resolution: 0.1% for CO_2 and O_2; 0.01% for CO by volume
Accuracy: $\pm$ 1% of scale

3.7 TRACER GAS DETECTOR

3.7.1 Minimum performance specifications for accuracy and precision for the tracer gas analyzer include:

Drift $\leq \pm$5% of full scale per 8 hours
Repeatability $\pm$ 2 percent of full scale
Accuracy $\pm$ 3% of scale

3.8 FLUE MOISTURE CONTENT DETERMINATION

3.8.1 A wet bulb-dry bulb technique shall be used to determine the water vapor present in the flue gases for on-line sampling purposes to maintain proportional sampling and appropriate weighting of enthalpy losses during burn cycle. A wet bulb temperature sensor shall be placed at the same location as the flue gas dry bulb temperature sensor. The wet bul sensor shall consist of a thermocouple or other temperature sensing device with a cloth sock placed at the sensor end and saturated with water. The wet bulb sensor shall be placed in the center of the flue gas stream until the temperature

reaches a steady state. The wet bulb temperature must be taken while the sock is saturated with water. The appropriate water vapor content is determined using psychometric charts (See Oregon Source Sampling Method 4, Appendix 1).

3.9 DRAFT

3.9.1 The draft or static pressure (in inches of water) shall be measured in the flue at a location no greater than 1 foot (30.5 cm) above the flue connector at the stove outlet.

3.10 RELATIVE HUMIDITY

3.10.1 The test facilities ambient relative humidity shall be measured and recorded prior to and at the completion of each test cycle.

3.11 DATA RECORDING INTERVALS

3.11.1 Data recording shall commence upon charging of the test fuel load and all measurements shall be recorded either manually or automatically at least at every 5 minute interval for the entire test period. In addition, appliance surface and combustion chamber temperatures are also required at every five minute interval one hour prior to the test cycle.

3.12 INSTRUMENT CALIBRATION

3.12.1 Notwithstanding any standard calibration procedures designed to assure and maintain the accuracy of standard source testing equipment, the following calibration and testing methods must be utilized on the auxiliary equipment when testing woodstoves for air emissions.

3.12.2 Continuous gas analyzer(s) calibration

Upon receipt of equipment or any time the single point audit described below fails, a multipoint calibration of the analyzer must be completed before the instrument is put into service.

a) Set up the instrument and allow it to operate for a sufficient time to stabilize as recommended by the manufacturer's published operating procedure.

b) Introduce zero gas into the instrument at the normal sample flow being careful not to pressurize the sample stream. Normally, this will be accomplished by allowing the zero gas to flow into a three port vessel at a rate of at least twice the instrument sample rate and withdrawing sample from another port on the vessel while the third port is allowed to vent to the atmosphere.

c) Introduce consecutively in the same manner as b) three certified calibration gases in artificial air noting the instrument response of each. The gases should represent approximately 20%, 50% and 80% of the instruments' full scale concentration.

d) Construct a calibration curve using the data collected in b) and c).

3.12.3 Continuous gas analyzer(s) audit

Before and after each test, conduct a single point audit of the instrument as described below. It is highly recommended that a single point audit of the instrument be conducted at intervals not to exceed 2 hours during the test periods.

a) Disconnect the instrument sample line from the sample source at a point upstream of all sample conditioning equipment (dryers, scrubbers, etc.).

b) Being certain to avoid pressurizing the system, introduce a certified reference gas into the analyzer through all sample conditioning equipment. The sample gas should be in the range of 20% to 80% of full scale of the instrument.

c) If the instrument response to the audit gas differs by more than 5% from the calibration curve, disregard all data collected with the instrument since the last successful audit and perform a multipoint calibration.

d) Before and after each test, leak check the system by plugging the inlet and watching the sample flow rotometer.

3.12.4 Platform scale auditing

a) Upon installation of the scale, a multipoint calibration must be performed using NBS traceable weights. This function will normally be performed by the scale manufacturer. As soon as practicable after the calibration, one or more weights may be weighed for use as a calibration traceable standard weight for audit purposes. The weight should be constructed from a weight stable (non-oxidizable and non-hydroscopic) material and maintained in such a way that its weight integrity is assured.

b) Before and after each series of tests, the scale must be audited by first zeroing and then weighing at least one calibration traceable weight that corresponds to 20% to 80% of the expected charge load of the stove to be

tested. If the scale does not reproduce the value of traceable weight within ± 0.4 lbs, the scale shall be recalibrated before use and void previous results.

3.12.5 Tracer gas flow measurement

a) All rotometers used in conjunction with tracer gas injection flow measurement techniques must be calibrated with the intended gas using either a calibrated volume measurement device such as a dry or wet gas meter or an accurate volume (displacement).

b) The tracer gas detector must be calibrated at the beginning and end of each set of tests by introduction of a certified reference gas. The gas must be introduced through all normal gas conditioning devices and in such a way as to prevent system pressurization.

SECTION 4: TEST FUEL REQUIREMENTS

4.1 FUEL PROPERTIES

4.1.1 The test fuel shall be untreated, air dried Douglas fir lumber. Kiln dried lumber is not allowed. To insure positive identification of Douglas fir, species type is stamped D.F. on the lumber by the certified lumber grader at the mills. The oven-dried density range shall be 28.7-37.4 pounds per cubic foot (.46-0.60 gm/cm^3). The density shall be determined and reported for certification purposes.

4.1.2 The test fuel shall have a moisture content range between 16% and 20% on the wet basis (19-25% dry basis). Moisture content shall be determined by measurements made with a calibrated electrical resistance type moisture meter or other equivalent performance type meter. Note: To convert moisture meter readings from the dry basis to the wet basis: (100)(% dry reading) ÷ (100 + % dry reading).

4.1.3 Minimum performance specifications for accuracy of the moisture meter shall be ± 3% of reading.

4.1.4 Moisture content determination per load shall be an average of a minimum of three readings for each fuel piece measured parallel to the grain of the wood on three sides (end readings excluded). If an electrical resistance type meter is used, electrode penetration shall be to a one inch depth using insulated pins. Moisture content measurements shall be made within a four hour period prior to testing, and the test fuel shall be at room temperature.

4.1.5 No wetting of previously dried wood is allowed. It is recommended that the test fuel be stored in a temperature and humidity controlled room.

4.1.6 The test fuel shall be essentially free of knots, and free of any rotted or molded areas or other defects such as pitch seams.

4.1.7 The higher heat value of the fuel shall be determined by bomb calorimetry using ASTM Method D 3286-77 or D 2015-77. A composite sample from each piece of the test charge shall be analyzed and reported for each test fuel load.

4.2 TEST FUEL PIECES

4.2.1 The dimension of each piece of fuel (flanged lumber) shall conform to the nominal measurements of 2x4 and 4x4 lumber (1-1/2 x 3-1/2 and 3-1/2 x 3-1/2 in).

4.2.2 The flanged lumber dimensions will vary according to the appliance's firebox volume as indicated below:

Usable firebox volume (ft^3)	Flanged lumber piece size (nominal inches)
≤ 1.5	2x4
$1.5 \leq 3$	2x4 approximately 1/2 weight of test fuel load 4x4 approximately 1/2 weight of test fuel load
>3	4 x 4

4.2.3 Each flanged piece shall be constructed in a configuration to conform to the following requirement for spacer dimensions and spacing intervals: Spacers will be constructed from air dried Douglas fir lumber (meeting the fuel specifications in Section 4.1) 5 inches in length, 1-1/2 inches in width, and 3/4 inches in height (12.7 x 3.8 x 1.9 cm). The spacers are to be attached by uncoated ungalvanized nails or staples to the lumber flush with the ends of each piece such that a 3/4 inch (1.9 cm) extension of the spacer occurs at the width of each end of the log as illustrated in Figure 4.2-A.

4.2.4 An optional acceptable flanged fuel configuration has identical spacing intervals as indicated in 4.2.3, but with a greater spacer dimension in height as depicted in Figure 4.2-A. The optional spacer configuration must conform to the conditions specified in 4.2.3 and meet the 5 inches in length, 1-1/2 inches in width and 1-1/2 inches in height (12.7 x 3.8 x 3.8 cm).

4.2.5 The length of each piece of test fuel shall be of equal length and shall closely approximate 5/6 the length of the longest usable dimension of the firebox. (See 4.3.2)

4.2.6 Test fuel pieces shall be arranged in the firebox in conformance with the manufacturers published written instructions and in a configuration which maintains air space intervals between the logs. The fuel shall be positioned so that the flanges are flat (parallel) to the floor of the firebox, with the flanged edges in contact (abutting each other). If loading difficulties result, some fuel pieces may be placed on edge. If the usable firebox volume is between 1.5 and 3.0 ft^3, alternating the piece sizes in vertical stacking layers is required to the extent possible. For example, 2x4's shall be placed on the bottom layer in direct contact with the coal bed and 4x4's on the next layer, etc. (See Figure 4.2-B). Photo documentation of the loading configuration for each test cycle shall be provided to the DEQ for certification purposes.

4.2.7 Appliances of unusual or unconventional firebox design shall load the fuel in a configuration which maintains air space intervals between the flanged lumber and is in conformance with the manufacturers published written instructions. Any appliance that will not accommodate the loading configuration specified in 4.2.6, must obtain DEQ loading configuration approval prior to testing for certification purposes.

4.2.8 Appliances that are designed to provide continuous feed pelletized or chipped fuel must prearrange an equivalent test criteria agreement with the DEQ prior to testing for certification purposes.

4.3 LOAD SIZE

4.3.1 The initial fuel load and the test fuel charge shall be based on weight per usable firebox volume. The fuel loads shall be equivalent to seven pounds of fuel as fired per cubic foot (112 kg/m^3) of usable firebox volume $\pm$ 10 %.

4.3.2 To avoid stacking difficulties, or when a whole number of fuel pieces does not result, all piece lengths may be adjusted uniformly to remain within the specified loading density.

4.3.3 Usable firebox volume means the entire volume of the (primary) combustion chamber less any volume where firewood could not reasonably be placed, such as areas restricted by baffles or firebrick. (see Figure 4.3)

SECTION 5: APPLIANCE OPERATING PROCEDURE

5.1 PRETEST START UP

5.1.1 The pretest startup phase is designed to bring the stove up to a stabilized operating temperature that is reflective of the heat output range required for the following test cycle.

5.1.2 Pretest start up will begin with ignition of kindling from a cold start with no charcoal residue in the firebox. A layer of cold wood ashes spread to a uniform depth of up to one inch in depth (2.54 cm) on the floor of the firebox or ash pan is optional. The kindling load shall consist of between 4-8 pounds (1.8 - 3.6 kg) of finely split Douglas fir with a moisture content range up to 20% on the wet basis. Crumpled newspaper balls loaded with the kindling shall be used to help attain ignition. The air supply controls may be adjusted per the manufacturer's published instructions for the kindling start up phase.

5.1.3 After 50 - 75% of the kindling by weight has been consumed, a pretest fuel load shall be added. The pretest fuel load shall meet the same fuel species and moisture content specifications as the test load. The pretest fuel load shall consist of whole 2x4 lumber pieces, without flanges, that are no less than 1/3 the length of the test fuel. Additional fuel may be added provided it meets the above requirements and that uniform charcoalization and weight specifications are adhered to before the test cycle begins.

5.1.4 The air inlet supply setting may be set at any position desired which will maintain combustion of the pretest fuel load. It is recommended that the air inlet supply setting be set at the position necessary to achieve the lowest heat output level of the following test cycle and be set at least one hour prior to addition of the test fuel load.

5.1.5 To document stabilized appliance heat storage effects and to control heat output levels, surface temperatures shall be recorded at each 5 minute interval during the one hour period prior to charging the test fuel.

5.1.6 No emissions or efficiency measurements are required during this pretest startup phase.

5.2 TEST CYCLE OPERATION

5.2.1 All stove surface temperatures shall be averaged and compared to those recorded at the beginning and the end of each test

cycle. To approximate thermal equilibrium, the averaged beginning and ending test cycle stove surface temperatures must be within 125°F (51.7°C) of each other. For all appliances, a correction factor shall be made to correct for heat storage effects. The correction factor shall be 0.12 Btu/lb °F multiplied by the averaged surface temperature difference in °F obtained from the beginning and ending temperatures of each test cycle. Some stoves (e.g., high mass stoves) may require more than one pretest fuel load to stay within the required averaged temperature range at the beginning and at the end of the test cycle.

5.2.2 An appliance may be tested in one continuous testing period that encompasses discrete test cycles for each of the four specified heat output levels (see 5.8) provided that a one hour minimum interval between each discrete test cycle occurs. The interval between test cycles provides time to reposition the air supply adjustment to the appropriate setting, re-establish and maintain the required coal bed, and meet the surface temperature requirements for the next desired heat output level.

5.3 TEST FUEL LOADING

5.3.1 When the kindling and pretest fuel load has been consumed to leave a weight equal to 20-25 percent of the test fuel load, the test fuel load shall be charged. Manipulation of the hot coal bed prior to charging the test fuel load shall conform to the manufacturer's published written instructions. In the absence of written instructions, breaking up, raking and uniform spreading of the embers or hot coal bed is required prior to addition of the test fuel load. No manipulation or rearrangement of the test fuel load configuration is allowed during any portion of the test cycle.

5.3.2 Additional fuel may be added between the test cycle intervals, provided it meets the fuel species and moisture content specifications. Whole 2x4 lumber pieces, without flanges, no less than 1/3 the length of the test fuel may be used, provided proper re-establishment of the hot ember bed is controlled to the specified weight criteria and uniform charcoalization of the ember bed is adhered to.

5.4 AIR SUPPLY CONTROL

5.4.1 Adjustment of the primary air supply controls or holding the fuel loading door open up to the first 5 minute phase of the test cycle is allowed to insure good ignition of the test charge and catalyst if so equipped. Adjustments should be conducted per the manufacturer's published written instructions. Immediately thereafter, the primary inlet air supply control(s),

either manual or automatic, shall be set to the position necessary to achieve the required heat output level. No additional adjustments of the air supply controls or opening the loading door will be allowed during the remainder of each test cycle.

5.4.2 Maximum heat output shall be achieved by operating the appliance with the primary air supply inlet controls fully open during the entire fuel load cycle unless the manufacturer's published written instructions specify that maximum heat output occurs at another setting.

5.4.3 All other heat output levels shall be achieved by operating the appliance with the primary air supply inlet control or other mechanical control device set in a predetermined position necessary to obtain average heat output levels specified in 5.8 during the entire test cycle.

5.4.4 If the primary air supply inlet control(s) cannot be adjusted to obtain variable burn rates or variable heat output levels, the appliance shall be tested at the fixed air supply setting.

5.4.5 Secondary or tertiary air supply may be adjusted one time only during each test cycle following the manufacturer's publisned written instructions.

5.5 TEST CYCLE COMPLETION

5.5.1 A test cycle ends when the entire weight ± 0.1 lb (.045 kg) of the test fuel load has been consumed, (i.e., when a bed of coals equal to the beginning coal bed weight remains).

5.6 BLOWERS, FANS

5.6.1 The use of blowers for heat exchange is optional. Beginning with the start of the test cycle, blower speed may be positioned at a recommended setting but no changes in setting will be allowed throughout the entire test period and the position setting shall be recorded at the time positioning occurs.

5.7 OTHER APPURTENANCES

5.7.1 Shaker grates, by-pass handles, or other appurtenances (not primary air supply controls) may be adjusted one time only during each test cycle in accordance with the manufacturer's written published instructions, and all adjustments shall be recorded.

5.8 NUMBER OF TESTS REQUIRED

5.8.1 Simultaneous emissions and efficiency tests are required during an entire test cycle within each of four discrete heat output ranges as indicated below.

Test Cycle Heat Output

(Average Btu/hr)

Category 1.	Category 2.	Category 3.	Category 4.
< 10,000	10-15,000	15-25,000	Maximum heat output

5.8.2 If the lowest sustainable burn rate produces an average heat output greater than the first category, then two tests must be conducted near the low and high end of the second category plus tests at the remaining categories. A total of four test cycles are required.

5.8.3 If the lowest sustainable burn rate produces an average heat output greater than the second category, then two tests must be conducted near the low and high end of the third category plus a test at the remaining category. A total of three test cycles are required.

5.8.4 If the lowest sustainable burn rate produces an average heat output greater than the third category, three tests must be conducted, one at the lowest sustainable burn rate, one at the maximum heat output level and one at an intermediate level between the lowest and maximum level. A total of three test cycles are required.

5.8.5 If lowest sustainable burn rate is greater than 10,000 Btu/hr then documentation shall be submitted to demonstrate the actual burn rate is the lowest sustainable. This documentation can be in the form of proof that the appliance was run at its lowest permanent air supply setting or test data that demonstrates the burn rate approaches zero (less than 0.1 kg/hr) within the area of 1 to 1.1 times the lowest sustainable burn time and when greater than 90% of the test charge has been consumed. Such test data shall be collected by following all the stove operating procedures specified in this document.

5.8.6 If an appliance has a fixed air supply setting, two replicate tests shall be conducted at the "on" firing mode setting. A total of two test cycles are required.

5.8.7 If an appliance is unable to achieve an average heat output level of 25,000 Btu/hr at its maximum heat output, four tests must be conducted. One test must be conducted at the first category, one at the second category and two tests at the third category, one conducted near the low end of the range and one at the maximum heat output. A total of four test cycles are required.

SECTION 6: TEST METHODOLOGY AND CALCULATIONS

6.1 EMISSION TESTING

6.1.1 Particulate emission testing shall be conducted in conformance with Oregon Source Sampling Methods 5 and 7 (Attachments 2 and 3) with the following exceptions: 1) no traverse of the flue is necessary, 2) sample extraction shall occur in the center of the flue at a height of eight to nine feet above the top surface of the scale, 3) on-line stack gas velocity and volumetric flow rate determination will be made using an alternate method (Section 6.3). Total volume and average flow rates for the test period will be calculated using a simultaneous stoichiometric carbon, hydrogen and oxygen balance method (Section 6.2.1). Sample extraction rates shall be maintained at or proportional to the flue gas velocity as determined by the measured concentration of a tracer gas injected into the stack gases to determine dilution rate and thus, total flow. Adjustments to the sampling rate will be made at each five minute interval during the entire test period.

6.2 PROCEDURES FOR DETERMINING EQUIVALENCE BETWEEN CANDIDATE METHODS AND THE REFERENCE METHOD FOR WOODSTOVE EMISSION TESTING

6.2.1 Determination of Equivalence

The test procedures outlined in this section shall be used to determine if a candidate method is equivalent to the reference method when both methods measure particulate emissions from woodstoves. Equivalence is shown for the methods when the differences between the measurements made by a candidate method and the measurements made simultaneously by the reference method are less than or equal to the precision and consistency values specified below.

5.8.6 If an appliance has a fixed air supply setting, two replicate tests shall be conducted at the "on" firing mode setting. A total of two test cycles are required.

5.8.7 If an appliance is unable to achieve an average heat output level of 25,000 Btu/hr at its maximum heat output, four tests must be conducted. One test must be conducted at the first category, one at the second category and two tests at the third category, one conducted near the low end of the range and one at the maximum heat output. A total of four test cycles are required.

SECTION 6: TEST METHODOLOGY AND CALCULATIONS

6.1 EMISSION TESTING

6.1.1 Particulate emission testing shall be conducted in conformance with Oregon Source Sampling Methods 5 and 7 (Attachments 2 and 3) with the following exceptions: 1) no traverse of the flue is necessary, 2) sample extraction shall occur in the center of the flue at a height of eight to nine feet above the top surface of the scale, 3) on-line stack gas velocity and volumetric flow rate determination will be made using an alternate method (Section 6.3). Total volume and average flow rates for the test period will be calculated using a simultaneous stoichiometric carbon, hydrogen and oxygen balance method (Section 6.2.1). Sample extraction rates shall be maintained at or proportional to the flue gas velocity as determined by the measured concentration of a tracer gas injected into the stack gases to determine dilution rate and thus, total flow. Adjustments to the sampling rate will be made at each five minute interval during the entire test period.

6.2 PROCEDURES FOR DETERMINING EQUIVALENCE BETWEEN CANDIDATE METHODS AND THE REFERENCE METHOD FOR WOODSTOVE EMISSION TESTING

6.2.1 Determination of Equivalence

The test procedures outlined in this section shall be used to determine if a candidate method is equivalent to the reference method when both methods measure particulate emissions from woodstoves. Equivalence is shown for the methods when the differences between the measurements made by a candidate method and the measurements made simultaneously by the reference method are less than or equal to the precision and consistency values specified below.

Specifications For Woodstove Emission Test Methods

Parameter	Units	Limits
Emission rate range	g/hr	1.0-45.0
Minimum number of test runs		16
Minimum number of simultaneous samples per test run		4
(Candidate method)		(2)
(Reference method)		(2)
Maximum analytical precision (individual test runs)	%	18
Maximum analytical precision (standard deviation)	%	10
Maximum difference in consistent relationship (weighted averages)	%	20

6.2.2 Test Conditions

The woodstove burn rate and operating cycle shall be in accordance with procedures specified by DEQ. Testing procedures and schedules shall be approved by DEQ at least 60 days prior to testing. All test measurements or samples shall be taken in such a way that both the candidate method and the reference method receive stack gas samples that are homogenous or as nearly identical as practical.

Collect simultaneous and duplicate samples of woodstove emissions with both the reference and candidate methods until at least 16 quadruple samples (duplicate pairs of both candidate and reference methods) have been obtained. The 16 quadruple samples should represent 16 full test runs, four test runs on each of four stoves. The tests on each stove shall be in each of the four heat output ranges specified in the certification procedures and 5.8.1 of this document. Calculate the emission rates as determined by the candidate and reference methods for each test run. For the reference method, calculate the average particulate emissions for each test run by averaging the results calculated from the duplicate analyses (A and B):

$$R_{i\ ave} = \frac{R_{iA} + R_{iB}}{2} \qquad 6.2.2.a$$

where R denotes results from the reference method and where i is the sample number. Disregard all quadruple samples for which the particulate emission rate as determined by the average of the duplicate reference method analyses falls out-

side the range of 1.0 to 45.0 grams per hour (g/hr). All remaining quadruple samples must be subjected to the following test for precision (in 6.2.3).

Calculate the weighted emission rates, using the procedures specified in OAR 340-21-120(5), as determined by the candidate and reference methods for each of the four woodstoves tested. For the reference method, calculate the average weighted emission rate for each woodstove tested by averaging the results calculated from the duplicate analysis (A and B). One woodstove weighted emission rate (average of duplicate reference method analysis) must be within each of the following ranges for the procedure to be valid: Less than 5.0 g/hr, 5.0 to 10.0 g/hr, 10.0 to 15.0 g/hr, and greater than 15.0 g/hr. All weighted emission rates must be subjected to the consistent relationship test (in 6.2.4 following).

6.2.3 Test For Precision

Calculate the precision (P) of the analysis (in percent) for each duplicate sample and for each method, as the maximum minus the minimum divided by the average of the duplicate analyses, as follows:

$$P_{Ri} = \frac{R_i \text{ max} - R_i \text{ min}}{R_i \text{ ave}} \times 100\% \qquad 6.2.2.b$$

$$P_{Ci} = \frac{C_i \text{ max} - C_i \text{ min}}{C_i \text{ ave}} \times 100\% \qquad 6.2.2.c$$

where C denotes results from the candidate method, R denotes results from the reference method, and i indicates the sample number.

Calculate the standard deviation (SD) of the reference and candidate precision analyses as follows:

$$SD_R = 1.77 \times P_{R \text{ ave}} \qquad 6.2.2.d$$
$$SD_C = 1.77 \times P_{C \text{ ave}} \qquad 6.2.2.e$$

where $P_{r \text{ ave}}$ is the average of the absolute values of P_{Ri}; and $P_{C \text{ ave}}$ is the average of the absolute values of P_{Ci}.

If any reference method precision value (P_{Ri}) exceeds 18 percent or if the standard deviation (SD_R) exceeds 10 percent, the precision of the reference method analytical procedure is out of control. Corrective action must be taken to determine the source(s) of imprecision and the reference method determinations must be repeated, or the entire test procedure must be repeated.

The candidate method passes this test if the precision values of the candidate method (P_{Ci}) are less than or equal to 18 percent and the standard deviation (SD_C) is less than or equal to 10 percent.

6.2.4 Test For Consistent Relationship

For each of the four woodstoves tested, calculate the weighted average emission using DEQ procedure specified in OAR 340-21-120(5).

For each quadruple sample, calculate all four possible percent differences (D) between the reference and candidate methods, using all four possible combinations of the duplicate determinations (A and B) for each method, as:

$$D_{in} = \frac{C_{ij} - R_{ik}}{R_{ik}} \times 100\% \qquad 6.2.2.f$$

where i is the woodstove model tested and n numbers from 1 to 4 for the four possible difference combinations for the duplicate determinations for each method (j = A, B, candidate; k = A, B, reference).

If the candidate method is to include dual units and averaging of test results, then calculate the differences (D) between the reference and candidate methods as follows:

$$D_i = \frac{C_i - R_i}{R_i} \times 100\% \qquad 6.2.2.g$$

where i is the woodstove model tested, C is the average of the dual candidate results, and R is the average of the dual reference results.

The candidate method passes this test if the absolute values of all of the applicable differences (D) are less than or equal to 20 percent.

6.2.5 Test For Equivalence

The candidate method must pass both the precision test and the consistent relationship test to qualify for designation by DEQ as an equivalent method. DEQ may require dual units and precision criteria between dual units, or other conditions in the designation as an equivalent method.

6.2.6 Verification Testing

DEQ may conduct verification testing of the candidate method. If DEQ testing does not verify the precision and consistent

relationship of the candidate method then the candidate method will not be approved as an equivalent method.

6.3 TRACER GAS DILUTION METHOD

6.3.1 This method is used for on-line measurement of stack gas flows during the test period. Other techniques that can provide equivalent results may be accepted, provided prior approval by DEQ has been made before testing for certification purposes commences.

a) Tracer Gas Dilution Method

A pure tracer gas (sulfur dioxide or equivalent, or approved performance gas) is metered through a calibrated rotometer for injection into the flue pipe. Injection shall be made through a stainless steel multi-perforated tube loop located inside the stack at four flue diameters downstream from the particulate and gas sampling port. A downstream diluted sample extraction probe shall be located 8 flue diameters downstream from the injection loop. The dilution sample gas stream shall be processed through a sample conditioner consisting of a combustion tube furnace, and in series, a glass fiber filter and three impingers encased in an ice bath. Impingers one and two shall be empty for water collection and the third shall contain silica gel.

The tracer gas content of the diluted gas sample stream shall be determined with an appropriate calibrated analyzer. Downstream tracer gas concentrations should not exceed 0.5% of the total flue gas volume. The tracer gas shall be as non-reactive with other flue gas constituents as possible and measurable by instrumentation capable of obtaining an accuracy of ± 1% of the instrument scale reading. Instrument calibrations shall be performed and recorded before and after each test run.

Stack gas volumetric flow rates shall be calculated using the following equations:

$$\text{Flow (cfm)} = \frac{Ir}{Dc} \times \frac{1}{60} \times \frac{Tr}{Pr \times 17.65^{\circ}} \qquad 6.3.1.a$$

Where: Ir = Tracer gas injection rate (ft^3/hour)

Dc = Downstream tracer gas concentration (ppm x 10^{-6})

Tr = Injection gas temperature ($^{\circ}R$) at the rotometer

Pr = Injection gas pressure (inches Hg)
* = Density specific for SO_2

Other tracer gases such as helium may be substituted for sulfur dioxide provided prior written agreement has been made with the DEQ.

6.4 STOICHIOMETRIC CARBON, HYDROGEN AND OXYGEN BALANCE METHOD

6.4.1 A carbon, hydrogen and oxygen mass balance will be used for determining overall flue gas volume--not for on-line measurements during the test period.

a) The carbon, hydrogen and oxygen balance method for volumetric flow rates is based on the following basic combustion equation and will be determined and reported for every five minute interval.

$$@[C_xH_yO_z + pH_2O] + Tsg(1-k)(a)\,[O_2 + 3.785N_2 + mH_2O] \quad 6.4.1.a$$
$$Tsg[(1-k)(dCO_2 + eCO + gO_2 + hN_2) + jH_2O + kCH_4]$$

Where @ = Dry weight of fuel burned (lbs)
x = Moles of carbon per lb of dry fuel (assumed 0.0425)
y = Moles of hydrogen per lb of dry fuel (assumed 0.073)
z = Moles of oxygen per lb of dry fuel (assumed 0.0256)
p = Moles of H_2O per lb of dry fuel
= Dry basis moisture (free and combined) ÷ 1800
a = Mole fraction of oxygen in air supply
= Moles O_2 supplied per mole of stack gas
d = Mole fraction of CO_2 in stack gas
e = Mole fraction of CO in stack gas
g = Mole fraction of O_2 in stack gas
h = Mole fraction of N_2 in stack gas
j = Mole fraction of H_2O in stack gas
k = Mole fraction of unburned hydrocarbon in stack gas (as CH_4).
m = Mole fraction of H_2O in supply air (mole H_2O per mole of supply oxygen)
Tsg = Total moles of stack gas (dry)

b) Mass balance equations for the combustion of @ lbs of wood are as follows:

Carbon: $x@ = Tsg\,[(1-k)(d+e)+k]$ 6.4.1.b

Hydrogen: $@(2p + y) + Tsg(1-k)(a)(2m) = Tsg(2j + 4k)$ 6.4.1.c

Oxygen: $@(p+z) + Tsg(1-k)(a)[2+m] = Tsg[(1-k)(2d + e + 2g) + j]$ 6.4.1.d

Nitrogen: $3.785\,(a) = h$ 6.4.1.e

Stack gas total as measured by combustion gas analyzers:

$$1 = (d + e + g + h) \qquad 6.4.1.f$$

The stack gas composition equation can be solved for "h" which will then provide a solution for "a" in the nitrogen balance equation. The remaining unknown values for "@", "p", and "k" are determined by simultaneously solving the carbon, hydrogen, and oxygen balance equations.

c) Two calculation runs of the simultaneous equation set are performed for each set (5 minute test segment) of data collected. The first run is performed to determine an average weighted "@" for the test burn. This first run "@" is then used to determine a corrected Tsg for the second run as follows:

$$\text{Tsg'(corrected)} = \text{Tsg (tracer gas)} \frac{@\ \text{(actual)}}{@\ \text{(calculated first run)}} \qquad 6.4.1.g$$

Where: @(actual) = Dry weight burn rate for test burn (lb/hour)

d) "Tsg" is converted to a flow rate by the following equation:

$$\text{Flow (cubic feet per minute)} = \frac{\text{Tsg} \times 386.2}{60} \qquad 6.4.1.h$$

This calculation procedure is necessary for each five minute test period segment, therefore a computer program is recommended.

6.5 EFFICIENCY TESTING AND CALCULATIONS

6.5.1 If a calorimeter room is used to measure appliance efficiency, combustion gas analyzers must be included to determine and report appliance combustion and heat transfer efficiencies for each heat output level required.

6.5.2 Efficiency values shall be determined based on the following stack loss method. The approach shall include determination for each heat output level for combustion, heat transfer, and overall efficiency.

a) Combustion Efficiency

Combustion efficiencies are calculated as the percentage represented by the actual heat produced in the firebox

relative to the total heat production potential for the fuel consumed. Actual heat production in the firebox is calculated as the difference between the heat of combustion of the incompletely combusted stack gas constituents (carbon monoxide and unburned hydrocarbon equivalents) and the gross caloric content of the fuel burned. The basic equation used for combustion efficiency is as follows:

$$\text{Combustion Efficiency} = \frac{\text{Thi} - \text{Clo}}{\text{Thi}} \quad (\times 100) \qquad 6.5.2.a$$

Where: Thi = Total heat content of the fuel consumed
Clo = Combustible losses out stack

b) The total heat content of the fuel consumed shall be calculated using the following equation:

$$\text{Thi} = \text{Gcvf} \times \text{Wfc} \qquad 6.5.2.b$$

Where : Gcvf = Gross caloric value of the fuel (use HHV determined from bomb calorimetry analysis)
Wfc = Weight of fuel consumed (lbs) dry weight

c) The heat content of the combustible losses are calculated using the following equation:

$$\text{Clo} = \text{Tsg}\,[(e \times \text{Hco}) + (k \times \text{Huh})] \qquad 6.5.2.c$$

Where: Hco = Heat of combustion for carbon monoxide
= 128,000 Btu/mole
Huh = Heat of combustion for unburned hydrocarbons
= 181,000 Btu/mole (estimated)

This calculation procedure is necessary for each five minute test period segment.

d) Heat Transfer Efficiency

Heat transfer efficiencies are calculated as the percentage represented by the useful heat released to the room relative to the actual heat produced in the firebox. The useful heat released to the room (Uhr) is calculated as the difference between the actual heat produced in the firebox (Ahf or Thi-Clo), and the sensible and latent heat losses out the stack (Sllo). The basic equation for heat transfer efficiency is as follows:

Heat Transfer Efficiency $= \frac{Uhr}{Ahf} = \frac{Ahf-Sllo}{Ahf} = \frac{(Thi-Clo)-Sllo}{(Thi-Clo)}$ (x 100) 6.5.2.d

Where: Sllo = Sensible and latent heat losses
$= (To - Ti)\ [Tsg(dCpCO_2 + eCpCO + gCpO_2 + hCpN_2 + jC_pH_2O)] + (j-m)LH_2O$

Where: To = Temperature of stack gases out
Ti = Temperature of inlet air and fuel

C_pCO_2 = Specific heat of CO_2 = 9.3 Btu/mole
C_pCO = Specific heat of CO = 7.0 Btu/mole
C_pO_2 = Specific heat of O_2 = 7.1 Btu/mole
C_pN_2 = Specific heat of N_2 = 7.0 Btu/mole
C_pH_2O = Specific heat of water = 8.3 Btu/mole
LH_2O = Latent heat of evaporation of water
= 18,810 Btu/mole

This calculation procedure is necessary for each five minute test period segment.

e) Overall Efficiency

Overall average efficiency is calculated as the percentage represented by the heat released to the room relative to the total heat production potential of the fuel consumed. The overall efficiency is calculated as the product of the combustion efficiency and the heat transfer efficiency as follows:

Overall Efficiency = Combustion Efficiency x Heat Transfer Efficiency

$= \frac{Ahf}{Thi} \times \frac{Uhr}{Ahf} = \frac{Uhr}{Thi}$ 6.5.2.e

6.5.3 A corrected flue gas moisture content for each five minute interval must be determined as follows:

Final flue moisture determination shall be made by calculating a corrected flue gas moisture content for each data interval taken during the test cycle. The average wet bulb-dry bulb moisture measurement must be weighted by the volumetric flow rate for that 5 minute interval. The correction factor which is applied to each 5 minute moisture determination is calculated as the ratio between the average wet bulb-dry bulb measurement and the Oregon Source Sampling Method 4 (Attachment 1) measurement (condensate catch) for the entire burn cycle.

6.6 EQUIVALENCE BETWEEN CANDIDATE METHODS AND THE REFERENCE METHOD FOR WOODSTOVE EFFICIENCY TESTING

6.6.1 Candidate methods for woodstove efficiency testing must demonstrate consistent relationship to the reference method (stack loss) comparable to the consistent relationship between the reference method (stack loss) and the calorimeter room method as described in the DEQ's Confirmation Testing Summary, Section 18, Part C, Table 1: Comparison of Calorimeter Room Method vs. Stack Loss Method, 1984.

6.6.2 DEQ may conduct verification testing of the candidate method. If DEQ testing does not verify equivalence of the candidate method to the reference method (stack loss), then the candidate method will not be approved as an equivalent method.

SECTION 7: TEST DATA

7.1 DATA TO BE REPORTED

7.1.1 All raw and reduced test data must be included in the material sent to DEQ for appliance certification. Reduced test data shall be tabulated as indicated in Sections 7.1.2 through 7.1.10.

7.1.2 Particulate Emissions For Each Test Cycle

a) Concentration: total grains/dscf, total grams/m^3
b) Emission rate: grams/hr
c) Emission factor: grams/kg (dry fuel weight basis)
d) Emission process rate: grams/10^6 joule useful heat output
e) Front half catch: % of total
f) Total mass captured: front and back catch, mg

7.1.3 Average Efficiency Values For Each Test Cycle

a) Overall appliance efficiency %
b) Combustion efficiency %
c) Heat transfer efficiency %

7.1.4 Heat Output For Each Test Cycle

a) Btu/hr average over entire test

7.1.5 Burn Rate For Each Test Cycle

The average values (kg/hr wet and dry basis) over the entire test cycle and an hourly average over the entire test cycle at each heat output level.

7.1.6 Average Fuel Moisture Content For Each Test Cycle

a) Kindling (wet basis) %
b) Test fuel (wet basis) %

7.1.7 Air/Fuel Ratio

Mass of combustion air to the mass of fuel over 90% or more of each test cycle (lbs air/lbs fuel).

7.1.8 Average Stack Gas Composition For Each Test Cycle

a) Carbon dioxide %
b) Carbon monoxide %
c) Oxygen %
d) Excess air %
e) Moisture %

7.1.9 Average Stack Gas Flow and Draft For Each Test Cycle

a) Average flow rate cfm
b) Stack flow rate dscf/min (tracer gas and CHO balance)
c) Draft, inches H_2O

7.1.10 Average Stack Gas Emission Factors and Process Rates For Each Test Cycle

a) Carbon monoxide: grams/kg, and grams/10^6 joule (measured)
b) Hydrocarbons: grams/kg, and grams/10^6 joule (calculated)

7.1.11 Average Temperatures For Each Test Cycle

a) Stack gas ^oF
b) Primary combustion chamber gas ^oF
c) Secondary combustion chamber gas (if applicable) ^oF
d) Above catalyst gas (if applicable) ^oF
e) Stove top surface ^oF
f) Stove sidewall surfaces ^oF
g) Stove back surface ^oF
h) Stove bottom surface ^oF

7.1.12 Fuel Load Weight and Burn Cycle Period For Each Test Cycle

a) Coal bed weight, lbs

b) Test fuel load weight, lbs

c) Total burn cycle time period, minutes

SECTION 8: CATALYTIC COMPONENT CERTIFICATION REQUIREMENTS

8.1 CATALYTIC COMBUSTOR DESIGN CRITERIA

8.1.1 To insure equivalent performance of catalytic combustors used in testing versus production model stoves, a combustor model number for every catalytically equipped stove evaluated for certification shall be supplied. The model number will serve to identify catalytic combustor types by brand (manufacturer), dimensions, and design (substrate and coating material). The model number must be imprinted or inscribed on a readily visible surface (such as a metal sleeve or canned surface). This will allow DEQ field verification monitoring. Any change in combustor brand, size and design type will require retesting of the appliance with the new combustor model for performance change unless test data or sufficient information can be provided demonstrating equivalent or improved performance.

8.2 CATALYTIC COMBUSTOR AGING CRITERIA

8.2.1 Any appliance that contains a catalytic combustor must use a pre-aged combustor when testing for certifiation purposes. The combustor aging process will consist of burning Douglas fir dimensional lumber or cordwood with a moisture content range on the wet basis of 15-25% in a woodstove specifically designed for an internal catalytic combustor. The stove must be operated at its medium burn rate with a new catalytic combustor in place and in operation for a period of 50 hours. The accredited testing laboratory must document and provide combustor temperature data, hours of aging operation and certify to the DEQ that each catalytic appliance tested for certification purposes has met this provision.

8.3 CATALYTIC COMBUSTOR LONGEVITY CRITERIA

8.3.1 All catalytic combustor manufacturers must submit to the DEQ evidence in the form of test data that each combustor design type, identified by model number, has been longevity tested for 5000 hours and document that the percent reduction in particulate emissions from the new state is no less than 70%. Three test conditions are required: 1) unused (0 hours), 2) 250 hours, and 3) 5000 hours. Testing must be performed by a DEQ accredited laboratory. In lieu of this requirement, the manufacturer may substitute a 24 month non pro-rated combustor replacement warranty.

8.4 CATALYTIC COMBUSTOR TEMPERATURE MONITORING PROVISION

8.4.1 In order to qualify for DEQ certification, catalytically equipped woodstoves must be equipped with a permanent provision to accommodate a commercially available temperature sensor which can monitor combustor gas stream temperatures within or immediately downstream (within 1.0 inch or 2.5 cm) of the combustor surface.

EXAMPLE OF TEST EQUIPMENT SET-UP FOR FREE STANDING WOODSTOVES

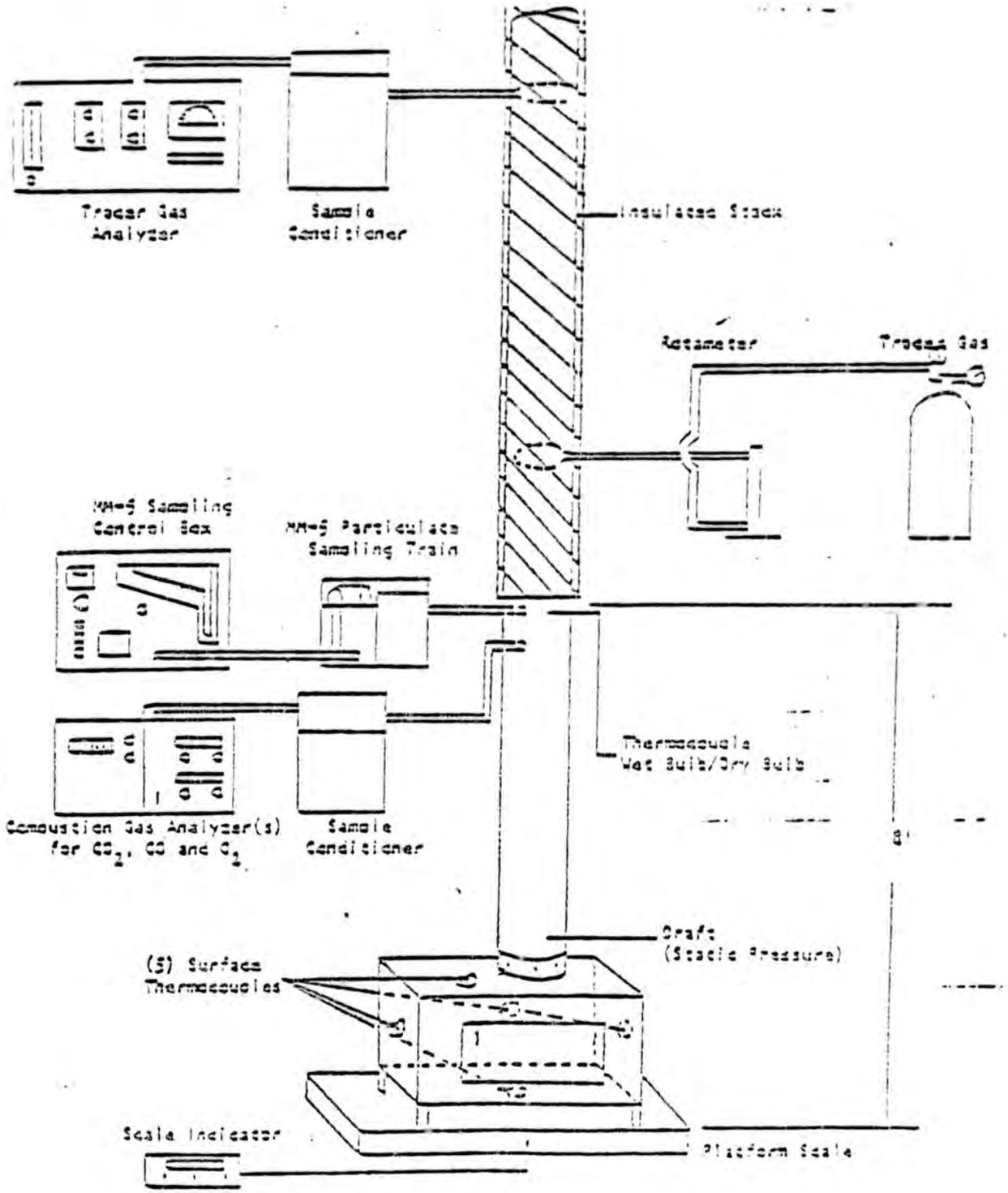
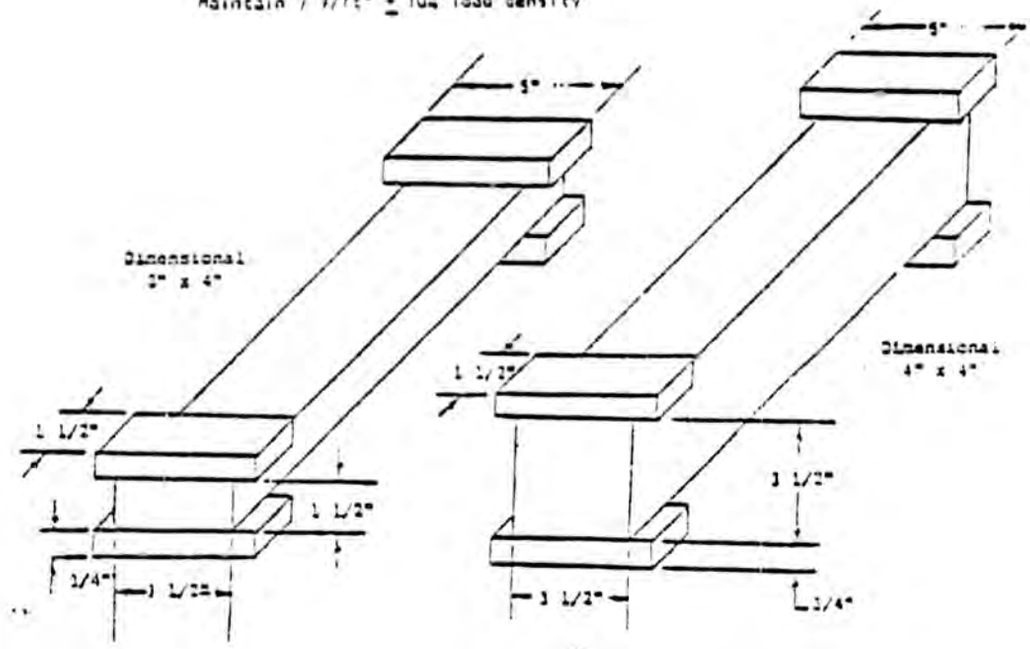


Figure 3.1

Test Fuel Size

Usable Firearm Volume (ft^3)	Size - Flanged Log (Nominal Inches)
≤ 1.5	2 x 4
$> 1.5 \leq 3$	Combination { 2x4 approximately ½ weight of test fuel load; 4x4 approximately ½ weight of test fuel load
> 3	4 x 4

Maintain 7 #/ft^3 ± 10% load density



Scale 1/4" = 1"

* Length will vary depending on length of firearm

Alternative Flange Configuration

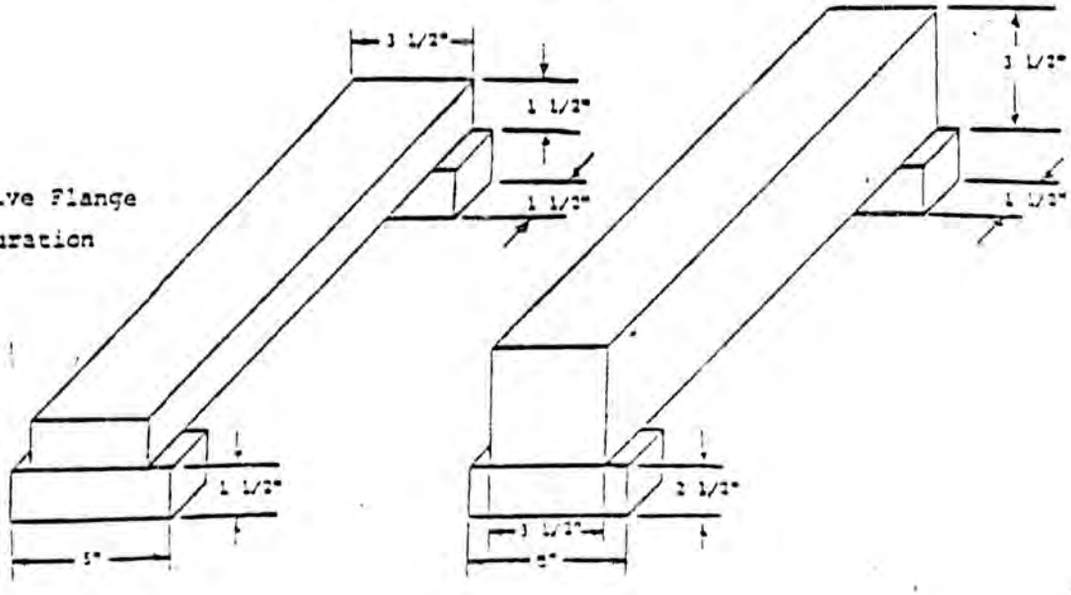
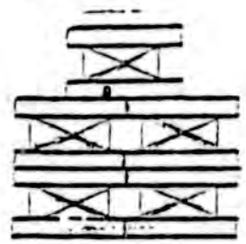
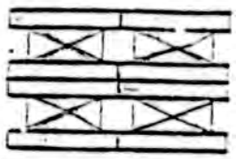
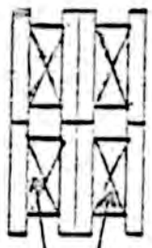


Figure 4.2-A

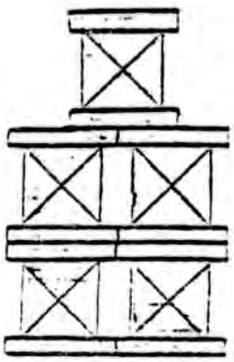


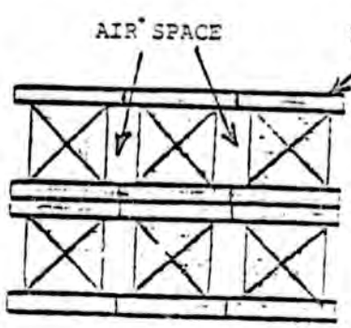


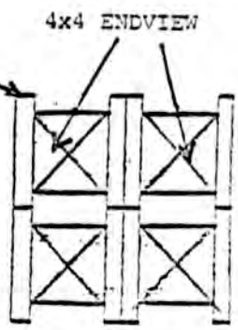
2 X 4



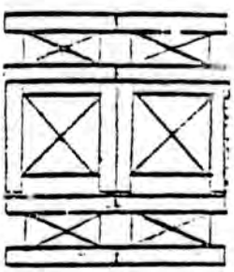
2x4 ENDVIEW

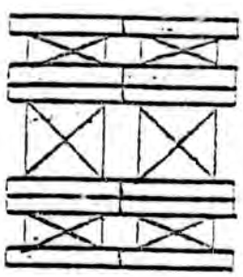


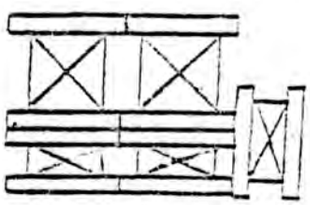




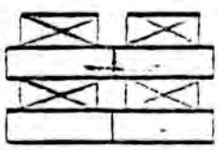
4 X 4

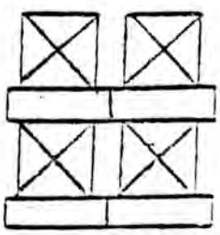


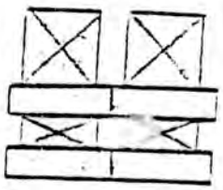




2 X 4 & 4 X 4







Alternative Flange Configuration

Woodstove Stacking & Loading Examples

Figure 4.2-B

EXAMPLES OF

USABLE FIREBOX VOLUME

(Designated by Shaded Area)

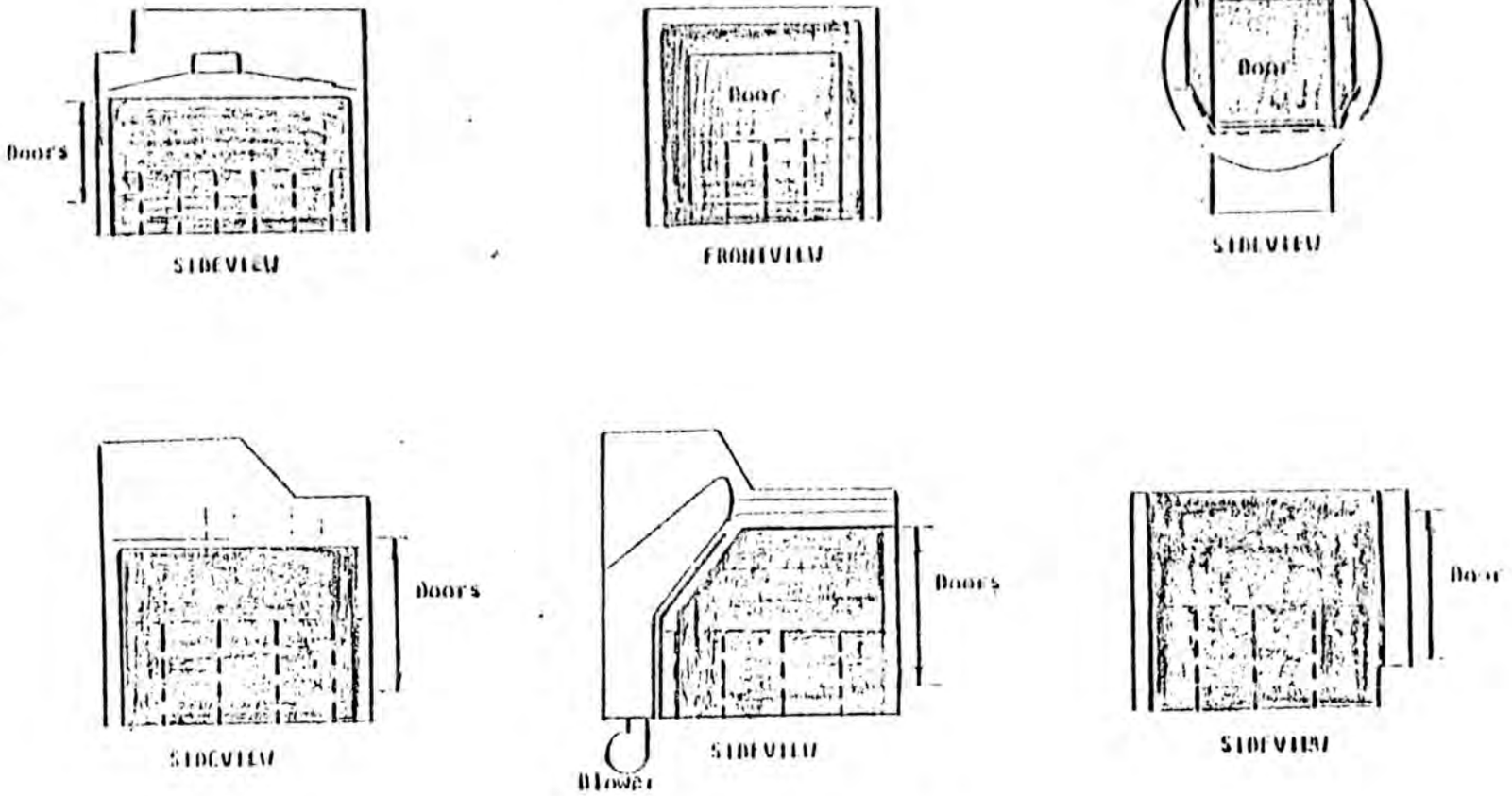


Figure 4.3

STATE OF OREGON

DEPARTMENT OF ENVIRONMENTAL QUALITY

Source Sampling Method 4

Determination of Moisture Content of Stack Gases

1. Principle and Applicability

1.1 Principle. A gas sample is extracted from the flowing gas stream and its moisture removed and measured either volumetrically or gravimetrically. Alternately, the moisture can be estimated by less accurate techniques for the purpose of setting the nomograph for isokinetic sampling. A wet bulb-dry bulb technique is discussed.

1.2 Applicability. The reference method is applicable for the determination of moisture in exhaust gases from stationary sources. The alternate method is to be used only for estimating the moisture content for the purpose of setting the nomograph unless otherwise specified.

2. Reference method

2.1 The method employed is essentially the same as used in the particulate determination source sampling method 5 and will not be discussed here.

3. Alternate method

3.1 Theory. The water vapor in a non-saturated gas stream causes a depression of the wet bulb temperature which is proportional to the fraction of moisture present.

3.2 Procedure

3.2.1 Measure the dry bulb temperature in the conventional way using either a thermometer or thermocouple.

3.2.2 Insert the end of the temperature measuring device in a cloth sock and saturate the sock with water. Inset the sock into the flowing gas stream and allow the temperature to reach a steady state. Caution: after the water on the sock has evaporated, the temperature will rise to the dry bulb temperature. (Figure 4-1). The wet bulb temperature must be taken while the sock is saturated with moisture.

3.2.3 Apply the wet bulb and dry bulb readings to the appropriate graph (Figure 4-2, 4-3, or 4-4) and determine the approximate water vapor content if the barometric pressure is near 29.92 in. Hg.

3.2.4 Alternately apply the wet bulb and dry bulb readings to equation 4-1 in Figure 4-3.

4. Interferences

4.1 The following conditions may drastically change the wet bulb reading causing erroneous results:

4.1.1 The presence of acid gases in the gas stream, i.e. SO_2, SO_3, HCl.

4.1.2 The presence of hydrocarbons in the gas stream.

4.1.3 Marked differences from atmospheric pressure (29.9 in. Hg) of the gas stream (if the graphs are used).

4.2 Should any of the above interferences be present, the tester should consider another approach to determining moisture content.

4.3 Additionally, the following conditions can lead to difficulties.

4.3.1 Very high dry bulb temperature (in excess of 500°F).

4.3.2 Very high or very low gas velocities.

4.3.3 High concentration of particulate matter which may adhere to the wet sock.

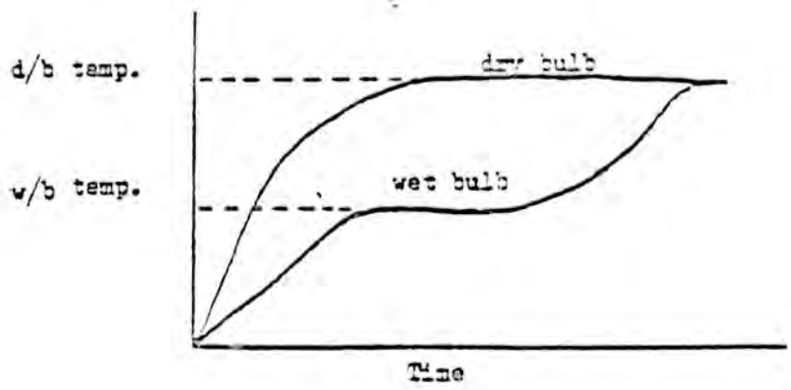


Figure 4-1

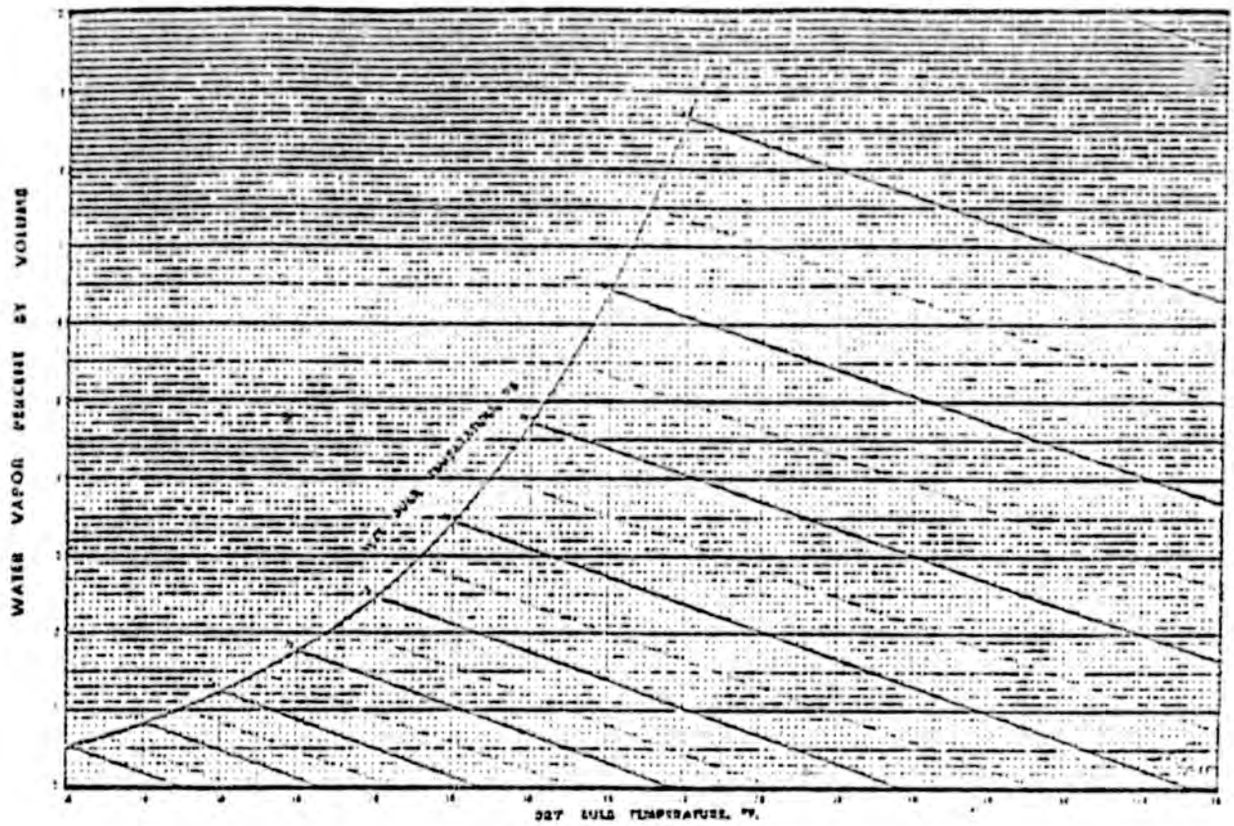


FIGURE 4-2

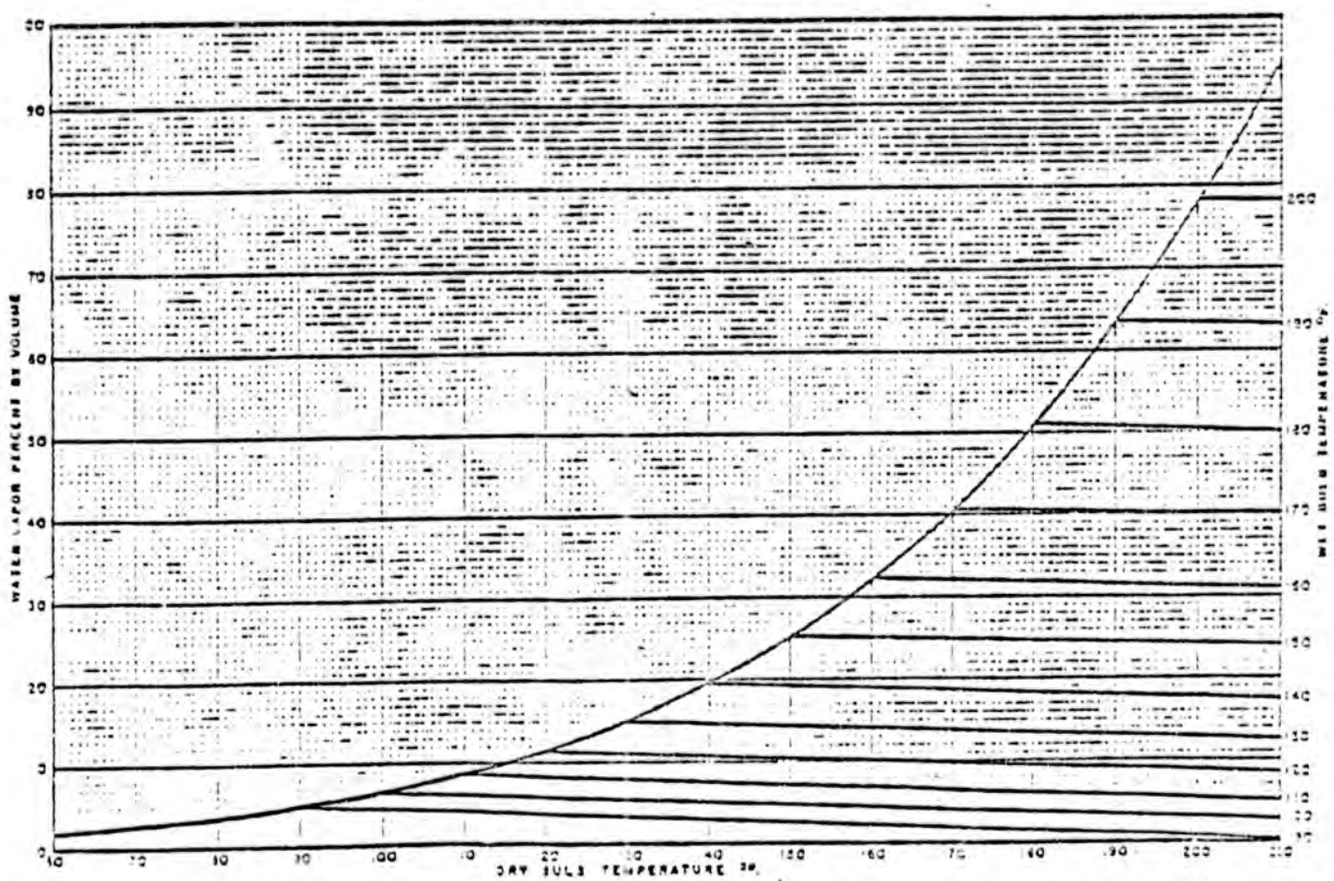


FIGURE 4-3

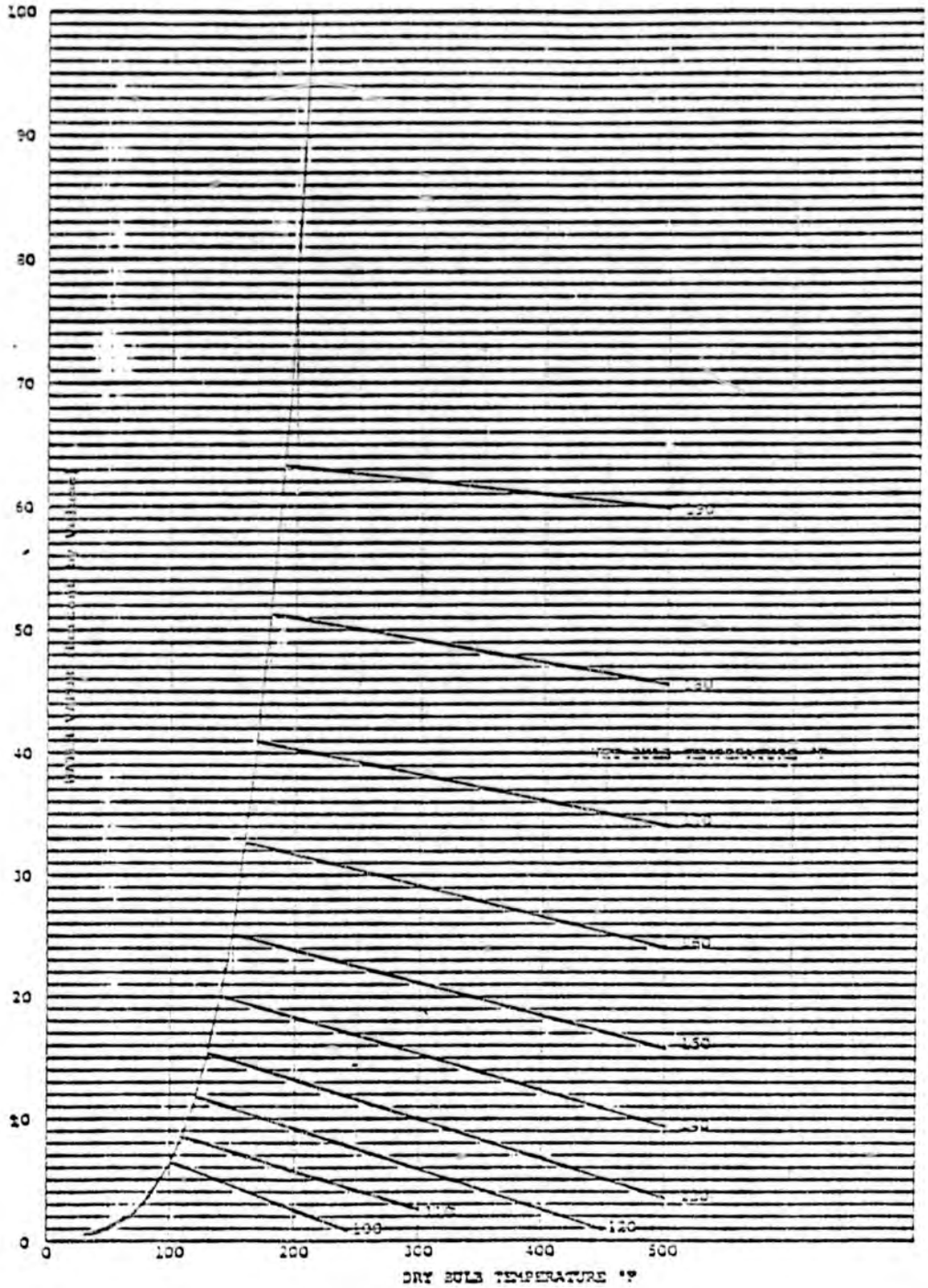

100
90
80
70
60
50
40
30
20
10
0
0
100
200
300
400
500
DRY BULB TEMPERATURE °F

Figure 4-4

$$\% H_2O = \frac{e^* - \dfrac{(P_a - e^*)(t_d - t_w)}{2800 - 1.3\, t_w}}{P_a} \times 100 \qquad (4\text{-}1)$$

Where:

e^* = Vapor pressure of H_2O @ t_w, in. Hg (See Figure 4-5)

P_a = Absolute barometric pressure, in. Hg

t_d = Dry bulb temperature, °F

t_w = Wet bulb temperature, °F

VAPOR PRESSURES OF WATER AT SATURATION*
(Inches of Mercury)

Temp. Deg. F.	0	1	2	3	4	5	6	7	8	9
—20	.0129	.0119	.0112	.0106	.0100	.0095	.0089	.0084	.0080	.0075
—10	.0222	.0209	.0129	.0187	.0175	.0168	.0158	.0150	.0142	.0134
—	.0376	.0359	.0333	.0324	.0306	.0289	.0275	.0259	.0247	.0233
0	.0376	.0398	.0417	.0463	.0441	.0468	.0517	.0541	.0571	.0598
10	.0631	.0660	.0696	.0729	.0768	.0810	.0846	.0892	.0932	.0982
20	.1025	.1080	.1127	.1196	.1248	.1302	.1370	.1429	.1502	.1567
30	.1617	.1716	.1803	.1878	.1956	.2035	.2118	.2203	.2292	.2383
40	.2478	.2575	.2677	.2782	.2891	.3004	.3120	.3240	.3364	.3492
50	.3629	.3754	.3906	.4062	.4203	.4359	.4520	.4686	.4858	.5035
60	.5218	.5407	.5601	.5802	.6009	.6222	.6442	.6669	.6903	.7144
70	.7392	.7648	.7912	.8182	.8462	.8750	.9046	.9351	.9666	.9989
80	1.033	1.066	1.102	1.138	1.175	1.212	1.252	1.293	1.335	1.378
90	1.422	1.467	1.513	1.561	1.610	1.660	1.712	1.765	1.819	1.875
100	1.932	1.992	2.052	2.114	2.178	2.243	2.310	2.379	2.449	2.521
110	2.596	2.672	2.749	2.829	2.911	2.995	3.081	3.169	3.259	3.351
120	3.446	3.543	3.642	3.744	3.848	3.954	4.063	4.174	4.289	4.406
130	4.525	4.647	4.772	4.900	5.031	5.165	5.302	5.442	5.586	5.732
140	5.881	6.034	6.190	6.350	6.513	6.680	6.850	7.024	7.202	7.384
150	7.569	7.759	7.952	8.150	8.351	8.557	8.767	8.981	9.200	9.424
160	9.652	9.885	10.12	10.36	10.61	10.86	11.12	11.38	11.65	11.92
170	12.20	12.48	12.77	13.07	13.37	13.67	13.98	14.30	14.62	14.96
180	15.29	15.63	15.98	16.34	16.70	17.07	17.44	17.82	18.21	18.61
190	19.01	19.42	19.84	20.27	20.70	21.14	21.60	22.05	22.52	22.99
200	23.47	23.96	24.46	24.97	25.48	26.00	26.53	27.07	27.62	28.18
210	28.75	29.33	29.92	30.52	31.13	31.75	32.38	33.02	33.67	34.33
220	35.00	35.68	36.37	37.07	37.78	38.50	39.24	39.99	40.75	41.52
230	42.31	43.11	43.92	44.74	45.57	46.41	47.27	48.14	49.02	49.93
240	50.84	51.76	52.70	53.65	54.62	55.60	56.60	57.61	58.63	59.67

*Methods for Determination of Velocity, Volume, Dust, and Mist Content of Gases, Bulletin WP-50, Western Precipitation Corp., Los Angeles, Calif.

Figure 4-5

STATE OF OREGON

DEPARTMENT OF ENVIRONMENTAL QUALITY

Source Sampling Method 5

Sampling Particulate Emissions From Stationary Sources

1. Principle and Applicability

1.1 Principle. Particulate matter including condensible gases are withdrawn isokinetically from a flowing gas stream. The particulate matter is determined gravimetrically after removal of combined water.

1.2 Applicability. This method is applicable to the determination of particulate emissions from stationary sources except those sources for which specified sampling methods have been devised and are on file with the Department.

2. Acceptability. Results of this method will be accepted as demonstration of compliance (or non-compliance) provided that the methods included or referenced in this procedure are strictly adhered to and a report containing at least the minimum amount of information regarding the source is included as described in Sections 15 & 16. Deviations from the procedures described herein will be permitted only if permission from the Department is obtained in writing in advance of the tests.

3. Sampling Apparatus (Figure 5-1)

3.1 Probe - With heating system capable of maintaining sample gas temperature at 250° F at its exit end during sampling. Probes which are to be used at temperatures of 600° F or less may have liners constructed of seamless 316 stainless steel, Pyrex Glass or Incoloy 825[1]. Probes for temperatures in excess of 600° F may be constructed of Borosilicate glass (limit 900° F) or Quartz glass (limit 1650° F). Probes for temperatures in excess of 1650° F must be approved by the Department before use. Testing in corrosive atmospheres may require a special probe liner to prevent contamination of the sample.

3.2 Probe Nozzle - Constructed of stainless steel (316) with an external taper 30° or less to a sharp leading edge. The inside diameter of the nozzle shall be constant throughout the length of the nozzle. The wall thickness of the nozzle shall be less than or equal to 0.065 in. and a straight run of at least two times the internal diameter shall be provided between the leading edge and the first bend or point of disturbance. The nozzle shall be connected to the probe liner in such a way as to provide an airtight seal with no exposed threads or gaps to collect particulate matter. Calibration of the nozzle is covered in Section 13.3.

[1] Trade Name

3.3 Pitot tube - Type S or equivalent attached to the probe. The probe nozzle and face openings of the pitot tube shall be adjacent and parallel to each other (not necessarily in the same plane) and the free space between the nozzle and the pitot tube shall be at least 0.5 in. Calibration of the pitot tube is covered in Section 3, Source Sampling Method 2 .

3.4 Differential pressure gauges - Inclined or vertical fluid manometer capable of measuring the pressure differential to within 10% of the minimum measured value. Below 0.1 in. H_2O gauge, micromanometers with sufficient sensitivities shall be used. Other differential pressure measuring devices may be used provided they are calibrated against a fluid manometer and are adequately sensitive.

3.5 Cyclone (optional) - Miniature glass cyclone used when heavy concentrations of particulate are expected. The cyclone will extend the time a filter can be used before plugging.

3.6 Filter holder - Pyrex [1] glass with a glass frit filter support and silicone rubber gasket. The holder shall provide a positive seal against leakage from the outside or around the filter.

3.7 Filter heating system - Capable of maintaining a temperature of 250° F around the filter holder. A temperature gauge shall be provided to monitor this temperature.

3.8 Impingers - Greenburg-Smith design. The first, third and fourth may be modified by replacing the tip with a 1/2 inch ID glass tube extending to withint 1/2 inch of the bottom of the flask. The second impinger shall have the standard tip installed.

Note: All connections between the probe and last impinger shall be made with glass ball joints.

3.9 Metering system - Vacuum gauge, leak-free pump, thermometers capable of measuring temperature to within 5° F dry gas meter accurate to within ± 1% and flow measuring device (orifice or rotometer) enabling isokinetic sampling to be maintained.

3.10 Barometer - Mercury, aneroid or other type capable of measuring atmospheric pressure to within 0.1 in. Hg. If the barometric pressure is to be obtained from a nearby weather bureau station, the true station pressure (not corrected for elevation) must be obtained and an adjustment for elevation differences between the station and sampling site must be applied.

3.11 Temperature and pressure measurement equipment - As described in Source Sampling Method 2.

3.12 Gas analyzer - As described in Source Sampling Method 3.

3.13 Nomograph

3.14 Timer - Integrating type, accurate, readable to the nearest 5 seconds per hour.

[1] Trade Name

4. Sample Recovery Apparatus

4.1 Probe brush and nozzle brush - nylon bristle or equivalent at least as long as the probe liner and the nozzle respectively.

4.2 Wash bottles - inert to the solvent used in them (usually acetone).

4.3 Sample storage containers - glass with glass or Teflon[1] lined cap or other material which is leak tight, resistant to chemical attack from acetone and allows complete recovery of particulate matter.

4.4 Petri dishes - for filter samples, glass or plastic. Alternately, individual paper envlopes with waxed paper liners may be used, but tare and final weights should not be included in the weight of the envelope or liner.

4.5 Graduated cyliner and/or balance - to measure condensed moisture to within 1 ml or 1 g. Graduate cylinders shall have subdivisions of 2 ml or less and balances shall be sensitive to 1 g.

4.6 Plastic storage containers - air tight containers to store silica gel unless it is weighed at the sampling site or transported to the laboratory in the impinger.

4.7 Rubber policeman - to aid in recovering sample from the train previous to the filter.

4.8 Dessicator - laboratory type using Drierite [1], indicating dessicant or equivalent.

4.9 Analytical balance - accurate and sensitive to ± 0.1 mg.

5. Reagents

5.0 Separating funnel - 500-1000 ml with Teflon [1] stopcock and plug.

5.1 Beakers - 250 ml & 400 ml Pyrex[1] or equivalent.

5.2 Filters - glass fiber filters, without organic binder, of near neutral pH, free of pinhole leaks, and exhibiting at least 99.95% efficiency on 0.3 micron DOP smoke particles. MSA-1160BH or equivalent, individually numbered for identification and pre-weighed as described in Section 6.1.

5.3 Silica gel - indicating type 6-16 mesh, dried at 175°C (350°F) for 2 hours if previously used.

5.4 Water - distilled, with a maximum total residue content of 0.001%. (0.01 mg/ml).

5.5 Acetone - reagents grade with a maximum total residue content of 0.001%. (0.01 mg/ml)

5.6 Crushed ice - any grade, crushed fine enough to provide efficient cooling for the impingers.

5.7 Stopcock grease - acetone resistant, heat stable, silicone grease.

5.8 Diethyl ether - reagent grade with a maximum total residue content of 0.001%. (0.01 mg/ml)

5.9 Chloroform - reagent grade with a maximum residue content of 0.001%. (0.01 mg/ml)

6. Sampling Train Preparation

6.1 Weigh numbered glass fiber filter paper to the nearest 0.1 mg on an analytical balance after dessication over Drierite for 24 hours or more.

6.2 Insert the filter into the filter holder and assemble taking care not to tear or bend the filter. Tighten the filter holder sufficiently to prevent leaks.

6.3 Add 100 ± 1 ml of distilled water to each of the first two impingers.

6.4 Add approximately 200 g of accurately weighed silica gel (± 1 g) to the fourth impinger.

6.5 Alternately after charging each of the impingers with the appropriate material, weigh the impinger and contents on balance to the nearest 1 g.

6.6 Assemble the train as shown in Figure 5-1 and check for leaks as in Section 8.

6.7 Seal the train with aluminum foil, a blanked connector or some other means to prevent contamination.

7. Pretest Preparations

7.1 Select a sampling site and the minimum number of traverse points as described in Source Sampling Method 1.

7.2 Determine the approximate moisture content as described in Source Sampling Method 4.

7.3 Make a preliminary pitot traverse to determine the maximum, minimum, and average pitot reading, duct temperature, and static pressure as described in Source Sampling Method 2.

7.4 Choose a nozzle size based on the range of pitot readings as described in Section 12 such that it is not necessary to change the nozzle size in order to maintain the isokinetic sampling rates for all traverse points.

7.5 Clean the chosen nozzle and probe (the shortest available which will reach all the traverse points), assemble and seal each end with aluminum foil to prevent contamination.

7.6 Attach the probe to the sample case, attach the electrical and hose

connections, and turn on the probe and filter heating system. Adjust the heater controls to maintain the appropriate temperatures.

8. Leak Check

8.1 Plug the inlet to the filter.

8.2 With the fine flow adjustment (bypass) completely open, open the coarse flow adjustment completely and adjust to a vacuum of 15 in. Hg by closing the fine flow adjustment.

8.3 After sufficient time has elapsed for stabilization, measure the leakage rate for 1 minute or more and record. A leakage rate of less than 0.02 cfm at 15 in. Hg is acceptable. Use acetone resistant stopcock grease on impingers and ball joints if necessary to seal against leaks.

8.4 Slowly remove the plug from the filter inlet and immediately close the coarse flow adjustment.

9. Particulate Train Operation

9.1 Each point should be sampled a minimum of 2 minutes and a complete set of data readings should be taken at every point. If each point is sampled more than 5 minutes, a complete set of data readings should be taken at equal intervals during the sampling of every point but not less frequent than every five minutes.

9.2 Pack crushed ice around the impingers, turn on the probe heater and adjust so that the gases leaving the probe are 250°F. Add ice occasionally during the test in order to keep the temperature of the gas leaving the train at 70°F or less.

9.3 Position the probe nozzle at the first traverse point (taking care not to allow the nozzle to touch the stack walls) and block off the openings around the probe. Record the initial gas meter reading, temperatures, static pressure and pitot reading on the Particulate Field Data Sheet (Figure 5-5).

> Note: The probe should never be left in the stack when not sampling as particulate will be collected in the nozzle.

9.4 Calculate (as described in Section 12) and record the desired orifice setting, open the coarse flow adjustment and immediately start the timer.

9.5 As rapidly as possible, adjust the orifice reading using the coarse and fine flow adjustments to the desired reading.

9.6 At the end of the first sampling point (or not more than 30 seconds before) reposition the probe nozzle at the next sampling point.

Note the gas meter reading exactly at the end of the first time interval.

9.7 After the pitot readings have stablized, note the pitot reading, calculate the desired orifice setting, and adjust with the fine and coarse flow adjustments to the new setting. This should be done as rapidly as possible to avoid anisokinetic sampling.

9.8 Continue the above steps until all traverse points have been sampled an equal interval of time (except adjusted traverse points as described in Source Sampling Method 1.)

9.9 At the conclusion of the run, close the coarse flow adjustment, note the final gas meter reading and temperatures and withdraw the probe completely.

9.10 Seal the nozzle with aluminum foil as soon as it cools sufficiently to do so, disconnect the probe from the sample case, seal all other openings and transport to the cleanup (or storage) area.

9.11 Throughout the sample run, collect an integrated gas sample for composite analysis as described in Source Sampling Method 3.

9.12 Under no circumstances disconnect or loosen any part of the airtight train until the probe has been completely removed from the stack.

10. Particulate Train Cleanup

10.1 Cleanup should be performed in an area free of wind and airborne dust which may contaminate the sample or cause sample loss. If possible, the train should be cleaned in a laboratory.

10.2 After the probe and nozzle have cooled, remove the end seals and brush while rinsing with acetone into a suitable container (labelled).

Note: Exercise caution so that none of the rinse is lost and no extraneous material enters the rinse (such as from the pitot tubes).

10.3 Should it be necessary to clean the train in the field, use the following procedure:

10.3.1 Rinse all sample exposed surfaces prior to the filter (including the front half of the filter holder) with acetone. Remove any adhering particles with the aid of a rubber policeman. Place the rinsings in the probe rinse bottle.

10.3.2 Remove the filter without disturbing the particulate cake, place in a petri dish and seal.

10.3.3 Measure and record the volume (or weight) increase of the first three impingers and transfer their contents into a labelled container. Rinse the impingers and interconnects with distilled water and add to the container.

10.3.4 Rinse all sample exposed glassware between the filter (excluding the glass frit filter support) and the fourth impinger with acetone and store in a suitable marked container.

10.3.5 Determine the weight gain of the silica gel in the fourth impinger and record. Alternately transfer the silica gel quantitatively to an airtight container to be weighed in the laboratory.

10.3.6 Collected samples should be analyzed within one week of collection in order to prevent any possibility of biological or chemical degeneration.

11. Analysis

11.1 Dessicate the filter (in the field container) for 24 hours and weigh to constant weight.

11.2 Transfer the acetone rinse (Section 10.3.1) into a tared beaker or evaporating dish. Be sure all particulate is removed from the container. Evaporate the solvent at laboratory temperature and pressure, dessicate for 24 hours and weigh to constant weight ($\pm$ 0.5 mg change in 6 hours or more).

11.3 Transfer the acetone rinse from the back-half (Section 10.3.4) to a tared beaker or weighing dish. Evaporate as in 11.2 and weigh to constant weight.

11.4 Transfer the water in the impingers to a separatory funnel (Teflon[1] stoppered). Rinse the container with distilled water and add to the separatory funnel. Stopper and vigorously shake the separatory funnel 1 minute, let separate and transfer the chloroform (lower layer) into a tared beaker or evaporating dish. Repeat twice more. Repeat the above procedure using three 25 ml portions of diethyl ether in place of the chloroform.

11.5 Transfer the remaining water in the separatory funnel to a tared beaker or evaporating dish and evaporate at 105° C. Dessicate for 24 hours and weigh to constant weight.

11.6 Evaporate the combined impinger water extracts from Section 11.4 at laboratory temperature and pressure, dessicate for 24 hours and weigh to constant weight.

11.7 Evaporate portions of the solvents used in a manner similar to the sample evaporation to determine the solvent blanks.

11.8 Record all laboratory data on the Laboratory Data Reporting Sheet, Figure 5-9.

12. Nomograph Operation

12.1 Correction factor

12.1.1 Determine $\Delta H@$ for the orifice as described in the calibration Section 13.1

12.1.2 Estimate the probable meter temperature, Tm, often 20° F above ambient temperature, H_2O in stack gas, and Ps/Pm (ratio of absolute stack pressure to absolute meter pressure) as described in Section 7.

12.1.3 Determine the correction factor "C" using the correction factor nomograph, Figure 5-2a, as described on the nomograph. Correction of the factor "C" for a pitot Cp other than 0.85 can be made using the following equation:

$$C(\text{corrected}) = C \frac{C_p^2}{(0.85)^2}$$

12.2 Operating Nomograph

12.2.1 Adjust the sliding scale on the operating nomograph, Figure 5-2b, such that the "C" factor determined in Section 12.1.3 is opposite Reference Point A.

12.2.2 Using the preliminary pitot traverse data and duct temperature determined in Section 7, draw a line from T_s to the values of ΔP and select a suitable D (nozzle diameter) from the probe tip diameter scale.

12.2.3 Draw a line from T_s through D (actual diameter of nozzle to be used) and note where the line crosses the ΔP scale.

12.2.4 Draw a line from the ΔP obtained in 12.2.3 to Reference Point B on the ΔH scale and note where the line crosses the K factor scale. This point should be marked for future reference.

12.2.5 During sampling, align the pitot reading, ΔP, with the K factor setting, Section 12.2.4, to obtain the desired ΔH.

12.2.6 If T_s (absolute) changes by more than 50° F the K factor should be recalculated starting with 12.2.3.

13. Calibration

13.1 Orifice and dry gas meter

13.1.1 Connect the components as shown in Figure 5-3. The wet test meter is a 1 cf per revolution with ± 1% accuracy and capable of operating at a rate comparable to the expected sampling rate.

13.1.2 Run the pump about 15 minutes at an orifice reading of about 0.5 in. H_2O to allow the dry gas meter and pump to warm up and to wet all interior surfaces of the wet test meter.

13.1.3 Gather the information as required in Figure 5-4.

13.1.4 Calculate γ and $\Delta H@$ as described in Figure 5-4. If an average γ of 1.00 ± 0.01 is not obtained, the dry gas meter must be adjusted. If an average $\Delta H@$ of 1.34 ± 0.25 is not obtained, the orifice opening should be enlarged or replaced. Additionally the $\Delta H@$ should not vary more than ± 0.15 over the range of operation of 0.5 to 2 inches of H_2O.

13.1.5 Calibrate the orifice and dry gas meter every month or after every 5 tests whichever occurs first.

13.2 Temperature gauges

13.2.1 Check temperature gauges against mercury-in glass thermometers of certified accuracy or against suitable temperature standards (boiling or freezing points) at least yearly.

13.3 Probe Nozzle

13.3.1 Measure the inside nozzle diameter on at least 10 different diameters to the nearest 0.001 inch using a micrometer or caliper. The nozzle diameter is the average of these readings to the nearest 0.001 inches.

13.3.2 The largest deviation from the average should not exceed ± 1% of the average diameter.

13.3.3 Calibrate the nozzle at least before every test.

14. Calculations

14.1 Gas velocity

14.1.1 Calculate the average gas velocity, V_s, from the pitot tube readings and gas temperatures using equation 5-2

$$(V_s)_{avg} = \frac{K_p C_p}{\sqrt{P_s M_s}} \sqrt{(\Delta P_s T_s)_{avg}} \qquad (5\text{-}2)$$

Where the symbols and units are the same for equation 2-2 in Source Sampling Method 2.

14.2 Gas volumetric flow rate

14.2.1 Calculate the volumetric flow rate of the gas from the duct area and the average gas velocity using equation 5-3

$$q_s = \frac{0.123 A_s (V_s)_{avg} (1-B_{wo}) P_s}{T_s} \qquad (5\text{-}3)$$

where the symbols and units are the same as equation (2-3) in Source Sampling Method 2.

14.3 Dry gas volume

14.3.1 Calculate the volume of gas sampled using equation 5-4

$$Q_d = \frac{17.65 Q_m \left(P_o + \frac{\Delta H}{13.6}\right)}{T_m} \qquad (5\text{-}4)$$

where Q_d = volume of gas sample, SDCF

Q_m = volume of gas through meter (meter conditions), CF

P_o = barometric pressure, absolute, in. Hg.

ΔH = average pressure drop across the orifice, in. H_2O

T_m = average dry gas meter temperature, ^oR

14.3.2 In the event the gas passing through the dry gas meter was not dry, the above equation must be multiplied by $(1-B_{wm})$ where B_{wm} is the volume fraction of water in the metered gas (assume saturation at the temperature of the last impinger).

14.4 Moisture content of duct gas

14.4.1 Calculate the moisture content of the duct gas from the total volume of water vapor condensed using equations (5-5), (5-6), and (5-7).

$$Q_v = 0.0474\ V_v \qquad (5\text{-}5)$$

where Q_v = volume occupied by water vapor, SCF

V_v = volume of water condensed in impingers and on silica gel, g or ml.

$$m_v = \frac{100\ Q_v}{Q_d + Q_v} \qquad (5\text{-}6)$$

where mv = volume percent of moisture in the sampled gas.

$$m_d = \frac{Q_d}{Q_d+Q_v} = \frac{1-m_v}{100} \qquad (5\text{-}7)$$

where m_d = volume fraction of dry gas in the sampled gas

14.5 Calculate the molecular weight of the wet gas using the volume fraction of dry gas and the dry molecular weight using equation 5-8.

$$M_s = m_d M_d + 18\ (1-m_d) \qquad (5\text{-}8)$$

where M_s = molecular weight of the wet stack gas, lb/lb mole

M_d = molecular weight of the dry stack gas as defined in Source Sampling Method 3, equation (3-2)

14.6 Calculate the total particulate grain loading and correct to 12% carbon dioxide (when necessary) from the volume of gas sampled, the total weight of particulate sample and the % CO_2 using equation 5-9, and 5-10.

$$C_g = \frac{0.0154\ W}{Q_d} \qquad (5\text{-}9)$$

where C_g = total particulate grain loading, gr/sdcf

W = weight of particulate sample, mg

$$C'_g = \frac{12\ C_g}{\%\ CO_2} \qquad (5\text{-}10)$$

where C'_g = total particulate grain loading corrected to 12% CO_2, gr/sdcf @ 12 % CO_2

$\%CO_2$ = percent by volume carbon dioxide as determined in Source Sampling Method 3.

14.7 Calculate the total particulate emission rate from the total particulate grain loading and the volumetric flow rate using equation 5-11

$$C_t = 0.00857 \; C_g q_s \qquad (5\text{-}11)$$

where C_t = total particulate emission rate, lbs/hr

q_s = Volumetric flow rate in duct, DSCFM as determined in Source Sampling Method 2.

14.8 Calculate the percent of isokinetic sampling rate from equation 5-12.

$$I = \frac{1039 \; T_s Q_d}{V_s P_s m_d D_n^4 t} \qquad (5\text{-}12)$$

where I = Percent of isokinetic sampling rate

T_s = Average stack temperature, °R

P_s = Average stack absolute pressure, in. Hg

D_n = Average nozzle inside diameter, in.

t = Total sampling time, min.

Q_d = Volume of gas sampled, SDCF

V_s = Average gas velocity, FPM

m_d = Volume fraction of dry gas

15. Minimum Acceptable Test Requirements

15.1 In order for a source test by this method to be acceptable as sufficiently accurate, the following requirements must be met unless otherwise indicated by the Department in writing:

15.1.1 A minimum sample volume of 60 SDCF of gas per run must be sampled.

15.1.2 A minimum run time of 60 minutes on continuous operations or one complete cycle covering at least 60 minutes on cyclic operations. A minimum of two runs per test is required.

15.1.3 The Department is notified in advance of all source tests so that it may have an observer present if desired.

15.1.4 All equipment used in the test shall be as specified in Section 3,4, and 5.

15.1.5 All equipment used in the test shall be calibrated at the specified

interval or more often and the calibration data and results included in the test report.

15.1.6 Accurate description of the sampling site including photographs.

15.1.7 Sufficient data to confirm that the sampling rate was within ± 10% of isokinetic.

16. Minimum Test Report Information - the following information concerning the source shall be included in the source test report.

16.1 Boilers

16.1.1 Name of manufacturer, nameplate capacity, and installation date of boiler and associated control equipment.

16.1.2 Control equipment on boiler (including cinder reinjection equipment).

16.1.3 Steam production rate, steam pressure and range of steam flow where possible. Use of a steam flow integrater is desirable.

16.1.4 Fuel composition (including estimated moisture content where applicable).

16.1.5 Opacity readings during or immediately after test by a certified reader.

16.2 Asphalt Plants (See Note 1)

16.2.1 Type, location and capacity of plant.

16.2.2 Control Equipment present.

16.2.3 Pressure drop across control equipment, water pressure on scrubber nozzles when present.

16.2.4 Production rate and type of mix during test.

16.2.5 Dryer fuel and firing rate.

16.2.6 Mix temperature (on drum mix plants)

16.2.7 Fines content of total aggregate feed.

16.2.8 Opacity readings during or immediately after test by a certified observer.

16.2.9 Photographs of plant in operation including plume after steam dissipation.

16.2.10 Special testing or production problems encountered.

NOTE 1: The source test requirements for asphalt plants constructed or modified after June 11, 1973 differ from this method in that only the particulate collected in the front half of the train (from the probe to the filter inclusive) is used for compliance evaluation. The impinger catch, however, must still be reported.

16.3 Incinerators

16.3.1 Manufacturer and capacity of incinerator.

16.3.2 Control equipment present.

16.3.3 Type and quantity of material incinerated.

16.3.4 Charging and stoking times.

16.3.5 Auxiliary fuel used and quantity consumed during test (measured).

16.3.6 Opacity readings during test by a certified observer.

16.3.7 Photographs of incinerator in operation including plume.

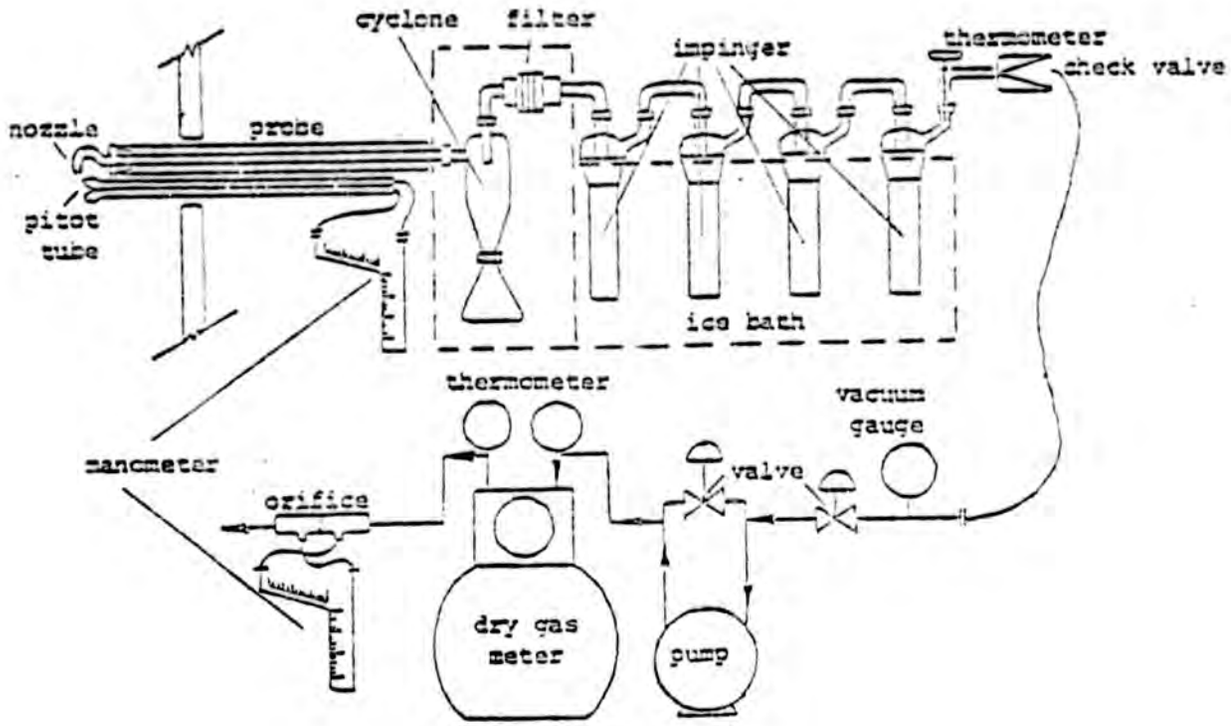

cyclone
filter
impinger
thermometer
check valve
nozzle
probe
pitot tube
ice bath
thermometer
vacuum gauge
manometer
valve
orifice
dry gas meter
pump

FIGURE 5-1

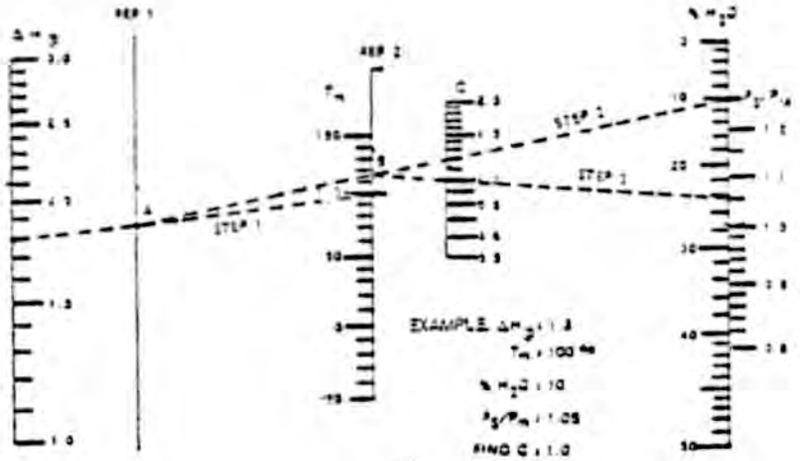


Figure 5-2(a)

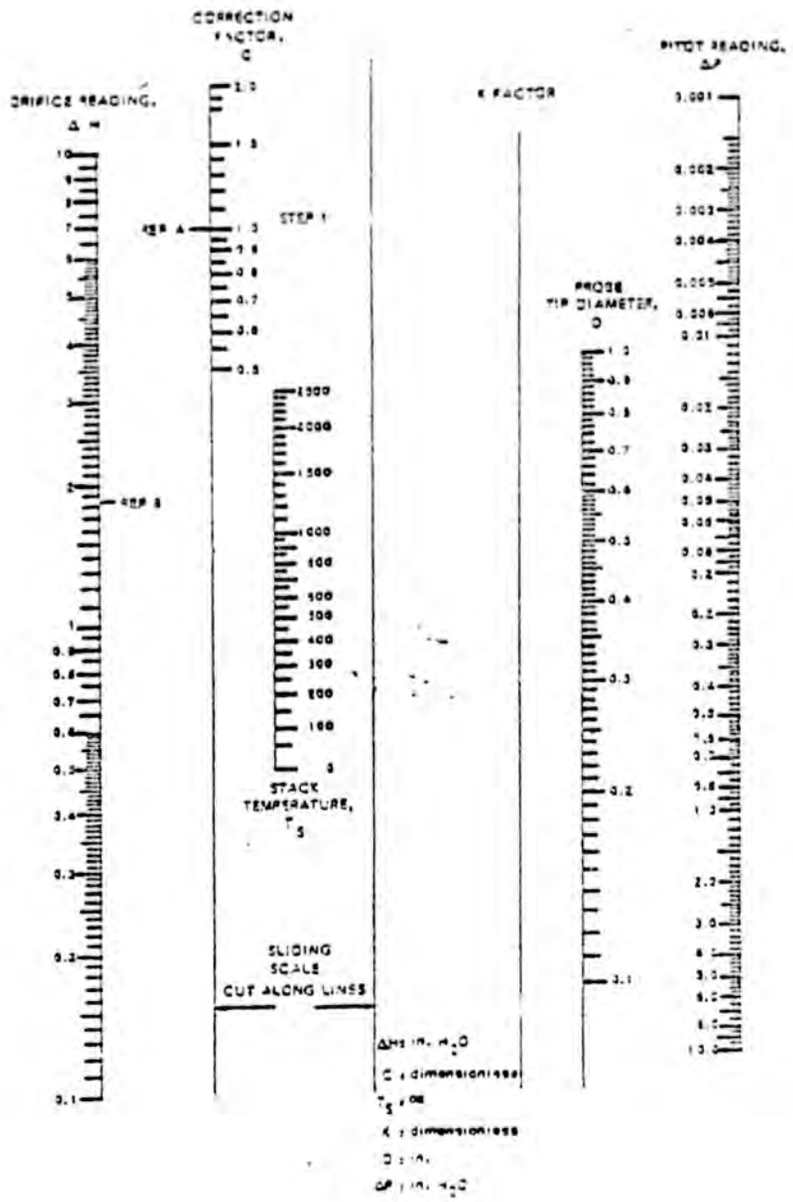


Figure 5-2(b)

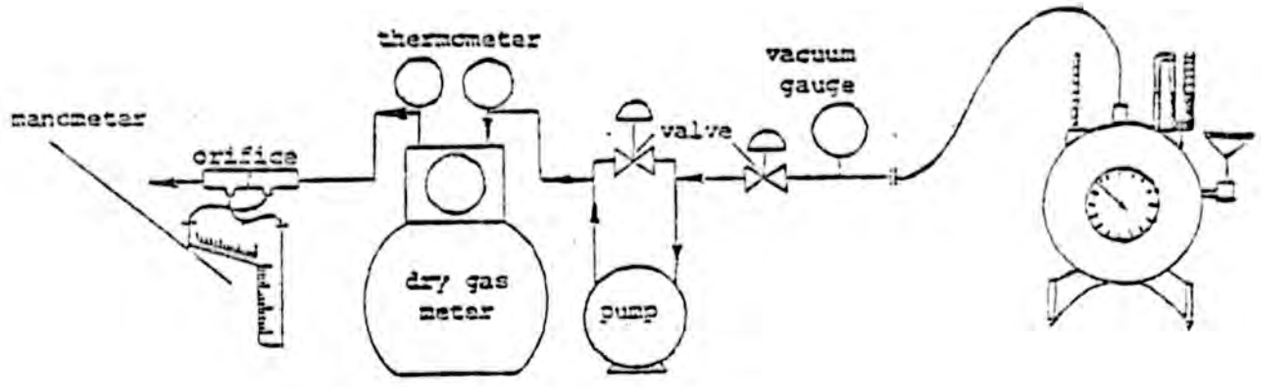

thermometer
vacuum
gauge
manometer
orifice
valve
dry gas
meter
pump

Figura 5-3

CALIBRATION SHEET

Figure 5-4

Orifice Gas Meter Date Barometric Pressure Pb:

Orifice	GAS VOLUME		TEMPERATURE				TIME	RESULTS	
Orifice Manometer ΔH in. H_2O	Wet Test Meter V_w, cf	Dry Gas Meter V_d, cf	Wet Test Meter t_w, °F	Dry Gas Meter Inlet t_{di}, °F	Dry Gas Meter Outlet t_{do}, °F	Dry Gas Meter Average t_d, °F	θ, min.	Y	ΔH@
							Average		

$$Y = \frac{V_w P_b (t_d + 460)}{V_d \left(P_b + \frac{\Delta H}{13.6}\right)(t_w + 460)}$$

$$\Delta H@ = \frac{0.0317\ \Delta H}{P_b (t_{do} + 460)} \left[\frac{(t_w + 460)\theta}{V_w}\right]^2$$

Probe Nozzle Date

D_n, in.	D_n, in.	D_n, in.
		Averages

Pitot Tube Date

Forward			Reverse		
ΔP_s	ΔP_{std}	C_p	ΔP_s	ΔP_{std}	C_p
					Average

$$C_p = 0.99 \left[\frac{\Delta P_{std}}{\Delta P_s}\right]^{\frac{1}{2}}$$

AQ 601

SOURCE SAMPLING FIELD DATA SHEET

Figure 5-5a

Plant _____

Address _____

Source _____

Date _____ Run _____

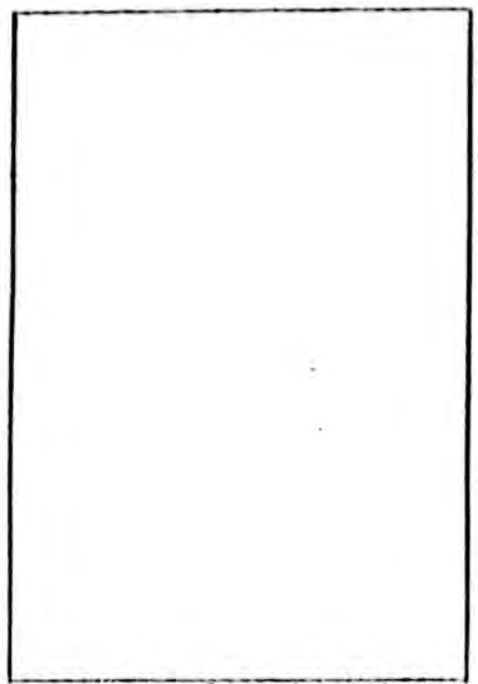
Train No. _____ Box No. _____

Probe Length _____ Probe material _____

Pitot C_p _____

Rinsings:

Other Samples:



Sketch of Sampling Site

DB Temp. _____ WB Temp. _____

Assumed Moisture _____ P. baro _____

Static Pressure _____ Alfa _____

"C" Factor _____ Nozzle _____

Stack Dimensions _____

Train Operator _____

Box Operator _____

Orsat

O_2				
$_2$				
O				

Remarks:

						Orifice ΔH		Gas Meter				
Point	Distance	Clock	Meter Vol.	Pitot ΔP	Stack Ts	Calc.	Act	T in	T out	Vac.	Box T	Imp. T.

Figure 5-6

VELOCITY DATA AND CALCULATIONS

Run No._____ Date_____

Plant_____

Sampling Location_____

Point No.	Stack Pressure P_s in. Hg gauge	Stack Temp. ts °F	Stack Temp. Ts °R	Vel. Head ΔP in. H_2O	$(\Delta P \times Ts)$	$S=\sqrt{\Delta P \times Ts}$
Avg.						

Ps = absolute pressure - Ps + Po = _____ in. Hg

Ambient temp. = _____ °F

Ambient press. = _____ inches of Hg

STACK TEMP. Dry Bulb _____ °F

Wet Bulb _____ °F

CONST. C = _____

DEPARTMENT OF ENVIRONMENTAL QUALITY
AIR QUALITY DIVISION
VELOCITY DATA AND CALCULATIONS

Run No._____Date_____

Plant_____

Sampling Location_____

Point No.	Distance Inches	Stack Temp. Ts °F	Stack Temp. Ts °R	Vel. Head ΔP in H_2O	$(\Delta P \times Ts)$	$S=\sqrt{\Delta P \times Ts}$
Avg.						

Static Pressure, Ps_____in. H_2O

Atmospheric Pressure, Pb_____in. Hg

Stack Pressure, Ps_____in. Hg

Dry Bulb Temp._____°F

Wet Bulb Temp._____°F

Moisture_____%

Figure 5-6 (Revised)

Figure 5-7

COMBUSTION GAS ANALYSIS DATA SHEET

Source _____ Date _____

Sampling Point Location _____

RUN ____

	CO_2	O_2	CO	N_2	
Analysis 1					Time _____
Analysis 2					Test conditions: ___
Analysis 3					_____
Average					_____

___	CO_2	O_2	CO	N_2	
	Atomic Wt. (44)	Atomic Wt. (32)	Atomic Wt. (28)	Atomic Wt. (28)	

_____ + _____ + _____ + _____ = Total Atomic Wt.

RUN ____

	CO_2	O_2	CO	N_2	
Analysis 1					Time _____
Analysis 2					Test conditions: ___
Analysis 3					_____
Average					_____

	CO_2	O_2	CO	N_2	
	Atomic Wt. (44)	Atomic Wt. (32)	Atomic Wt. (28)	Atomic Wt. (28)	

_____ + _____ + _____ + _____ = Total Atomic Wt.

ARTICULATE SAMPLING CALCULATIONS

Plant _____ Sampling Location _____

Date of Test _____ FIGURE 5-8

Symbol	PARAMETERS TO BE CALCULATED Definition, Units	Calculating Equation	RESULTS Run__	Run__	Run__	Avg.
Qm	Sample gas volume at meter conditions, $ft.^3$	Avg. from field data sheet				
H_2O	% H_2O	Moisture escaping last impinger				
tm	Gas meter temp., °F	Avg. fr. field data sheet				
H	Orifice pressure drop in H_2O	Avg. fr. field data sheet				
Po	Barometric pressure (in. Hg)	Field data sheet				
Vv	Tot. vol. of condensed water	Total fr. lab data sheet				
Md	Molecular weight of dry gas	Gas analysis-Atomic Wt.				
Ps	Stack pressure in Hg abs	$.07355 \times Ps' + Po$				
S	$\sqrt{P \times Ts}$	Avg fr. Vel calc. sheet				
Cp	Pitot Tube Coeff.	From Calibration Data				
As	Stack area ($in.^2$)	Field data sheet				
Ts	Stack temp., °R	Avg. fr. field data sheet				
Dm	Nozzle diameter (in.)	Field data sheet				
t	Total sampling time, min.	Total fr. field data sheet				
W	Wt. of particulate sample, mg	Total fr. lab data sheet				
$\%CO_2$	% CO_2	CO_2 analyzer				
Qd	Dry gas sample vol. at std. cond., scf.	$Qd = \frac{17.65\ (Qm)}{(tm+460)}\left[Po + \frac{\Delta H}{13.6}\right]$				
Qv	Tot. vol. of condensed water vapor @ std cond. (scf)	$Qv = 0.0474Vv$				
mv	% moisture in stack gas	$mv = \frac{100\ Qv}{Qv + Qd}$				
md	Mole fraction of dry gas	$md = \frac{Qd}{Qv + Qd}$				
Ms	Molecular wt. of stack gas	$Ms = mdMd + 18\ (1-md)$				
Vs	Stack velocity at stack, fpm	$Vs = 5129(Cp)(S)\left[\frac{1}{PsMs}\right]^{*}$				
qs	Stack flowrate at standard cond., scfm	$qs = \frac{0.123\ (Vs)(As)(md)(Ps)}{Ts}$				
I	Percent Isokinetic	$I = \frac{1039\ TsQd}{(Vs)(Ps)(md)(Dm2)(\Delta t)}$				
Cg	Total particulate grain load., gr/scf	$Cg = \frac{0.0154W}{Qd}$				
Cg'	Grain load. at 12% CO_2 gr/scf	$Cg' = Cg \times \frac{12}{(\%\ CO_2)}$				
Ct	Total particulate emission lb/hr.	$Ct = .00857\ (Cg)(qs)$				

AQ-605

Figure 3-8 (Revised)

DEPARTMENT OF ENVIRONMENTAL QUALITY
AIR QUALITY CONTROL DIVISION

PARTICULATE SAMPLING CALCULATIONS

Plant _____ Sampling Location _____

Date of Test _____

Symbol	Definition, Units	Calculating Equation	Run__	Run__	Run__	Avg.
Qm'	Sample gas volume at meter conditions, ft.^{3}	Avg. from field data sheet				
tm	Gas meter temp., ^oF	Avg. from field data sheet				
H	Orifice pressure drop in H_2O	Avg. from field data sheet				
Po	Barometric pressure(in.Hg)	Field data sheet				
Vv	Tot.vol. of condensed water	Total fr. lab data sheet				
Md	Molecular weight of dry gas	Gas analysis-Atomic Wt.				
Ps	Stack pressure in Hg abs	$.07355 \times Ps = Po$				
S	$\sqrt{P \times Ts}$	Avg. fr. Vel. calc. sheet				
C_p	Pitot Tube Coeff.	From calibration data				
As	Stack area (in.^{2})	Field data sheet				
Ts	Stack temp., ^oR	Avg. fr. field data sheet				
Dm	Nozzle diameter (in.)	Field data sheet				
Δt	Total sampling time, min.	Total fr. field data sheet				
W	Wt.of particulate sample,mg.	Total fr. lab data sheet				
$\%CO_2$	% CO_2	CO_2 analyzer				
Qd	Dry gas sample vol. at std. cond., scf	$Qd = \frac{17.65(Qm)}{(tm+460)}\left[\frac{Po+\frac{\Delta H}{13.6}}{}\right]$				
Qv	Tot. vol. of condensed water vapor @ std. cond. (scf)	$Qv = 0.0474\ Vv$				
mv	% moisture in stack gas	$mv = \frac{100\ Qv}{Qv + Qd}$				
md	Mole fraction of dry gas	$md = \frac{Qd}{Qv + Qd}$				
Ms	Molecular wt. of stack gas	$Ms = mdMd + 18\ (1-md)$				
Vs	Stack velocity at stack,fpm	$Vs = 5129(Cp)(S)\left[\frac{1}{Ps*Ms}\right]^{\frac{1}{2}}$				
qs	Stack flowrate at standard cond., scfm	$qs = \frac{0.123(Vs)(As)(Ms)(Ps)}{Ts}$				
I	Percent Isokinetic	$I = \frac{1039\ Ts\ Qm}{(Vs)(Ps)(Ms)(Tm)(\Delta t)}$				
Cg	Total particulate grain load..gr/scf	$Cg = \frac{0.01543W}{Qd}$				
$C\acute{g}$	Grain load, at 12% CO_2 gr/scf	$C\acute{g} = Cg \times \frac{12}{\%CO_2}$				
Ct	Total particulate emission lb/hr	$Ct = .00857\ (Cg)(qs)$				

Figure 5-9

SOURCE SAMPLING-LABORATORY ANALYSIS OF PARTICULATE SAMPLE

Test _____

Date of Test _____

CONDENSED WATER DETERMINATION

Run No.	Impinger:	#1	#2	#3	#4	Total Condensate
	Final weight					
	Initial weight					
	Net weight					
	Final weight					
	Initial weight					
	Net weight					
	Final weight					
	Initial weight					
	Net weight					

GRAVIMETRIC RESULTS

Run No.	Contents	Filters	Probe & Filter Holder	Impinger Rinse	Impinger Extract	Impinger Water	Total Wt.
	Beaker No./Vol.						
	Gross wt.						
	Tare wt.						
	Net wt.						
	Blank wt.						
	Final wt.						
	Beaker No./Vol.						
	Gross wt.						
	Tare wt.						
	Net wt.						
	Blank wt.						
	Final wt.						
	Beaker No./Vol.						
	Gross wt.						
	Tare wt.						
	Net wt.						
	Blank wt.						
	Final wt.						

Sample Preparation: Volatiles evaporated at _____ C, Duration _____ hrs
Water evaporated at _____ C, Duration _____ hrs
Desicated at _____ C, Duration _____ hrs
Laboratory Balance Type _____

Q-606

STATE OF OREGON

DEPARTMENT OF ENVIRONMENTAL QUALITY

Source Sampling Method 7

Sampling Condensible Emissions From Stationary Sources

1. Principle and Applicability

1.1 Principle: Particulate matter including condensible gases is withdrawn isokinetically from a flowing gas stream. The particulate matter is determined gravimetrically after extraction with organic solvents and evaporation.

1.2 Applicability: This method is applicable to stationary sources whose primary emissions are condensible gases. It should be considered a modification of Source Sampling Method 5 and applied only when directed to do so by the Department.

2. Sampling Apparatus (Figure 7-1)

2.1 The probe, sampling train, and metering system are the same as outlined in 3. Sampling Apparatus of Source Sampling Method 5 with the following exceptions:

2.1.1 The heated filter and cyclone are optional, but should be used if significant quantities of solid particulate are present.

2.1.2 An unheated glass fiber filter is placed between the third and fourth impingers.

3. Sample Recovery Apparatus

3.1 The sample recovery apparatus is the same as outlined in 4. Sample Recovery Apparatus of Source Sampling Method 5.

4. Reagents

4.1 The reagents are the same as outlined in 5. Reagents of Source Sampling Method 5.

5. Sampling Train Preparation

5.1 The sampling train preparation is the same as outlined in 6. Sampling Train Preparation of Source Sampling Method 5 with the following exception:

5.1.1 Insert numbered and weighed filters into each of the front (if used) and rear filter holders.

6. Pretest Preparations and Lead Check

6.1 The pretest preparations and leak check are the same as outlined in Sections 7 and 8 of Source Sampling Method 5.

7. Condensible Particulate Train Operations

7.1 The train operation is the same as outlined in Section 9 of Source Sampling Method 5. It is important to note that the gas temperature leaving the last impinger must not exceed 70°F as temperatures above this may cause loss of condensible material by revolatilization.

8. Condensible Particulate Train Cleanup

8.1 Cleanup should be performed in an area free of wind and airborne dust which may contaminate the sample or cause sample loss. If possible, the train should be cleaned in a laboratory.

8.2 After the probe and nozzle have cooled, remove the end seals and brush while rinsing with acetone into a suitable marked container.

Note: Exercise caution so that none of the rinse is lost and no extraneous material enters the rinse (such as from the pitot tubes or condensed material from the outside of the nozzle).

8.3 Should it be necessary to clean the train in the field, use the following procedure:

8.3.1 Thoroughly rinse all sample exposed surfaces prior to the front filter support, with acetone. Remove any adhering particles with the aid of a rubber policeman. Place the rinsings in the probe rinse bottle. If the front filter is not used, all sample exposed surfaces prior to the first impinger should be included in this rinse.

8.3.2 Remove the front (if used) and rear filters, place in a petri dish and seal. Since a heavy loading of condensible material on the rear filter may leave a residue in the filter container which would necessitate removal with solvent, glass petri dishes are preferred.

8.3.3 Measure and record the volume (or weight) increase of the first three impingers to the nearest 1 ml (or 1 g) and transfer their contents to a labeled container. Rinse the impingers and interconnects with distilled water and add to the container.

8.3.4 Rinse all sample exposed glassware between the front filter (if used) or the first impinger (if the front filter is not used) and the fourth impinger (including glass filter frits) with acetone and place in a suitable marked container. If the moisture condensate in Section 8.3.3 was determined by use of a graduated container, it should also be rinsed with acetone and the rinse added to the impinger rinse container.

8.3.5 Determine the weight gain of the silica gel in the fourth impinger and record. Alternately transfer the silica gel quantatively to an air tight container to be weighed in the laboratory.

8.3.6 Collected samples should be analyzed within one week of collection in order to prevent any possibility of biological or chemical degradation.

9. Analysis

9.1 Desiccate the filter(s) at 70°F or less in the field container for 24 hours and weigh .

Note: In some cases, desiccation may give rise to a slow vaporization of the condensible material. Therefore it is not recommended that an attempt to weigh to constant weight be made.

9.2 Transfer the acetone rinse (Section 8.3.1) into a tared beaker or evaporating dish. Rinse the container with acetone (police to remove particulate) and add the rinse to the beaker. Evaporate the solvent at 70°F or less and laboratory pressure, desiccate 24 hours and weigh . See note in Section 9.1.

9.3 Transfer the acetone rinse from the impingers (Section 8.3.4) to a tared beaker or evaporating dish and treat as in Section 9.2.

9.4 Transfer the water (Section 8.3.3) to a separatory funnel. Rinse the container with distilled water and add to the separatory funnel. Add 25 ml of chloroform to the separatory funnel, stopper and vigorously shake 1 minute, let separate and transfer the chloroform (lower layer) into a tared beaker or evaporating dish. Repeat twice more. Repeat the above extraction using three 25 ml portions of diethyl ether in place of the chloroform. Transfer the ether (upper layer) to the same container as used to contain the chloroform.

Note: It is necessary to rinse the field container for water (if used) with solvent. This rinse may be made using the extracting reagents in which case it is added to the impinger extract container or with acetone in which case it is added to the container in Section 9.3.

9.5 Transfer the remaining water from the separatory funnel to a tared beaker or evaporating dish and evaporate at 105°C . Desiccate for 24 hours and weight.

9.6 Evaporate the combined impinger water extracts from Section 9.4 at 70°F or less and laboratory pressure, desiccate for 24 hours and weigh . See note in Section 9.1.

9.7 Evaporate portions of the solvents used in a manner similar to the sample evaporations to determine the solvent blanks.

9.8 Record all laboratory data in the Laboratory Data Reporting Sheet, Figure 5-9, Source Sampling Method 5.

10. Calculations

10.1 The calculations are the same as outlined in 14. Calculations of Source Sampling Method 5.

11. Minimum Acceptable Test Requirements

11.1 The minimum acceptable test requirements are the same as outlined in 15. Minimum Acceptable Test Requirements of Source Sampling Method 5.

12. Minimum Test Report Information

12.1 The test report should contain sufficient information about the source to accurately define its operation during the test. Also sufficient data and calculations shall be included to document the source test results.

Appendix 1 - Errata (12-12-84)

1. Subsection 3.4.1, page 3; delete "shielded" in first sentence.

2. Subsection 3.10.1, page 5; replace "relative humidity" with "wet and dry bulb temperatures and barometric pressure."

3. Subsection 3.12.5(a), page 7; "rotometer" is misspelled in the first sentence. The correct spelling is "rotameter."

4. Subsection 3.12.5(a), page 7; replace "such as a dry or wet gas meter or an accurate volume (displacement)" with "(dry gas meter) or an accurate volume displacement device (wet test meter)."

5. Subsection 6.3.1(a), page 18: "rotometer" is misspelled in the first sentence.

6. Subsection 6.3.1(a), page 18; the third impinger should not contain silica gel, therefore, the last sentence in the first paragraph, should read "Impingers one, two and three shall be empty for water collection."

7. Equation 6.3.1(a), page 18;

$$\text{"Flow(cfm)} = \frac{Ir}{Dc} \times \frac{1}{60} \times \frac{Tr}{Pr \times 17.65^{a}}\text{"}$$

should read:

$$\text{"Flow(dscfm)} = \frac{Ir}{Dc} \times \frac{1}{60} \times \frac{Pr \times 17.65}{Tr}\text{"}$$

8. Equation 6.3.1(a), page 18; "rotometer" is misspelled on the last line.

9. Footnotes to equation 6.3.1(a), page 19; "[a]=Density specific for SO_2" should be deleted.

10. Equation 6.4.1(a), page 19; "= % Dry basis moisture (free and combined) -1800" should read "= % Dry basis moisture (free and combined) - 1800."

11. Equation 6.4.1(a), page 19; "a = Mole fraction of oxygen in air supply" is replaced by "a = Moles O_2 supplied per mole of stack gas."

12. Equation 6.4.1(h), page 20;

$$\frac{\text{"TSG} \times 386.2\text{"}}{60} \quad \text{should read} \quad \frac{\text{"TSG'} \times 386.2\text{"}}{60}$$

13. Equation 6.5.2(c), page 21; the heat of combustion for carbon monoxide should read "= 121,716 Btu/mole."

14. Equation 6.5.2(d), page 22; all expressions for specific heat appearing as "Btu/mole" where the definition starts with C_pCO_2 should read "Btu/mole^oF."

15. Subsection 7.1.5, page 23; delete "and an hourly average over the entire test cycle at each heat output level."

16. Subsection 7.1.9(a), page 24, "Average flow rate cfm" is deleted.

17. Subsection 7.1.10(b), page 24, "Hydrocarbon: grams/kg, and grams/10^6 joule (calculated)" is deleted.

18. Subsection 8.2.1, page 25; "certifiation" is mispelled in the first sentence. The correct spelling is "certification."

19. Dicholoromethane should be substituted for chloroform or diethyl ether for the Method 7 analysis.

Note for Clarification only: All catalytic combustor aging procedures must be conducted by a DEQ accredited test laboratory for stove certification purposes.

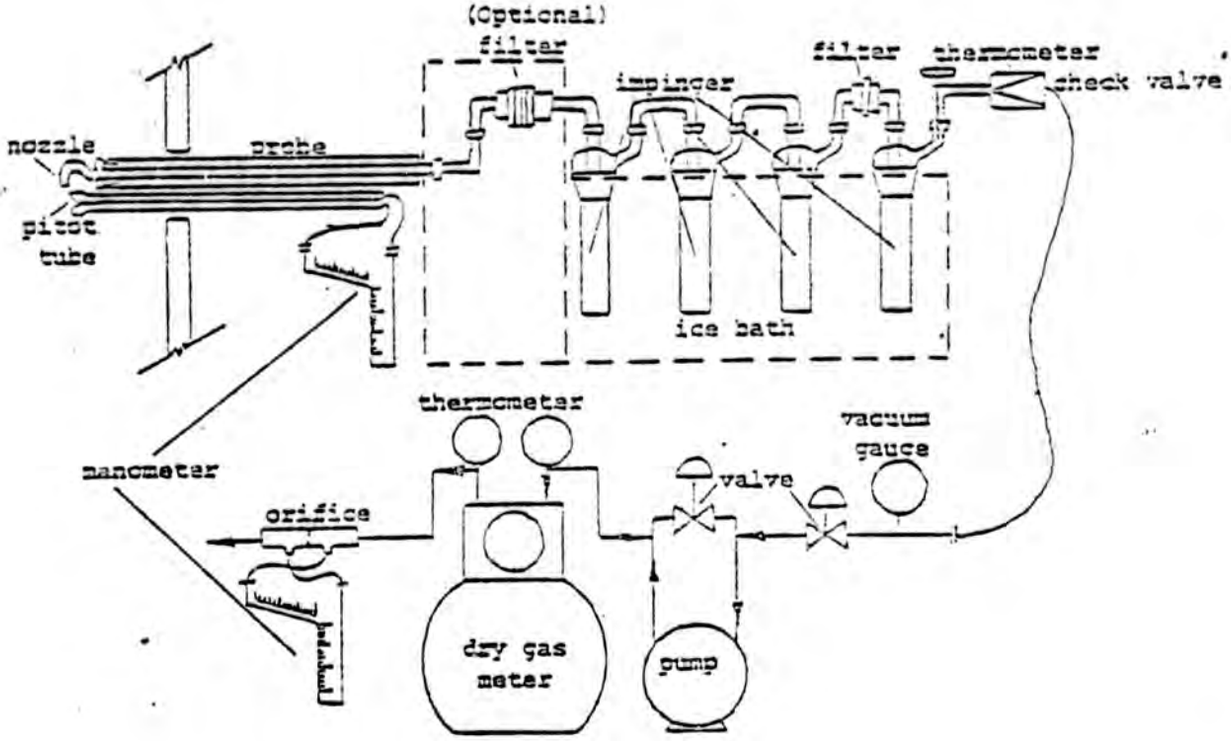

(Optional)
filter
filter
thermometer
check valve
impinger
nozzle
probe
pitot
tube
ice bath
thermometer
vacuum
gauge
manometer
valve
orifice
dry gas
meter
pump

Figure 7-1

Scheduled Maintenance

340-21-070 (1) In the case of shutdown of air pollution control equipment for necessary scheduled maintenance, the intent to shutdown such equipment shall be reported to the Department at least twenty-four (24) hours prior to the planned shutdown. Such prior notice shall include, but is not limited to the following:

(a) Identification of the specific facility to be taken out of service;

(b) The expected length of time that the air pollution control equipment will be put out of service;

(c) The nature and quantity of emissions of air contaminants likely to occur during the shutdown period;

(d) Measures, such as the use of offshift labor and equipment, that will be taken to minimize the length of the shutdown period, and where practical, minimize air contaminant emissions;

(e) The reasons that it would be impractical to shut down the source operation during the maintenance period.

(2) Additionally, in the case of maintenance scheduled more frequently than one time in a 90-day period, requiring shutdown of air pollution control equipment, or for any maintenance requiring shutdown of air pollution control equipment for a time period longer than 48 hours, prior approval of the maintenance program may be required by the Department. Application for approval shall be submitted in writing within 30 days after a request by the Department and shall include, in addition to subsections (a) through (e) in section (1) of this rule, specific information as to the frequency and the necessity of the scheduled maintenance. Approval of the program by the Department shall be based upon a determination that the proposed maintenance schedule is necessary and that all reasonable precautions have been taken to minimize the extent and frequency of air contaminant emissions in excess of applicable standards.

(3) No scheduled maintenance resulting in the emission of air contaminants in violation of applicable standards shall be performed during any period in which Air Pollution Alert, Air Pollution Warning, or Air Pollution Emergency has been declared.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 37, f. 2-15-72, ef. 3-1-72

Malfunction of Equipment

340-21-075 In the event that any emission source, air pollution control equipment or related facility malfunctions or breaks down in such a manner as to cause the emission of air contaminants in violation of applicable standards, the person responsible for such equipment shall:

(1) Notify the Department, by telephone or in person, of such failure or breakdown within one (1) hour of the occurrence, or as soon as is reasonably possible, giving all pertinent facts including the estimated duration of the breakdown.

(2) With all practicable speed, initiate and complete appropriate action to correct the conditions, and to reduce the frequency of such occurrences.

(3) Cease or discontinue operation of the equipment or facility no later than 48 hours after the beginning of the breakdown or upset period if the malfunction is not corrected within that time. The Director may, for good cause shown, which shall include but not be limited to, equipment availability, difficulty of repair or installation, and nature and amount of the emission, authorize the extension of the operation period beyond 48 hours under this section for a reasonable period of time as determined by him to be necessary to correct the malfunction or breakdown.

(4) In the event an Air Pollution Alert, Air Pollution Warning, or Air Pollution Emergency is declared, or in the event the nature or magnitude of emissions from malfunctioning equipment is deemed by the Department to present an imminent and substantial endangerment to health, immediately proceed to cease or discontinue operation of the equipment or facility.

(5) Notify the Department when the condition causing the failure or breakdown has been corrected, and upon request, submit a written statement of the causes and the action taken to prevent future similar upset or breakdown conditions.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 37, f. 2-15-72, ef. 3-1-72

Woodstove Certification

Definitions

340-21-100 Unless otherwise required by context, as used in this Division:

(1) "Accredited" means a woodstove testing laboratory holds a valid certificate of accreditation issued by the Department.

(2) "Audit test" means a test conducted by the Department to verify a laboratory's certification test results.

(3) "Catalyst-equipped" means a woodstove with a catalytic combustor that is an integral component of the design and manufacture of a woodstove.

(4) "Certify" means the Department has acknowledged in writing that a woodstove meets Department emission standards when tested by an independent laboratory according to Department test procedures.

(5) "Consumer" means any person who buys a woodstove for personal use.

(6) "Dealer" means any person engaged in selling woodstoves to retailers or other dealers for resale. A dealer which is also an Oregon retailer shall be considered to be only a retailer for purposes of these rules.

(7) "Fixed air supply" means an air supply system on a woodstove which has no adjustable or controllable air inlets.

(8) "Heat output" means the heat output (Btu/hour) of a woodstove during one test run, measured under test conditions prescribed by OAR 340-21-120.

(9) "Informal Departmental conference" means a meeting of a manufacturer, dealer, retailer, or laboratory representative and a representative of the Department to discuss certification or accreditation denial or revocation, or civil penalties. An informal Departmental conference is not part of a judicial process or the formal hearing process as described in Oregon Administrative Rules Chapter 340, Division 11.

(10) "Manufacturer" means any person who constructs a woodstove or parts for woodstoves.

(11) "New Woodstove" means any woodstove that has not been sold, bargained, exchanged, given away or has not had its ownership transferred from the person who first acquired the woodstove from the manufacturer's dealer or

agency, and has not been so used to have become what is commonly known as "second hand" within the ordinary meaning of that term.

(12) "Overall efficiency (%) over the range of heat outputs tested" means the weighted average combustion efficiency (%) multiplied by the weighted average heat transfer efficiency (%) measured under test conditions (range of heat outputs) and calculated according to specific procedures prescribed by OAR 340-21-115(5). This definition is applicable to the Stack Loss Methodology. For the Calorimeter Room Method, the weighted average overall efficiency means the useful heat output released to the room, divided by the total heat potential of the fuel consumed.

(13) "Retailer" means any person engaged in the sale of woodstoves directly to consumers.

(14) "Smoke emission rate (grams/hour) over the range of heat outputs tested" means the weighted average particulate emissions (grams/hour) that are produced by a woodstove under test conditions (range of heat outputs) specified in OAR 340-21-120 and calculated according to procedures specified in OAR 340-21-115(5).

(15) "Weighted average" means the weighted average of the test results to the distribution of home heating needs in Oregon. (Refer to OAR 340-21-115(5)).

(16) "Woodstove" means a wood fired appliance with a closed fire chamber which maintains an air-to-fuel ratio of less than 30 during the burning of 90 percent or more of the fuel mass consumed in the low firing cycle. The low firing cycle means less than or equal to 25 percent of the maximum burn rate achieved with doors closed or the minimum burn achievable, whichever is greater.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Requirements for Sale of New Woodstoves in Oregon

340-21-105 (1) On and after July 1, 1986, a person shall not advertise to sell, offer to sell, or sell a new woodstove in Oregon unless:

(a) The woodstove has been tested to determine its emission performance and heating efficiency in accordance with criteria and procedures specified in OAR 340-21-120; and

(b) The woodstove is certified by the Department in accordance with procedures in OAR 340-21-125 as meeting the emission performance standards specified in OAR 340-21-115; and

(c) The woodstove is labelled for emission performance and heating efficiency as specified in OAR 340-21-135; provided, however, that section (1) of this rule shall not apply to any sale from any manufacturer or dealer to any Oregon manufacturer or dealer; or to any out-of-state manufacturer, dealer or retailer; or to any offer or advertisement for such sale directed only to such a manufacturer, dealer or out-of-state retailer.

(2) No manufacturer, dealer or retailer shall alter either the permanent or removable label in any way from the label approved by the Department pursuant to OAR 340-21-155.

(3) Violators of any of the above rules may be subject to civil penalties pursuant to OAR Chapter 340, Divisions 11 and 12 or other remedies prescribed by rule or statute.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Exemptions

340-21-110 (1) Wood-fired appliances that are not suitable for heating equipment in or used in connection with residences or commercial installations are excluded from 340-21-105. For example, portable camping stoves.

(2) Wood-fired forced air furnaces that primarily heat living space or water through indirect heat transfer using forced air duct work or pressurized water systems are excluded from 340-21-105.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Emissions Performance Standards and Certification

340-21-115 (1) New woodstoves with minimum "heat output" of less than 40,000 Btu/hr advertised for sale, offered for sale, or sold in Oregon within the period July 1, 1986 to June 30, 1988, shall not exceed the following weighted average particulate emission standards when tested to procedures in OAR 340-21-120:

(a) 15 grams per hour for a non-catalytic woodstove; or

(b) 6 grams per hour for a catalyst-equipped woodstove.

(2) New woodstoves with minimum "heat output" of less than 40,000 Btu per hour advertised for sale, offered for sale, or sold in Oregon on or after July 1, 1988 shall not exceed the following weighted average particulate emission standard when tested and measured according to test procedures in OAR 340-21-120:

(a) 9 grams per hour for a non-catalytic woodstove; or

(b) 4 grams per hour for a catalyst-equipped woodstove.

(3) New woodstoves with a minimum "heat output" of greater than 40,000 Btu per hour, advertised for sale, offered for sale, or sold in Oregon after July 1, 1986 shall not exceed an average particulate emission standard equal to the sum of 8.0 grams per hour plus 0.2 grams per hour for each thousand Btu per hour heat output when tested to procedures in OAR 340-21-120.

(4) The Department will certify a woodstove as meeting the applicable woodstove emission standard after July 1, 1984 in accordance with procedures in OAR 340-21-125.

(5) The weighted average particulate emission shall be calculated as set out in Exhibit 1.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Testing Criteria and Procedures

340-21-120 (1) To be considered eligible for certification, a woodstove must be tested in strict conformance with criteria and procedures contained in the document **Standard Method for Measuring the Emissions and Efficiencies of Residential Woodstoves** dated June 8, 1984, and incorporated herein by reference and on file at the Department.

(2) Testing for certification purposes shall be conducted by a woodstove testing laboratory accredited by the Department in accordance with procedures specified in OAR 340-21-160.

(3) The Department may permit minor changes in the testing criteria and procedures which the Department believes does not affect its accuracy with respect to compliance with the emission standard providing such changes are approved in writing by the Department prior to the actual conducting of such tests.

[Publications: The publication(s) referred to or incorporated by reference in this rule are available from the office of the Department of Environmental Quality.]

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

General Certification Procedures

340-21-125 (1) Any woodstove manufacturer, or dealer, wishing to obtain certification of a woodstove shall file an application with the Department.

(2) An application for certification must include:

(a) An appliance description which includes the woodstove model name and design number, a copy of the appliance's operating manual and a photograph of the stove.

(b) Design plans of the woodstove, identified by design number, which include overall dimensions of the appliance and all dimensions and specifications of components critical to emission control and heating efficiency performance. These components shall include combustion chamber configurations, all air inlet controls, heat exchanger design and make and model numbers of applicable purchased parts.

(c) All test data and support documentation showing that the woodstove has been tested in accordance with OAR 340-21-120 and that it meets the emission performance standard specified in OAR 340-21-115.

(d) A non-refundable certification fee, payable to the Department at the time the application is submitted to the Department, is required for each stove model seeking certification. The fee is:

(A) $1600 for a manufacturer's first model seeking certification; and

(B) $ 800 for each additional model submitted by the manufacturer.

(3) The Department will promptly review an application for certification and:

(a) Notify the applicant in writing within 30 days of receipt of the application, of any deficiencies in the application that cause the application to be incomplete.

(b) Notify the applicant within 60 days of receipt of a completed application whether certification is granted or denied pursuant to sections (4) and (7) of this rule.

(4) When all the preceeding requirements have been met, the Department will issue or deny a certification document to the manufacturer or dealer for the specified woodstove.

(5) If the Department grants certification, the certification status shall be effective for no longer that five years unless extended or terminated by rule or order.

(6) An application for a new document of certification shall be made by submitting a completed application including retests and fees at least 60 days prior to expiration of certification. The Department may waive the retest and fees if the applicant demonstrates the previous evidence used to certify the woodstove has not changed and remains reliable and applicable.

(7) If the Department denies certification of a woodstove, the Department will notify the manufacturer or dealer in writing of the opportunity for a hearing pursuant to OAR Chapter 340, Division 11.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Changes in Woodstove Design

340-21-130 Certification of woodstoves shall be valid for only the specific model, design, plans and specifications which were originally submitted, tested and approved for certification. Any modification to the model, design, plans or specifications shall cause the certification to be ineffective and any so modified woodstoves to be uncertified, unless prior to making such modification the certification holder submits the proposed modification to the Department for approval, and the Department approves it. The Department may approve the proposed modification if the holder demonstrates and the Department finds that the proposed modification would not affect emission performance or heating efficiency.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Labelling Requirements

340-21-135 Woodstoves which must be labelled pursuant to OAR 340-21-105 and shall have affixed to them:

(1) A permanent label, that has been previously approved by the Department in writing as to form, content and location, that shows the test emissions and heating efficiency for the range of heat outputs tested.

(2) A point-of-sale removable label that verifies certification and shows how the appliance's emission test results compare with the Oregon emission performance standard; and shows the heating efficiency and heat output range of the appliance. The label shall be affixed to the appliance at the point-of-sale near the front and top of the stove and remain affixed until sold and delivered to the consumer.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Permanent Label

340-21-140 All woodstoves certified by the Department from July 1, 1984 on, shall be labelled with a permanent and a removable label.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Contents of Permanent Label

340-21-145 (1) The permanent label, or "Certified Test Performance" label, shall contain the following information:

(a) Testing laboratory;

(b) Date tested;

(c) Test procedure used;

(d) Manufacturer of appliance;

(e) Model;

(f) Design number;

(g) The statement: "Performance may vary from test values depending on actual home operating conditions";

(h) A graph showing:

(A) Smoke emission rates, in grams/hour, over the range of heat outputs tested.

(B) Overall efficiency over the range of heat outputs tested.

(2) The axis of the graph shall be identified as follows:

(a) Vertical axis, left side: "Smoke - grams/hour", with a scale of 0 to a maximum of 20, bottom to top.

(b) Vertical axis, right side: "Efficiency - %", with a scale of a minimum of 50 to a maximum of 90, bottom to top.

(c) Horizontal axis, bottom: "Heat Output - Btu/hour", with a scale from 0 to a maximum of 5,000 Btu/hour higher than the highest tested heat output.

(3) Curves describing emissions and efficiency at various heat outputs shall be printed on the graph, and will be developed by the Department as follows:

(a) The emissions curve will be developed by the Department by fitting the emission test data to the quadratic equation:

$$y = a_0 + a_1x + a_2x^2$$

where:

(A) y = particulate emissions (grams/hour).

(B) x = heat output (Btu/hour).

(C) a_0, a_1, a_2 = regression coefficients.

(b) The overall efficiency curve shall be developed by the Department by fitting the efficiency test data to the quadratic equation:

$$y = a_0 + a_1x + a_2x^2$$

where:

(A) y = overall efficiency (%).

(B) x = heat output (Btu/hour).

(C) a_0, a_1, a_2 = regression coefficients.

(4) For woodstoves with a fixed air supply which have only two data points for emissions and two data points for overall efficiency the Department will:

(a) Develop the emission performance description by averaging the two emission data points and describe the performance on the graph with a single point representing the average.

(b) Develop the overall efficiency performance description by averaging the two efficiency data points and describe the performance on the graph with a single point representing the average.

(5) The curves or single points will be developed and fit on the graph by the Department and transmitted to the appliance manufacturer for printing on the label. Changes from the above criteria may be made by the Department as necessary to insure readability. Approval of the label design, layout, and location on the woodstove will be made by the Department and shall be obtained pursuant to OAR 340-21-155.

(6) The label shall be permanently secured or fixed to the appliance so that it is visibly located on the appliance and legible, and meets the following criteria:

(a) A permanent label shall be a label that cannot be removed from the appliance without damage to the label. The label shall remain legible for the maximum expected useful life of the appliance in normal operation.

(b) A label shall be readily visible after installation. Approval of the location of the label on a woodstove will be made by the Department and shall be obtained pursuant to OAR 340-21-155. The label may be located on:

(A) Any visible exterior surface except the bottom of the appliance; or on

(B) Any interior surface of the appliance, within stove compartments, or under overlapping covers or doors, or at another interior location, if the label can be seen after installation and will remain legible for the life of the stove.

(c) A legible label shall be quickly and easily read.

(d) It shall be acceptable to combine the permanent label with another label, such as a safety label, if the design and integrity of the permanent label is not compromised, and if the combination label meets the approval of the Department.

(7) Physical and Material Specifications:

(a) The minimum dimensions of the label shall be at least 3-1/2" long by 2" wide.

(b) The graph on the label shall be at least 3" long by 1-1/2" wide; and any enlargement of the graph shall maintain a proportion represented by the length to width ratio of 2:1.

(c) The label must be made of a material that will satisfy the permanency rule (340-21-145(6)(a)). For instance, it may be made of aluminum, brass, galvanized steel, or another metal, and of a thickness that will ensure permanence of the label.

(d) The information on the label shall be applied to the label in a way that will satisfy the permanency and legibility rules (340-21-145(6)(a) and (c)). For instance, the information may be etched, silk-screened, or die-stamped onto the label.

(e) The label shall be secured to the appliance in a way that it will satisfy the permanency and visibility rules (340-21-145(6)(a) and (b)). For instance, the label may be riveted, screwed, or bolted onto the appliance.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Removable Label

340-21-150 (1) The point-of-sale removable label, or "Emissions and Efficiency Performance" label, shall contain the following information:

(a) **"Smoke (Ave.) _____grams/hour"**, weighted average of tested values.

(b) **"Efficiency (Ave.) _____%"**, weighted average of tested values.

(c) Summary of the applicable emissions standard.

(d) Heat output range, tested values.

(e) Manufacturer of appliance.

(f) Model of appliance.

(g) Design number of model.

(h) A statement verifying certification.

(i) The statement "Performance may vary from test values depending on actual home operating conditions".

(2) The label shall be visibly located on the appliance when the appliance is available for inspection by consumers.

(3) This label may not be combined with any other label or with other information.

(4) The label shall be attached to the appliance in such a way that it can be easily removed by the consumer upon purchase. For instance, the label may be attached by adhesive, wire, or string.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Label Approval

340-21-155 (1) Permanent label:

(a) The Department will provide guidance on the design of labels by supplying information that shall be placed on the label at the time certification is granted.

(b) The manufacturer or dealer shall submit to the Department:

(A) The name, phone number and address of the label manufacturer.

(B) A proof copy of the label, printed on a representative sample of the label stock, shall be submitted to the Department, if practical; if not, a sample of the label stock shall be submitted for review with a proof copy of the label. The copy shall be as representative of the intended final printed label as practical. The copy shall be actual size; and shall show the proposed label design; layout; artwork; print size, style and color; and shall show all the information required on the label, including curves or points.

(C) A drawing, diagram, or photograph that identifies the location of the permanent label on the woodstove.

(D) Information that describes or shows how the permanent label will be affixed to the woodstove. For instance, it may be a description of an adhesive type, adhesive manufacturer, and performance characteristics; or rivet type, rivet manufacturer, and performance characteristics.

(c) Within 14 days of receipt of all information required in subsection (b) of this section, the Department will approve or deny use of the proposed label.

(2) Removable label:

(a) The Department will provide the manufacturer or dealer, at the time of certification with:

(A) A copy of the standardized printed removable label, with all printing specifications; and

(B) The specific information that shall be printed in the spaces on the label by the manufacturer.

(b) The manufacturer or dealer shall submit to the Department for review:

(A) A proof copy of the proposed label with the required information printed on the labels.

(B) The method of attaching the removable label to the woodstove.

(C) The name, telephone number, and address of the label printer.

(c) Within 14 days of receipt of all the information required in subsection (b) of this section, the Department will approve or deny use of the proposed label.

(3) The manufacturer shall submit to the Department three final printed permanent, and three final printed removable labels within one month of receiving the labels from the printer.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Laboratory Accreditation Requirements

340-21-160 A laboratory submitting test data pursuant to requirements in this rule shall have a valid certificate of accreditation issued by the Department. A laboratory may initiate application for an accreditation certificate by submitting written documentation to the Department that accreditation criteria contained in OAR 340-21-165 are met. In addition, the laboratory must demonstrate stove testing proficiency pursuant to OAR 340-21-170, in order to qualify for accreditation.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Accreditation Criteria

340-21-165 (1) All laboratories shall meet the following criteria and standards at the time of application and shall continue to meet these criteria as a condition of maintaining accreditation:

(a) The laboratory shall be an independent third-party testing organization with no organizational, managerial, or financial affiliation with any manufacturer, supplier or vendor of any woodstove covered under its testing programs. For example:

(A) The laboratory shall not be owned by any manufacturer or vendor, or own any manufacturer or vendor of woodstoves.

(B) The management of the laboratory shall not control or be controlled by any manufacturer or vendor.

(C) The laboratory shall not be engaged in the promotion or design of the woodstove being evaluated or tested.

(D) The laboratory shall have sufficient diversity of clients or activity so that the loss or award of a specific contract regarding testing would not be a determinative factor in the financial well being of the laboratory.

(E) The employment security status of the personnel of the laboratory shall be free of influence or control of any one or more manufacturers or vendors of woodstoves tested.

(b) The laboratory shall be operated in accordance with generally accepted professional and ethical business practices. For example:

(A) The laboratory shall accurately report values that reflect measured data.

(B) The laboratory shall limit certification program test work to that for which it can perform competently.

(C) The laboratory shall immediately respond and attempt to resolve every complaint contesting test results.

(c) The laboratory shall be staffed by personnel competent to perform the test procedures for which accreditation is sought, for example:

(A) The laboratory shall assure the competency of its staff through the observation or examination or both of each relevant staff member in the performance of tests, examinations, and inspections that each member is assigned to perform. The observations must be conducted at intervals not exceeding one year by one or more individuals judged qualified by the person who has technical responsibility for the operation.

(B) The laboratory shall make available the description of its training program for assuring that new or untrained staff will be able to perform tests and inspections properly and uniformly to the requisite degree of precision and accuracy.

(C) The laboratory shall maintain records, including dates of the observation or examination of performance of all personnel.

(d) The laboratory shall be equipped with the necessary instrumentation and equipment to test all appliances in accordance with the Department's test procedures.

(e) The laboratory must have in place and maintain a viable record keeping system. This means that records must be easily accessible, in some logical order and contain complete information on the subject. Records covering the following items are required and will be physically reviewed during the on-site assessment either in total or by selected sampling:

(A) Measuring equipment: each instrument name and description, name of manufacturer, model, style and serial number. Specifications on range or level of precision, date

and documentation of calibration, record of maintenance and frequency of calibration.

(B) Data systems: samples of raw and reduced data sheets, test report format, method (manual or automated) of data recording, analysis and reporting.

(C) Staff training dates and results.

(D) Staff competency review dates and results.

(E) Equipment calibration (or verification) records shall include the following: equipment name or description; model, style, serial number; manufacturer; notation of all equipment variables requiring calibration or verification; the range of calibration/verification; the resolution of the instrument and allowable error tolerances; calibration/verification date and schedule; date and result of last calibration; identity of the laboratory individual or external service responsible for calibration; source of reference standard and traceability.

(F) Test data and reports, including emissions and efficiency calculations fully documented and all other items required by the specific test method.

(G) Sample tracking and logging records shall trace the movement of each stove through the laboratory from its receipt through all the tests performed to the final test report. Dates, condition of sample, and laboratory personnel involved should be included.

(f) The laboratory shall maintain a quality control system to help assure the accuracy and technical integrity of its work consisting of the following:

(A) The laboratory's quality control system must include a quality control manual containing written procedures and information in response to the applicable requirements of the test procedures. The procedures and information may be explicitly contained in the manual or may be referenced so that their location in the laboratory is clearly identified. The written procedures and information must be adequate to guide a testing technician and inspector in conducting the tests and inspections in accordance with the test methods and procedures required for the stove testing for which accreditation is sought.

(B) The laboratory shall have a current copy of its quality control manual or laboratory operations control manual available in the laboratory for use by laboratory personnel and shall make the manual available to the Department for review and audit.

(C) The quality control manual shall consist of general guidelines for the quality control of the laboratory's method of operation. Specific information shall be provided for portions of individual test methods whenever specifics are needed to comply with the criteria or otherwise support the laboratory's operations.

(g) The laboratory shall maintain an emissions and efficiency computer program that produces reasonably the same results to the Department's, using a standard data set provided by the Department.

(h) Neither the laboratory owners or business affiliates shall discriminate in management or business practices against any person or business because of race, creed, color, religion, sex, age, or national origin. In addition, neither the laboratory nor its owners or operators shall be certified by any association or are members of any association that discriminates by business or managmeent practices against any person or business because of race, creed, color, religion, sex, age, or national origin.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Application for Laboratory Accreditation

340-21-170 (1) A laboratory applying for accreditation shall state in writing and demonstrate by providing documentation, that they comply with the criteria and standards in OAR 340-21-165 at the time of application, and how they will continue to meet the criteria and standards on an ongoing basis.

(2) The laboratory shall notify the Department in writing within 30 calendar days should it become unable to conform to any of the criteria and standards in OAR 340-21-165.

(3) The laboratory shall demonstrate to the Department that the laboratory's emission and efficiency computer program produces reasonably the same results to the Department's, using a standard data set provided by the Department.

(4) Deficiency in the application will be identified by the Department in writing, and must be resolved by the laboratory before further processing occurs.

(5) The application will not be considered complete for further processing until the laboratory certifies in writing that the deficiencies have been resolved. The application will be considered withdrawn if the applicant fails to certify resolution within 90 days of postmark of notification by the Department.

(6) When the application is approvable, the Department will inform the laboratory in writing and schedule an on-site laboratory inspection.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

On-Site Laboratory Inspection and Stove Testing Proficiency Demonstration

340-21-175 (1) An on-site inspection will be conducted by a Department representative after all laboratory information required by OAR 340-21-165, has been provided by the laboratory, reviewed and approved by the Department. The on-site visit will be conducted when a laboratory initially applies for accreditation and when the laboratory reapplies for a new certificate of accreditation.

(2) During the on-site inspection, the Department representative will:

(a) Observe the Stove Testing Proficiency Demonstration specified in OAR 340-21-170(3).

(b) Meet with management and supervisory personnel responsible for the testing activities for which the laboratory is seeking accreditation.

(c) Review representative samples of laboratory records. To facilitate examination of personnel competency records, the laboratory should prepare a list of names of staff members who perform the tests.

(d) Observe test demonstrations and talk with laboratory personnel to assure their understanding of the test procedures. Refer to OAR 340-21-120 and 340-21-170(3).

(e) Physically examine selected equipment and apparatus.

(f) At the conclusion of the on-site visit, the Department will discuss observations with responsible members of the

TABLE 2
(340-21-115)

CUMULATIVE PROBABILITY FOR A GIVEN HEAT OUTPUT
DEMAND BASED ON OREGON CLIMATE (POPULATION WEIGHTED*)

Heat Output (Btu/hr)	Cumulative Probability (P)	Heat Output (Btu/hr)	Cumulative Probability (P)
0	0.02640	24,600	0.97873
600	0.03071	25,200	0.98256
1,200	0.03503	25,800	0.98540
1,800	0.04130	26,400	0.98713
2,400	0.04888	27,000	0.98972
3,000	0.05863	27,600	0.99096
3,600	0.06879	28,200	0.9923
4,200	0.08122	28,800	0.99316
4,800	0.09837	29,400	0.99408
5,400	0.11586	30,000	0.99472
6,000	0.13522	30,600	0.99506
6,600	0.15803	31,200	0.99526
7,200	0.18394	31,800	0.99563
7,800	0.21615	32,400	0.99589
8,400	0.24867	33,000	0.99679
9,000	0.28798	33,600	0.99711
9,600	0.32621	34,200	0.99745
10,200	0.37040	34,800	0.99774
10,800	0.41575	35,400	0.99787
11,400	0.46226	36,000	0.99817
12,000	0.50831	36,600	0.99837
12,600	0.55778	37,200	0.99851
13,200	0.60326	37,800	0.99858
13,800	0.64770	38,400	0.99882
14,400	0.68572	39,000	0.99899
15,000	0.72483	39,600	0.99915
15,600	0.75743	40,200	0.99933
16,200	0.78883	40,800	0.99945
16,800	0.81816	41,400	0.99958
17,400	0.84386	42,000	0.99968
18,000	0.86822	42,600	0.99974
18,600	0.88951	43,200	0.99986
19,200	0.90667	43,800	0.99992
19,800	0.92228	44,400	0.99995
20,400	0.93620	45,000	0.99996
21,000	0.94720	45,600	0.99999
21,600	0.95545	46,200	1.00000
22,200	0.96158	46,800	1.00000
22,800	0.96699	47,400	1.00000
23,400	0.97151	48,000	1.00000
24,000	0.97515	> 48,000	1.00000

* Based on ambient temperature data during October through April, 1967-73 with population weighting from eight Oregon locations (Portland, Medford, Pendleton, Astoria, Burns, North Bend, Redmond, and Salem).

laboratory management pointing out any deficiencies uncovered.

(3) In order to be accredited and as a part of each on-site laboratory inspection, each laboratory must demonstrate to the Department's representative its ability to successfully and proficiently conduct and report a woodstove emission and efficiency test. Each laboratory will:

(a) Be required to test one woodstove provided by the Department. Costs for all stove shipping, catalytic combustors, or other necessary parts will be paid by the laboratory.

(b) Be required to test the stove in accordance with testing criteria and procedures specified in OAR 340-21-120.

(c) Conduct the actual emission and efficiency testing in the presence of a Department observer.

(d) Submit all test data, observations and test results to the Department for technical evaluations.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Accreditation Application Deficiency, Notification and Resolution

340-21-180 (1) Any deficiencies noted during the on-site inspection and/or in the test data and test results submitted from the stove testing proficiency demonstration will be specifically identified in writing and mailed to the laboratory within 30 days of the on-site visit.

(2) The laboratory must respond in writing within 30 days of the date of postmark of the notification by the Department and provide documentation that the specified deficiencies have been corrected. All deficiencies must be corrected prior to accreditation being granted.

(3) Deficiencies noted for corrective action will be subject to thorough review and verification during subsequent on-site visits and technical evaluations.

(4) Any deficiences in the test data and/or results may result in subsequent proficiency tests being required at the laboratory with a Department representative present.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Final Department Administrative Review and Certificate of Accreditation

340-21-185 (1) When all application material has been received, including the on-site inspection and the stove testing proficiency evaluation, and there has been time for all deficiencies to be resolved, the Department will grant or deny accreditation.

(2) Accreditation can be denied for failure to comply with or fulfill any of the criteria in OAR 340-21-165, -170, and -175.

(3) When accreditation is approved, a certificate of accreditation will be issued to the laboratory. Accreditation will be granted for a period of three years (36 months) subject to rule change or revocation for cause, pursuant to OAR 340, Division 11.

(4) A certificate of accreditation is not renewable. A holder may obtain a new certificate of accreditation by completing the application procedure in OAR Chapter 340-21-170, and demonstrating compliance with OAR 340-21-165 and 340-21-175.

(5) The Department may select and audit test one stove tested by the laboratory during its accredited status to verify certification test results. Any discrepancies noted will be communicated to the laboratory by certified or registered mail. The laboratory must respond in writing within 30 days of postmark of notification and provide documentation or certification by an authorized member of the laboratory management that the specified discrepancies have been corrected or the laboratory may be subject to civil penalties or revocation of accreditation.

(6) A laboratory may voluntarily terminate its accreditation by written request at any time. The certificate of accreditation must be returned with the request.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

Civil Penalties, Revocation, and Appeals

340-21-190 (1) Violation of any of these rules shall constitute cause to revoke the manufacturer or dealer's woodstove certification or laboratory's certificate of laboratory accreditation, and also may be subject to civil penalties and other remedies pursuant to rule or statute.

(2) Certification of a woodstove may be revoked if the woodstove was tested at a laboratory that was found to be in violation of accreditation criteria and rules at the time the woodstove was tested for certification.

(3) When certification or accreditation has been revoked, the holder shall return the certification or accreditation document to the Department and cease to use mention of Department certification or accreditation of the stove model or laboratory on any of its test reports, correspondence or advertising.

(4) Stove certification and lab accreditation revocation shall be handled as contested cases pursuant to OAR Chapter 340, Division 11.

Stat. Auth.: ORS Ch. 468
Hist.: DEQ 11-1984, f. & ef. 6-26-84

EXHIBIT 1
(340-21-115)

Calculating Weighted Average
Particulate Emission

$$\bar{E} = \frac{K_1E_1 + K_2E_2 + K_3E_3 \ldots + K_nE_n}{K_1 + K_2 + K_3 \ldots + K_n}$$

where: $\bar{E}$ is the weighted average particulate emission rate in grams per hour; E_1, E_2, $E_3 \ldots E_n$ are the particulate emission rates in grams per hour from test runs 1 through n in order of increasing heat output; and K_1, K_2, $K_3 \ldots K_n$ are the weighting factors for test runs 1 through n. The weighting factors (K_i) are calculated as follows:

$$K_i = P_{i+1} - P_{i-1}$$

where P_i is the cumulative probability from Table 2 for the heat output measured during each test run, $P_o = 0$, and $P_{n+1} = 1$.

OREGON DEQ CERTIFIED WOODSTOVES AND THEIR MANUFACTURERS

Manufacturers	Woodstoves
Timber-Eze, Inc. Route 5, Box 22 Millersburg, OH 44654 Contact: Paul Weaver (216) 893-2971	Model: Timber-Eze 477 Design #: Ultra 1 Catalytic; Freestanding
Kent Heating, Ltd. 59 Tidal Road Mangere PO Box 23-340 Papatoetoe Auckland, New Zealand Contact: Betty Hume Klickitat Enterprises, Inc. 1801 NW Upshur Portland, OR 97209 (503) 295-0121	Model: Tile Fire Mark II LPE Design #: 566410 Noncatalytic; Freestanding
The Stack Manufacturing Company, Ltd. PO Box 9354 Newmarket Auckland, New Zealand Contact: Daniel Melcon 0400 SW Custer Way Portland, OR 97219 (503) 245-5546	Model: Vista Design #: #640 Noncatalytic; Freestanding
Osburn Industries 6691 Mirah Road, RR #3 Victoria, British Columbia Canada V8X 3X1 Contact: David Linkletter (604) 652-3963	Model: Regent 1000 Design #: 2 Noncatalytic; Freestanding
Arrow Tualatin, Inc. PO Box 1299 Tualatin, OR 97062 Contact: Dick Sparwasser (503) 692-1500	Model: ATS-II Design #: 5000 Catalytic; Freestanding
Earth Stove, Inc. Bldg C-7 9775 SW Commerce Circle Wilsonville, OR 97070 Contact: John McIntire (503) 682-3384	Model: 1000C Design #: E.S. 01 Catalytic, Freestanding

OREGON DEQ CERTIFIED WOODSTOVES AND THEIR MANUFACTURERS

Manufacturers	Woodstoves
Woodcutters Manufacturing, Inc. 3301 East Isaacs Walla Walla, WA 99362 Contact: Larry Canaday (509) 529-9820	Model: Blazeking 'King' Design #: KEJ-1101 Catalytic; Freestanding
Lopi International Ltd. 10850 117th Place, NE Kirkland, WA 98033 Contact: Allan Atemboski (206) 827-9505	Model: Answer Design #: A-1, A-2, A-3 Noncatalytic; Freestanding and Insert
Brugger Industries, Ltd. Private Bag Wainuiomata Wellington, New Zealand Contact: Neil Martin 8651 West Park Street Boise, ID 83704 (208) 322-0479	Model: BOSCA Design #: FS 500, TM 500 Noncatalytic; Freestanding
Martenson Industries, Inc. 24430 S. Highway 99-E Canby, OR 97013 Contact: Don Martenson (503) 266-2026	Model: Rawhide I Design #: RH861 Noncatalytic; Freestanding
Collins Bio-Energy Company 4804 SW 112th Street Tacoma, WA 98499 Contact: Bruce Collins (206) 582-0470 (206) 582-4327	Model: Pellefier Design #: FS 1 Noncatalytic; Freestanding; Continuous feed pellet burner
CESCO Industries, Inc. PO Box 9948 Greensboro, NC 27480 Contact: Patricia Bickley CESCO Industries, Inc. PO Box 7817 Roanoke, VA 24019 (703) 366-7118	Model: Fisher Design #: Tech IV Catalytic, Insert

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY CERTIFIED WOODSTOVES
revised October 16, 1985

HEETS 1988 STANDARD

Oregon Smoke Standard: After June 30, 1986: 15 grams/hr non-catalytic, 6 grams/hr catalytic
(Particulate Emissions) After June 30, 1988: 9 grams/hr non-catalytic, 4 grams/hr catalytic

odel, Design Number Manufacturer	Type[1]	Date Certified	Average[2] Smoke (grams/hr)	Average[2] Overall Efficiency (%)	Heat Output[3] Range (Btu/hr)	Burn Time Between Refueling[4] (hours) Low	High	Average Weight of[3] Test Fuel [lbs]	Average[5] Draft (inches H_2O)
laze King 'King,' FJ-1101 oodcutters Mfg.	C, FS, SL	12-21-84	1.6	76.9	9,510 to 35,200	16.2	4.4	29.2	.021 to .052
OSCA FS 500 rugger Industries Ltd.	NC, FS, SL	12-21-84	13.5	64.8	9,832 to 35,307	3.8	1.0	9.1	.032 to .070
NSWER A1 opi International, Ltd.	NC, FS, WO, SL	01-22-85	14.8	62.1	4,887 to 43,350	6.3	0.75	8.3	.023 to .070
NSWER A2 opi International, Ltd.	NC, H, WO, SL	01-22-85	14.8	62.1	4,887 to 43,350	6.3	0.75	8.3	.023 to .070
awhide I RH861 artenson Industries	NC, FS, W, SL	01-30-85	13.8	59.8	20,707 to 34,512	2.4	1.1	11.9	.051 to .069
isher TECH IV ESCO Industries	I, C, SL	03-01-85	2.5	79.1	18,033 to 31,794	5.6	2.8	17.2	.050 to .061
ellefier FS-1 olling Bio-Energy Co.	FS, NC, PF,	03-01-85	0.7	79.4	9,455 to 29,630	N/A	N/A	N/A	.009 to .015
imber Eze 477 imber Eze, Inc.	C, FS, SL	03-01-85	2.0	75.8	8,660 to 21,860	11.4	3.4	17.5	.027 to .050
ista 640 ne Stack Mfg. Co., Ltd.	NC, FS, SL	03-14-85	5.4	61.8	20,839 to 60,104	1.8	0.6	8.6	.064 to .093

) C=Catalytic, NC=Noncatalytic, W=Tested with optional blower, WO=Tested without optional blower, SL=Safety Listed, FS=Free Standing, I=Insert, (All inserts are tested with a direct flue connection and full length insulated chimney.), H=Hearth, PF=Pellet Fuel

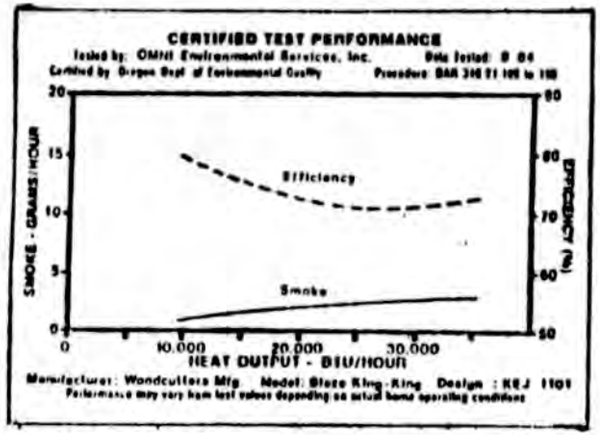
) Average performance based on average Oregon heating load (approximately 13,000 Btu/hr)

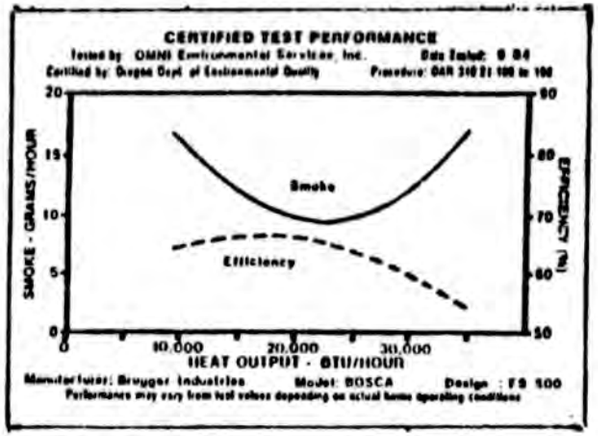
) Based on consumption of a test charge of Douglas fir at 16 - 20 percent moisture and loading density of 7 lbs wood/cubic foot of firebox volume. Stoves tested at heat output less than 10,000 Btu/hr may be capable of operating at lower than stated values. Minimum stated heat output over 10,000 Btu/hour represent the minimum heat output achievable during certification testing. Heat output may vary depending on type and quantity of fuel used.

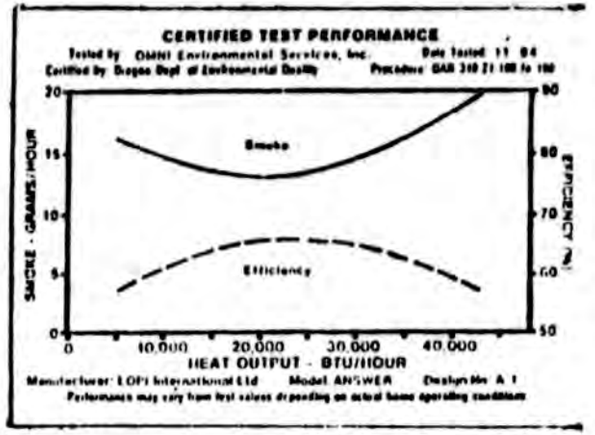
) Time between refueling during certification test at low and highest heat output (refueling occurs when an entire test charge of fuel has been consumed, with a hot coal bed remaining).

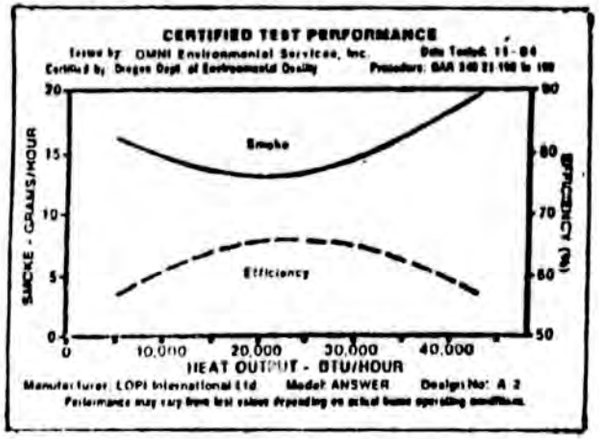
) Measured within 1 foot of stove's flue connection. Values shown are averaged over an entire test cycle; both low and high heat output tests are displayed.

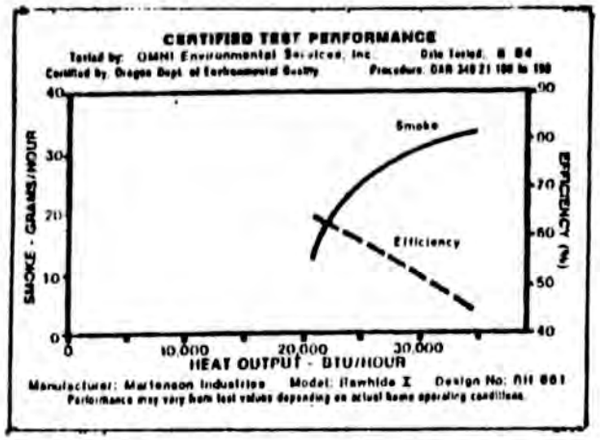
r more information write: Oregon Department of Environmental Quality, PO Box 1760, Portland, Oregon 97207,
or call (503) 229-6488; in Oregon, toll-free 1-800-452-4011

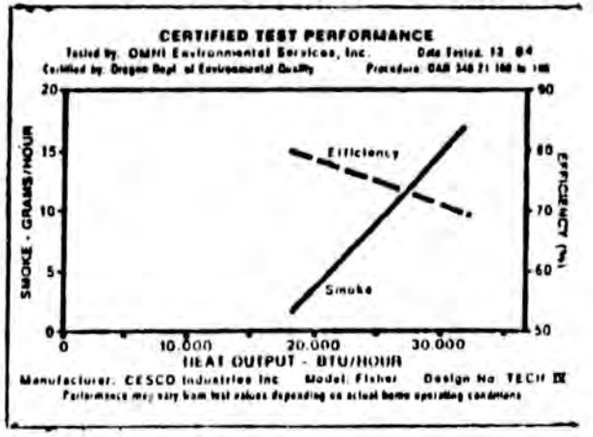

CERTIFIED TEST PERFORMANCE
Efficiency
Smoke
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR

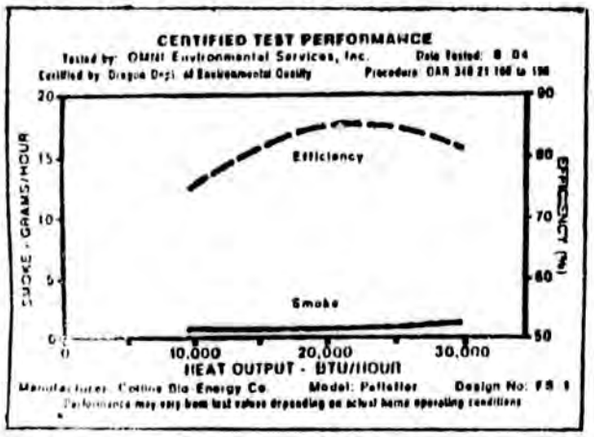

CERTIFIED TEST PERFORMANCE
Smoke
Efficiency
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR

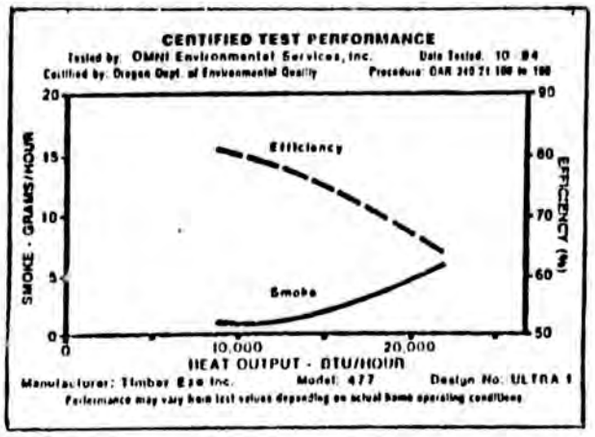

CERTIFIED TEST PERFORMANCE
Smoke
Efficiency
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR

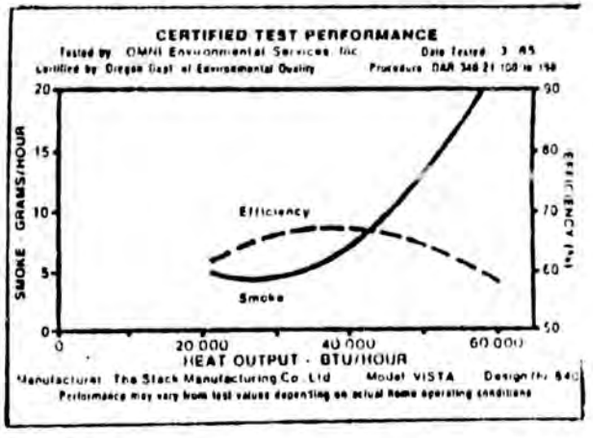

CERTIFIED TEST PERFORMANCE
Smoke
Efficiency
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR


CERTIFIED TEST PERFORMANCE
Smoke
Efficiency
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR


CERTIFIED TEST PERFORMANCE
Efficiency
Smoke
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR


CERTIFIED TEST PERFORMANCE
Efficiency
Smoke
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR


CERTIFIED TEST PERFORMANCE
Efficiency
Smoke
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR


CERTIFIED TEST PERFORMANCE
Efficiency
Smoke
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY CERTIFIED WOODSTOVES
revised October 16, 1985

MEETS 1988 STANDARD

Oregon Smoke Standard: After June 30, 1986: 15 grams/hr non-catalytic, 6 grams/hr catalytic
(Particulate Emissions) After June 30, 1988: 9 grams/hr non-catalytic, 4 grams/hr catalytic

Model, Design Number Manufacturer	Type[1]	Date Certified	Average[2] Smoke (grams/hr)	Average[2] Overall Efficiency (%)	Heat Output[3] Range (Btu/hr)	Burn Time Between Refueling[4] (hours) Low	High	Average Weight of[3] Test Fuel [lbs]	Average[5] Draft (inches H_2O)
Tile Fire Mark II LPE 566410 Kent Heating, Ltd.	NC, FS SL	03-14-85	14.2	64.5	8,966 to 30,062	5.0	1.6	10.2	.035 to .076
ANSWER A3 Lopi International, Ltd.	NC, I, WO, SL	04-09-85	14.8	62.1	4,887 to 43,350	6.3	0.75	8.3	.023 to .070
Regent 1000 2 Osburn Industries	NC, FS, SL	06-26-85	12.5	65.2	6,259 to 40,991	6.5	1.0	9.3	.028 to .072
BOSCA TM 500 Brugger Industries Ltd.	NC, I, SL	07-23-85	13.5	64.8	9,832 to 35,307	3.8	1.0	9.1	.032 to .070
ATS-II 5000 Arrow Tualatin, Inc.	C, FS, SL	09-13-85	2.5	75.6	9,055 to 31,838	6.5	1.8	11.0	.031 to .051
1000C E.S. 01 The Earth Stove, Inc.	C, FS, SL	10-16-85	3.5	74.9	10,873 to 24,418	7.3	3.0	15.1	.028 to .053

(1) C=Catalytic, NC=Noncatalytic, W=Tested with optional blower, WO=Tested without optional blower, SL=Safety Listed, FS=Free Standing, I=Insert, (All inserts are tested with a direct flue connection and full length insulated chimney.), H=Hearth, PF=Pellet Fuel

(2) Average performance based on average Oregon heating load (approximately 13,000 Btu/hr)

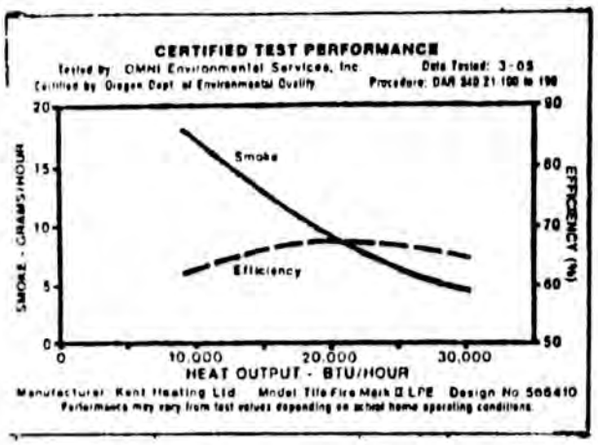
(3) Based on consumption of a test charge of Douglas fir at 16 - 20 percent moisture and loading density of 7 lbs wood/cubic foot of firebox volume. Stoves tested at heat output less than 10,000 Btu/hr may be capable of operating at lower than stated values Minimum stated heat output over 10,000 Btu/hour represent the minimum heat output achievable during certification testing. Heat output may vary depending on type and quantity of fuel used.

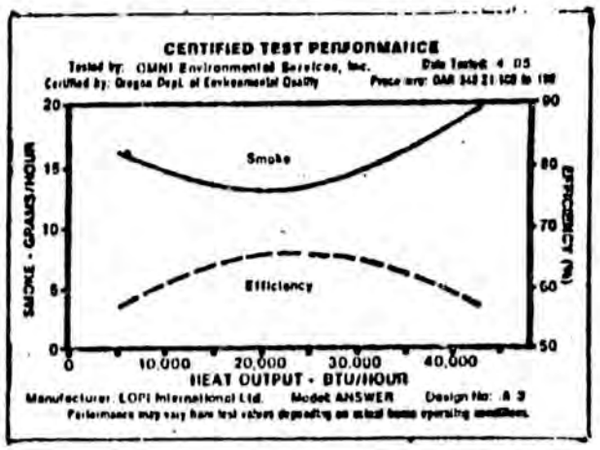
(4) Time between refueling during certification test at low and highest heat output (refueling occurs when an entire test charge of fuel has been consumed, with a hot coal bed remaining).

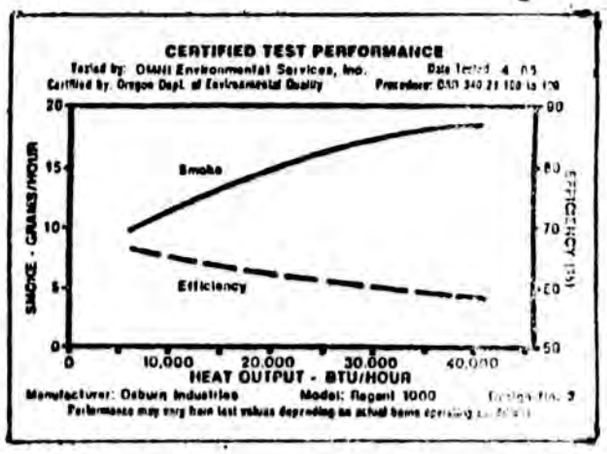
(5) Measured within 1 foot of stove's flue connection. Values shown are averaged over an entire test cycle; both low and high heat output tests are displayed.

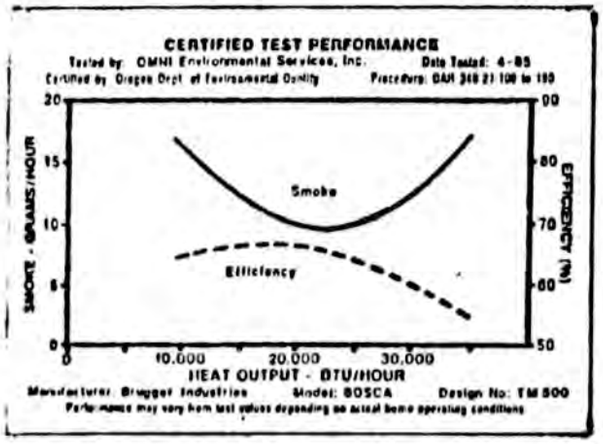
For more information write: Oregon Department of Environmental Quality, PO Box 1760, Portland, Oregon 97207, or call (503) 229-6488; in Oregon, toll-free 1-800-452-4011

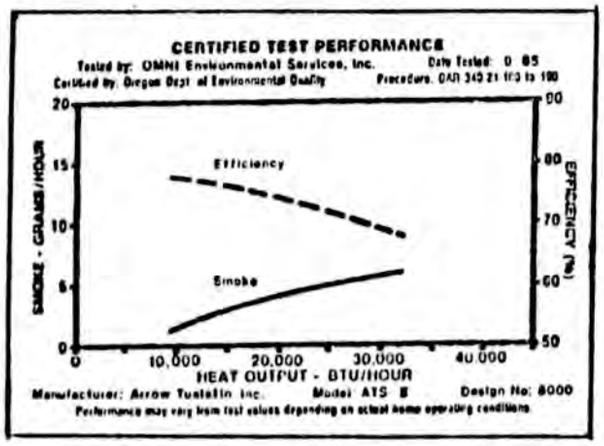
AS938.B

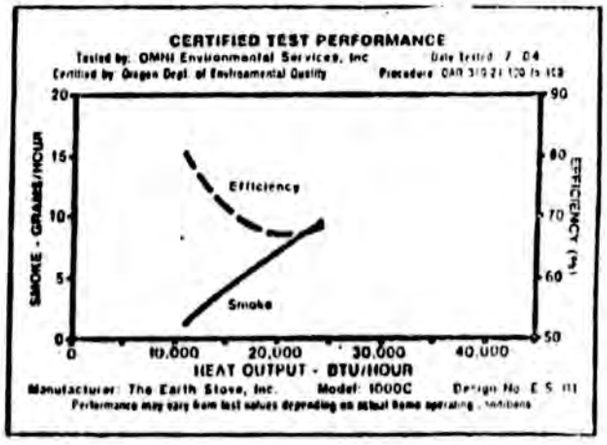

CERTIFIED TEST PERFORMANCE
Tested by: OMNI Environmental Services, Inc. Date Tested: 3-05
Certified by: Oregon Dept. of Environmental Quality
Smoke
Efficiency
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR
Manufacturer: Kent Heating Ltd. Model: Tile Fire Mark II LPE Design No: 566410
Performance may vary from test values depending on actual home operating conditions.


CERTIFIED TEST PERFORMANCE
Tested by: OMNI Environmental Services, Inc. Date Tested: 4-05
Certified by: Oregon Dept. of Environmental Quality
Smoke
Efficiency
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR
Manufacturer: LOPI International Ltd. Model: ANSWER Design No: A 3
Performance may vary from test values depending on actual home operating conditions.


CERTIFIED TEST PERFORMANCE
Tested by: OMNI Environmental Services, Inc.
Certified by: Oregon Dept. of Environmental Quality
Smoke
Efficiency
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR
Manufacturer: Osburn Industries Model: Regent 1000
Performance may vary from test values depending on actual home operating


CERTIFIED TEST PERFORMANCE
Tested by: OMNI Environmental Services, Inc. Date Tested: 4-05
Certified by: Oregon Dept. of Environmental Quality
Smoke
Efficiency
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR
Manufacturer: Brugger Industries Model: BOSCA Design No: TM 500
Performance may vary from test values depending on actual home operating conditions.


CERTIFIED TEST PERFORMANCE
Tested by: OMNI Environmental Services, Inc. Date Tested: 0-05
Certified by: Oregon Dept. of Environmental Quality
Efficiency
Smoke
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR
Manufacturer: Arrow Tustin Inc. Model: ATS II Design No: 8000
Performance may vary from test values depending on actual home operating conditions.


CERTIFIED TEST PERFORMANCE
Tested by: OMNI Environmental Services, Inc
Certified by: Oregon Dept. of Environmental Quality
Efficiency
Smoke
SMOKE - GRAMS/HOUR
EFFICIENCY (%)
HEAT OUTPUT - BTU/HOUR
Manufacturer: The Earth Stove, Inc. Model: 1000C
Performance may vary from test values depending on actual home operating

CITY AND BOROUGH OF JUNEAU, ALASKA
CERTIFIED WOODSTOVES WHICH WOULD MEET THE
PROPOSED WOODSMOKE REGULATIONS
Revised January 17, 1986

Model	Type	Average Smoke (grams/hr.)	Average Overall Efficiency	Output Heat (BTU/hr.)	Burn Time Between Refueling (hours) Low - High	
Blaze King "King"	Catalytic	1.6	76.9	9,510 to 35,200	16.2	4.4
Fisher Tech IV	Fireplace Insert (Catalytic)	2.5	79.1	18,033 to 31,794	5.6	2.8
Timber Eze 477	Catalytic	2.0	75.8	8,660 to 21,860	11.4	3.4
Vista 640	Non-Catalytic	5.4	61.8	20,839 to 60,104	1.8	0.6
Earth Stove 1000-C	Catalytic	3.5	74.9	10,873 to 24,418	7.3	3.0
Arrow ATS II	Catalytic	2.5	75.6	9,055 to 31,838	6.5	1.8
Turbo 10	Catalytic	3.1	76.0	12,662 to 35,427	6.5	2.2
*Pellefier FS-1	Non-Catalytic	0.7	79.4	9,455 to 29,630	NA	NA
*Whitfield	Non-Catalytic	0.9	79.4	9,499 to 26,638	NA	NA
*Collins Hopper	Add-on Device	2.6	73.4	6,932 to 56,196	NA	NA
Earthstove 1002-0 (This model with the air supply stop is the only model that has been approved)	Non-Catalytic	5.6	68.7			
Sweethome Stove Works Catalytic Fir AK-18	Catalytic	2.0	76.2			
ORLEY'S Leopard U246 Free Standing Model	Catalytic	2.5	73.0			
ORLEY'S Panther F246 Hearth Model	Catalytic	2.5	73.0			
**Jotul 3C	Catalytic	3.9	73.0			
**Jotul 8C	Catalytic	6.0	75.0			

*Burns Pellet Fuel
**Only certified for the rear vent application

SCOMM
#50:33

FILES: BONDS
CC: NORDALE -
BOTELHO -
BARKER -
BOUDIN -
WOHLFORTH -

Introduced: 3/15/85
Referred: Community & Regional Affairs, Judiciary and Finance

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

IN THE HOUSE

HOUSE BILL NO. 293

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to municipal default on bonded indebtedness; establishing the Municipal Financial Emergency Commission; and providing for an effective date."

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

* Section 1. LEGISLATIVE FINDINGS. The legislature finds that

(1) while the power of municipalities to contract debt for capital improvements is granted by the Alaska Constitution, revenues that may be raised to repay the debt are limited by the extent to which the state has delegated taxing authority to the municipalities under art. X, sec. 2 of the Alaska Constitution;

(2) the state has a strong interest in debt issuance by municipalities because of the impact on state revenue as a result of municipal assessment to repay debt and because of the effect on the marketability of bonds issued by the state and its agencies, by public corporations of the state, by other municipalities, and by the Alaska Municipal Bond Bank Authority;

(3) bonds issued by municipalities are not legal obligations of the state, nor are the bonds supported by the moral obligation of the state; and

(4) it is in the public interest, and is declared to be a public purpose, to promote the prosperity and general welfare of all the people of the state by assisting in the development and implementation of refinancing plans for municipalities that have defaulted on outstanding debt.

* Sec. 2. AS 29.58 is amended by adding new sections to read:

ARTICLE 7. DEFAULT ON BONDED INDEBTEDNESS.

Sec. 29.58.400. MUNICIPAL FINANCIAL EMERGENCY COMMISSION. (a) The Municipal Financial Emergency Commission is established in the Department of Community and Regional Affairs.

(b) The members of the commission consist of the commissioner of the Department of Community and Regional Affairs, the commissioner of the Department of Revenue, and the commissioner of the Department of Administration. Members of the commission may appoint a designee to serve on the commission.

(c) The commissioner of the Department of Community and Regional Affairs shall chair the commission. A quorum of the commission consists of two members.

(d) The commission may employ staff as is necessary to accomplish the purposes of the commission.

Sec. 29.58.410. DUTIES AND POWERS OF THE COMMISSION. (a) Upon receipt of a written notice of a default by a municipality, as provided in AS 29.58.420, the Municipal Financial Emergency Commission may

(1) investigate the defaulting municipality's fiscal affairs, consult with the assembly or council of the defaulting municipality, and negotiate with creditors in order to assist the municipality in developing a plan for satisfaction of the outstanding debt;

(2) direct a state agency holding money on behalf of or payable to the defaulting municipality to pay the money either to the commission for payment to creditors, or to the defaulting municipality for disposition as required under an adopted plan;

(3) determine whether a proposed plan is fair and equitable and within the ability of the defaulting municipality to meet, and, if so, enter an order finding that it is fair, equitable, and within the

ability of the municipality to meet;

(4) advise the defaulting municipality to take the necessary steps to implement the plan;

(5) order the defaulting municipality to take the necessary steps to implement the plan if the municipality fails to implement the plan within 30 days after receiving the advice of the commission to implement the plan;

(6) require periodic reports on the defaulting municipality's financial affairs during the period in which the plan is implemented;

(7) approve or reject the defaulting municipality's annual budget ordinance during the period in which the plan is implemented;

(8) approve or reject the issuance of additional bonds, notes, or other debt, whether short- or long-term, during the period in which the plan is implemented;

(9) impound the books and records of a defaulting municipality and assume full control of its financial affairs, including the levying of taxes, expenditure of money, and adoption of budgets, if the municipality fails to implement a plan, or if, in the opinion of the commission, the defaulting municipality will default on a future debt service payment under the plan if the financial policies and practices of the municipality are not improved; and

(10) order a defaulting municipality to pay for the cost of developing and implementing a plan.

(b) The power and authority granted to the commission continues, with respect to a defaulting municipality, until the commission is satisfied that the defaulting municipality has performed or will perform the duties required of it in the plan, and until agreements made with the defaulting municipality's creditors have been performed

in accordance with the plan.

(c) The commission is authorized to take all actions necessary to accomplish the purposes of AS 29.58.400 -- 29.58.490, including, but not restricted to, the authority to issue subpoenas necessary for the production of documents and the authority to issue orders. A superior court may, upon application of the commission, compel obedience with a subpoena or order issued by the commission.

Sec. 29.58.420. NOTICE OF DEFAULT. (a) A municipality shall give notice of default to the commissioner of community and regional affairs within 10 calendar days after actual knowledge of the default.

(b) A creditor may give notice to the commissioner of community and regional affairs any time after a default by a municipality.

(c) A municipality may request the assistance of the commission at any time before default if, in the judgment of the municipality, assistance from the commission will assist the municipality in relieving financial distress.

Sec. 29.58.430. ACTION UPON RECEIVING NOTICE OF DEFAULT. The commissioner of community and regional affairs shall convene a meeting of the commission within 15 days after the receipt of a notice of default, or of a request for assistance, under AS 29.58.420. The defaulting municipality must be given notice of the meeting, and shall send an authorized representative to the meeting to represent the defaulting municipality during the development of a plan under AS 29.58.410.

Sec. 29.58.440. STAY OF COURT PROCEEDING. (a) A proceeding initiated in court by a creditor must be stayed until 90 days after the first meeting of the commission following the receipt of the notice of default by the commissioner of community and regional affairs.

(b) The court may grant one or more 30-day extensions of the

stay, at the request of the commission, unless the court finds that the defaulting municipality or the commission has not made a good faith effort to negotiate a plan under AS 29.58.410.

Sec. 29.58.450. BANKRUPTCY PETITION. AS 29.58.400 -- 29.58.490 do not limit or otherwise affect the authority of a municipality to file a petition in bankruptcy under 11 U.S.C. secs. 901 -- 946.

Sec. 29.58.460. PENALTY. A municipal official, employee, or agent who knowingly violates a provision of a plan developed under AS 29.58.410 is guilty of a class C felony.

Sec. 29.58.490. DEFINITIONS. In AS 29.58.400 -- 29.58.490,

(1) "commission" means the Municipal Financial Emergency Commission;

(2) "creditor" means a person having standing to bring an action for default on outstanding debt against the defaulting municipality;

(3) "default" means the failure by a municipality to pay an installment of principal or interest on its outstanding debt, on or before the due date;

(4) "defaulting municipality" means a municipality that has defaulted, or which continues to be subject to the jurisdiction of the commission after the implementation of a plan under AS 29.58.410;

(5) "outstanding debt" means revenue anticipation notes, bond anticipation notes, general obligation bonds, revenue bonds, or refunding bonds issued under this chapter.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Cape May County, New Jersey

$19 million general improvement bonds due 1987-1996
Competitive, March 5
Rated 'A-'

Rationale: S&P affirms Cape May County, N.J.'s 'A-' rating on outstanding general obligation general improvement bonds and assigns an 'A-' rating to the current $19 million offering. The rating reflects strong financial performance and rapid bond retirement, coupled with the tourist-based economy and below-average wealth and income levels. Because of the developments in the casino industry in nearby Atlantic City, building permit activity is very strong. The casino industry also benefits from the county's commercial fishing industry because of increased tourism and year-round populations.

Economy: Cape May County forms the southernmost tip of New Jersey. The county is a peninsula, 454 square miles in total area, and has had steady population growth since the 1960s. The county's major industry is tourism, with the summer tourist industry the strongest economic factor for over 50 years. Population in the summer months increases to 593,856 from 95,724. Unemployment rates are seasonal in nature; during the summer of 1985, unemployment dropped to a low of 6% and reached 15% during the winter. Recent developments in the casino industry in nearby Atlantic City have significantly impacted the county's economy. Building permit activity has been very strong over the past few years with the construction of new hotels and motels, townhouses, and condominiums. The commercial fishing industry continues to be influenced favorably by Atlantic City as the larger tourist and permanent populations create greater seafood consumption.

Debt: Proceeds from this issue will be used for various municipal buildings, road, bridge, and storm sewer construction. With this issue, the county will have outstanding net debt of $29.8 million. Per capita debt is high at $1,007, but low as a percent of true value at 3.9%. Bond retirement is rapid, retiring 87% of the debt in 10 years. The S&P index, measure of per capita debt to per capita effective buying income, is moderate at 9.1%. The county's capital improvement program for the next five years amounts to approximately $16.2 million, with 68% expected to be funded from bond proceeds.

Finances: Financial operations are sound. Revenues are derived primarily from property taxes, which account for approximately 70% of current fund revenues. The largest expenditures item is health and welfare, accounting for 24% of operating expenses. Debt service expense will increase with this sale to approximately 10% of budget. Unaudited results for year ended Dec. 31, 1985 show an ending fund balance net of deferred charges of $6.1 million, or 14% of current fund revenues, a slight decrease from year-end 1984's $6.4 million fund balance. The budget outlook for fiscal 1986 is expected to continue on a favorable basis, with revenues projected to be in line with budget expectations.

Dominick J. Truglio
(212) 208-1769

Alaska

Reviewed: rating affirmed

Rationale: S&P affirms Alaska's 'AA-' rating on all outstanding general obligation bonds. With the continued "softening" of the world oil market, a new approach to revenue forecasting known as the "30th percentile" has been implemented. The 30th percentile method means that, in the estimation of the state financial forecasters, there is a 70% chance that revenues will actually be greater than the amounts forecasted, and only a 30% chance that they will be less. Current projections reflect an average annual decline in petroleum revenues of approximately 10% for 1986-1988. Indications are that at current levels the projected decline will not adversely affect state revenues in the short run. However, in the long run, an absence of sustained exploratory activity, smaller discoveries, enhanced recovery, and production of heavy oil, at least at current levels, can adversely affect state revenues. Financially, the state continues to perform in a manner commensurate with its rating, as evidenced by a good cash and fund balance position, and a strong permanent fund. The fishing and timber industries, important contributors to the Alaskan economy, are still somewhat depressed, but continue to show signs of gains. Debt remains manageable and is declining as the state continues to meet some of its capital needs through pay-as-you-go financing. Overall, the state's economy continued to show growth in population, employment and personal income, and maturation in the trade and services sectors.

Economy: The state's economic base is primarily extractive, with major dependence upon oil and gas production, and to a somewhat lesser extent, the supportive industries of fishing, timber, minerals, and tourism. Approximately 86% of state revenues are derived from royalties and taxes paid on state-owned oil and gas leases. Indications are that the production level of several Cook Inlet fields is declining and production from the Prudhoe Bay field will substantially decline in the 1990s. As of Jan. 1, 1986, the Alaska Oil and Gas Conservation Commission estimated the state's remaining recoverable reserves to be 7.995 billion barrels of oil and 34.23 trillion cubic feet of gas. Approximately one-third of Prudhoe Bay's estimated 9.6 billion barrels had been produced by year-end 1984. Some encouragement may be gained from the fact that there have been varied successes in oil and gas exploration in North Slope, totaling an estimated 2.5 billion barrels of recoverable oil. This new exploration bolstered a relatively strong employment picture. Arco Alaska and Standard Oil Co. of Ohio, two major petroleum operators, are cutting their construction budgets by 43% and 17%, respectively. The combined exploration spending still represents a large sum for 1986 at $1.25 billion. State revenue forecasters believe that in the short run, the current decline in world oil prices will be offset at the wellhead by the reduction in the Trans Alaska Pipeline System tariffs, by approximately $1.20 per barrel. A partial settlement was reached in a long outstanding tariff litigation between the state and pipeline owners. The state will receive a total of $285 million, including refunds from 1982-1985, as a result of this settlement. However, the settlement will have an adverse effect on local communities who depend on the pipeline for a portion of their property taxes. North Slope Borough will lose approximately $2.0 million annually, while Valdez and Fairbanks North Star will lose approximately $1.8 million and $500,000 annually, respectively. In fiscal 1986, the state will receive an added $227 million from this settlement.

The fishing and timber industries continue to be important contributors to the state's economy. Total revenues to fishermen from fish catch sold in Alaska for fiscal 1985 was $700 million, compared to $602.3 million in 1984. Since 1977, salmon catches have been improving, however, the shell fish industry, which includes king crab and shrimp, the major revenue contrib-

(continued on next page)

utors, remains somewhat depressed. However, it is anticipated that harvests will continue to improve, and the future of the industry enhanced by the priority given to U.S. fisheries over foreign fleets to harvest within the 200-mile fisheries conservation zone. Alaska forests are expected to remain a major source of timber, despite restrictions imposed by the Alaska National Interest Lands Conservation Act of 1979. As part of the settlement act passed by Congress, the industry has been guaranteed 450 million board feet per year, a quantity capable of sustaining traditional harvest levels. The industry has been declining since 1980, as export of forest products have declined at an average annual rate of 10% due to competition and a strong U.S. dollar. In 1984, forest product exports totaled $219 million, or 21% of all Alaska exports.

Anticipated depletion of oil reserves in the future resulted in attention to minerals and mineral deposits. Shipments of coal to Korea from the Usibelli Mine, which began in 1984 and now totals 560,000 tons yearly, may be increased to 800,000 tons in 1986. Development of a world-class molybdenum mine by U.S. Borax & Chemical Co. is continuing with expectations of 900 new jobs on completion. Also under development are the Red Dog and Greens Creek zinc and lead mines. The Red Dog deposit is estimated at 29% of U.S. deposits and is the second largest zinc deposit in the world. Tourism continues to contribute significantly to the economy. Its importance is underlined by the size of the marketing budget of $8.1 million in 1985, and a projected $7.2 million in 1986. In 1984, 700,000 visitors spent a total of $620 million. Approximately 715,000 visited in 1985.

Following completion of Trans Alaska Pipeline System construction in mid-1977, population which totaled 411,000 in 1978, declined to 402,000 in 1980. Since this decline, major gains have been realized, particularly in the early 1980s resulting in an approximate total increase of 25% for 1980-1984. Current estimated 1985 population is 566,600. For 1980-1984, all sectors of employment continued to experience growth with the exception of mining and manufacturing which had 11% and 1% declines, respectively. Government employment, historically high in Alaska, accounts for 29% of total employment for 1980-1984. Per capital money income experienced modest gains, with the 1981 level at $11,722. This represents 134.8% of the U.S. average; at $12,900 in 1983, it was the equivalent of 135.8% of the U.S. average. Total personal income for 1980-1984 increased from $5,238 million to $8,739 million, or 66.8%.

Finances: The state continues to portray a strong financial posture. Fiscal 1985 unrestricted revenues for the general fund totaled approximately $3.2 billion, excluding amounts which go directly to the permanent fund. Petroleum revenues accounted for approximately 85% of total unrestricted revenues, down from a peak of 90% in 1980. Projected unrestricted general fund revenue for fiscal 1986 is $3.1 billion, of which $2.1 billion, or 66%, will be from petroleum revenues. As of Dec. 31, 1985 the permanent fund balance was $7.0 billion. The fund is expected to total $8.5 billion by 1990 and $16.6 billion by 2000. The amount of fund income available for dividends in 1985 was $217.3 million, with 521,323 eligible applicants receiving $404.

An amendment to limit state appropriations to $2.5 billion, approved by voters at the November 1982 general elections, will be placed on the ballot for reconsideration in the 1986 general election. Under the amendment, state appropriations cannot exceed $2.5 billion for any fiscal year by more than the cumulative change, based on federal indices in population and inflation after July 1, 1981. If rejected, it will be repealed. If approved, the amendment would become permanent, and appropriations may be subjected to impoundment powers of the governor, who may withhold or reduce appropriations during a budget year if revenues are less than appropriations. The amendment has not been operative, and has exceeded any revenues or accrued surpluses available for appropriation.

Debt: Historically, the issuance of state debt has been significant due to the state's commitment to capital improvement programs. The state is currently studying the implementation of a debt management policy, which may have been influenced by declining oil revenues and the need to meet unfilled infrastructure requirements while maintaining a conservative debt position. The policy will include all debt that relies on state general fund appropriations, in particular all nonself-supporting state debt, including G.O. debt, lease revenue debt, and similar obligations paid by the state. The state's last debt issuance was in fiscal 1983. Maximum annual debt service on all bonds is $175.7 million, due in 1986. As currently structured, debt service requirements will decrease substantially through 2000.

Anthony H. Arthur
(212) 208-1777

Alaska Municipal Bond Bank

Reviewed; ratings affirmed

Rationale: S&P affirms the 'A' rating on all outstanding Alaska Municipal Bond Bank's general obligation bonds and the 'A-' rating on all outstanding bond bank revenue bonds. About $168.5 million of debt is affected. The basis of the rating is the moral obligation of the state. S&P policy establishes this rating at one full category below the existing rating of the state. In this case, the rating would be 'A-' based upon the state's 'AA-' rating. However, the G.O.s of the bond bank where the state has the authority to withhold aid to participating units, in lieu of debt service payments upon the request of the bank, are rated 'A'. The revenue bonds remain at 'A-', where no withholding provisions exist.

The bank: The Municipal Bond Bank Act established the bank as a public corporation and instrumentality of the state of Alaska within the department of revenue, but separate from and independent of the state. The bank, which began operations in August 1975, was created for the purpose of lending money to government units within the state of Alaska by purchasing municipal bonds issued by such governmental units. Under the act and the bank's general resolution, the bank initially was authorized to purchase only G.O. bonds. Effective May 16, 1978, the Alaska state legislature authorized the bank to purchase municipal revenue bonds, and provided that the bank shall be called the Alaska Municipal Bond Bank Authority when issuing revenue bonds, and the Alaska Municipal Bond Bank when issuing G.O. bonds. The purchase of bonds is dependent upon bond counsel's opinion, stating that the bonds are valid obligations of the governmental unit as required by the act and that a loan agreement has been authorized and executed between the bank and the governmental unit, which constitutes a valid and binding obligation of the governmental unit. The powers of the bank are vested in a five-member board of directors, three of whom are public members appointed by the governor and confirmed by the state legislature. The three appointees serve four-year staggered terms. The remaining two members, the Commissioner of Revenue and the Commissioner of Community and Regional Affairs, are permanent.

Finances: Ongoing operations of the bank are not funded by the state's general fund appropriations, but by fees and charges and interest earned on investments. The bank is not allowed to carry surpluses, which must be returned to the state. Since its inception, the bank has returned $7.6 million. In fiscal 1985, $1.8 million was returned. The reserve fund, which receives capital appropriations from the state's general fund for

funds leveraging, is maintained at an amount equal to the maximum annual debt service requirement. As of June 30, 1985, the Alaska legislature has appropriated $17.9 million to the bank for the statutory reserve fund, of which approximately $5.4 million is available to meet statutory reserve fund requirements for future bank bond issues. The bank is annually required to deliver a statement to the governor and state legislature, stating the sum, if any, necessary to restore the reserve fund to the required debt service reserve level. The state is not legally obligated to make such an appropriation and, to date, it has never been necessary.

Debt: The bank has issued $192.8 million in bonds with $166.5 million currently outstanding. The outstanding debt is comprised of G.O., revenue, coastal energy reserve, and coastal energy loan program bonds. There is a statutory debt limit of $300 million, of which $131.5 million remains available. During 1982-1985, the bank's debt issuance has been $48.5 million, $30.6 million, $7.0 million, and $25.8 million, respectively. Due to declining state petroleum revenues, it is anticipated that local units will be turning to the bank on a regular basis for the financing of their capital needs.

Anthony H. Arthur
(212) 208-1777

North Slope Borough, Alaska

Reviewed: ratings affirmed

Rationale: S&P affirms North Slope Borough, Alaska's outstanding 'BBB+' rating on approximately $794.9 million general obligation bonds. The rating on $52.8 million series D bond anticipation notes due Nov. 18, 1986 is also affirmed at 'SP-1+'. An additional $428.5 million of G.O. debt is outstanding but secured separately by various credit enhancements. The long-term debt rating reflects the narrowness of the borough's economic base, the large amount of debt supported by that base, debt carrying charges that represent 67% of general fund expenditures, balanced by good financial operations and a strong financial position. The borough's economic viability entirely depends on the oil and gas industry, and the outlook for any significant diversification is poor. Due to remoteness and harsh environmental conditions, development of the limited infrastructure that supports the small community required the issuance of large amounts of debt. Total G.O. debt currently outstanding is approximately $1.3 billion. The pace of debt issuance slowed over the past two years and is not expected to exceed $107.4 million over the next three years. As a result, maturing debt should exceed new debt issuance over the period. The debt matures rapidly, with 48% rolling off in five years, and 95% in 10 years. The borough derives 60% of its revenues from a tax on oil- and gas-related real property improvements. Therefore, its main revenue stream is unaffected by fluctuations in oil prices. A small effect is expected from the recently settled pipeline tariff agreements which includes owners' income in the property assessment formula. The borough could lose up to $2 million annually as a result of the settlement (0.6% of total revenues). An additional 27% of revenues is derived from interest earnings. The very large debt burden appears adequately supported by an increasing but very narrow tax base.

Issuer: North Slope Borough is a vast, geographically isolated, sparsely populated area located entirely north of the Arctic Circle. Barrow, located almost 2,000 miles northwest of Seattle, is the borough seat and its largest city (population of 2,647). The virtually impassable Brooks Range forms the borough's southern boundary. A wide range of services is provided by the borough, including health, safety, sanitation, utilities, education, housing, and transportation systems. The borough is analogous to the county form of government in the lower 48 states, but has greater governmental powers. Remoteness, the absence of a modern infrastructure, and severe climatic conditions make the cost of development enormous.

Debt: Debt issuance increased sharply in 1983 and 1984 as infrastructure improvements were made to provide services to residents and to accommodate increased oil-related economic activity. The borough currently has outstanding $1.3 billion G.O. bonds and bond anticipation notes (net of refunded debt). Debt on a per capita basis is extremely high at $121,704, but is a more moderate 7.5% of true value ($13 billion in 1986). Carrying charges are very high as a percent of expenditures. The primary source of payment for the debt is a property tax assessed on capital improvements made at the oil and gas fields at Prudhoe Bay and Kuparuk. These properties represent 95% of the tax base. Capital financing of $107.4 million is planned for the next three years. These funds will be raised principally through issuance of G.O. bonds. An emergency debt service reserve fund was established during fiscal 1984 and is funded at 15% of outstanding debt. At July 1, 1985, a balance of $184 million was available in this fund. Debt service requirements for 1985 totaled $189 million.

Economy: Oil and gas production, transportation, and exploration form the base of the borough's economy. Before the discovery of oil and gas at Prudhoe Bay in 1968, and the construction of the Alyeska Pipeline, economic activity was limited to subsistence hunting, fishing, and military activities (DEW LINE maintenance and research). Further diversification of the economy is not expected due to extreme geographic and climatic problems. The lack of a highway system within the borough makes commercial air service and limited water transportation the only available means of mass transportation.

Within the next 25 years, no basic industry is projected to supplement the oil and gas industry. Maintenance or expansion of the oil industry depends on competitive lease offerings by the state and federal governments. The lead time from lease to production is approximately 10 years. The present production level at Prudhoe Bay of 1.5 million barrels of oil per day represents roughly 18% of total U.S. domestic production. Proven, extractable reserves at Prudhoe Bay are currently projected to last 11 years. Production at Kuparuk has begun and is expected to be 250,000 barrels of oil per day during 1986. An industry investment in Kuparuk is expected to total $8 billion and the economic life of the field is projected at 20-30 years. The two major North Slope operating companies are Atlantic Richfield Co. (Arco) and Standard Oil Co. of Ohio (Sohio). Although Arco's 1986 North Slope construction budget was reduced from $715 million to approximately $500 million as a result of reduced oil prices, work on the Prudhoe Bay Gas Plant and the Kuparuk Lisburne production facility will continue. Sohio has indicated it will proceed with its 1986 construction program as planned.

Finances: General fund financial operations remain strong. Significant operating surpluses were generated in each of the past five years which were transferred to the reserve for capital outlay fund, the emergency debt service reserve fund, or the recently created permanent fund. At July 1, 1985, balances available in these funds were $72 million, $184 million, and $117 million, respectively. As a result of these transfers, the general fund balance was reduced from $56 million in 1983 to $4 million in 1985. The three primary revenue sources of the general fund are property taxes (60%), interest earnings (27%), and state aid (10%). Tax collections are excellent, reaching roughly 99% on a current basis in each of the last five years. Debt service of $189 million represented 67% of general fund expenditures in 1985. As of July 1, 1985, a balance of $184 million was available in

(continued on next page)

the emergency debt service reserve fund. Monies in excess of the 15% requirement in this fund will be transferred to the permanent fund. As of June 1985, $4 million was transferred from the emergency debt service reserve fund to the permanent fund. An additional $79 million transfer from the general fund left a balance of $117.4 million available in the permanent fund to be held in perpetuity. Interest earnings on permanent fund balances will be used for general fund operations. Although financial management is sound, large debt service carrying charges, the range of services provided, and the high cost of service provision will continue to absorb the borough's large financial resources.

Maury Cooper
(212) 208-1757

MUNICIPAL REVENUE

Alaska Industrial Development Authority

$11 million variable demand/fixed rate bond due 2004
Sold, February 25, Goldman, Sachs & Co.
Rated 'A–'

Rationale: S&P assigns an 'A–' rating to the Alaska Industrial Development Authority's conversion of its variable demand/fixed rate bonds, series 1984 A and B to a fixed rate. The 'A–' rating on the outstanding economic development bonds, the consolidated bonds, and the umbrella bonds is affirmed. The rating is based upon the moral obligation pledge of the state of Alaska, whose rating is affirmed at 'AA–'. The bonds are additionally secured by the general obligation of the authority.

Issuer and security: The state legislature established the Alaska Industrial Development Authority in 1967 to aid in economic development. The authority was originally created to administer the enterprise development fund. This fund was capitalized in 1981 with $166 million in state-originated loans. In addition, the state contributed $23 million to fund the capital reserve funds. In 1982 and 1984, the enabling act was amended to expand the authority's powers. In 1982, the multifamily housing loan security fund was set up and in 1984 the economic development fund. All three programs are legally separate and distinct. All economic development activities are channeled through the enterprise development fund. This fund holds the authority's general assets from which all of the authority's general obligation indebtness is payable. The enterprise development fund as of Dec. 31, 1985 had general assets of $525 million. The multifamily housing fund, which is not an asset of the authority, provides additional security to any of the authority's G.O. bonds issued for multifamily housing projects. This fund at Dec. 31, 1985 held $8 million in assets. The economic development fund empowers the authority to own and operate certain types of facilities when it is in the public interest to do so. This fund was capitalized with an appropriation of $12 million in cash and $132 million in loans held by the state. Financial obligations or liability incurred will be secured solely by the economic development fund and there is no general obligation pledge of the authority.

The authority has four types of bond issues outstanding: economic development bonds, consolidated bonds, umbrella bonds, and variable demand/fixed rate bonds. All issues except the variable demand/fixed rate bonds are secured by a general obligation pledge from the authority. Variable demand bonds are special obligations of the authority which become G.O.s upon conversion to a fixed rate. All bonds are further secured by the state's moral obligation pledge, if necessary, the state's legislature can, but is not obligated to, appropriate funds to the bonds through their capital reserve funds pursuant to notice under state statutes, if these reserves fall below required levels. The authority's total outstanding G.O. debt at June 30, 1985 is $213 million. This issue will increase debt by $11 million to $224 million. Total variable rate/fixed rate debt at Dec. 31, 1985 excluding this conversion is $40 million. The total $40 million is expected to be converted to fixed rate by the end of 1986 for $254 million in G.O. debt of the authority.

The economic development bonds provide funds for participations in loans for industrial and commercial projects up to $1 million. All revenues from these loan participations are pledged first to the payment of economic development bonds and then to the other G.O. debt of the authority. As of June 30, 1985, the total outstanding economic development bond debt was $126 million. Consolidated bonds provide funds for participations in loans for industrial, commercial, and multifamily housing projects from $1–$10 million. Revenues from these participations are not specifically pledged to the repayment of consolidated bonds. However, this is not a credit concern because both economic development and consolidated bonds are secured by the authority's general obligation and the state's moral obligation pledges. As of Dec. 31, 1985, outstanding consolidated bonds totaled $59 million.

The new umbrella bond program is intended to replace both the economic development and consolidated bonds. These new bonds do not have claim to the economic development, consolidated, and variable rate bonds' existing capital reserve funds. A separate reserve fund for the umbrella bonds was established with similar provisions to the previously issued bonds. At Dec. 31, 1985, the balances in all the capital reserve funds for the authority's G.O. debt is $26 million. This balance reflects the average annual debt service payments of the bonds.

Loan portfolio: The authority's portfolio of loans falls into three categories: bond loans, appropriation loans, and federal guaranteed loans. Bond loans derive their funds from bond proceeds, appropriated loans from state appropriated money, and federal guaranteed loans from the authority's funds on hand. These three sources of funds are used to buy loan participations from Alaska financial institutions. The fiscal 1985 composition of the portfolio is 22% appropriated loans, 61% bond loans, and 17% Small Business Administration (SBA) guaranteed loans. Appropriated loans are expected to decline to an insignificant percentage of the portfolio by 1991. Funds from the paid-off appropriation loans are used to buy SBA loans or investments. However, no SBA loans have been purchased in the last year due to remittance procedure problems with the new SBA servicer FIDATA. Until this situation is eliminated, no future investments in the SBA program will be maintained. The authority's purchase of loan participations is limited to completed projects that satisfy all terms of the authority's loan underwriting criteria. The authority's capital participation rate in loans under $1 million is 90% and 80% for those between $1–$10 million. Loans are disbursed geographically in proportion to the state's population distribution. As a result, the Anchorage area has the highest percentage of bonded loans at 55.5%. The portfolio's investment in projects is concentrated mainly in commercial space, approximately 78% in fiscal 1985. Bond loans delinquency rates on 90 days and over are still below 1%, even given the slump in the Alaska economy. This low rate is attributed to stringent underwriting criteria. In addition, each participating financial institution must provide servicing on all loans and maintain a 90-day delinquency rate below 2% or be suspended from selling new participations until the rate is controlled. The authority has a loan loss reserve fund of $2.6 million. This was created in 1991 and to date, the only charge offs are $1.1 million in defaulted appropriated loans. The reserve is

returned to its original level from earnings. The authority reviews the adequacy of this reserve fund annually with its accountants.

Finances: The authority's assets have grown from $218 million in 1981 to $524 million in 1985. Liabilities total $220 million in fiscal 1985, of which $213 million are bonds payable. All operating expenses are paid from commitment and finance fees. In fiscal 1985, this totaled $1.4 million to cover expenses of $1.1 million. Net earnings have risen from $16 million in fiscal 1981 to $30 million in fiscal 1985. The authority has unrestricted investments, capital reserve funds, cash, and interest earnings totaling $157 million at June 30, 1985 to meet shortfalls in debt service of approximately $28 million. Unrestricted surplus at June 30, 1985 is $264 million.

During fiscal 1986, the authority will convert all of its remaining $40 million variable rate debt to fixed. In addition, during 1986's first half it intends to issue its first taxable financing of $15 million. For fiscal 1987 and beyond, approximately $65 million in debt will be issued a year. It is impossible to determine how H.R. 3838 will affect future issuances other than to assume the program will continue with additional volume constraints.

Andrea M. Esposito
(212) 208-1834

Alaska Housing Finance Corp.

Reviewed: ratings affirmed

Rationale: S&P affirms Alaska Housing Finance Corp. (AHFC) ratings on $4.27 billion in outstanding taxable and tax-exempt debt. The bonds, issued under 59 resolutions, are secured by over 52,000 level-paying mortgage and growing equity mortgage (GEM) loans. The loans are originated throughout the state by private lenders and subsequently purchased by the AHFC with bond proceeds. Direct state appropriations (in cash and in mortgages) permit the purchase of mortgage loans which bear interest at legislatively prescribed "below market" rates. To enhance the security of its bonds, the AHFC has entered into various credit arrangements. They include: Federal Housing Administration (FHA) Title I insurance, Federal National Mortgage Association (FNMA) and Government National Mortgage Association (GNMA) collateralization, bank letters of credit, and surety bonds. Additionally, the issuer enjoys strong support from the state of Alaska; 13 issues are guaranteed by a pledge of the state's full faith and credit. The affirmed bond ratings reflect the strength of the credit enhancements (*see list at right*).

Issuer: To date, AHFC has received $563 million in state appropriations. Fiscal year ending Jun[illegible] 1985 witnessed no requests for additional funding. Such funding will not be sought in the foreseeable future. Fund balances of $1,458 million (fiscal 1985) reflect the healthy, well managed performance of the issuer to date. The corporation has a staff of 43 with experience in administration, mortgage underwriting, and finance. AHFC is governed by a five-member board consisting of two ex-officio and three governor-appointed members.

Programs: Since its inception in 1971, AHFC has adopted many innovative programs and financing techniques. The principal activities include:

—*Mortgage loan subsidization.* All of the corporation's programs provide an interest rate subsidy on the first $90,000 of a mortgage loan to Alaskan borrowers. The state currently subsidizes the mortgage loans to a maximum of 3% (4% for eligible veterans) below the cost of taxable funds to the corporation. However, loan rates may not be less than 10% (9% for veterans) unless the corporation's related cost of funds is less than 10%.

—*Taxable bonds.* To overcome the constraints of tax-exempt issuance caps ($200 million per annum), the corporation began issuing taxable bonds in 1981. It currently has approximately $1.3 billion in taxable debt outstanding, $100 million of which was issued in 1985.

—*Alaska Building Equity loan program.* In 1983, AHFC introduced its own version of the GEM loan. Titled the Alaska Building Equity (ABE) loan, it requires an increase in the borrower's monthly payments to provide for an accelerated amortization of principal. Thus, it can take advantage of shorter-term, lower interest taxable bonds.

—*FNMA collateralization.* In 1983, AHFC signed a $530 million pool purchase contract with FNMA enabling Alaskan mortgages to be swapped for FNMA mortgage-backed securities.

Rated debt outstanding	Amt (mil. $)	Rating
Housing mortgage bonds (nonparity)		
1972 series A	10.6	AA
1973 series A	10.3	AA
1973 series B	29.6	AA
1975 series A	30.6	AA
1976 series B	10.5	AA
Insured mortgage bonds (parity)	911.7	A
1975 first series; 1976 first and second series; 1977 first, second, and third series; 1978 first, second, and third series; 1979 first and second series; 1980 first, second, and third series;		
State-assisted mortgage bonds (nonparity)		
series A	95.8	A
series B and C	75.7	AA
series D and E	90.5	A–
series F	170.8	AA
series H	50.0	AA
series I	50.0	AA
series J	50.0	AA
series K	75.0	AA
series L	75.0	AA
series M	75.0	AA
series N	75.0	AA
series O*	50.0	AAA
series P*	50.0	AAA
Home mortgage bonds (nonparity)		
1981 first series	79.6	A–
1981 second series	90.9	A
1982 first series	77.6	AA–
1982 second series	93.3	AA–
1983 first series	73.1	AA–
1983 second series	122.4	AA–
Collateralized 1984 series A	75.0	AAA
Collateralized 1984 series B	127.4	AAA
Collateralized 1985 series A	100.0	AAA
Collateralized 1985 series B	102.4	AAA
State-guaranteed bonds (nonparity)*		
1983 first series	48.2	AA
1983 second series	117.5	AA
1983 third series	72.0	AA
1983 fourth series	94.7	AA
1983 fifth series	48.3	AA
1983 sixth series	72.7	AA
1984 first series	130.0	AA
1984 second series	100.0	AA
Collateralized 1984 first series	100.0	AAA
Collateralized 1984 second series	302.5	AAA
Collateralized 1985 first series	150.0	AAA
Second mortgage bonds	9.3	AA
Fairbanks North Star Borough res. mtge. bonds	26.1	A–
AHFC Overseas Finance N.V. gtd. bonds	98.1	AAA

*Guaranteed by full faith and credit of the state of Alaska.

(continued on next page)

(WBSs). These WBSs are then, in effect, purchased with bond proceeds and used as collateral for the bonds. Such collateralization has enabled the issuer to obtain 'AAA' ratings on 10 tax-exempt and taxable issues to date.

—*Recycling.* AHFC relies heavily on recycling, wherein prepayments are used to make new mortgages, in many of its bond structures. This technique has reduced the need for future bond financings and state appropriations.

Lori-Ann Wynter
(212) 208-1541

Platte River Power Authority, Colorado

$113 million electric revenue bonds due 2018
Sold, February 20, Salomon Brothers Inc.
Rated 'A+'

Rationale: The $113 million issue of Platte River Power Authority electric revenue bonds is rated 'A+', along with $618 million of outstanding parity debt. The 'A' rating of the Loveland, Colo. electric revenue bonds was reviewed in connection with this sale and is affirmed. The ratings reflect the strength of the participant cities' economic bases and good financial performances. The authority's rates to the cities are low because capacity charges to Public Service Co. of Colorado are sufficient to pay debt service. Bond proceeds will be used to retire all outstanding commercial paper. The authority has refunded the commercial paper program instead of retiring it from revenues as was planned to avoid potential tax problems and to take advantage of current long-term interest rates.

Security: The bonds are secured by take-or-pay contracts with the cities of Fort Collins (45.7% of the project), Longmont (28.1%), Loveland (21.5%), and Estes Park (6.1%). The authority's rate covenant is net revenues 1.25 times (x) adjusted aggregated debt service. Debt service is adjusted to levelize payments of term bonds in 2000 and 2002. The additional bonds test requires net revenues in 12 of the preceding 24 months prior to issuance to meet the rate covenant. Additional security is provided by a debt service reserve fully funded to maximum debt service at the time of bond issuance.

Operations: Platte River's resources include energy and capacity under contract with the Western Area Power Administration (WAPA) through 1989. The authority receives 156mw in the winter and 238mw in the summer. The authority owns the 255mw coal-fired Rawhide Energy Station and an 18% share of the Yampa Project coal-fired Craig units, totaling 154mw. Excess capacity in the Craig and Rawhide units is sold to Public Service under a contract through 1994, which is less than the life of the bonds. Public Service is obligated to take-or-pay for capacity and energy made available in accordance with the schedule in the contract. If the contract schedules are not met, Public Service has the option to terminate the contract. Therefore, these bonds are not rated on the basis of the Public Service contract. Revenue derived from these sales is sufficient to pay all Platte River debt service at this time. In 1985, Platte River sold 340.5mw of capacity per month and 2,380gwh to Public Service.

Platte River expects peak demand to grow at a compound rate of 5.4% per year in the future and for energy sales to grow 5.9% per year. Since 1980, annual growth rates ranged from −3.8% to 16.4% for peak demand and from 3.3% to 11.8% for energy sales. The average growth rates of 5.9% and 5.7%, respectively, were strong despite this volatility. Based on this growth, Platte River expects to sell power from Yampa and Rawhide to participants when sales to Public Service end.

Rates: The authority is currently charging the participants 35 mills per kwh. Retail rates in all cities except Loveland are below those of Public Service and the Poudre Valley cooperative supplied by Tri-state generation and transmission cooperative. Loveland's rates are only marginally above Public Service's rates. The authority does not anticipate raising rates to the participants until 1991 when it begins taking back its Rawhide capacity. Between 1991 and 1998, rates are expected to rise from 35.2 mills per kwh to 55.2 mills per kwh.

Finances: During the last two years, Platte River changed from a construction-oriented organization to an operating power supplier. The effect of this change is clearer when the operating statements for 1983 and 1984 are compared. Revenues grew 105% in that year and operating expenses grew 107%, primarily due to a 195% increase in depreciation with the start-up of Rawhide. During 1985, only 29.5% of revenues came from sales to the participants, the remainder of the revenues came from sales to Public Service. Annual debt service coverage was 1.48x in 1984 and 1.53x in 1985, including commercial paper interest. The balance sheet continued to improve in 1985. The current ratio was 4.39:1 and the quick ratio was 1.69:1. Leverage declined as the ratio of debt to plant declined to 1.14:1 from 1.20:1.

Participants: Fort Collins, Loveland, and Estes Park are in Larimer County, north of Denver, and Longmont is in Boulder County, west of Denver. The key economic sectors in this area are manufacturing, services, retail trade, and government. High technology electronics are a major source of employment, with manufacturing facilities of Hewlett-Packard Co., Storage Technology Inc., and NCR Inc. located in the participant cities. Colorado State University is another major employer in Fort Collins. The average unemployment rates for 1985 are below the national average in both counties, but rose slightly toward the end of the year to 7.1% in Larimer County and 6.7% in Boulder County. Total numbers employed remained stable.

Participants	Fort Collins	Longmont	Loveland	Estes Park
% Platte River	45.7	28.1	22.5	6.1
Peak demand 1985	110	69	48	14
gwh sold 1985	582	332	256	72
Population est. 1985	83,000	49,600	35,300	7,600
1984 revenue (000)	30,487	17,981	15,529	4,572
Debt serv. cov. (x)	*	*	5.60	*
Current ratio**	5.17:1	3.15:1	6.43:1	N.A.

*No electric revenue bonds outstanding
**Current assets/current liabilities
N.A.—Not available.

The financial performance of the participants is good. Each has had a positive trend in revenues and controlled growth of expenses in recent years. Off-balance sheet debt service coverage is less than 1.00x for all participants because Platte River debt service payments are subsidized through the Public Service contract.

Maria C. Markham
(212) 208-1862

CS HB 519

CSHB 519 makes the following changes with respect to the original bill:

1. deletes the requirement for State Bond Committee approval of ASHA debt issuance before lease-financing agreements may be entered into (sections 2, 6, 7, and 10 of CS HB 519); however, the State Bond Committee still must approve ASHA debt before it can be issued (section 4 of CS HB 519);

2. requires approval of public buildings by law before lease-financing agreements may be entered into (sections 2, 6, 7, and 10 of CS HB 519);

3. includes construction or acquisition cost in addition to lease payment and bond amount, in notice to legislature and bond committee (sections 2, 6, 7, and 10);

4. makes new subsection (b) in Sec. 8 of the bill into a separate section so that it is not repealed in the event SB 341, the procurement bill, passes; amendments have been prepared for SB 341 which would delete all authority in that bill for lease-purchase financing, so that the subject is dealt with only in HB 519; this is to avoid enactment of conflicting provisions;

5. amends international airports and toll facilities statutes to permit negotiated bond sales in addition to public bid (sections 17, 18, 19, and 20).

James
3/4/86

Original sponsor: Rules/governor

IN THE HOUSE BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 519 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to public finance; and providing for an effective date."

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

* Section 1. AS 14.40.040 is amended to read:

Sec. 14.40.040. GENERAL POWERS OF THE UNIVERSITY. There is created and established a corporation to be called the University of Alaska. It may in that name

(1) sue and be sued;

(2) receive and hold real and personal property;

(3) contract and be contracted with;

(4) adopt, use and alter a corporate seal;

(5) borrow money, issue debt, or enter into long-term obligations for the purchase of facilities, goods, or services, which obligations secure, in whole or in part, debt issued by another party, as approved by the state bond committee under AS 37.15.770 and approved by law; an appropriation does not constitute approval by law for purposes of this paragraph;

(6) do and have done all matters necessary for the purpose of any function set out [FORTH] in this chapter.

* Sec. 2. AS 14.40 is amended by adding a new section to read:

Sec. 14.40.255. LEASE-FINANCING. The Board of Regents may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that

annual appropriation. If the board intends to enter into an agreement under this subsection, the board shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The board may not enter into an agreement under this section unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 3. AS 18.55.100(a)(15) is amended to read:

(15) acting as the Alaska State Building Authority arrange or contract for the financing or [, DESIGN, CONSTRUCTION AND] acquisition of public buildings designed by, constructed by, or whose acquisition has been approved by the Department of Transportation and Public Facilities for lease to the state in accordance with AS 18.55.-010 - 18.55.290 and AS 37.15.770.

* Sec. 4. AS 18.55.140 is amended to read:

Sec. 18.55.140. ISSUANCE OF BONDS, NOTES, AND REFUNDING BONDS. The authority may issue bonds and notes from time to time in its discretion for any of its corporate purposes and may issue refunding bonds for the purpose of paying or retiring bonds previously issued by it. The authority may not issue bonds for public buildings until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770 and the building has been approved by law. An appropriation for the building does not constitute approval by law for purposes of this section.

* Sec. 5. AS 18.55.140 is amended by adding a new subsection to read:

(b) Bonds issued by the authority for public buildings must

issued in the name of the Alaska State Building Authority and are subject to AS 18.55.010 - 18.55.290.

* Sec. 6. AS 18.55.288 is amended by adding a new paragraph to read:

(4) "bond" means any bond, note, interim certificate, debenture, or other obligation issued by the authority or the authority acting as the Alaska State Building Authority under AS 18.55.010 - 18.55.290;

* Sec. 7. AS 22.05.025 is amended by adding a new subsection to read:

(c) The supreme court may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the supreme court intends to enter into an agreement under this subsection, the supreme court shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The supreme court may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 8. AS 24.23 is amended by adding new sections to read:

ARTICLE 2. LEASE AGREEMENTS.

Sec. 24.23.100. LEASE OF SPACE. The Legislative Affairs Agency may lease necessary office space, and contract for the lease of space, for the use of the Alaska legislature and its employees.

Sec. 24.23.110. The Legislative Affairs Agency may enter into lease-financing agreements only with the Alaska State Housing

Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the agency intends to enter into an agreement under this subsection, the agency shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The agency may not enter into an agreement under this section unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 9. AS 37.05.280 is amended to read:

Sec. 37.05.280. LEASES. The department shall lease necessary space, and contract for the lease of space, for the use of the state or an agency of the state, wherever it is necessary and feasible, subject to compliance with the requirements of AS 37.05.220 - 37.05.-280. A [NO] lease or contract for a lease may not provide for a period of occupancy greater than 40 years. A lease agreement must provide that lease payments are subject to annual appropriation. An agency of the state requiring office, warehouse, or other space shall lease the space through the department. [NO CONTRACT OR LEASE EXECUTED AFTER JANUARY 1, 1966, WHICH PROVIDES FOR A PAYMENT OR PAYMENTS BY THE STATE IN EXCESS OF $12,000 ANNUALLY IS VALID UNLESS THE USE OF THE SPACE TO BE PROVIDED FOR BY SUCH CONTRACT OR LEASE HAS BEEN EXPRESSLY APPROVED BY THE LEGISLATURE BY CONCURRENT RESOLUTION.]

* Sec. 10. AS 37.05 is amended by adding a new section to read:

Sec. 37.05.285. LEASE FINANCING. The department may enter into

lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the department intends to enter into an agreement under this subsection, the department shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The department may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 11. AS 37.15.040 is amended to read:

Sec. 37.15.040. SALE OF BONDS. Before selling an issue or series of bonds, the state bond committee shall give notice inviting sealed bids in <u>the</u> [SUCH] manner [AS] it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder <u>or bidders</u>. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

* Sec. 12. AS 37.15.110 is amended to read:

Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE. There is created <u>within the Department of Revenue</u> a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, and the commissioner of revenue. If a member of the committee is absent or otherwise unable to act, the member's designee [IN THE

DEPARTMENT] shall act as a member of the committee in the member's place.

* Sec. 13. AS 37.15.130 is amended to read:

Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. The commissioner of commerce and economic development is the chairman of the state bond committee and the commissioner of revenue is the secretary. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent record of its proceedings. All records and correspondence of the committee shall be kept in the office of the commissioner of revenue. For the purpose of this chapter and AS 44.62.310, public notice of 24 hours or more is adequate notice of a meeting of the committee at which the issuance of bonds is authorized.

* Sec. 14. AS 37.15.140 is amended to read:

Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. (a) The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, sale, and delivery of state general obligation bonds.

* Sec. 15. AS 37.15.140 is amended by adding new subsections to read:

(b) The state bond committee shall prepare an annual report to be submitted to the governor and legislature before March 31 of each year. The report must show

(1) all outstanding debt of debt-issuing entities of the state;

(2) the anticipated effect on the finances and credit of the state, including the effect on long-term debt capacity and creditworthiness, resulting from that debt;

(3) which long-term debt is state supported and which is supported only by revenue attributable to the project being financed

by the debt;

(4) all long-term capital lease obligations of the state;

(5) the volume of short-term debt issued and retired during the year by debt-issuing entities of the state;

(6) specific identification of each issue for which the state has pledged some form of indirect support for the debt, including any moral obligation of the state to support the debt;

(7) future bonding and debt capacity implications of legislation enacted in the previous legislative session; and

(8) the recommended debt issuance capacity of the state for the next two years following the year of the report.

(c) The state bond committee may develop written policies concerning debt of the state.

* Sec. 16. AS 37.15.150 is amended to read:

Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SERVICES. The state bond committee may appoint an executive director who may, with approval of the committee, select and employ additional staff as necessary. Employees of the committee are in the partially exempt service under AS 39.25.120. If the [STATE BOND] committee considers it necessary and advisable, it may procure architectural or engineering, fiscal agent or municipal investment, legal, and other expert or specialized services at reasonable and customary fees to assist it in accomplishing the most advantageous sale of the bonds. The fees may be paid from the proceeds of the sale or advanced from the contingency fund in the Office [OFFICE] of the Governor [GOVERNOR] or otherwise.

* Sec. 17. AS 37.15.450(a) is amended to read:

(a) The bonds shall be sold in the manner, price or prices, [SUCH] amounts or series, and at the [SUCH] time or times [AS]

determined by the committee at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds, or each series of them, shall be sold at such a price so that the effective interest rate over the life of the bonds does not exceed 11 percent per year or that rate of interest which is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest shall be payable annually or semiannually.

* Sec. 18. AS 37.15.460 is amended to read:

Sec. 37.15.460. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide where a [WHETHER THE] notice of sale, if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.450].

* Sec. 19. AS 37.15.650(a) is amended to read:

(a) The toll facilities bonds are sold in the manner, price or prices, amounts or series, and at the time as determined by the committee, at either public or private sale. [BEFORE SELLING A SERIES OF

BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.] Bonds, or a series of bonds, may not be sold if the effective interest rate over the life of the bonds exceeds 11 percent per year or that rate of interest that is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest is payable annually or semiannually.

* Sec. 20. AS 37.15.660 is amended to read:

Sec. 37.15.660. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide <u>where a</u> [WHETHER THE] notice of sale<u>, if any,</u> is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.650].

* Sec. 21. AS 37.15 is amended by adding new sections to read:

ARTICLE 5. STATE-SUPPORTED DEBT.

Sec. 37.15.770. STATE AGENCY DEBT. (a) The state bond committee shall review proposals for the issuance of debt by or on behalf of

(1) the Alaska State Housing Authority acting as the Alaska State Building Authority for the purpose of providing public

buildings; and

(2) the University of Alaska.

(b) The committee may review the general programs and financing plans of the agency that proposes to issue the debt as well as the specific aspects of the proposed debt issue, including

(1) amounts;

(2) times;

(3) maturities;

(4) debt structure and security features;

(5) credit enhancements;

(6) use of proceeds;

(7) official documents;

(8) planned rating agency presentations; and

(9) selection, retention, or compensation of financial advisors, bond counsel, trustees, underwriters, and other professionals.

(c) The state bond committee shall consider approval of the amount and time of sale of the debt. The committee shall approve the issuance of the debt if, in its judgment, issuance of the debt is in the best interests of the state. The committee may limit approval of the issuance of debt upon compliance with terms established by the committee.

(d) At the time of sale of the debt, the state bond committee shall review the bids or pricing of the debt, including discounts, underwriting spreads, and interest rates. If the committee determines that the bids or prices are not satisfactory or that the bidders are not responsible, the agency may not sell the debt.

Sec. 37.15.790. MUNICIPAL SCHOOL DEBT. If, at any time, the state bond committee, in its judgment, determines that the amount or

retirement of debt issued by municipalities and subject to reimbursement by the state under AS 14.11.100 is not in the best interest of the state, the committee may

(1) establish an amount or amounts, for any or all years before the maturity of all of that municipal debt, that may not be exceeded by the Department of Education in approving requests under AS 14.11.103; or

(2) establish, under AS 14.11.100(j)(3), a term required for the maturities of municipal debt authorized by local voters after March 31, 1986.

* Sec. 22. AS 39.25.120(c) is amended by adding a new paragraph to read:

(19) employees of the state bond committee.

* Sec. 23. This Act takes effect immediately in accordance with AS 01.-10.070(c).

TABLE 1.21 (DRAFT FOR ALASKA PUBLIC DEBT 1986)

Debt of Alaska Municipalities
6-30-85
(Dollars)

Boroughs	G.O. Debt	Revenue Debt	Total Debt	School G.O. Debt	% of School Debt Paid by State	Net G.O. Debt	Total Net Debt
ANCHORAGE, MUNICIPALITY OF	358,799,900	347,080,000	705,879,900	139,965,000	94 %	227,232,800	574,312,800
BRISTOL BAY	3,535,000	-	3,535,000	3,535,000	90	353,500	353,500
FAIRBANKS NORTH STAR	80,700,000	-	80,700,000	79,900,000	92	7,192,000	7,192,000
Fairbanks City	9,010,000	61,170,000	70,180,000	-	-	9,010,000	70,180,000
North Pole	1,218,550	-	1,218,550	-	-	1,218,550	1,218,550
TOTAL	90,928,500	61,170,000	152,098,500	79,900,000	92	17,420,550	78,591,050
HAINES	555,000	-	555,000	500,000	100	-	-
Haines City	745,000	-	745,000	-	-	745,000	745,000
TOTAL	1,300,000	-	1,300,000	500,000	100	800,000	800,000
JUNEAU, CITY & BOROUGH	47,651,000	27,480,000	75,131,000	30,209,018	91	20,160,794	47,640,794
KENAI PENINSULA	119,324,005	-	119,324,005	100,120,000	90	29,216,005	29,216,005
Homer City	2,113,000	1,025,000	3,138,000	-	-	2,113,000	3,138,000
Kenai City	5,835,000	235,000	6,070,000	-	-	5,835,000	6,070,000
Seldovia City	378,000	43,000	421,000	-	-	378,000	421,000
Seward City	10,000	7,672,000	7,682,000	-	-	10,000	7,682,000
Soldotna City	2,800,000	-	2,800,000	-	-	2,800,000	2,800,000
TOTAL	130,460,005	8,975,000	139,435,005	100,120,000	90	40,352,005	49,327,005
KETCHIKAN GATEWAY	21,090,000	410,000	21,500,000	16,445,000	92	5,960,600	6,370,600
Ketchikan City	10,840,000	23,280,000	34,120,000	-	-	10,840,000	34,120,000
TOTAL	31,930,000	23,690,000	55,620,000	16,445,000	92	16,800,600	40,490,600
KODIAK ISLAND	25,815,000	-	25,815,000	25,515,000	91	2,596,350	2,596,350
Kodiak City	2,455,000	3,298,000	5,753,000	-	-	2,455,000	5,753,000
TOTAL	28,270,000	3,298,000	31,568,000	25,515,000	91	5,051,350	8,349,350
MATANUSKA-SUSITNA	110,160,000	-	110,160,000	95,120,000	90	24,552,000	24,552,000
Palmer City	2,048,000	290,000	2,338.000	-	-	2,048,000	2,338,000
TOTAL	112,208,000	290,000	112,498,000	95,120,000	90	26,600,000	26,890,000
NORTH SLOPE	1,155,680,000	-	1,155,680,000	207,220,000	97	954,676,600	954,676,600
SITKA, CITY & BOROUGH	12,400,000	53,675,000	66,075,000	2,052,258	100	10,347,742	64,022,742
TOTAL BOROUGHS	1,973,162,405	525,658,000	2,498,820,405	700,581,276	93 %	1,319,795,941	1,845,453,941

TABLE 1.21 (continued)

Cities	G.O. Debt	Revenue Debt	Total Debt	School G.O. Debt	% of School Debt Paid by State	Net G.O. Debt	Total Net Debt
Bethel	556,505	535,000	1,091,505	-	- %	556,505	1,091,508
Cordova	-	1,456,000	1,456,000	-	-	-	1,456,000
Craig	35,646	87,000	128,646	-	-	35,646	120,646
Dillingham	-	286,000	286,000	-	-	-	286,000
Galena	900,000	-	900,000	-	-	900,000	900,000
Hoonah	-	-	-	-	-	-	-
Hydaburg	-	-	-	-	-	-	-
Kake	-	86,000	86,000	-	-	-	86,000
King Cove	-	-	-	-	-	-	-
Klawock	-	-	-	-	-	-	-
Kotzebue	-	-	-	-	-	-	-
Nenana	397,356	2,320,000	2,717,356	190,000	100	207,356	2,527,356
Nome	2,161,250	-	2,161,250	-	-	2,161,250	2,161,250
Pelican	-	-	-	-	-	-	-
Petersburg	6,195,000	4,367,835	10,562,835	4,826,500	96	1,561,560	5,929,395
St. Mary's	-	-	-	-	-	-	-
Sand Point	-	-	-	-	-	-	-
Skagway	820,000	-	820,000	-	-	820,000	820,000
Tanana	-	-	-	-	-	-	-
Unalaska	3,299,032	429,216	3,728,248	925,000	90	2,466,532	2,895,748
Valdez	75,833,000	7,650,000	83,483,000	22,585,000	94	54,603,100	62,253,100
Whittier	-	-	-	-	-	-	-
Wrangell	10,750,000	812,600	11,562,600	9,385,777	82	3,053,663	3,866,263
Yakutat	235,193	490,476	725,669	-	-	235,193	725,669
TOTAL CITIES	101,182,982	18,520,127	119,703,109	37,912,277	91	66,600,805	85,120,932
TOTAL MUNICIPALITIES	2,074,345,387	544,178,127	2,618,523,514	738,493,553	93 %	1,386,396,746	1,930,574,873

Sources: Alaska Department of Education and Alaska Taxable 1985, Alaska Department of Community and Regional Affairs.

TABLE 1.22

Alaska Municipal Debt Ratios (DRAFT FOR ALASKA PUBLIC DEBT 1986)
6-30-85

Boroughs	Full Value	Population	GO Debt Per Capita	Ratio of GO Debt to Full Value	Net GO Debt Per Capita [1]	Ratio of Net GO Debt to Full Value [1]
ANCHORAGE, MUNICIPALITY OF	$15,755,411,000	248,263	$1,445	2.28%	$915	1.44%
BRISTOL BAY	101,798,800	1,271	2,781	3.47	278	.35
FAIRBANKS NORTH STAR	2,564,966,300	46,340				
Fairbanks City	1,458,574,300	27,099	332	.62	332	.62
North Pole	187,457,100	1,640	742	.65	742	.65
TOTAL	4,210,997,700	75,079	1,211	2.16	232	.41
HAINES	49,029,200	768				
Haines City	44,916,300	1,079	690	1.66	690	1.66
TOTAL	93,945,500	1,847	703	1.38	433	.85
JUNEAU, CITY & BOROUGH	1,613,388,900	29,370	1,622	2.95	686	1.25
KENAI PENINSULA	2,417,376,100	22,321				
Homer City	215,845,000	3,817	553	.98	553	.98
Kenai City	282,950,000	6,434	906	2.06	906	2.06
Seldovia City	16,451,300	678	557	2.30	557	2.30
Seward City	142,170,600	2,072	5	.01	5	.01
Soldotna City	215,425,400	3,597	778	1.30	778	1.30
TOTAL	3,290,219,200	38,919	3,352	3.97	1,037	1.23
KETCHIKAN GATEWAY	284,545,100	5,900				
Ketchikan City	391,440,000	8,414	1,288	3.81	1,288	3.81
TOTAL	675,985,100	14,314	2,230	4.72	1,174	2.49
KODIAK ISLAND	180,536,600	7,146				
Kodiak City	391,834,100	6,602	371	.63	371	.63
TOTAL	572,370,700	13,748	2,056	4.94	367	.88
MATANUSKA-SUSITNA	2,225,993,800	38,077				
Palmer City	141,412,400	3,016	679	1.45	679	1.45
TOTAL	2,367,406,200	41,093	2,730	4.74	647	1.12
NORTH SLOPE		12,342	93,638		77,352	
AS 29.53.045(b) Tax Limit	12,876,786,900			8.97		7.41
AS 29.53.045(c) Tax Limit	2,397,118,779			48.21		39.83
SITKA, CITY & BOROUGH	396,227,900	8,221	1,508	3.13	1,259	2.61
TOTAL BOROUGHS	41,954,537,900 [2]	484,467	4,073	4.70	2,724	3.15

TABLE 1.22 (continued)

Cities	Full Value	Population	GO Debt Per Capita	Ratio of GO Debt to Full Value	Net GO Debt Per Capita [1]	Ratio of Net GO Debt to Full Value [1]
Bethel	$182,296,900	3,681	$151	.31%	$151	.31%
Cordova	120,673,000	2,520				
Craig	34,707,400	1,167	31	.10	31	.10
Delta Junction	30,870,500	1,207				
Dillingham	94,669,900	2,100				
Eagle	9,104,500	194				
Galena	19,149,500	942	955	4.70	955	4.70
Hoonah	27,845,200	906				
Hydaburg	12,688,900	463				
Kake	11,608,000	633				
King Cove	23,230,800	547				
Klawock	5,563,000	600				
Kotzebue	93,245,100	2,981				
Nenana	12,881,500	542	733	3.08	383	2.10
Nome	116,712,900	3,876	558	1.85	558	1.85
Pelican	10,155,400	213				
Petersburg	161,219,300	3,137	1,975	3.84	498	.97
St. Mary's	4,239,400	563				
Sand Point	71,086,800	900				
Skagway	58,447,100	790	1,038	1.40	1,038	1.40
Tanana	11,195,400	425				
Unalaska	105,309,400	1,922	1,716	3.13	1,283	2.34
Unalakleet	19,714,500	787				
Valdez		3,687	20,581		14,810	
AS 29.53.045(b) Tax Limit	1,740,431,900			4.36		3.14
AS 29.53.045(c) Tax Limit	716,105,732			10.59		7.63
Whittier	19,419,200	338				
Wrangell	111,757,000	2,376	4,524	9.62	1,285	2.73
Yakutat	17,679,400	462	509	1.33	509	1.33
TOTAL CITIES	3,125,901,900 [2]	37,959	2,666	3.24	1,755	2.13
TOTAL MUNICIPALITIES	45,080,439,800	522,426	3,971	4.61	2,654	3.08
TOTAL STATEWIDE	48,915,237,900	566,657				

Source: Alaska Taxable 1985, Alaska Department of Community & Regional Affairs

1/ Net of school debt.

2/ Includes [illegible]

PROPOSED DRAFT LANGUAGE
FOR MUNICIPAL SCHOOL DEBT SECTION OF
ALASKA PUBLIC DEBT 1986

As of June 30, 1985, $738 million of municipal school debt was outstanding. Under a program enacted in 1970 (Alaska Statutes 14.11.100) the State will reimburse the municipalities for debt service on certain portions of that debt. On June 30, 1985, the aggregate total percentage of municipal school debt to be reimbursed by the State was 93%. The State share of municipal school debt was thus $687 million.

Because the statute which provides for reimbursement of a portion (100, 90 or 80 percent) of debt service on municipal school debt specifies a two year lag between payment by the municipality and reimbursement by the State for debt incurred prior to January 1, 1982, some principal and interest paid during the fiscal years ending June 30, 1984 and June 30, 1985 has not yet been reimbursed. The State share of municipal school debt outstanding on June 30, 1985 plus the State share of municipal school debt principal payments made by the municipalities during prior years but not yet reimbursed by the State amounted to a total of $754 million. If added to the total of State and State supported debt, the amount of the State's principal outstanding on that debt would have been $1,686 million.

On October 1, 1985 voters in six municipalities approved the issuance of an additional $303 million of general obligation school debt. Most of that debt will have been issued by June 30, 1986. Voters in the City of Sitka approved the issuance of $22.6 million of general obligation school debt in a special election on January 27, 1986. Voters in the Kodiak Island Borough will decide on the issuance of almost $10 million of general obligation school debt in a special election on March 25, 1986. If issued, current statute provides for State reimbursement of up to eighty percent of the debt service on that debt during the year in which the payments are made.

Version #3
Cook
2/25/86 ✓

Original sponsor: Rules/governor

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 521 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the issuance of municipal general obligation bonds; and providing for an effective date."

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

* Section 1. AS 29.10.200 is amended by adding a new paragraph to read:

(47) AS 29.47.190 - 29.47.195 (notice of and limitation on debt).

* Sec. 2. AS 29.47.190(b) is amended to read:

(b) Before a general obligation bond issue election, the governing body shall have published a notice of the total existing bond indebtedness at least once a week for three consecutive weeks. The first notice shall be published at least 20 days before the date of the election. A notice must [SHALL] include

(1) the current total general obligation bonded indebtedness, including authorized but unsold bonds, of the municipality;

(2) the cost of the debt service on the current indebtedness;

(3) the total assessed value of taxable property in the municipality;

(4) the full value of taxable property in the municipality as determined by the department; and

(5) for a city in a borough, the current total general obligation bonded indebtness of the borough, including authorized but unsold bonds.

new

* Sec. 3. AS 29.47.190 is amended by adding a new subsection to read:

(c) This section applies to home rule and general law municipalities.

* Sec. 4. AS 29.47 is amended by adding a new section to read:

Sec. 29.47.195. LIMITATION ON MUNICIPAL DEBT. (a) A governing body may not authorize issuance of general obligation bonds unless

(1) the general obligation bonded indebtedness of the municipality outstanding at the time of the authorization by the governing body does not exceed seven percent of the average assessed value of taxable property of the municipality for the last two years; and

(2) upon issuance of the authorized bonds the total general obligation bonded indebtedness of the municipality will not exceed seven percent of the average assessed value of taxable property of the municipality for the last two years.

(b) For purposes of calculating current general obligation bonded indebtedness under (a) of this section for a borough, the general obligation bonded indebtedness of each city in the borough shall be included. For purposes of determining the current general obligation bonded indebtness for a city in a borough, a proportional share of the borough's general obligation bonded indebtedness shall be included based on the value of taxable property in the city compared to the total value of taxable property in the borough.

(c) The limitation under (a) of this section does not apply to

(1) general obligation bonds necessary because of a natural disaster;

(2) general obligation bonds necessary to protect the public health;

(3) general obligation bonds for which, without expenditure

of tax revenue, cash receipts from fees, rents, or other charges pledged to pay the debt have been sufficient each fiscal year after issuance of the bonds to meet interest and redemption payments on the bonds and costs of operating and maintaining the capital project financed with the bonds;

(4) bond anticipation notes;

(5) revenue anticipation notes issued in accordance with article IX, sec. 10, Constitution of the State of Alaska; or

(6) debt for which there are sinking funds or other funds on hand pledged to the payment of the debt, including the proceeds of refunding bonds or refunding notes.

* ~~Sec. 5. This Act takes effect immediately in accordance with AS 01.-10.070(c).~~

Alaska MUNICIPAL League

TELEPHONES
(907) 586-1325
(907) 586-6526

105 MUNICIPAL WAY, SUITE 301
JUNEAU, ALASKA 99801

To: Representative John Sund, Chairman
House Special Committee on Loans

From: Scott A. Burgess, Executive Director

Date: February 25, 1986

Subject: HB 521 - Municipal Debt Limit

You asked me to look into the historical picture for municipal G.O. debt/full assessed value ratio, and how the 7% limit might have applied.

Attached is the information from "Alaska Taxable" for the years, 1979 - 1985. Unfortunately, the information for prior years was not readily available except in aggregate for all municipalities (last page).

Several municipalities have approached or exceeded the 7% limit over the years, e.g. Palmer, Bristol Bay Borough and Unalaska; however, the only indication that pre-oil revenues and capital budgets have kept the percentage down might be the total 5.2% municipal debt to valuation in 1975, compared to 4.3% in 1985.

I hope this information is useful.

SEVEN PERCENT CAP

Borough	FULL VALUE	G. . DEBT	7% OF FULL VALUE	PERCENT OF G.O. DEBT/CAP	CURRENT PERCENT DEBT
Anchorage	$15,755,411,000.00	$358,799,900.00	$1,102,878,770.00	32.53%	2.28%
Bristol Bay	$101,798,800.00	$3,535,000.00	$7,125,916.00	49.61%	3.47%
Fairbanks	$4,210,997,700.00	$90,926,500.00	$294,769,839.00	30.85%	2.16%
Haines	$93,945,500.00	$1,300,000.00	$6,576,185.00	19.77%	1.38%
Juneau	$1,613,388,900.00	$47,631,000.00	$112,937,223.00	42.19%	2.95%
Kenai Peninsula	$3,290,219,200.00	$137,929,000.00	$230,315,344.00	59.89%	4.19%
Ketchikan Gateway	$675,985,100.00	$31,930,000.00	$47,318,957.00	67.48%	4.72%
Kodiak	$572,370,700.00	$28,270,000.00	$40,065,949.00	70.56%	4.94%
Mat-Su	$2,367,406,200.00	$112,208,000.00	$165,718,434.00	67.71%	4.74%
North Slope	$12,876,786,900.00	$1,155,680,000.00	$901,375,083.00	128.21%	8.97%
Sitka	$396,227,900.00	$12,400,000.00	$27,735,953.00	44.71%	3.13%
Total Boroughs	$41,954,537,900.00	$1,980,631,400.00	$2,936,817,653.00	67.44%	4.72%

CITIES

Bethel	$182,296,900.00	$556,500.00	$12,760,783.00	4.36%	0.31%
Cordova	$120,673,000.00	$0.00	$8,447,110.00	0.00%	0.00%
Craig	$34,707,400.00	$0.00	$2,429,518.00	0.00%	0.00%
Delta Junction	$30,870,500	$0	$2,160,935.00	0.00%	0.00%
Dillingham	$94,669,900.00	$0.00	$6,626,893.00	0.00%	0.00%
Eagle	$9,104,500.00	$0.00	$637,315.00	0.00%	0.00%
Galena	$19,149,500.00	$900,000.00	$1,340,465.00	67.14%	4.70%
Hoonah	$27,845,200.00	$0.00	$1,949,164.00	0.00%	0.00%
Hydaburg	$12,688,900.00	$0.00	$888,223.00	0.00%	0.00%
Kake	$11,608,000.00	$0.00	$812,560.00	0.00%	0.00%
King Cove	$23,230,800.00	$0.00	$1,626,156.00	0.00%	0.00%
Klawock	$5,563,000.00	$0.00	$389,410.00	0.00%	0.00%
Kotzebue	$93,245,100.00	$0.00	$6,527,157.00	0.00%	0.00%
Nenana	$12,881,500.00	$396,300.00	$901,705.00	43.95%	3.08%
Nome	$116,712,900.00	$2,161,200.00	$8,169,903.00	26.45%	1.85%
Pelican	$10,155,400.00	$0.00	$710,878.00	0.00%	0.00%
Petersburg	$161,219,300.00	$6,195,000.00	$11,285,351.00	54.89%	3.84%
Sand Point	$71,086,800.00	$0.00	$4,976,076.00	0.00%	0.00%
Skagway	$58,447,100.00	$820,000.00	$4,091,297.00	20.04%	1.40%
St. Mary's	$4,239,400.00	$0.00	$296,758.00	0.00%	0.00%
Tanana	$11,195,400.00	$0.00	$783,678.00	0.00%	0.00%
Unalakleet	$19,714,500	$0	$1,380,015.00	0.00%	0.00%
Unalaska	$105,309,400.00	$3,299,000.00	$7,371,658.00	44.75%	3.13%
Valdez	$1,740,431,900.00	$75,833,000.00	$121,830,233.00	62.24%	4.36%
Whittier	$19,419,200.00	$0.00	$1,359,344.00	0.00%	0.00%
Wrangell	$111,757,000.00	$10,750,000.00	$7,822,990.00	137.42%	9.62%
Yakutat	$17,679,400.00	$235,200.00	$1,237,558.00	19.01%	1.33%
TOTAL CITIES	$3,135,901,900.00	$101,146,200.00	$218,813,133.00	46.22%	3.24%
STATE	$48,915,237,900.00	$816,100,000.00	$3,424,066,653.00	23.83%	1.67%
Total Boroughs	$41,954,537,900.00	$1,980,631,400.00	$2,936,817,653.00	67.44%	4.72%

TABLE I

Borough	Full Value	Population	General Obligation Debt	PER Capita Debt	PER Capita Value	DEBT % TO VALUATION
Anchorage						
City	$4,982,502,900					
Other (includes State assessed)	$8,216,852,900					
TOTAL	$13,199,355,800	244030	$355,008,897	$1,455	$54,089	2.69%
Bristol Bay — TOTAL	$112,215,200	1271	$3,665,000	$2,884	$88,289	3.27%
Fairbanks						
City	$1,385,598,700	27103	$10,590,000	$391	$51,123	0.76%
North Pole	$119,049,000	1005	$1,237,000	$1,231	$118,457	1.04%
Other (includes State assessed)	$2,123,270,930		$85,300,000			4.02%
TOTAL	$3,627,908,630	69633	$97,127,000	$1,395	$52,100	2.68%
Haines						
City	$29,627,633	1079	$765,000	$709	$27,458	2.58%
Other	$59,255,267		$555,000			0.94%
TOTAL	$88,882,900	1847	$1,320,000	$715	$48,123	1.49%
Juneau						
City	$482,026,900					
Douglas	$61,679,900					
Other	$950,212,400					
TOTAL	$1,493,919,200	28941	$51,761,000	$1,789	$51,619	3.46%
Kenai Peninsula						
Homer	$150,681,179	5432	$2,677,000	$493	$27,740	1.78%
Kenai	$179,859,530	6176	$3,230,000	$523	$29,122	1.80%
Seldovia	$20,224,597	678	$397,000	$586	$29,830	1.96%
Seward	$85,492,086	2072	$2,609,000	$1,259	$41,261	3.05%
Soldotna	$130,644,557	3597	$2,326,653	$647	$36,320	1.78%
Other (includes State assessed)	$2,535,738,051					
TOTAL	$3,102,640,000	38919	$131,579,403	$3,381	$79,720	4.24%
Ketchikan Gateway						
City	$360,146,300	8414	$11,305,000	$1,344	$42,803	3.14%
Other	$351,195,300		$22,490,000			6.40%
TOTAL	$711,341,600	14314	$33,795,000	$2,361	$49,696	4.75%
Kodiak						
City	$459,473,500	6469	$2,375,000	$367	$71,027	0.52%
Other	$191,971,200		$30,025,000			15.64%
TOTAL	$651,444,700	13479	$32,400,000	$2,403	$48,330	4.97%
Mat-Su						
Palmer	$149,565,900	2792	$2,048,000	$734	$53,569	1.37%
Houston	$46,743,400	739		$0	$63,252	0.00%
Wasilla	$219,402,800	3548		$0	$61,838	0.00%
Other (includes State assessed)	$1,357,672,860		$78,855,718			5.81%
TOTAL	$1,773,384,960	34030	$80,903,718	$2,377	$52,112	4.56%
North Slope (includes State assessed) TOTAL	$12,354,883,600	12359	$1,203,440,000	$97,373	$999,667	9.74%
Sitka — TOTAL	$756,351,400	8221	$13,220,000	$1,608	$92,002	1.75%
Total Boroughs	$37,872,327,990	467044	$2,004,220,018	$4,291	$81,089	5.29%

CITIES	Full Value	Population	General Obligation Debt	PER Capita Debt	PER Capita Value	DEBT % TO VALUATION
Bethel	$170,370,900	3681	$1,155,856	$314	$46,284	0.68%
Cordova	$121,884,950	2520	$1,434,800	$569	$48,367	1.18%
Craig	$28,381,400	907	$89,000	$98	$31,292	0.31%
Dillingham	$112,645,500	2026	$68,000	$34	$55,600	0.06%
Galena	$17,097,800	902	$0	$0	$18,955	0.00%
Hoonah	$26,023,600	865	$0	$0	$30,085	0.00%
Hydaburg	$11,858,800	429	$0	$0	$27,643	0.00%
Kake	$10,848,600	631	$90,000	$143	$17,193	0.83%
King Cove	$21,711,000	521	$0	$0	$41,672	0.00%
Klawock	$5,199,100	542	$0	$0	$9,592	0.00%
Kotzebue	$85,041,480	2981	$0	$0	$28,528	0.00%
Nenana	$11,233,940	547	$2,869,000	$5,245	$20,537	25.54%
Nome	$207,050,000	3732	$300,000	$80	$55,480	0.14%
Pelican	$9,143,800	213	$0	$0	$42,929	0.00%
Petersburg	$161,668,700	3137	$5,225,000	$1,666	$51,536	3.23%
St. Mary's	$3,925,300	563	$0	$0	$6,972	0.00%
Sand-Point	$66,436,300	870	$0	$0	$76,364	0.00%
Skagway	$63,333,600	790	$836,000	$1,058	$80,169	1.32%
Tanana	$6,617,500	417	$0	$0	$15,869	0.00%
Unalaska	$95,670,900	1922	$5,392,375	$2,806	$49,777	5.64%
Valdez (includes State assessed)	$1,720,125,130	3687	$80,497,000	$21,833	$466,538	4.68%
Whittier	$18,510,280	273	$0	$0	$67,803	0.00%
Wrangell	$106,435,200	2376	$3,395,000	$1,429	$44,796	3.19%
Yakutat (includes State assessed)	$17,949,840	462	$238,800	$517	$38,852	1.33%
Eagle	$7,848,700	161	$0	$0	$48,750	0.00%
TOTAL CITIES	$3,107,012,320	35155	$101,590,831	$2,890	$88,380	3.27%
STATE	$45,009,767,610	547475	$924,008,000	$1,688	$82,213	2.05%
Total Boroughs	$37,872,327,990	467044	$2,004,220,018	$4,291	$81,089	5.29%
STATEWIDE TOTALS	$45,009,767,610	547475	$3,029,818,849	$5,534	$82,213	6.73%

TABLE I

VALUATION, POPULATION AND G.O. BONDED DEBT

BOROUGHS	FULL VALUE DETERMINATION 1-1-83	POPULATION 7-1-83	G.O. BONDED DEBT 7-1-83	PER CAPITA DEBT	PER CAPITA VALUATION	DEBT % TO VALUATION
ANCHORAGE, MUNICIPALITY OF						
TOTAL	10,866,745,130	230,846	353,114,898	1,530	47,074	3.25
BRISTOL BAY						
TOTAL	103,818,800	1,271	3,785,000	2,978	81,683	3.65
FAIRBANKS NORTH STAR	3,356,789,390	65,311	81,575,000	1,249	51,397	2.43
Fairbanks City	2,715,947,100	27,103	11,915,000	440	100,208	0.44
North Pole	114,967,700	934	-0-	-0-	123,092	-0-
TOTAL	3,356,789,390	66,311	93,490,000	1,432	51,397	2.79
HAINES	84,508,200	1,847	660,000	357	45,754	.78
Haines City	40,740,800	1,079	849,710	788	37,758	2.09
TOTAL	84,508,200	1,847	1,509,710	817	45,754	1.79
JUNEAU, CITY & BOROUGH						
TOTAL	1,145,326,400	27,519	27,904,000	1,014	41,619	2.44
KENAI PENINSULA	3,906,130,750	35,769	108,180,024	3,024	109,204	2.77
Homer City	174,800,200	3,237	3,055,689	944	54,000	1.75
Kenai City	206,824,100	5,721	3,695,000	646	36,152	1.79
Seldovia City	18,246,100	510	430,000	843	35,777	2.36
Seward City	87,603,300	1,871	2,727,000	1,458	46,822	3.11
Soldotna City	132,734,800	3,353	2,294,000	684	39,587	1.73
TOTAL	3,906,130,750	32,769	120,381,713	3,366	109,204	3.08
KETCHIKAN GATEWAY	690,816,100	14,314	23,429,000	1,637	48,262	3.39
Ketchikan City	367,163,600	8,414	7,550,000	897	43,637	2.06
TOTAL	690,816,100	14,314	30,979,000	2,164	48,262	4.48
KODIAK ISLAND	541,882,100	13,079	22,275,000	1,703	41,432	4.11
Kodiak City	367,230,600	6,072	3,250,000	553	60,479	0.89
TOTAL	541,882,100	13,079	25,525,000	1,952	41,431	4.71
MATANUSKA-SUSITNA	1,421,820,060	30,568	83,304,989	2,725	46,514	5.86
Palmer City	91,963,800	2,738	2,128,000	-777	33,588	2.31
TOTAL	1,421,820,060	30,568	85,432,989	2,795	46,514	6.01
NORTH SLOPE BOROUGH						
TOTAL	10,059,361,780	7,721	755,700,000	97,876	1,302,857	7.51
SITKA, CITY & BOROUGH						
TOTAL	439,486,500	8,221	16,488,419	2,006	53,459	3.75
TOTAL BOROUGHS	32,616,691,210	433,466	1,514,310,729	3,493	75,246	4.64

TABLE I

VALUATION, POPULATION AND G.O. BONDED DEBT

CITIES	FULL VALUE DETERMINATION 1-1-83	POPULATION 7-1-83	G.O. BONDED DEBT 7-1-83	PER CAPITA DEBT	PER CAPITA VALUATION	DEBT % TO VALUATION
BETHEL	161,303,600	3,681	1,225,000	333	43,821	.76
CORDOVA	127,490,900	2,307	1,557,000	675	55,263	1.22
CRAIG	24,451,600	907	37,498	41	26,959	.15
DILLINGHAM	101,306,600	1,896	66,723	35	53,432	.07
GALENA	15,213,500	876	-0-	-0-	17,367	-0-
HOONAH	23,534,900	865	-0-	-0-	27,208	-0-
HYDABURG	10,652,500	429	-0-	-0-	24,831	-0-
KAKE	9,622,950	631	-0-	-0-	15,250	-0-
KING COVE	19,563,700	586	-0-	-0-	33,385	-0-
KLAWOCK	4,619,800	508	128,000	252	9,094	2.77
KOTZEBUE	77,496,800	2,981	-0-	-0-	31,452	-0-
NENANA	10,987,670	586	2,869,000	4,896	18,750	26.11
NOME	113,099,900	3,620	390,000	108	31,243	.35
PELICAN	9,444,600	213	-0-	-0-	44,341	-0-
PETERSBURG	142,322,700	3,046	5,570,000	1,829	46,725	3.91
ST. MARY'S	3,512,600	563	-0-	-0-	6,239	-0-
SAND POINT	59,691,200	889	-0-	-0-	67,144	-0-
SKAGWAY	61,462,250	790	1,753,325	2,219	77,800	2.85
TANANA	5,870,800	485	-0-	-0-	12,105	-0-
UNALASKA	86,393,240	1,922	5,522,375	2,873	44,950	6.40
VALDEZ	1,696,828,300	3,687	84,460,000	22,864	459,347	4.98
WRANGELL	97,867,600	2,376	2,484,000	1,045	41,190	2.54
YAKUTAT	25,788,660	462	133,800	290	55,820	.52
TOTAL CITIES	2,649,726,170	34,306	106,196,721	3,142	78,404	4.01
STATE	39,009,681,680	516,324	842,413,000	1,814	75,844	.08
MUNICIPAL	35,266,417,380	446,414	1,316,204,221	2,948	70,284	4.19
STATEWIDE TOTAL	39,009,681,680	516,324	1,620,507,450	4,648	75,844	3.75

Note: All population figures include military personnel.

TABLE I

VALUATION, POPULATION AND G.O. BONDED DEBT

BOROUGHS	FULL VALUE DETERMINATION 1-1-82	POPULATION 7-1-82	G.O. BONDED DEBT 7-1-82	PER CAPITA DEBT	PER CAPITA VALUATION	DEBT % TO VALUATION
ANCHORAGE, MUNICIPALITY OF						
TOTAL	10,611,784,259	204,216	261,010,000	1,278	51,963	2.46
BRISTOL BAY						
TOTAL	87,477,900	1,271	3,895,000	3,064	68,826	4.45
FAIRBANKS NORTH STAR	2,996,031,060	58,721	83,158,350	1,416	51,021	2.78
Fairbanks City	1,067,847,224	25,747	11,915,000	463	41,474	1.12
North Pole	99,724,738	934	-0-	-0-	106,772	-0-
TOTAL	2,996,031,060	58,721	95,073,350	1,619	51,021	3.17
HAINES	70,950,672	1,847	923,310	499	38,414	1.30
Haines City	34,791,413	1,079	805,000	746	32,244	.23
TOTAL	70,950,672	1,847	1,728,310	935	38,414	2.44
JUNEAU, CITY & BOROUGH						
TOTAL	1,037,772,068	22,023	27,904,000	1,267	47,122	2.69
KENAI PENINSULA	2,978,040,060	32,303	98,999,603	3,064	92,191	3.32
Homer City	155,219,629	2,897	2,877,000	993	53,579	1.85
Kenai City	205,513,739	5,231	3,695,000	706	39,288	1.80
Seldovia City	19,029,142	729	430,000	590	26,103	2.26
Seward City	63,650,774	1,828	-0-	-0-	34,820	-0-
Soldotna City	124,949,463	3,008	-0-	-0-	41,539	-0-
TOTAL	2,978,040,060	32,303	106,001,603	3,279	92,191	3.56
KETCHIKAN GATEWAY	666,802,500	12,431	14,495,000	1,166	53,640	2.17
Ketchikan City	314,484,068	7,777	8,110,000	1,043	40,438	2.58
TOTAL	666,802,500	12,431	22,605,000	18189	53,640	3.39
KODIAK ISLAND	438,045,500	12,714	20,042,372	1,576	34,454	4.58
Kodiak City	323,844,006	5,873	3,250,000	553	55,141	1.00
TOTAL	438,045,500	12,714	23,292,372	1,832	34,454	5.32
MATANUSKA-SUSITNA	1,203,078,576	26,002	65,218,090	2,508	46,269	5.42
Palmer City	92,287,31?	2,524	3,629,401	1,438	36,568	3.93
TOTAL	1,203,078,5??	26,..2	68,847,491	1,488	46,269	5.72
NORTH SLOPE BOROUGH						
TOTAL	8,268,630,720	7,552	587,400,000	77,781	1,094,893	7.10
SITKA, CITY & BOROUGH						
TOTAL	421,405,430	8,221	17,486,200	2,127	51,259	4.15
TOTAL BOROUGHS	28,780,018,745	387,301	1,215,243,326	3,138	74,309	4.22

TABLE I

VALUATION, POPULATION AND G.O. BONDED DEBT

CITIES	FULL VALUE DETERMINATION 1-1-82	POPULATION 7-1-82	G.O. BONDED DEBT 7-1-82	PER CAPITA DEBT	PER CAPITA VALUATION	DEBT % TO VALUATION
BETHEL	** 142,746,500	3,681	585,000	159	38,779	.41
CORDOVA	116,365,600	2,241	1,673,200	747	51,921	1.44
CRAIG	21,638,600	604	37,498	62	35,825	.17
DILLINGHAM	69,193,500	1,841	73,000	40	37,585	.11
GALENA	6,229,700	844	-0-	-0-	7,382	-0-
HOONAH	16,659,050	863	-0-	-0-	19,304	-0-
HYDABURG	8,976,800	412	-0-	-0-	21,883	-0-
KAKE	7,371,700	631	-0-	-0-	11,683	-0-
KING COVE	28,256,300	523	-0-	-0-	54,027	-0-
KLAWOCK	3,711,300	433	-0-	-0-	8,571	-0-
KOTZEBUE	** 89,072,800	2,464	-0-	-0-	36,150	-0-
NENANA	8,966,600	540	2,725,000	5,046	16,605	30.39
NOME	158,666,727	3,430	507,872	148	46,259	.32
PELICAN	13,368,755	185	-0-	-0-	72,264	-0-
PETERSBURG	129,351,800	3,040	2,995,000	985	42,550	2.32
ST. MARY'S	3,108,500	442	-0-	-0-	7,033	-0-
SAND POINT	55,240,000	797	-0-	-0-	69,310	-0-
SKAGWAY	56,933,200	790	1,826,325	2,312	72,067	3.21
TANANA	5,195,300	485	-0-	-0-	10,712	-0-
UNALASKA	73,520,942	1,922	3,500,000	1,821	38,252	4.76
VALDEZ	1,701,061,400	3,694	84,460,000	22,864	460,493	4.97
WRANGELL	87,754,617	2,376	2,578,000	1,085	36,934	2.94
YAKUTAT	24,526,680	462	-0-	-0-	53,088	-0-
TOTAL CITIES	2,827,916,371	32,700	100,960,895	3,087	86,481	3.57
STATE	35,226,938,816	464,460	842,413,000	1,814	75,844	.08
MUNICIPAL	31,376,115,816	446,414	1,316,204,221	2,948	70,284	4.19
STATEWIDE TOTAL	35,226,938,816	464,460	2,158,617,221	4,648	75,844	3.75

*TOTAL POPULATION LISTED IN THIS TABLE

Note: All population figures include military personnel.

TABLE VII

VALUATION, POPULATION AND G.O. BONDED DEBT

BOROUGHS	FULL VALUE DETERMINATION 1-1-81	POPULATION 7-1-81	G.O. BONDED DEBT 7-1-81	PER CAPITA DEBT	PER CAPITA VALUATION	DEBT % TO VALUATION
ANCHORAGE, MUNICIPALITY OF						
TOTAL	8,003,075,180	180,740	266,216,000	1,473	44,280	3.33
BRISTOL BAY						
TOTAL	85,017,500	1,182	4,000,000	3,384	71,927	4.71
FAIRBANKS NORTH STAR	2,606,854,330	51,659	83,055,000	1,608	50,463	3.19
Fairbanks City	850,853,800	25,568	14,465,000	566	33,278	1.70
North Pole	89,056,600	928	326,000	351	95,966	0.37
TOTAL	2,606,854,330	51,659	97,846,000	1,894	50,463	3.75
HAINES	63,753,650	1,712	1,015,258	593	37,239	1.59
Haines City	30,334,500	1,017	825,000	811	29,827	2.72
TOTAL	63,753,650	1,712	1,840,258	1,075	37,239	2.89
JUNEAU, CITY & BOROUGH						
TOTAL	859,024,500	21,080	16,875,000	801	40,751	1.97
KENAI PENINSULA	2,582,371,000	26,520	47,054,146	1,774	97,375	1.82
Homer City	145,074,250	2,588	1,650,000	638	56,057	1.14
Kenai City	190,958,350	4,558	3,960,000	869	41,895	2.07
Seldovia City	14,256,000	505	446,000	883	28,230	3.13
Seward City	71,361,400	1,943	-0-	-0-	36,727	-0-
Soldotna City	108,511,400	2,445	2,377,000	972	44,381	2.19
TOTAL	2,582,371,000	26,520	55,487,146	2,092	97,375	2.15
KETCHIKAN GATEWAY	545,522,900	11,373	7,279,000	640	47,967	1.33
Ketchikan City	273,541,600	7,200	8,630,000	1,199	37,992	3.16
TOTAL	545,522,900	11,373	15,909,000	1,399	47,967	2.92
KODIAK ISLAND	378,356,600	8,358	15,610,000	1,868	45,269	4.13
Kodiak City	298,300,700	4,678	3,485,000	745	63,767	1.17
TOTAL	378,356,600	8,358	19,095,000	2,285	45,269	5.05
MATANUSKA-SUSITNA	1,122,893,100	19,123	49,100,000	2,568	58,720	4.37
Palmer City	78,562,400	2,275	2,268,411	997	34,533	2.89
TOTAL	1,122,893,100	19,123	51,368,411	2,686	58,720	4.57
NORTH SLOPE BOROUGH						
TOTAL	6,704,742,250	7,098	454,200,000	63,990	944,596	6.77
SITKA, CITY & BOROUGH						
TOTAL	382,448,700	7,927	15,441,000	1,948	48,246	4.04
TOTAL BOROUGHS	23,334,059,710	336,772	998,277,815	2,964	69,287	4.28

SITKA, CITY & BOROUGH TOTAL TOTAL BOROUGHS	382,448,700 23,334,059,710	7,927 336,772	15,441,000 998,277,815	1,948 2,964	48,246 69,287	4.04 4.28

TABLE VII

VALUATION, POPULATION, AND G.O. BONDED DEBT

CITIES	FULL VALUE DETERMINATION 1-1-81	POPULATION 7-1-81	G.O. BONDED DEBT 7-1-81	PER CAPITA DEBT	PER CAPITA VALUATION	DEBT % TO VALUATION
BETHEL	108,004,100	3,549	-0-	-0-	30,432	-0-
CORDOVA	97,562,550	2,223	1,776,689	799	43,888	1.82
CRAIG	17,008,000	560	-0-	-0-	30,371	-0-
DILLINGHAM	58,781,900	1,670	109,000	65	35,199	.19
GALENA	5,784,000	805	-0-	-0-	7,185	-0-
HOONAH	15,199,900	799	-0-	-0-	19,024	-0-
HYDABURG	8,190,500	356	-0-	-0-	23,007	-0-
KAKE	6,726,000	583	-0-	-0-	11,537	-0-
KING COVE	8,591,800	513	-0-	-0-	16,748	-0-
KLAWOCK	3,386,200	389	-0-	-0-	8,705	-0-
KOTZEBUE	81,270,760	2,250	-0-	-0-	36,120	-0-
NENANA	9,702,500	592	225,000	380	16,389	2.32
NOME	104,516,600	3,039	555,000	183	34,392	.53
PELICAN	7,263,100	172	-0-	-0-	42,227	-0-
PETERSBURG	116,163,500	3,001	3,160,000	1,053	38,708	2.72
ST. MARY'S	2,836,200	432	-0-	-0-	6,565	-0-
SAND POINT	17,276,000	697	-0-	-0-	24,786	-0-
SKAGWAY	52,744,600	819	961,000	1,173	64,401	1.82
UNALASKA	85,319,800	1,944	3,500,000	1,800	43,889	4.10
VALDEZ	1,743,001,700	3,279	76,849,000	23,437	531,565	4.41
WRANGELL	70,581,500	2,345	2,656,000	1,133	30,099	3.76
YAKUTAT	23,362,160	430	-0-	-0-	54,331	-0-
TOTAL CITIES	2,453,998,510	30,447	89,791,689	2,949	80,599	3.66
STATE	29,780,286,180	422,187	701,178,000	1,661	70,538	2.36
MUNICIPAL	25,788,058,230	392,492	1,091,019,504	2,780	65,703	4.23
STATEWIDE TOTAL	29,780,286,180	422,187	1,792,197,504	4,245	70,538	6.02

*TOTAL POPULATION LISTED IN THIS TABLE

Note: All population figures include military personnel.

TABLE VII

VALUATION, POPULATION AND G. O. BONDED DEBT

BOROUGHS	FULL VALUE DETERMINATION 1-1-80	POPULATION 7-1-80	G.O. BONDED DEBT 7-1-80	PER CAPITA DEBT	PER CAPITA VALUATION	DEBT % TO VALUATION
ANCHORAGE, MUNICIPALITY OF						
TOTAL	7,495,203,650	204,328	259,003,000	12,676	36,682	3.46
BRISTOL BAY						
TOTAL	57,186,900	1,685	4,000,000	2,374	33,939	6.99
FAIRBANKS NORTH STAR	1,444,688,030	60,227	33,935,000	563	23,987	2.35
Fairbanks City	795,151,200	36,457	20,591,251	565	21,811	2.60
North Pole	71,632,900	823	350,000	425	87,039	.48
TOTAL	2,311,472,130	60,277	54,876,251	911	38,379	2.37
HAINES	29,646,700	1,924	1,130,355	588	15,409	3.81
Haines City	29,672,800	1,366	845,000	619	21,722	2.85
TOTAL	59,319,500	1,924	1,975,355	1,027	30,831	3.33
JUNEAU, CITY & BOROUGH OF						
TOTAL	713,912,400	23,115	18,145,000	784	30,885	2.54
KENAI PENINSULA	1,758,702,610	25,507	44,762,000	175	68,950	2.54
Homer City	127,909,800	2,227	2,224,000	999	57,436	1.74
Kenai City	137,051,700	4,421	-0-	-0-	31,000	-0-
Seldovia City	12,481,900	528	462,000	875	23,640	3.70
Seward City	69,032,900	1,788	1,316,000	736	38,609	1.91
Soldotna City	85,597,750	2,365	2,726,000	1,153	36,194	3.18
TOTAL	2,190,776,660	25,507	51,490,000	2,018	85,889	2.35
KETCHIKAN GATEWAY	219,310,300	13,463	7,614,000	558	16,289	3.47
Ketchikan City	216,000,400	8,542	8,950,000	1,048	25,286	4.15
TOTAL	435,310,700	13,463	16,564,000	1,230	32,334	3.81
KODIAK ISLAND	197,169,700	11,978	3,725,000	311	16,461	1.89
Kodiak City	160,493,200	4,668	3,744,000	802	34,382	2.33
TOTAL	357,662,900	11,978	7,469,000	624	29,860	2.09
MATANUSKA-SUSITNA	965,423,500	23,177	50,455,000	2,177	41,654	5.23
Palmer City	20,735,400	2,095	2,292,022	2,094	9,898	11.05
TOTAL	986,158,430	23,177	52,747,022	2,276	42,549	5.35
NORTH SLOPE						
TOTAL	5,818,229,841	4,160	257,000,000	55,748	1,262,089	4.42
SITKA, CITY & BOROUGH OF						
TOTAL	330,920,600	8,787	15,987,800	1,819	37,660	4.83
TOTAL BOROUGHS	20,756,153,711	378,801	739,257,428	1,952	54,794	3.56

TABLE VII

VALUATION, POPULATION AND G.O. BONDED DEBT

CITIES	FULL VALUE DETERMINATION 1-1-80	POPULATION 1-1-80	G.O. BONDED DEBT 1-1-80	PER CAPITA DEBT	PER CAPITA VALUATION	DEBT % TO VALUATION
BETHEL	-0-	3,853	700,000	182	-0-	-0-
CORDOVA	56,731,600	2,780	1,888,600	679	20,407	3.33
CRAIG	8,803,900	587	-0-	-0-	14,998	-0-
DILLINGHAM	47,697,200	1,656	116,000	70	28,803	.24
GALENA	4,292,000	957	-0-	-0-	4,485	-0-
HOONAH	7,518,783	1,093	-0-	-0-	6,879	-0-
HYDABURG	3,822,600	381	-0-	-0-	10,033	-0-
KAKE	3,234,100	710	-0-	-0-	4,555	-0-
KING COVE	6,979,200	733	-0-	-0-	9,521	-0-
KLAWOCK	2,966,600	404	61,460	152	7,343	2.08
KOTZEBUE	-0-	2,526	-0-	-0-	-0-	-0-
NENANA	5,785,400	503	233,000	463	11,502	4.03
NOME	82,179,700	2,892	895,000	309	29,049	1.09
PELICAN	6,505,000	221	-0-	-0-	29,434	-0-
PETERSBURG	78,706,200	3,197	3,410,000	1,067	24,619	4.33
ST. MARY'S	2,445,000	549	-0-	-0-	4,454	-0-
SAND POINT	10,700,000	794	-0-	-0-	13,476	-0-
SKAGWAY	47,245,900	877	1,006,000	1,147	53,872	2.13
UNALASKA	56,629,100	929	3,806	4	60,957	.01
VALDEZ	1,748,232,000	4,066	76,852,000	18,901	429,964	4.40
WRANGELL	60,922,500	3,325	2,689,000	809	9,196	4.41
YAKUTAT	14,567,700	442	-0-	-0-	32,959	-0-
TOTAL CITIES	2,255,964,483	33,475	87,854,866	2,624	67,393	3.63
STATE	26,927,537,754	457,201	573,186,000	1,254	58,896	2.13
MUNICIPAL	23,012,118,194	412,276*	827,112,294	2,006	55,817	3.59
STATEWIDE TOTAL	26,927,537,754	457,201	1,400,298,294	3,063	58,896	5.20

*TOTAL POPULATION LISTED IN THIS TABLE

Note: All population figures include military personel.

TABLE VII

VALUATION, POPULATION AND G.O. BONDED DEBT

BOROUGHS	FULL VALUE DETERMINATION 1-1-79	CIVILIAN POPULATION 7-1-79	G.O. BONDED DEBT 7-1-79	PER CAPITA DEBT	PER CAPITA VALUATION	DEBT % TO VALUATION
ANCHORAGE, MUNICIPALITY TOTAL	6,540,804,000	185,280	260,836,000	1,408	35,302	3.99
BRISTOL BAY TOTAL	41,564,600	1,685	565,000	335	24,667	1.36
FAIRBANKS NORTH STAR	2,303,862,300	60,227	36,643,000	608	38,253	1.59
Fairbanks City	727,804,500	30,462	16,055,000	527	23,892	2.21
North Pole	64,264,000	823	350,000	425	78,085	.54
TOTAL	2,303,862,300	60,227	53,048,000	881	38,253	2.30
HAINES	42,550,000	1,924	790,000	411	22,115	1.86
Haines City	22,569,900	1,366	865,000	633	16,523	3.83
TOTAL	42,550,000	1,924	1,655,000	860	22,115	3.89
JUNEAU, CITY & BOROUGH OF TOTAL	604,923,000	23,115	13,823,060	598	26,170	2.29
KENAI PENINSULA	2,050,959,800	25,507	45,739,500	1,793	80,408	2.23
Homer City	86,129,650	2,227	2,789,000	1,252	38,675	3.24
Kenai City	141,765,560	4,421	4,145,000	938	32,066	2.92
Seldovia City	9,172,600	528	477,000	903	17,372	5.20
Seward City	50,242,210	1,778	1,376,000	774	28,258	2.74
Soldotna City	84,356,630	2,365	2,790,000	1,180	35,669	3.31
TOTAL	2,050,959,800	25,507	57,316,500	2,247	80,407	2.79
KETCHIKAN GATEWAY	371,820,000	13,463	7,482,000	556	27,618	2.01
Ketchikan City	190,468,900	8,542	9,280,000	1,086	22,298	4.87
TOTAL	371,820,000	13,463	16,762,000	1,245	27,618	4.51
KODIAK ISLAND	309,925,487	8,926	3,930,000	440	34,722	1.27
Kodiak City	238,004,311	5,754	4,163,000	723	41,363	1.75
TOTAL	309,925,487	8,926	8,093,000	907	34,722	2.61
MATANUSKA-SUSITNA	928,420,000	23,177	52,455,000	2,263	40,058	5.65
Palmer City	57,824,900	2,056	2,315,278	1,126	28,125	4.00
TOTAL	928,420,000	23,177	54,770,278	2,363	40,058	5.90
NORTH SLOPE TOTAL	5,105,508,500	8,055	215,478,000	26,751	633,831	4.22
SITKA, CITY & BOROUGH OF TOTAL	322,127,700	8,787	11,008,626	1,253	36,660	3.42
TOTAL BOROUGHS	18,622,465,387	360,146	693,355,464	1,925	51,708	3.76

TABLE VII

VALUATION, POPULATION AND G.O. BONDED DEBT

CITIES	FULL VALUE DETERMINATION 1-1-79	CIVILIAN POPULATION 7-1-79	G.O. BONDED DEBT 7-1-79	PER CAPITA DEBT	PER CAPITA VALUATION	DEBT % TO VALUATION
BETHEL		3,853	765,000	199		
CORDOVA	49,704,500	2,780	1,992,800	717	17,879	4.01
CRAIG	7,918,600	587	138,111	235	13,490	1.74
DILLINGHAM	32,693,800	1,656	198,000	120	19,743	.06
EAGLE		142				
GALENA	4,011,200	957			4,191	
HOONAH	7,026,900	1,093			6,429	
HYDABURG	3,572,500	381			9,377	
KAKE	3,022,500	710			4,257	
KING COVE	6,446,300	733			8,794	
KLAWOCK	2,795,000	404			6,918	
NENANA	5,786,500	503	240,000	477	11,504	4.15
NOME	48,054,089	2,892	672,559	233	16,616	1.40
PELICAN	5,461,000	221			24,710	
PETERSBURG	66,846,200	3,197	3,715,000	1,162	20,909	5.56
ST. MARY'S	1,775,000	436			4,071	
SAND POINT	8,878,900	773			11,486	
SKAGWAY	40,996,100	877	1,585,375	1,808	46,746	3.87
UNALASKA	33,331,900	768	3,519,594	4,583	43,401	10.56
VALDEZ	1,652,877,200	4,066	59,595,000	14,657	406,512	3.61
WRANGELL	54,520,100	3,325	2,732,000	822	16,397	5.01
YAKUTAT	10,830,510	442			3,247	
TOTAL CITIES	2,046,548,810	30,796	75,153,439	2,440	66,455	3.67
STATE	25,007,474,690	429,649	670,503,000	1,561	58,204	2.68
MUNICIPAL	20,709,014,197	390,942	768,508,903	1,966	52,972	3.71
STATEWIDE TOTAL	25,007,474,690	429,649	1,439,011,903	3,349	48,115	5.75

TABLE I

VALUATION, POPULATION, AND G. O. BONDED DEBT

Per capita valuation, per capita general obligation bonded debt, and debt as a percent of valuation are reported in Table I. Included are organized boroughs and home rule and general law municipalities. Excluded are cities of the second class without debt or for which no valuation data is available. Data reported below for debt and population is as of July 1.

YEAR	MUNICIPALITIES DEBT	STATE OF ALASKA DEBT	TOTAL DEBT	POPULATION	PER CAPITA DEBT	% Debt to Valuation
1975	351,421,098	392,508,000	743,929,098	379,286	1,961	5.2%
1976	420,807,982	462,923,000	883,730,982	393,167	2,248	3.6
1977	519,599,526	530,008,000	1,049,607,526	398,983	2,631	3.0
1978	545,227,664	596,213,000	1,141,440,664	423,541	2,695	2.6
1979	768,508,903	670,503,000	1,439,011,903	429,649	3,349	3.1
1980	827,112,294	573,186,000	1,400,298,294	464,295	3,016	3.1
1981	1,091,019,504	701,178,000	1,792,197,504	422,187	4,245	3.7
1982	1,316,204,221	842,413,000	2,158,617,221	464,460	4,648	3.7
1983	1,619,154,450	946,183,000	2,565,332,450	516,324	4,968	4.1
1984	2,105,810,849	924,008,000	3,029,818,849	547,475	5,534	4.7
1985	2,084,098,600	816,100,000	2,900,198,600	566,657	5,118	4.3

29.47

Introduced: 1/27/86
Referred: House Special Committee on State Loans, Community & Regional Affairs and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 521

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the issuance of municipal general obligation bonds; and providing for an effective date."

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

* Section 1. AS 29.47.190(b) is amended to read:

(b) Before a general obligation bond issue election, the governing body shall have published a notice of the total existing bond indebtedness at least once a week for three consecutive weeks. The first notice must [SHALL] be published at least 20 days before the date of the election. A notice must [SHALL] include

(1) the current total general obligation bonded indebtedness, including authorized but unsold bonds of the municipality;

(2) the cost of the debt service on the current indebtedness;

(3) the total assessed value of taxable property in the municipality;

(4) the full property value, as determined by the Department of Community and Regional Affairs under AS 14.17.140.

* Sec. 2. AS 29.47 is amended by adding a new section to read:

Sec. 29.47.195. LIMITATION ON MUNICIPAL DEBT. (a) A municipality may not incur additional general obligation bond debt if current bonded indebtedness exceeds, or will exceed upon issuance of the debt issue, seven percent of the full property value, as determined by the Department of Community and Regional Affairs under AS 14.17.140.

overlapping indebtedness structure

(b) For purposes of the debt limitation established in (a) of this section, "municipality" includes a municipality or a combination of municipalities that occupy, in whole or in part, the same geographic area.

(c) For purposes of the debt limitation established in (a) of this section, "general obligation bond debt" does not include

(1) refunding bonds; or

(2) self-supporting debt even though such debt may also be general obligation debt of the municipality.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Amend definitions

certain effective date

STATE OF ALASKA
Outstanding Debt of the State
and State Agencies
($ Millions)

	Principal Outstanding 11-30-85 [1]	Principal Outstanding 6-30-85	Principal Outstanding 6-30-84
STATE DEBT			
State of Alaska General Obligation Bonds	752.7	816.1	924.0
STATE SUPPORTED DEBT			
Alaska State Housing Authority Lease Revenue Bonds	35.7	47.4	54.4
University of Alaska Debt	17.1	17.4	22.8
Spring Creek Correctional Center Lease, Certificates of Participation in Rent	45.4	0	0
Seward Student Service Center Commercial Lease, Certificates of Participation in Rent	5.8	5.8	0
Total State Supported Debt	104.0	70.6	77.2
STATE GUARANTEED DEBT			
Alaska Housing Finance Corporation State Guaranteed Bonds (Veterans Mortgage Program) [2]	658.4	681.4	702.8
STATE MORAL OBLIGATION DEBT			
Alaska Housing Finance Corporation			
Insured Mortgage Bonds	916.4	929.2	941.3
Insured Rural Mortgage Bonds	5.6	6.1	6.9
Alaska Industrial Development Authority Economic Development Bonds and Consolidated Bonds	237.3	213.5	155.3
Alaska Municipal Bond Bank	132.1	163.6	119.7
Total State Moral Obligation Debt	1,291.4	1,312.4	1,223.2
STATE REVENUE DEBT			
International Airports Revenue Bonds	42.6	43.8	44.6

STATE AGENCY DEBT			
Alaska Housing Finance Corporation			
Housing Mortgage Bonds	89.1	91.7	94.0
State Assisted Mortgage Bonds	877.2	882.9	1,103.8
Home Mortgage Bonds 2/	495.2	536.8	571.9
Second Mortgage Bonds	8.1	9.7	13.1
Fairbanks North Star Borough Residential Mortgage Bonds	24.7	28.5	33.9
Notes Payable to the State of Alaska	23.5	24.4	25.5
Alaska Municipal Bond Bank			
Coastal Energy Reserve Bonds and Loan Bonds	24.4	24.4	24.8
Alaska Medical Facility Authority	11.9	12.3	12.7
Alaska Power Authority			
Notes Payable to State of Alaska	188.9	191.1	191.1 3/
Variable Rate Demand Bonds	267.5	0	0
Alaska State Housing Authority			
Marine View, and Section 8 New Construction Debt	17.7	18.9	20.0
Wrangell 221(d)(3) Indebtedness	.5	.5	.5
HUD Notes Payable	39.2	39.2	31.7
Total State Agency Debt	2,067.9	1,860.4	2,123.2
STATE AGENCY COLLATERALIZED DEBT			
Alaska Housing Finance Corporation			
Collateralized Bonds (Veterans Mortgage Program)	552.5	402.5	-
Collateralized Home Mortgage Bonds	302.4	202.4	-
Overseas Finance N.V. Guaranteed Bonds	100.0	100.0	100.0
FNMA Collateralized Notes	296.7	300.0	175.0
Alaska State Housing Authority			
FHA Insured Mortgage Revenue Bonds	32.3	35.5	33.8
Total State Agency Collateralized Debt	1,283.9	1,040.4	308.8
Total State General Obligation Bonds and State Supported Debt	856.7	886.7	1,001.2
Total State and State Agency Debt	6,200.9	5,825.1	5,403.8

1/ 12-1-85 for AHFC Principal Outstanding.
2/ Excludes AHFC Collateralized Bonds.
3/ The figure represents general obligation bonds and variable rate demand notes which were refinanced by State Loans.

Sources: Alaska Public Debt, State of Alaska, March 1985; Selected Official Statements; "Corporation and Program Information," AHFC, July 1984; Other information provided by State agencies directly.

Debt Outstanding

Years Ended June 30	Alaska G.O. Debt	University of Alaska	ASHA	Certificates of Participation [1]	Total
1977	$530,008,000	$19,246,000	$93,190,000	$	$ 642,444,000
1978	596,213,000	18,605,000	88,575,000		703,393,000
1979	670,503,000	17,893,000	83,730,000		772,126,000
1980	573,186,000	22,251,000	78,550,000		673,987,000
1981	701,178,000	21,363,000	73,015,000		795,556,000
1982	842,413,000	20,305,000	67,125,000		929,843,000
1983	946,183,000	19,191,000	60,985,000		1,026,359,000
1984	924,008,000	18,316,000	54,440,000		996,764,000
1985	846,008,000	17,396,000	47,470,000	6,000,000	916,874,000
1986	738,148,000	16,660,000	40,055,000	51,265,000	846,128,000

1 Seward Student Service Center and Spring Creek Correctional Center.

	SLB Rating	SLB Trend	Moody's/ S&P	Population (000's)	Per Capita Debt	Net GO Debt/ Personal Income	Net GO Debt/ Market Value	General Fund Balance/ General Fund Revenues
Alabama	Lower AA	Stable	Aa/AA	4,110.0	$ 267	2.9%	1.6%	4.2%
Alaska	Mid AA	Stable	Aa/AA-	510.5	2,125	13.1	2.7	54.1
California	Upper AA	Stable	Aa/AA+	25,622.0	110	0.8	0.3	1.4
Connecticut	Mid AA	Upward	Aa1/AA	3,138.0	749	5.4	3.1	3.9
Delaware	Mid AA	Stable	Aa/AA	606.0	929	7.2	4.1	12.7
Florida	Mid AA	Stable	Aa/AA	10,976.0	270	2.3	1.1	8.9
Georgia	Upper AA	Upward	Aaa/AA	5,837.0	286	2.8	0.9	2.6
Hawaii	Lower AA	Stable	Aa/AA	1,038.7	1,608	13.5	4.3	11.9
Illinois	Upper AA	Stable	Aaa/AA+	11,511.0	308	2.2	1.5	2.2
Iowa	Lower MIG-1	Stable	MIG-2/NR	2,894.0	155	1.3	0.6	0.3
Louisiana	Lower AA	Stable	A1/AA-	4,462.0	707	6.9	2.8	0.1
Maine	Upper AA	Stable	Aa1/AAA	1,150.0	256	2.9	1.1	2.2
Maryland	Lower AAA	Stable	Aaa/AAA	4,354.0	682	5.2	2.7	1.2
Massachusetts	Upper A	Stable	A1/AA	5,767.0	777	5.9	3.6	0.3
Michigan	Mid A	Stable	A/A+	9,107.0	144	1.3	0.7	5.1
Minnesota	Mid AA	Stable	Aa/AA+	4,162.0	273	2.3	0.9	1.6
Mississippi	Lower AA	Stable	Aa/AA-	2,598.0	257	3.2	2.2	0.8
Missouri	Mid AAA	Stable	Aaa/AAA	4,985.0	59	0.5	0.5	10.5
Montana	Mid AA	Stable	Aa/AA	824.0	286	2.9	1.4	12.6
Nevada	Mid AA	Stable	Aa/AA	911.0	101	0.8	0.2	15.6
New Hampshire	Mid AA	Stable	Aa/AA	977.0	365	3.1	1.2	0
New Jersey	Mid AAA	Stable	Aaa/AAA	7,515.0	421	3.0	1.5	9.1
New Mexico	Mid AA	Stable	Aa/AA	1,424.0	247	2.6	1.2	4.0
New York	Upper A	Stable	A/A+	17,735.0	613	4.7	4.1	0.2
North Carolina	Mid AAA	Stable	Aaa/AAA	6,164.2	143	1.5	0.7	4.8
North Dakota	Upper AA	Stable	Aa/AA	673.0	94	0.8	0.2	14.6
Ohio	Mid AA	Stable	Aa/AA	10,752.0	294	2.6	1.2	0.9
Oregon	Upper A	Stable	A1/A+	2,674.0	174	1.6	0.6	8.4
Pennsylvania	Mid A	Upward	A/AA-	11,901.0	387	3.4	3.4	0.6
Rhode Island	Mid AA	Downward	Aa/AA-	958.2	372	3.2	1.7	2.5
South Carolina	Lower AAA	Stable	Aaa/AAA	3,300.0	196	2.2	1.0	4.4
Tennessee	Lower AAA	Stable	Aaa/AA+	4,722.0	111	1.0	0.5	5.0
Texas	Mid AAA	Stable	Aaa/AAA	15,221.0	67	0.6	0.2	12.9
Utah	Lower AAA	Stable	Aaa/AAA	1,672.0	177	2.0	0.6	13.9
Vermont	Mid AA	Downward	Aa/NR	530.0	516	4.8	1.6	(10.7)
Virginia	Mid AAA	Stable	Aaa/AAA	5,636.0	84	0.7	0.7	6.1
Washington	Lower AA	Downward	A/AA-	4,349.0	574	4.4	1.6	5.1
West Virginia	Upper A	Stable	A1/AA-	1,953.0	396	4.3	1.6	9.9
Wisconsin	Mid AA	Stable	Aa/AA	4,766.0	324	3.4	1.3	3.4

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Table
As of 01/15/06

	Moody's	S&P		5 Years	10 Years	15 Years	20 Years
Group 1	Aa1	AA	Connecticut	-.10	-.10	-.10	-.10
	Aaa	AA	Georgia	-.10	-.10	-.10	-.10
	Aaa	AAA	Maryland	-.10	-.10	-.10	-.10
	Aaa	AAA	New Jersey	-.10	-.10	-.10	-.10
	Aaa	AAA	North Carolina	-.10	-.10	-.10	-.10
	Aaa	AAA	South Carolina	-.10	-.10	-.10	-.10
	Aaa	AAA	Utah	-.10	-.10	-.10	-.10
	Aaa	AAA	Virginia	-.10	-.10	-.10	-.10
Group 2 (BASE GROUP)	Aa	AA+	California	6.10	7.20	7.75	7.90
	Aaa	AAA	Missouri*	6.10	7.20	7.75	7.90
	Aaa	NR	Oklahoma*	6.10	7.20	7.75	7.90
	Aaa	AA+	Tennessee	6.10	7.20	7.75	7.90
	Aaa	AAA	Texas	6.10	7.20	7.75	7.90
Group 3	Aa	AA	Alabama	+.05	+.05	+.10	+.10
	Aa	AA	Delaware	+.05	+.05	+.10	+.10
	Aa	AA	Montana*	+.05	+.05	+.10	+.10
	A	A+	New York	6.20	7.20	7.80	8.00
Group 4	Aa	AA	Kentucky	+.10	+.10	+.10	+.20
	Aa1	AAA	Maine	+.10	+.10	+.10	+.20
	A1	AA	Massachusetts	+.10	+.10	+.10	+.20
	Aa	AA+	Minnesota	+.10	+.10	+.10	+.20
	Aa	AA-	Mississippi*	+.10	+.10	+.10	+.20
	Aa	AA	New Mexico*	+.10	+.10	+.10	+.20
	Aa	AA	Ohio	+.10	+.10	+.10	+.20
Group 5	Aa	AA	Florida	+.15	+.15	+.20	+.25
	Aa	AA	Hawaii	+.15	+.15	+.20	+.25
	Aaa	AA+	Illinois	+.15	+.15	+.20	+.25
	Aa	AA	Nevada	+.15	+.15	+.20	+.25
	Aa	AA-	Rhode Island	+.15	+.15	+.20	+.25
	Aa	AA	Wisconsin	+.15	+.15	+.20	+.25
Group 6	Aa	AA-	Alaska	+.20	+.20	+.40	+.35
	Aa	AA	New Hampshire*	+.20	+.20	+.40	+.35
	A	AA-	Pennsylvania	+.20	+.20	+.40	+.35
	Aa	NR	Vermont	+.20	+.20	+.40	+.35
Group 7	A1	AA-	Louisiana	+.25	+.30	+.50	+.50
	Aa	AA	North Dakota*	+.25	+.30	+.50	+.50
	A1	A+	Oregon	+.25	+.30	+.50	+.50
	A1	AA-	West Virginia	+.25	+.30	+.50	+.50
Group 8	A	AA-	Washington	+.30	+.40	+.60	+.60
Group 9	A	A+	Michigan	+.40	+.60	+.60	+.65
Group 10	Baa1	A	Puerto Rico	+.60	+.80	+.75	+.75

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Idano, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have little or no outstanding state general obligation debt.

*** NR = not rated.

**** State comparative trading relationships are suoject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Annual Debt Service and Lease Payments

Years Ended June 30	State G.O. Debt	School Debt [1]	University of Alaska	ASHA	Certificates of Participation [2]	Total
1977	$ 41,883,935	$ 9,051,600	$1,537,720	$ 9,900,488	$	$ 62,373,743
1978	50,028,035	11,418,400	1,701,139	10,115,268		73,262,842
1979	60,024,203	22,273,300	1,697,318	10,090,898		94,085,719
1980	75,072,274	24,081,000	1,790,830	10,062,439		111,006,543
1981	97,632,358	38,380,134	2,195,644	9,974,141		148,182,277
1982	97,459,032	38,262,156	2,311,989	10,046,938		148,080,115
1983	143,624,338	36,203,300	2,306,381	9,914,785		192,048,804
1984	166,336,429	91,210,700	2,008,332	9,915,722		269,471,183
1985	169,523,874	92,758,415	1,998,829	9,923,642	70,190	274,274,950
1986	163,244,162	105,345,000	1,756,038	9,909,715	2,956,410	283,211,325

1 Amounts appropriated to fund State portion of municipal school construction outlays and debt service.

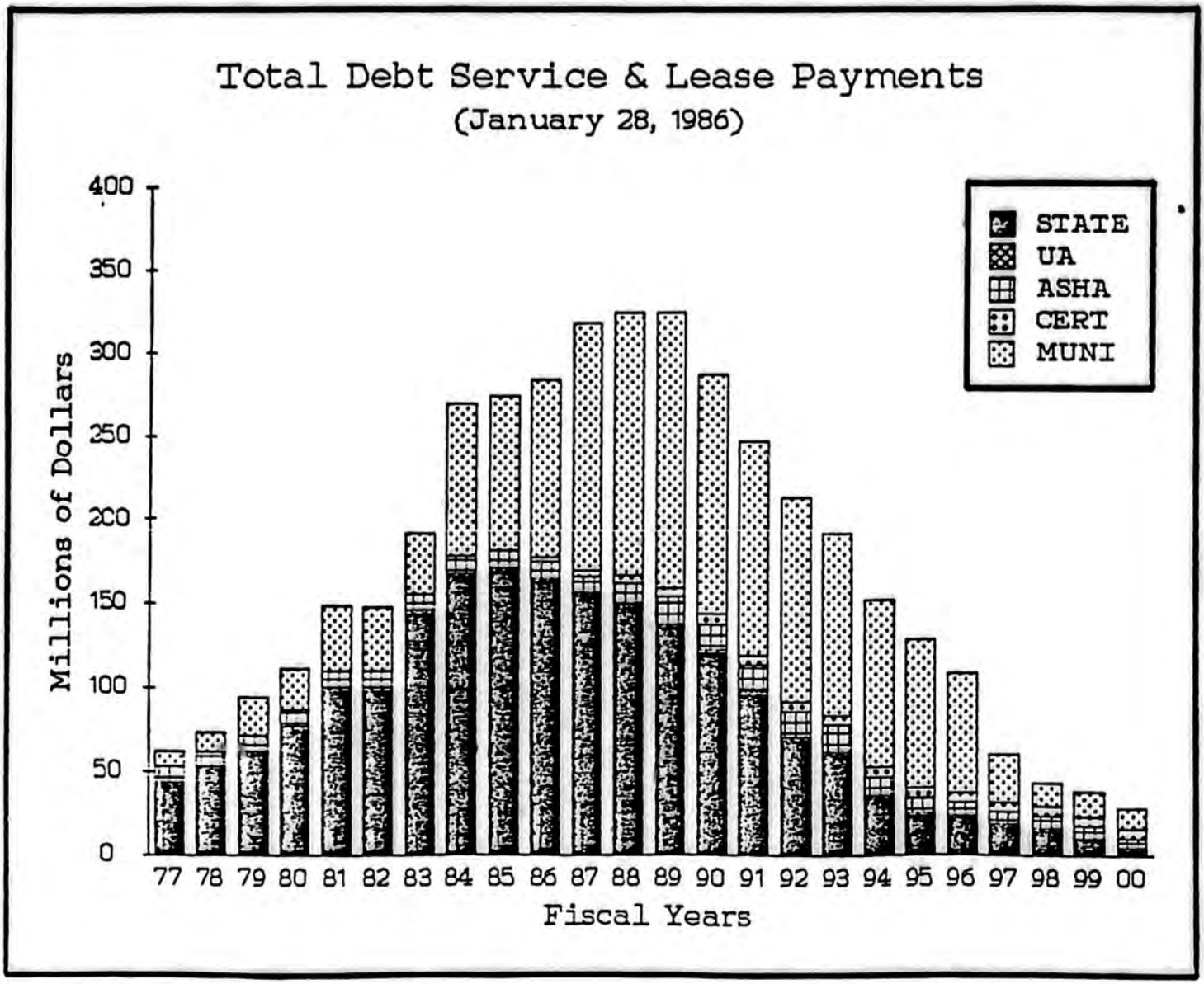
2 Seward Student Service Center and Spring Creek Correctional Center.

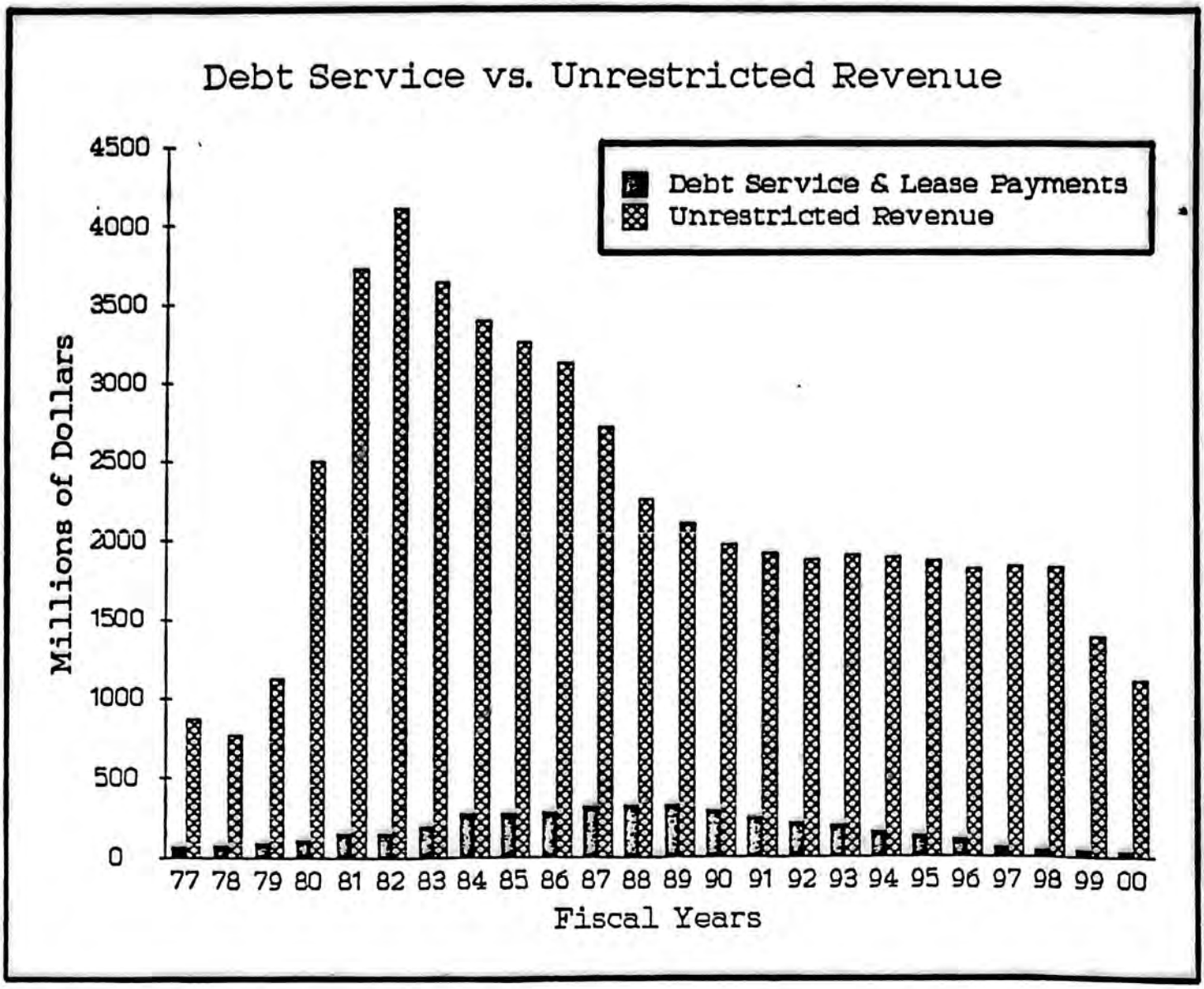
Table I

State Debt Service Burden
in $ Millions and as a % of Unrestricted Revenues 1/

Fiscal Year	1 Existing Debt Service and Lease Obligations		2 Existing School Debt Reimbursement		3 Total Existing Debt Service (1 & 2)		4 Minimum Under Existing Law		5 Maximum Under HB 520	
86	$178	6.1%	$105	3.6%	$283	9.7%	$283	9.7%	$283	9.7%
87	168	7.0	109	4.5	277	11.5	312	12.9	312	12.9
88	161	7.8	100	4.8	261	12.6	313	15.1	313	15.1
89	150	7.9	109	5.7	259	13.6	313	16.4	323	16.9
90	135	7.5	90	5.0	225	12.5	276	15.3	286	15.9
91	110	6.5	78	4.6	188	11.1	238	14.1	248	14.7
92	82	4.8	72	4.2	154	9.0	201	11.8	211	12.4
93	73	4.3	63	3.7	136	8.0	182	10.7	192	11.3
94	44	2.8	56	3.6	100	6.4	143	9.2	153	9.8
95	32	2.1	47	3.1	79	5.2	119	7.8	129	8.5
96	28	2.0	33	2.4	61	4.4	100	7.2	110	7.9
97	24	1.6	16	1.1	40	2.7	57	3.9	67	4.6
98	21	1.5	14	1.0	35	2.5	42	3.0	52	3.7
99	16	1.1	14	1.0	30	2.3	37	2.6	47	3.3
00	9	.7	12	.9	21	1.6	27	2.1	37	2.9

1/ Unrestricted revenues are September 1985 30th percentile estimates.


Total Debt Service & Lease Payments
(January 28, 1986)
Millions of Dollars
400
350
300
250
200
150
100
50
0
77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00
Fiscal Years
STATE
UA
ASHA
CERT
MUNI


Debt Service vs. Unrestricted Revenue
Debt Service & Lease Payments
Unrestricted Revenue
Millions of Dollars
4500
4000
3500
3000
2500
2000
1500
1000
500
0
77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00
Fiscal Years

General Obligation Debt Outstanding of Alaska Municipalities

Years Ended June 30	
1976	$ 420,807,982
1977	519,599,526
1978	545,227,664
1979	768,508,903
1980	827,112,294
1981	1,091,019,504
1982	1,316,204,221
1983	1,619,154,450
1984	2,105,810,849
1985	2,084,098,600

Alaska Municipalities
Capacity to Issue Additional General Obligation Debt
Under a 7% of Full Value Limit
($ Millions)

	Full Value January 1, 1985	GO Debt Limit at 7%	GO Debt Outstanding	GO Debt Capacity
Boroughs				
Anchorage	15,755.4	1,102.9	358.8	744.1
Bristol Bay	101.8	7.1	3.5	3.6
Fairbanks	4,211.0	294.8	90.9	203.9
Haines	93.9	6.6	1.3	5.3
Juneau	1,613.4	112.9	47.7	65.2
Kenai	3,290.2	230.3	137.9	92.4
Ketchikan	676.0	47.3	31.9	15.4
Kodiak	572.4	40.1	28.3	11.8
Mat-Su	2,367.4	165.7	112.2	53.5
North Slope	12,876.8	901.4	1,155.7	-
Sitka	396.2	27.7	12.4	15.3
Cities				
Bethel	182.3	12.8	.6	12.2
Cordova	120.7	8.4	-	8.4
Craig	34.7	2.4	-	2.4
Delta Junction	30.9	2.2	-	2.2
Dillingham	94.7	6.6	-	6.6
Eagle	9.1	.6	-	.6
Galena	19.1	1.3	.9	.4
Hoonah	27.8	1.9	-	1.9
Hydaburg	12.7	.9	-	.9
Kake	11.6	.8	-	.8
King Cove	23.2	1.6	-	1.6
Klawock	5.6	.4	-	.4
Kotzebue	93.2	6.5	-	6.5
Nenana	12.9	.9	2.7	-
Nome	116.7	8.2	2.2	6.0
Pelican	10.2	.7	-	.7
Petersburg	161.2	11.3	6.2	5.1
St. Mary's	4.2	.3	-	.3
Sand Point	71.1	5.0	-	5.0
Skagway	58.4	4.1	.8	3.3
Tanana	11.2	.8	-	.8
Unalakleet	19.7	1.4	-	1.4
Unalaska	105.3	7.4	3.3	4.1
Valdez	1,740.4	121.8	75.8	46.0
Whittier	19.4	1.4	-	1.4
Wrangell	111.8	7.8	10.7	-
Yakutat	17.7	1.2	.2	1.0

Debt Capacity
General Obligation Bonds and Lease Purchase Financing

Mean Revenue Estimates

($ Millions, Nominal)

Fiscal Year	Unrestricted Revenue(1)	5% of Revenue	Existing Debt Service & Lease Payments(2)	Available for Additional Debt Service	Additional Debt Capacity(3)(4)	Cumulative Debt Capacity
1986	3,188	159	178	---	---	---
1987	2,904	145	168	---	---	---
1988	2,503	125	161	---	---	---
1989	2,491	125	150	---	---	---
1990	2,474	124	135	---	---	---
1991	2,441	122	110	12	83	83
1992	2,450	123	82	40	186	269
1993	2,648	132	73	59	128	397
1994	2,692	135	45	90	207	604
1995	2,787	139	32	107	116	720
1996	2,790	140	29	111	22	742
1997	2,868	143	24	119		
1998	2,891	145	22	123		
1999	2,352	118	16	101		
2000	2,265	113	9	104		
2001	2,130	107	6	101		
2002	1,990	100	5	95		
2003	1,811	91	5	86		
2004	1,696	85	5	80		
2005	1,549	77	5	72		

PRELIMINARY DRAFT

(1) December 1985 Department of Revenue revenue estimates.
(2) Includes debt service on general obligation bonds, Alaska State Housing Authority lease revenue bonds, University of Alaska revenue bonds, Seward Student Service Center Lease Certificates of Participation and Spring Creek Correctional Center Certificates of Participation.
(3) Assumes ten-year bonds at 8.0% -- amortization factor .149.
(4) The absence of revenue estimates beyond FY 2005 and the need to ascertain the availability of funds for debt service over a ten-year term prevents the estimation of debt capacity beyond FY 1996.

Anchorage Times 1/27/86

Debt

Continued from page A-1

But that doesn't include the state's share of repaying school construction bonds sold by local school districts. Because that debt is growing dramatically, Wall Street analysts are taking a closer look at Alaska's borrowing power, said Rep. John Sund, a Ketchikan Democrat who chairs the House Special Committee on Loans.

The state owed $750 million in school repayment costs as of last June, Sund said. Voters in November approved another $300 million in school bond sales across the state.

For the first time, bond experts are beginning to lump school debts in Alaska with general obligation debts. That dramatically increases Alaska's bond debt.

Sund said the projected decline of North Slope oil production — and the general reduction in oil prices — also could affect Alaska's bond rating.

Sheffield said the state bond committee should have more control over the design and construction of state buildings. He also is proposing new limits on the amount of bonds a municipality can sell.

But the governor said the most important part of his package would allow the state more say in the design and construction of local schools.

Sheffield introduces debt plan

Hopes to protect state's bond rating

by Bruce Scandling
Associated Press

JUNEAU — Gov. Bill Sheffield is pushing a debt management plan he says will protect Alaska's credit rating on Wall Street.

A package of bond legislation was scheduled to be introduced in the legislature today, said John Hilliard, the governor's deputy press secretary.

"If you run a business or own a home, you know how important it is to keep your financial affairs in order," Sheffield said in a prepared statement. "You keep careful track of how much money you borrow, and you maintain a solid credit rating."

When a state or municipality sells bonds to finance construction projects, it is borrowing money at set interest rates. That rate rises if the state's credit rating drops.

Sheffield said he wants to tighten the reins on local school construction to make sure Alaska's borrowing power stays under control. School debt has grown so significantly that bond analysts are becoming concerned, he said.

Right now, the state's overall debt on general obligation bonds — which pay for building roads, sewers and facilities other than schools — is about $975 million.

See Debt, page A-6

Amendments to SB 341

1. Page 8, lines 2 - 6: delete Sec. 36.30.080(b) which reads as follows:

> (b) The department may enter into lease-financing agreements, including lease-purchase agreements and agreements related to the issuance of certificates of participation. A lease-financing agreement must provide that lease payments are subject to annual appropriation.

2. Page 8, lines 7 - 15: delete

on lines 7 - 8:

"or lease-financing agreement"

on lines 11 - 12:

"and the anticipated total construction, acquisition, or other costs of project"

on lines 13 - 14:

"the legislature"

so that Sec. 36.30.080(c) would read:

> (c) If the department intends to enter into a lease with an annual rent to the state anticipated to exceed $1,000,000, the department shall provide notice to the legislature. The notice must include the anticipated annual lease obligation amount. The department may not enter into an agreement under this subsection unless the lease has been approved by law. An appropriation for the lease does not constitute approval by law for purposes of this section.

Opinion

The governor makes a good point that something should be done about managing public debt statewide — but his idea of what to do goes too far. Gov. Bill Sheffield has proposed four bills under the name "Debt Management Plan" that add up to this: Let the state tell you what to do.

It shouldn't take measures so far-reaching as that to control the situation, especially in regard to the bill, HB 520, that proposes major changes in financing public school construction. The administration is right in saying that the ratio of debt to revenue is too high, and in calling for "reasonableness" to protect bond ratings.

Schools deserve better

The rating in the bond market is important and municipal bond ratings cleave closely to the state's. Ratings affect not only the ease of sale, or marketability, but also the cost of bonds, the interest rate government must pay to pay back the borrowed money.

Here's a sampling of what the governor considers reasonable:

- Require school condition surveys, which would analyze the conditions of a building in a community or school district relative to the need for a new building elsewhere.
- Shift the state's share of construction costs from 80 percent a year on all payments made on school bond debts to 100 percent payment of the principal only, effectively reducing the state's overall share to about 50 percent.
- Vest in the State Bonds Committee — a trio of the state's departmental commissioners, all gubernatorial appointees — the authority to determine the number of years and payment schedule for which bonds can be sold.
- Create a two-year lag between bond sales and the time the state would start paying its share.
- Limit new state obligations for school bonds to an additional $10 million a year, leaving uncovered districts to either play politics for direct capital grants from the Legislature or foot the full cost of construction with local taxes.

The Governor's Office has argued earnestly for its plan, and has circulated a brief explaining it, but it has not made its case on HB 520.

The bill would create reams and rolls of bureaucratic paper and red tape, and take pivotal options out of the hands of local government.

Alaska's oil wealth places the state in an unusual position as the holder of the primary resource wealth of the people. This reality and the state constitution put the burden of school financing on the state of Alaska. Yet this administration's solution is to attempt to cram its idea of a solution down the throats of its citizens, rather than undertake a cooperative resolution.

Better ways can be found to deal with the problem of public debt, and the Legislature should undertake no action on these bills until some positive, inter-governmental process is begun.

Quotable

☐ In that the state is essentially backing out of its significant commitment to school construction, then it should also back out of its apparent significant intent to regulate what munici-

TABLE I

Borough	Full Value	Population	General Obligation Debt	PER Capita Debt	PER Capita Value	DEBT % TO VALUATION
Anchorage						
City	$4,982,502,900					
Other (includes State assessed)	$8,216,852,900					
TOTAL	$13,199,355,800	244030	$355,008,897	$1,455	$54,089	2.69%
Bristol Bay — TOTAL	$112,215,200	1271	$3,665,000	$2,884	$88,289	3.27%
Fairbanks						
City	$1,385,588,700	27103	$10,590,000	$391	$51,123	0.76%
North Pole	$119,049,000	1005	$1,237,000	$1,231	$118,457	1.04%
Other (includes State assessed)	$2,123,270,930		$85,300,000			4.02%
TOTAL	$3,627,908,630	69633	$97,127,000	$1,395	$52,100	2.68%
Haines						
City	$29,627,633	1079	$765,000	$709	$27,458	2.58%
Other	$59,255,267		$555,000			0.94%
TOTAL	$88,882,900	1847	$1,320,000	$715	$48,123	1.49%
Juneau						
City	$482,026,900					
Douglas	$61,679,900					
Other	$950,212,400					
TOTAL	$1,493,919,200	28941	$51,761,000	$1,789	$51,619	3.46%
Kenai Peninsula						
Homer	$150,681,179	5432	$2,677,000	$493	$27,740	1.78%
Kenai	$179,859,530	6176	$3,230,000	$523	$29,122	1.80%
Seldovia	$20,224,597	678	$397,000	$586	$29,830	1.96%
Seward	$85,492,086	2072	$2,609,000	$1,259	$41,261	3.05%
Soldotna	$130,644,557	3597	$2,326,653	$647	$36,320	1.78%
Other (includes State assessed)	$2,535,738,051					
TOTAL	$3,102,640,000	38919	$131,579,403	$3,381	$79,720	4.24%
Ketchikan Gateway						
City	$360,146,300	8414	$11,305,000	$1,344	$42,803	3.14%
Other	$351,195,300		$22,490,000			6.40%
TOTAL	$711,341,600	14314	$33,795,000	$2,361	$49,696	4.75%
Kodiak						
City	$459,473,500	6469	$2,375,000	$367	$71,027	0.52%
Other	$191,971,200		$30,025,000			15.64%
TOTAL	$651,444,700	13479	$32,400,000	$2,403	$48,330	4.97%
Mat-Su						
Palmer	$149,565,900	2792	$2,048,000	$734	$53,569	1.37%
Houston	$46,743,400	739		$0	$63,252	0.00%
Wasilla	$219,402,800	3548		$0	$61,838	0.00%
Other (includes State assessed)	$1,357,672,860		$78,855,718			5.81%
TOTAL	$1,773,384,960	34030	$80,903,718	$2,377	$52,112	4.56%
North Slope (includes State assessed) TOTAL	$12,354,883,600	12359	$1,203,440,000	$97,373	$999,667	9.74%
Sitka — TOTAL	$756,351,400	8221	$13,220,000	$1,608	$92,002	1.75%
Total Boroughs	$37,872,327,990	467044	$2,004,220,018	$4,291	$81,089	5.29%

CITIES	Full Value	Population	General Obligation Debt	PER Capita Debt	PER Capita Value	DEBT % TO VALUATION
Bethel	$170,370,900	3681	$1,155,856	$314	$46,284	0.68%
Cordova	$121,884,950	2520	$1,434,800	$569	$48,367	1.18%
Craig	$28,381,400	907	$89,000	$98	$31,292	0.31%
Dillingham	$112,645,500	2026	$68,000	$34	$55,600	0.06%
Galena	$17,097,800	902	$0	$0	$18,955	0.00%
Hoonah	$26,023,600	865	$0	$0	$30,085	0.00%
Hydaburg	$11,858,800	429	$0	$0	$27,643	0.00%
Kake	$10,848,600	631	$90,000	$143	$17,193	0.83%
King Cove	$21,711,000	521	$0	$0	$41,672	0.00%
Klawock	$5,199,100	542	$0	$0	$9,592	0.00%
Kotzebue	$85,041,480	2981	$0	$0	$28,528	0.00%
Nenana	$11,233,940	547	$2,869,000	$5,245	$20,537	25.54%
Nome	$207,050,000	3732	$300,000	$80	$55,480	0.14%
Pelican	$9,143,800	213	$0	$0	$42,929	0.00%
Petersburg	$161,668,700	3137	$5,225,000	$1,666	$51,536	3.23%
St. Mary's	$3,925,300	563	$0	$0	$6,972	0.00%
Sand Point	$66,436,300	870	$0	$0	$76,364	0.00%
Skagway	$63,333,600	790	$836,000	$1,058	$80,169	1.32%
Tanana	$6,617,500	417	$0	$0	$15,869	0.00%
Unalaska	$95,670,900	1922	$5,392,375	$2,806	$49,777	5.64%
Valdez (includes State assessed)	$1,720,125,130	3687	$80,497,000	$21,833	$466,538	4.68%
Whittier	$18,510,280	273	$0	$0	$67,803	0.00%
Wrangell	$106,435,200	2376	$3,395,000	$1,429	$44,796	3.19%
Yakutat (includes State assessed)	$17,949,840	462	$238,800	$517	$38,852	1.33%
Eagle	$7,848,700	161	$0	$0	$48,750	0.00%
TOTAL CITIES	$3,107,012,320	35155	$101,590,831	$2,890	$88,380	3.27%
STATE	$45,009,767,610	547475	$924,008,000	$1,688	$82,213	2.05%
Total Boroughs	$37,872,327,990	467044	$2,004,220,018	$4,291	$81,089	5.29%
STATEWIDE TOTALS	$45,009,767,610	547475	$3,029,818,849	$5,534	$82,213	6.73%

Standard & Poor's Corporation
25 Broadway, New York, New York 10004

December 29, 1983

RECEIVED
JAN 03 1984
ALASKA DEPARTMENT OF REVENUE
TREASURY DIVISION
JUNEAU

Mr. Milt Barker
Deputy Commissioner
Department of Revenue
11th Floor State Office Bldg.
Pouch, SB
Juneau, Alaska 99811

Dear Mr. Barker:

I would like to respond to your letter of December 13, regarding our views on lease obligations.

Lease Payments are viewed in essentially the same light as debt service on general obligation bonds, regardless of whether the obligation is cancellable due to non-appropriation. In fact, debt obligations secured by lease payments are included in our computations for overall debt burden.

Many states do not consider lease rental debt under debt limitation laws, primarily because legal interpretations view the obligations to pay rent as an annual budget item, and not a long term debt with a continuing appropriation. The fact remains, however, that the debt is still outstanding, and payable for as long as the property is being used by the lessee. While many leases permit non-payment of rent and cancellation of lease obligations, Standard & Poor's would be very concerned about an issuer's general obligation rating, in those cases where leases were cancelled as a ploy to avoid paying debt obligations.

I've enclosed some information regarding our approach to rating lease-rental debt obligations. If you have any further questions, feel free to contact Vladimir Stadnyk or myself at (212) 201-1767.

Very Truly Yours,

Richard P. Larkin
Managing Vice President
Municipal Finance Department

cc: V. Stadnyk
T. Arthur

December 13, 1983

Municipal Finance Department
Standard & Poor's Corporation
25 Broadway
New York, NY 10004

Dear Sirs:

I would appreciate any information you could provide me regarding your agency's view of municipal lease financing as it relates to an issuer's debt capacity.

More specifically, could you comment on whether lease payments on a municipal lease-purchase obligation which is cancellable subject to a non-appropriation clause are considered in the same light as debt service on general obligation bonds?

Sincerely,

Milt Barker

Milt Barker
Deputy Commissioner

MB:mw

Municipal Credit Report

STATE OF ALASKA

September 26, 1983
GC

SALE: $78,000,000 bonds for bids September 27. Please see last page for details.

RATING: Aa

Final information on this sale was received September 22.

OPINION: Alaska's large debt has been comfortably supported by petroleum revenues which provide a basis for high quality security. Changing demand patterns for oil as well as management of Alaska's expenditures, revenues and reserves will continue to be important in credit evaluation.

SUMMARY: The state's economy, while still developing, is centered around petroleum and other natural resource development. The predominance of U.S. defense installations is also important to the state's economy. Alaska's economy and financial position has been dramatically affected by North Slope oil production and to oil price increases following decontrol. The state has undertaken a program to manage these resources and to shelter its extraordinary revenue growth through the creation of a Permanent Fund. Dedicated revenue along with special General Fund appropriations have resulted in extraordinary Permanent Fund asset growth now totaling $4.5 billion. Although revenue to the state remains at a high level, falling oil revenues will require expenditure adjustment. General Fund preliminary reports a deficit at year end as a result of an encumbrance owed to the Permanent Fund, aggrevated by lower oil prices resulting in declines in unrestricted revenues. The state is dependent on oil related revenues as it neither levies a sale or individual-income tax. Debt service claim on unrestricted revenues is expected to increase. Management of state resource revenues against significant demands for infrastructure and the volatility of oil markets will be important elements affecting future evaluations.

DEBT FACTORS: Heavy debt loads partly offset by rapid rate of debt retirement in-line with life of recoverable oil reserves. Debt service claim on unrestricted revenues to increase to approximately 5.9% from 4.0% in 1982-83. Additional authorization for state guaranteed $500 million veterans bonds to be voted on November 1983.

Tax-Supported Debt	Per Cap.	St. Med.	% E.F.V.	St. Med.	Pers. Inc.	St. Med.
1983 $1,104,359,000	$2,753	$250	3.1%	1.1%	19.2%	2.4%
1975 505,309,000	1,564	126	10.5	1.4	26.0	3.3
1965 65,705,000	240	56	5.6	1.2	9.3	2.6

THIS REPORT MAY NOT BE REPRODUCED IN WHOLE OR IN PART IN ANY FORM OR MANNER WHATEVER.

It is furnished by Moody's Investors Service, Inc. at your request under your subscription agreement for your exclusive use. The information herein has been obtained from sources believed to be accurate and reliable, but because of the possibility of human and mechanical error its accuracy or completeness is not guaranteed.

Moody's ratings are opinions, not recommendations to buy or sell, and their accuracy is not guaranteed. A rating should be weighed solely as one factor in an investment decision and you should make your own study and evaluation of any issuer whose securities or debt obligations you consider buying or selling.

Most issuers of corporate bonds, municipal bonds and notes, preferred stock and commercial paper which are rated by Moody's Investors Service, have, prior to receiving the rating, agreed to pay a fee to Moody's for the appraisal and rating services. The fee ranges from $850 to $45,000.

FINANCIAL FACTORS: Sharp declines in oil and gas related revenues are evident resulting in sizeable deficits. Reliance upon oil revenues against sizeable appropriation demands bear close monitoring.

GOVERNMENTAL FACTORS: Legislature meets annually, newly elected governor serving four year term. Appointed bond committee responsible for financing state capital improvements; the election of such members currently being challenged, but in opinion of counsel and attorney general would not affect bond authorization and sale.

ECONOMIC AND SOCIAL FACTORS: A developing economy with major emphasis on development of natural resources. Discovery of oil in Prudoe Bay has had profound affect on the state's development, although weakness in oil markets have moderated significantly the growth experienced previously.

DEBT FACTORS: The state's constitution provides that the state shall not contract debt unless authorized by law for capital improvements and ratified by a majority of the qualified voters voting thereon. The state may, as provided by law and without ratification contract debt for the purpose of repelling invasion, suppressing insurrection, defending the state in war, meeting natural disasters, or redeeming indebtedness outstanding at the time the constitution became effective. The constitutional restrictions do not apply to revenue bond indebtedness to be paid from special assessments on the benefitted property, or to refunding indebtedness.

Debt Statement as of July 1, 1983, including new bonds ($ 000):

General obligation bonds - outstanding	$ 946,183
General obligation bonds - offered	78,000
Gross direct debt	$1,024,183
Alaska State Housing Authority - lease rental	60,985
University of Alaska - Heating Corporation	6,425
University of Alaska - Anchorage Energy Util. System	460
University of Alaska - campus housing and st. ctr.	12,306
Alaska Housing Finance Corporation (9/10/83), incl. st. gtd.*	3,404,860
Gross debt	$4,509,219
Less: Alaska Housing Finance Corporation	3,404,860
Net tax-supported debt**	$1,104,359

*Include AHFC bond sold since July 1, 1983; state-guaranteed bonds included.
**Excludes Alaska Industrial Development Authority, Alaska Municipal Bond Bank and Medical Facility Authority not debts of the state.

Annual Principal Maturities, G.O. Bonds ($ 000):

F. Yr.		F. Yr.		F. Yr.	
1984	$100,175	1990	$95,560	1996	$18,610
1985	107,860	1991	77,499	1997	14,865
1986	109,265	1992	56,149	1998	13,380
1987	109,360	1993	51,363	1999	8,640
1988	109,655	1994	28,395	2000	2,531
1989	103,727	1995	19,096		

Debt Structure: Bonds are scheduled for rapid payout in line with life of proven oil reserves in Alaska. Debt policies have shortened maturities of new bonds to 10 years and rate of retirement has been accelerated; 52% principal due within five years and 94% due in 10 years. New bonds are structured for level principal, with overall debt service declining steadily through 2000.

SEVEN PERCENT CAP

Borough	FULL VALUE	G. O. DEBT	7% OF FULL VALUE	PERCENT OF G.O. DEBT/CAP	CURRENT PERCENT DEBT
Anchorage	$15,755,411,000.00	$358,799,900.00	$1,102,878,770.00	32.53%	2.28%
Bristol Bay	$101,798,800.00	$3,535,000.00	$7,125,916.00	49.61%	3.47%
Fairbanks	$4,210,997,700.00	$90,928,500.00	$294,769,839.00	30.85%	2.16%
Haines	$93,945,500.00	$1,300,000.00	$6,576,185.00	19.77%	1.38%
Juneau	$1,613,388,900.00	$47,651,000.00	$112,937,223.00	42.19%	2.95%
Kenai Peninsula	$3,290,219,200.00	$137,929,000.00	$230,315,344.00	59.89%	4.19%
Ketchikan Gateway	$675,985,100.00	$31,930,000.00	$47,318,957.00	67.48%	4.72%
Kodiak	$572,370,700.00	$28,270,000.00	$40,065,949.00	70.56%	4.94%
Mat-Su	$2,367,406,200.00	$112,208,000.00	$165,718,434.00	67.71%	4.74%
North Slope	$12,876,786,900.00	$1,155,680,000.00	$901,375,083.00	128.21%	8.97%
Sitka	$396,227,900.00	$12,400,000.00	$27,735,953.00	44.71%	3.13%
Total Boroughs	$41,954,537,900.00	$1,980,631,400.00	$2,936,817,653.00	67.44%	4.72%

CITIES

Bethel	$182,296,900.00	$556,500.00	$12,760,783.00	4.36%	0.31%
Cordova	$120,673,000.00	$0.00	$8,447,110.00	0.00%	0.00%
Craig	$34,707,400.00	$0.00	$2,429,518.00	0.00%	0.00%
Delta Junction	$30,870,500	$0	$2,160,935.00	0.00%	0.00%
Dillingham	$94,669,900.00	$0.00	$6,626,893.00	0.00%	0.00%
Eagle	$9,104,500.00	$0.00	$637,315.00	0.00%	0.00%
Galena	$19,149,500.00	$900,000.00	$1,340,465.00	67.14%	4.70%
Hoonah	$27,845,200.00	$0.00	$1,949,164.00	0.00%	0.00%
Hydaburg	$12,688,900.00	$0.00	$888,223.00	0.00%	0.00%
Kake	$11,608,000.00	$0.00	$812,560.00	0.00%	0.00%
King Cove	$23,230,800.00	$0.00	$1,626,156.00	0.00%	0.00%
Klawock	$5,563,000.00	$0.00	$389,410.00	0.00%	0.00%
Kotzebue	$93,245,100.00	$0.00	$6,527,157.00	0.00%	0.00%
Nenana	$12,881,500.00	$396,300.00	$901,705.00	43.95%	3.08%
Nome	$116,712,900.00	$2,161,200.00	$8,169,903.00	26.45%	1.85%
Pelican	$10,155,400.00	$0.00	$710,878.00	0.00%	0.00%
Petersburg	$161,219,300.00	$6,195,000.00	$11,285,351.00	54.89%	3.84%
Sand Point	$71,086,800.00	$0.00	$4,976,076.00	0.00%	0.00%
Skagway	$58,447,100.00	$820,000.00	$4,091,297.00	20.04%	1.40%
St. Mary's	$4,239,400.00	$0.00	$296,758.00	0.00%	0.00%
Tanana	$11,195,400.00	$0.00	$783,678.00	0.00%	0.00%
Unalakleet	$19,714,500	$0	$1,380,015.00	0.00%	0.00%
Unalaska	$105,309,400.00	$3,299,000.00	$7,371,658.00	44.75%	3.13%
Valdez	$1,740,431,900.00	$75,833,000.00	$121,830,233.00	62.24%	4.36%
Whittier	$19,419,200.00	$0.00	$1,359,344.00	0.00%	0.00%
Wrangell	$111,757,000.00	$10,750,000.00	$7,822,990.00	137.42%	9.62%
Yakutat	$17,679,400.00	$235,200.00	$1,237,558.00	19.01%	1.33%
TOTAL CITIES	$3,125,901,900.00	$101,146,200.00	$218,813,133.00	46.22%	3.24%
STATE	$48,915,237,900.00	$816,100,000.00	$3,424,066,653.00	23.83%	1.67%
Total Boroughs	$41,954,537,900.00	$1,980,631,400.00	$2,936,817,653.00	67.44%	4.72%

Moody's **Municipal** Department

1985 Medians

Selected Indicators of Municipal Performance

State Indicators and Rankings

City and County Debt Medians

Enterprise Performance Medians



As a measure of a government's burden of debt, a ratio is calculated between its net debt and the estimated full value of taxable property. The estimated full value serves as a direct measure of local government wealth and, therefore, is reflective of the government's capacity to service public debt. Taxable valuation is utilized as a wealth measure because it tends to be up-to-date and readily available for all sizes of municipal government.

Ratio of Net Debt to E.F.V. (%) [2]

Population Range [1]	Direct Net Debt	Overall Net Debt		
	Median	Low	Median	High
500,000 and over	1.6	0.9	4.2	8.9
500,000 to 499,999	2.3	1.1	3.1	10.4
200,000 to 299,999	2.2	1.6	2.6	9.0
100,000 to 199,999	1.6	0.3	2.5	9.3
50,000 to 99,999	1.7	1.0	2.8	16.1
25,000 to 49,999	1.8	0.1	2.9	15.0
10,000 to 24,999	2.1	0.2	3.3	24.5
Under 10,000	2.4	0.1	3.6	20.0

Ratio of Net Debt to E.F.V. (%) [2]

Population Range [1]	Direct Net Debt	Overall Net Debt		
	Median	Low	Median	High
1,000,000 and over	0.4	0.03	4.2	4.1
250,000 to 999,999	0.6	0.7	2.5	5.2
100,000 to 249,999	0.4	0.5	2.5	5.5
Under 100,000	0.7	0.4	2.1	12.2

[1] Cities and counties included in these observations have been grouped according to 1980 U.S. Census population.

[2] Estimated full value (E.F.V.) refers to the "true" or "fair" market value of all taxable property within the boundaries of the unit of government. Users of this data must be aware of the significant variations that exist in methods and quality of property assessment from state to state and even among municipal governments within a given state. Definitions of "taxable property" also vary across the country as does the dependability of equalization ratios.

SUBJECT SUMMARY
THE CURRENT SUBJECT IS BONDS

BILL #	TITLE	CURRENT STATUS
HB 370	BONDS/DELONG MT. (RED DOG) TRANSP'N PROJECT	(H) TRSP
HB 413	GENERAL OBLIG. BONDS FOR TRANSPORTATION	(H) FIN
HB 486	FINANCING UNIVERSITY OF ALASKA POWER PLANT	(H) LOAN
HB 519	LEASE FINANCING; STATE BOND COMMITTEE, ETC.	(H) LOAN
HB 520	PUBLIC SCHOOL CONSTRUCTION	(H) HESS
HB 521	LIMITATION ON MUNICIPAL DEBT	(H) LOAN
HB 533	AHFC; VET'S STATE-GUARANTEED REVENUE BONDS	(H) LOAN
SB 164	FISH PROCESSOR/BUYER SURETY BOND	(S) RES
SB 205	G.O. BONDS FOR COMMUNITY COLLEGE PROJECTS	(S) HESS
SB 280	BONDS/DELONG MT. (RED DOG) TRANSP'N PROJECT	CHAPTER 68 SLA 85
SB 308	GENERAL OBLIG. BONDS FOR TRANSPORTATION	(S) TRSP
SB 335	WATER, SEWER, & SOLID WASTE MNGMNT BONDS	(S) C&RA

SELECT A SUBJECT AND PRESS ENTER

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game

Andre Marrou
Representative

District 5

Kenai — Sterling
Soldotna — Anchor Point
Homer — Port Graham
Seldovia — English Bay
Kachemak — Nikolaevsk
Kasilof — Halibut Cove
Ninilchik — Clam Gulch

January 29, 1986

To: Mike Davis, Chairman House Committee on Oil & Gas
From: Andre Marrou, Representative

Subject: CS for SSHB339

This committee substitute is a re-write of the sponsor substitute which corrects the citations in title 29, changes the effective date clause, and offers a slightly different approach to achieve the same objective. That objective is to more equitably distribute the revenue generated by AS 43.56, a 20 mill oil and gas property tax.

The current state law has promulgated a lopsided distribution of these revenues in favor of local municipalities at the expense of hundreds of millions of dollars of lost revenue to the State. It was the intent of the legislature that the revenues of the 20 mill oil and gas property tax belong to all residents of the State, not just to a few in a privileged location. The current law also implements this inequity by encouraging some municipalities to purchase large amounts of debt and possibly jeopardize the State's bond rating. The debt payments in questions are adjusted dangerously close to the price of oil.

CS for SSHB 339 proposes to eliminate the exemption for tax limitations if those taxes are to pay for bonds (AS 29.45.100). This would automatically activate some tax limitations that have been on the books for years (AS 29.45.080). It also proposes a new tax limitation.

The most important sections of this bill are sections 5 and 6, the effective date clauses. A municipality's taxing authority to pay off current debt obligations will not be impaired! HB 339 deals only with a municipality's authority to tax for bonded debtness after the effective date.

This packet contains:

°Sectional Analysis
°An updated CS for SSHB 399
°Charts and Tables of:
- Six Year State Property Tax History
- Distribution of State Property Tax
- Distribution of State Property Tax for the North Slope Borough
- North Slope Borough Budget from State Property Taxes
- 1984 Mill Rates of affected Municipalities
- Page 10 and 11 of 1984 "Alaska Taxable"

29.45.080 43.56 mill tax on property

During Session: Pouch V, Juneau, Alaska 99811, (907) 465-2719 During Interim: Box 1572, Homer, Alaska 99603, (907) 235-8200

Cook
1/29/86

Original sponsor: Marrou

IN THE HOUSE BY THE COMMITTEE

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 339 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act establishing limitations relating to municipal general obligation bonds and taxes; and providing for an effective date."

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

* Section 1. AS 29.45.080(a) is amended to read:

(a) A municipality may levy and collect taxes <u>in an amount not to exceed 10 mills</u> on taxable property taxable under AS 43.56 only by using one of the methods set out in (b) or (c) of this section.

* Sec. 2. AS 29.47.200(a) is amended to read:

(a) The full faith and credit of a municipality are pledged for the payment of principal and interest on general obligation bonds. <u>Subject to AS 29.45.080 and 29.45.090, the</u> [THE] municipality may levy ad valorem taxes for payment [WITHOUT LIMITATION OF RATE OR AMOUNT TO PAY OR SECURE THE PAYMENT] of the principal and interest on <u>the</u> bonds [, REGARDLESS OF WHETHER THE BONDS ARE IN DEFAULT OR IN DANGER OF DEFAULT].

* Sec. 3. AS 43.56.010(b) is amended to read:

(b) A municipality may levy and collect a tax under AS 29.45.080 [AT THE RATE OF TAXATION THAT APPLIES TO OTHER PROPERTY TAXED BY THE MUNICIPALITY]. The tax shall be levied at a rate no higher than the rate applicable to other property taxable by the municipality. <u>A</u> [NO] municipality may <u>not</u> exempt from taxation property authorized to be taxed under this chapter. Exemptions shall be limited to those in AS 29.45.030, 29.45.050, and AS 43.56.020.

* Sec. 4. AS 29.45.100 is repealed.

* Sec. 5. The amendment to AS 29.47.200(a) made by sec. 2 of this Act applies only to taxes levied or pledged to pay general obligation bonds sold by a municipality on or after the effective date of this Act. Notwithstanding the repeal of AS 29.45.100 in sec. 4 of this Act, the limitations provided for in AS 29.45.080 - 29.45.090 do not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on general obligation bonds sold by a municipality before the effective date of this Act. Taxes to pay or secure the payment of principal and interest on general obligation bonds sold before the effective date of this Act may be levied without limitation as to rate or amount, regardless of whether the bonds are in default or in danger of default.

* Sec. 6. This Act takes effect July 1, 1986.

SECTIONAL ANALYSIS FOR CS SSHB 339

*Section 1.

This section is a new tax limitation that will be implemented once AS 29.45.100 is repealed (Sec. 4)

*Section 2.

This section allows a municipality to tax only to the permissible limits for the payment of principal and interest on general obligation bonds. A municipality cannot violate section 1 of this bill in order to pay for bonds.

*Section 3.

This section is a housekeeping measure that insures that a municipality not exceed the 10 mill cap placed on the taxation under section 1, even if it taxes other property at a higher rate.

*Section 4.

This statute is to be repealed. It reads as follows.

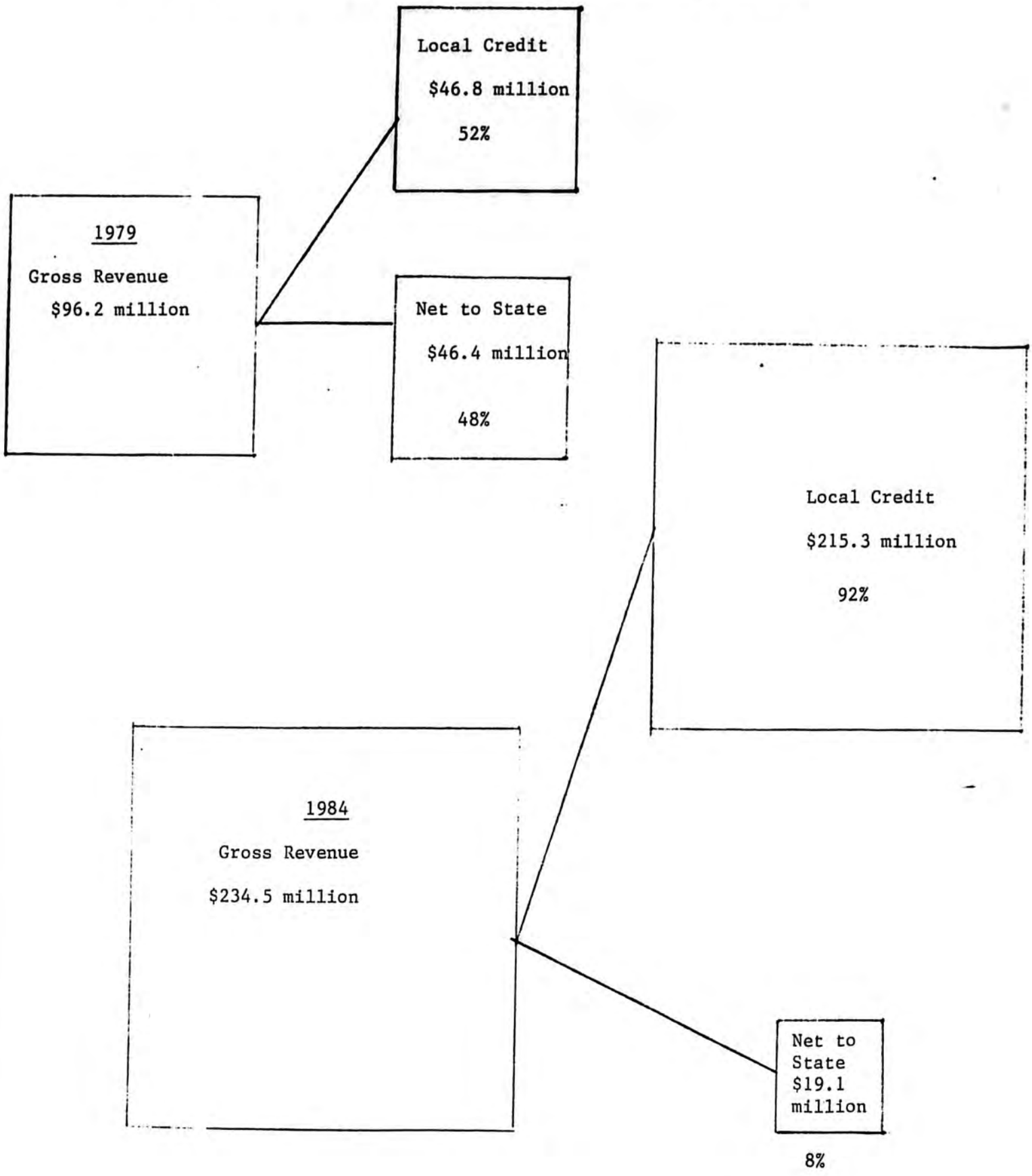
> AS 29.45.100 No Limitations on taxes to pay bonds. The limitations provided for in AS 29.45.080 - 29.45.090 do not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on bonds. Taxes to pay or secure the payment of principal and interest on bonds may be levied without limitation as to rate or amount, regardless of whether the bonds are in default or in danger of default. (12 ch 74 SLA).

This is the statute that has allowed some municipalities to over extend themselves and divert state revenues into municipal coffers.

*Sections 5 & 6.

These sections provide that current municipal debt, and a municipality's ability to pay that debt, will not be impaired. This bill concerns future property tax policy, not past.

Distribution of State Property Tax for the North Slope Borough



Six Year State Property Tax History

Year	State Assessed Value	Percent Increase	Gross Revenue	Local Credit	Net to State	Percent Increase	Percent of Gross to State
1979	11,946,447,380	7.85	238,928,947	66,609,309	172,319,637	(0.69)	72.1
1980	12,165,633,950	1.83	243,312,679	72,900,166	170,412,512	(1.11)	70.0
1981	13,170,633,280	8.26	263,412,665	121,116,160	142,296,505	(16.50)	54.0
1982	14,410,448,680	9.41	288,208,973	144,171,544	144,037,429	1.22	50.0
1983	16,059,836,120	11.45	321,196,722	170,818,425	150,378,297	4.40	46.8
1984	18,593,314,880	15.78	371,866,297	242,038,930	129,827,367	(13.67)	34.9



Distribution of State Property Tax

O & G

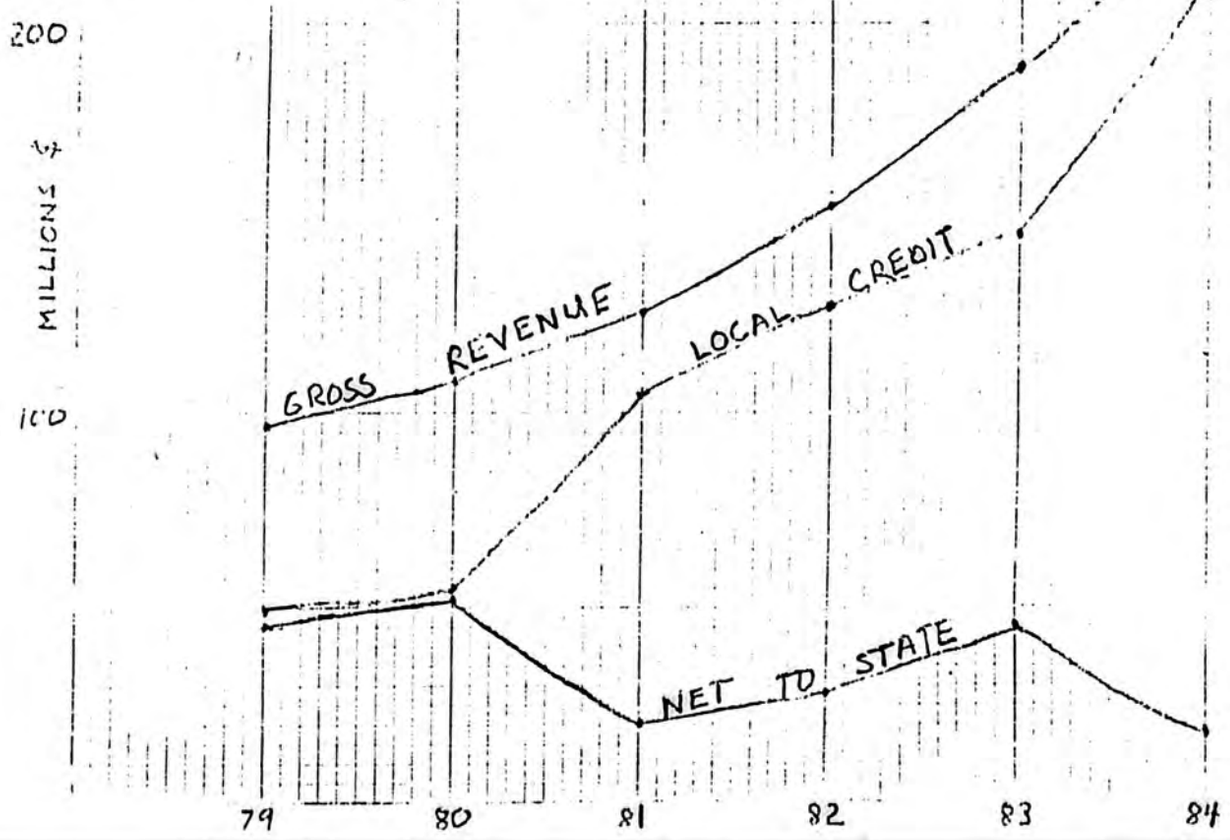
Municipality	Assessed Value	Total Tax	Local Credit	Net to State	% Net to State
		1979			72.1%
		1980			70
		1981			
Unorganized	3,992,227,950	79,844,559	-0-	79,844,559	100 %
North Slope	6,297,616,550	125,952,331	105,150,647	20,801,684	16.5
North Star	639,604,430	12,792,089	3,581,162	9,210,927	72
Anchorage	50,612,980	1,012,260	436,043	576,217	56
Kenai	562,862,700	11,257,254	1,569,841	9,687,413	86
Valdez	1,620,048,000	32,400,960	10,309,985	22,090,975	68
Mat-Su	5,627,910	112,558	40,634	71,924	63
Yakutat	2,032,760	40,655	27,849	12,806	31
Total	13,170,633,280	263,412,666	121,116,161	142,296,505	54
		1982			
Unorganized	3,850,823,000	77,016,460	-0-	77,016,460	100
North Slope	7,722,388,820	154,447,776	126,781,997	27,665,779	17.9
North Star	618,606,800	12,372,136	4,013,657	8,358,479	67.5
Anchorage	60,531,510	1,210,630	436,089	774,541	64.0
Kenai	578,465,660	11,569,313	2,027,740	9,541,573	82.4
Valdez	1,575,389,000	31,507,780	10,871,602	20,636,178	65.5
Mat-Su	2,184,110	43,682	12,240	31,442	72.0
Yakutat	2,059,780	41,196	28,219	12,977	31.5
Total	14,410,448,680	288,208,973	144,171,544	144,037,429	50
		1983			
Unorganized	3,743,264,300	74,865,286	-0-	74,865,286	100
North Slope	9,450,158,880	189,003,178	144,625,348	44,377,830	23.5
North Star	640,786,260	12,815,725	4,351,448	8,464,277	66.0
Anchorage	96,986,770	1,939,735	843,675	1,096,060	56.5
Kenai	605,404,110	12,108,082	3,040,101	9,067,981	74.9
Valdez	1,519,474,000	30,389,480	17,918,701	12,470,779	41.0
Mat-Su	1,626,460	32,529	12,849	19,680	60.5
Yakutat	1,997,400	39,948	24,568	15,380	38.5
Unalaska	137,940	2,759	1,734	1,025	37.1
Total	16,059,836,120	321,196,722	170,818,424	150,378,298	46.8

The assessed values for 1981, 82 and 83 do not include audit adjustments or supplemental rolls.

1984 34.9

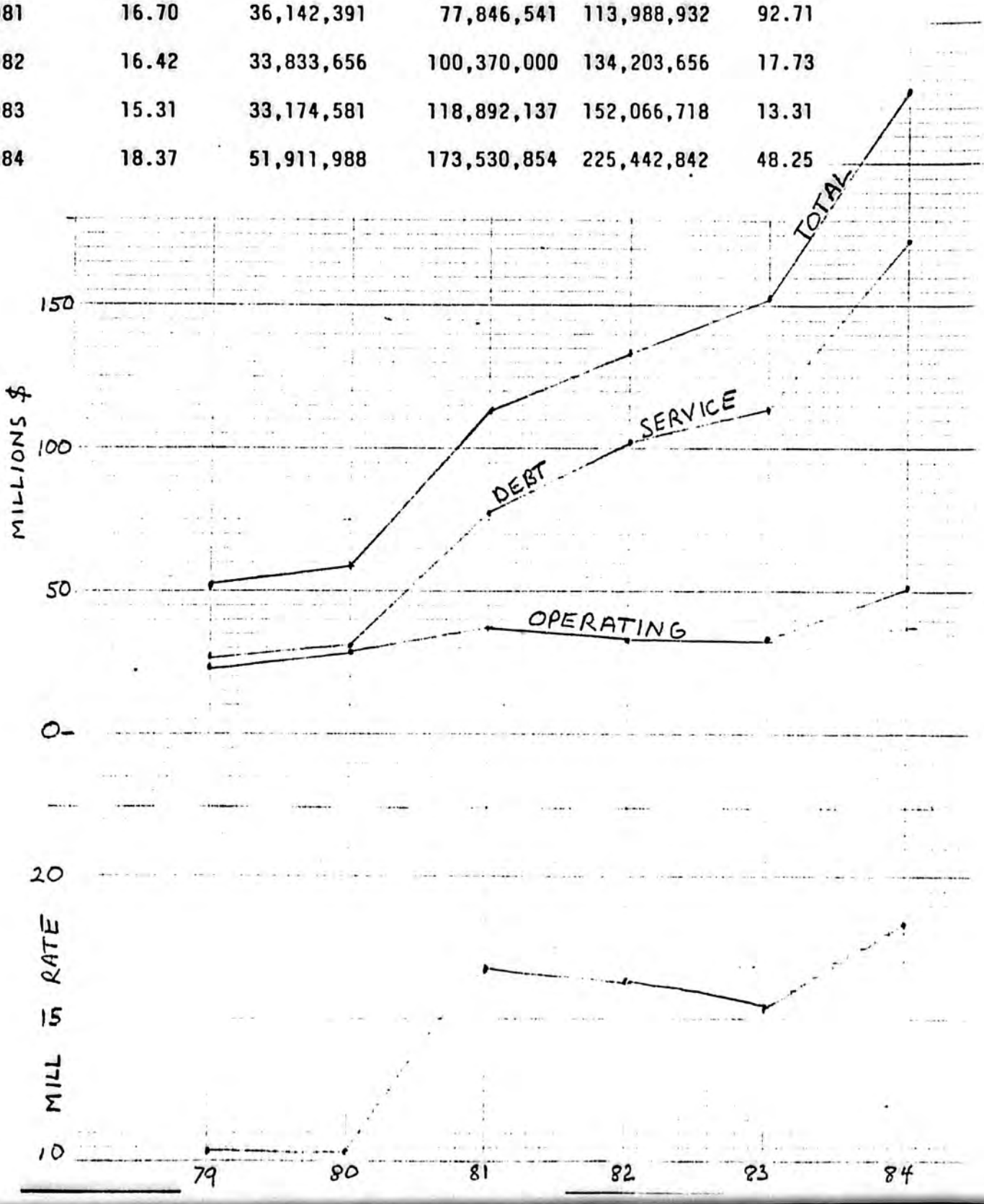
Distribution of State Property Tax For the North Slope Borough

Year	State Assessed Value	Gross Revenue	Local Credit	Net to State	Percent Increase	Percent of Gross to State
1979	4,810,887,800	96,217,756	49,800,530	46,417,226		48.24
1980	5,450,597,290	109,011,946	55,974,326	53,037,620	14.26	48.65
1981	6,297,616,550	125,952,331	105,150,647	20,801,684	(60.78)	16.52
1982	7,722,388,820	154,447,776	126,781,999	27,665,777	33.00	17.91
1983	9,450,158,880	189,003,178	144,625,348	44,377,830	60.41	23.48
1984	11,725,560,030	234,511,201	215,398,538	19,112,663	(56.93)	8.15



North Slope Borough Budget From All Property Taxes

Year	Mill Rate	Operating	Debt Service	Total	% Increase
1979	10.35	24,360,827	26,625,145	50,985,972	
1980	10.33	28,997,204	30,154,114	59,151,318	16.01
1981	16.70	36,142,391	77,846,541	113,988,932	92.71
1982	16.42	33,833,656	100,370,000	134,203,656	17.73
1983	15.31	33,174,581	118,892,137	152,066,718	13.31
1984	18.37	51,911,988	173,530,854	225,442,842	48.25



Representative Andre Marrou
April 8, 1985

The following chart describes the current 1984 municipal oil and gas property tax mill rates in Alaska * :

Municipality	Mill Rate	Oil & Gas State Property Assessed Value	Municipal Credit
Unorganized	0	4,030,427,300	0
North Slope	18.4	11,728,126,470	215,800,000
North Star	7.0	627,613,530	4,393,295
Anchorage	9.0	82,976,730	746,791
Kenai	5.0	577,777,800	2,888,889
Valdez	11.745	1,545,541,000	18,152,379
Mat-Su	8.0	1,626,460	13,012
Yakutat	13.0	1,900,360	24,705

*Jerry Heir (HTRE)
State Petroleum Property Assessor
Dept. of Revenue, May 2, 1984.

RJM:ojb
J13/069

276-1363

0.*

215800000.+
4393295.+
746791.+
2888889.+
18152379.+
13012.+
+ 24705.=
TOTAL 242,019,071.0*

TABLE I

Borough	Full Value	Population	General Obligation Debt	PER Capita Debt	PER Capita Value	DEBT % TO VALUATION
Anchorage						
City	$4,982,502,900					
Other (includes State assessed)	$8,216,852,900					
TOTAL	$13,199,355,800	244030	$355,008,897	$1,455	$54,089	2.69%
Bristol Bay — TOTAL	$112,215,200	1271	$3,665,000	$2,884	$88,289	3.27%
Fairbanks						
City	$1,385,588,700	27103	$10,590,000	$391	$51,123	0.76%
North Pole	$119,049,000	1005	$1,237,000	$1,231	$118,457	1.04%
Other (includes State assessed)	$2,123,270,930		$85,300,000			4.02%
TOTAL	$3,627,908,630	69633	$97,127,000	$1,395	$52,100	2.68%
Haines						
City	$29,627,633	1079	$765,000	$709	$27,458	2.58%
Other	$59,255,267		$555,000			0.94%
TOTAL	$88,882,900	1847	$1,320,000	$715	$48,123	1.49%
Juneau						
City	$482,026,900					
Douglas	$61,679,900					
Other	$950,212,400					
TOTAL	$1,493,919,200	28941	$51,761,000	$1,789	$51,619	3.46%
Kenai Peninsula						
Homer	$150,681,179	5432	$2,677,000	$493	$27,740	1.78%
Kenai	$179,859,530	6176	$3,230,000	$523	$29,122	1.80%
Seldovia	$20,224,597	678	$397,000	$586	$29,830	1.96%
Seward	$85,492,086	2072	$2,609,000	$1,259	$41,261	3.05%
Soldotna	$130,644,557	3597	$2,326,653	$647	$36,320	1.78%
Other (includes State assessed)	$2,535,738,051					
TOTAL	$3,102,640,000	38919	$131,579,403	$3,381	$79,720	4.24%
Ketchikan Gateway						
City	$360,146,300	8414	$11,305,000	$1,344	$42,803	3.14%
Other	$351,195,300		$22,490,000			6.40%
TOTAL	$711,341,600	14314	$33,795,000	$2,361	$49,696	4.75%
Kodiak						
City	$459,473,500	6469	$2,375,000	$367	$71,027	0.52%
Other	$191,971,200		$30,025,000			15.64%
TOTAL	$651,444,700	13479	$32,400,000	$2,403	$48,330	4.97%
Mat-Su						
Palmer	$149,565,900	2792	$2,048,000	$734	$53,569	1.37%
Houston	$46,743,400	739		$0	$63,252	0.00%
Wasilla	$219,402,800	3548		$0	$61,838	0.00%
Other (includes State assessed)	$1,357,672,860		$78,855,718			5.81%
TOTAL	$1,773,384,960	34030	$80,903,718	$2,377	$52,112	4.56%
North Slope (includes State assessed) TOTAL	$12,354,883,600	12359	$1,203,440,000	$97,373	$999,667	9.74%
Sitka — TOTAL	$756,351,400	8221	$13,220,000	$1,608	$92,002	1.75%
Total Boroughs	$37,872,327,990	467044	$2,004,220,018	$4,291	$81,089	5.29%

CITIES	Full Value	Population	General Obligation Debt	PER Capita Debt	PER Capita Value	DEBT % TO VALUATION
Bethel	$170,370,900	3681	$1,155,856	$314	$46,284	0.68%
Cordova	$121,884,950	2520	$1,434,800	$569	$48,367	1.18%
Craig	$28,381,400	907	$89,000	$98	$31,292	0.31%
Dillingham	$112,645,500	2026	$68,000	$34	$55,600	0.06%
Galena	$17,097,800	902	$0	$0	$18,955	0.00%
Hoonah	$26,023,600	865	$0	$0	$30,085	0.00%
Hydaburg	$11,858,800	429	$0	$0	$27,643	0.00%
Kake	$10,848,600	631	$90,000	$143	$17,193	0.83%
King Cove	$21,711,000	521	$0	$0	$41,672	0.00%
Klawock	$5,199,100	542	$0	$0	$9,592	0.00%
Kotzebue	$85,041,480	2981	$0	$0	$28,528	0.00%
Nenana	$11,233,940	547	$2,869,000	$5,245	$20,537	25.54%
Nome	$207,050,000	3732	$300,000	$80	$55,480	0.14%
Pelican	$9,143,800	213	$0	$0	$42,929	0.00%
Petersburg	$161,668,700	3137	$5,225,000	$1,666	$51,536	3.23%
St. Mary's	$3,925,300	563	$0	$0	$6,972	0.00%
Sand Point	$66,436,300	870	$0	$0	$76,364	0.00%
Skagway	$63,333,600	790	$836,000	$1,058	$80,169	1.32%
Tanana	$6,617,500	417	$0	$0	$15,869	0.00%
Unalaska	$95,670,900	1922	$5,392,375	$2,806	$49,777	5.64%
Valdez (includes State assessed)	$1,720,125,130	3687	$80,497,000	$21,833	$466,538	4.68%
Whittier	$18,510,280	273	$0	$0	$67,803	0.00%
Wrangell	$106,435,200	2376	$3,395,000	$1,429	$44,796	3.19%
Yakutat (includes State assessed)	$17,949,840	462	$238,800	$517	$38,852	1.33%
Eagle	$7,848,700	161	$0	$0	$48,750	0.00%
TOTAL CITIES	$3,107,012,320	35155	$101,590,831	$2,890	$88,380	3.27%
STATE	$45,009,767,610	547475	$924,008,000	$1,688	$82,213	2.05%
Total Boroughs	$37,872,327,990	467044	$2,004,220,018	$4,291	$81,089	5.29%
STATEWIDE TOTALS	$45,009,767,610	547475	$3,029,818,849	$5,534	$82,213	6.73%

John - revised estimate of Debt Retirement
4/11

SCHOOL CONSTRUCTION DEBT RETIREMENT - FY87 ESTIMATED STATE AID

ADJUSTED 1/29/86

SCHOOL DISTRICTS	100% BOND SALES PRE 7/1/77 2YR LAG	90% BOND SALES 7/1/77 TO 1/1/82 2YR LAG	80% ESTIMATED CASH PAYMENT 2YR LAG	90% BOND SALES 1/1/82 TO 7/1/83 CURRENT PAY	80% BOND SALES 7/1/83 TO PRESENT CURRENT PAY	Oct. 1985 PASSED BOND PROPOSITIONS FY87 STATE AID EST.	LESS CIG. TAX PAID IN FY85	ESTIMATED TOTAL DEBT RETIREMENT BY DISTRICT FOR FY-87
ANCHORAGE	$9,040,760	$1,425,357	$5,663,383	$9,262,828	$0	$5,400,000	($1,079,068)	$29,713,260
BRISTOL BAY	$0	$380,880	$64,979	$0	$0	$0	($11,389)	$434,470
CORDOVA	$119,695	$0	$16,866	$0	$0	$0	($17,524)	$119,037
DILLINGHAM	$0	$0	$228,818	$0	$0	$0	($20,132)	$208,686
FAIRBANKS	$3,808,542	$0	$236,527	$9,750,173	$0	$2,965,130	($307,232)	$16,453,140
GALENA	$0	$0	$200,146	$0	$0	$0	($10,101)	$190,045
HAINES	$91,973	$0	$91,350	$0	$0	$0	($17,287)	$166,036
JUNEAU	$690,130	$327,408	$122,794	$5,744,185	$0	$99,152	($130,529)	$6,853,140
KENAI	$2,552,847	$0	$2,741,892	$11,753,022	$589,948	$10,697,600	($224,383)	$28,110,926
KETCHIKAN	$402,940	$0	$1,449,226	$2,391,228	$0	$0	($77,678)	$4,165,716
KING COVE	$0	$0	$26,314	$0	$0	$0	($8,587)	$17,727
KODIAK	$441,203	$1,128,062	$94,615	$2,966,765	$0	$0	($72,057)	$4,558,588
MAT-SU	$2,116,025	$2,695,586	$48,134	$7,446,346	$2,112,056	$7,347,746	($202,659)	$21,563,234
NENANA	$22,000	$0	$0	$0	$0	$0	($9,404)	$12,596
NORTH SLOPE	$784,500	$15,984,698	$0	$9,515,250	$0	$0	($52,718)	$26,231,730
PETERSBURG	$389,720	$0	$0	$365,801	$0	$0	($21,977)	$733,544
SITKA	$356,015	$0	$501,704	$0	$0	$0	($52,770)	$804,949
UNALASKA	$0	$94,896	$0	$0	$0	$0	($9,749)	$85,147
VALDEZ	$1,275,514	$1,643,321	$268,126	$0	$0	$0	($31,198)	$3,155,763
WRANGELL	$0	$126,266	$0	$104,888	$695,976	$0	($18,966)	$908,164
TOTALS	$22,091,864	$23,806,474	$11,754,874	$59,300,486	$3,397,980	$26,509,628	($2,375,408)	$144,485,898

TOTAL BOND OUTLAYS	$108,596,804
PLUS: CASH PAYMENTS	$11,754,874
SUB TOTAL	$120,351,678
NEW 85: FY87 EST.	$26,509,628
SUB TOTAL	$146,861,306
LESS: CIG. TAX	($2,375,408)
EST. STATE AID-FY87	$144,485,898

FY 1987 ESTIMATE	$144,485,898
FY 1986 APPROPRIATION	$105,345,000
ESTIMATED INCREASE	$39,140,898

NOTE: NUMBERS PRESENTED ABOVE ARE ROUNDED TO THE NEAREST DOLLAR.
SEE SCHOOL DISTRICT SUMMARIES FOR EXACT AMOUNTS.

Introduced: 1/27/86
Referred: House Special Committee on
State Loans, Judiciary and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 519

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to public finance; and providing for an effective date."

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

* Section 1. AS 14.40.040 is amended to read:

Sec. 14.40.040. GENERAL POWERS OF THE UNIVERSITY. There is created and established a corporation to be called the University of Alaska. It may in that name

(1) sue and be sued;

(2) receive and hold real and personal property;

(3) contract and be contracted with;

(4) adopt, use and alter a corporate seal;

(5) borrow money, issue debt, or enter into long-term obligations for the purchase of facilities, goods, or services, which obligations secure, in whole or in part, debt issued by another party, as approved by the state bond committee under AS 37.15.770;

(6) do and have done all matters necessary for the purpose of any functions set forth in this chapter.

* Sec. 2. AS 14.40 is amended by adding a new section to read:

Sec. 14.40.255. LEASE-FINANCING. The Board of Regents may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the board intends to enter into an agreement under this subsection, the board shall provide notice to the

legislature and to the state bond committee. The notice must include the anticipated annual lease payment and the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority. The board may not enter into an agreement under this section until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770.

* Sec. 3. AS 18.55.100(a)(15) is amended to read:

(15) acting as the Alaska State Building Authority arrange or contract for the financing or [, DESIGN, CONSTRUCTION AND] acquisition of public buildings designed by, constructed by, or whose acquisition has been approved by [the Department of Transportation and Public Facilities] for lease to the state in accordance with AS 18.55.010 -- 18.55.290 and AS 37.15.770.

* Sec. 4. AS 18.55.140 is amended to read:

Sec. 18.55.140. ISSUANCE OF BONDS, NOTES, AND REFUNDING BONDS. (a) The authority may issue bonds and notes from time to time in its discretion for any of its corporate purposes and may issue refunding bonds for the purpose of paying or retiring bonds previously issued by it. The authority may not issue bonds for public buildings until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770.

(b) Bonds issued by the authority for public buildings must be issued in the name of the Alaska State Building Authority and are subject to AS 18.55.010 -- 18.55.290.

* Sec. 5. AS 18.55.288 is amended to read:

Sec. 18.55.288. DEFINITIONS. In AS 18.55.010 -- 18.55.290[:]

(1) "authority" means the Alaska State Housing Authority;

(2) "bond" means any bond, note, interim certificate,

debenture, or other obligation issued by the authority or the authority acting as the Alaska State Building Authority under AS 18.55.-010 -- 18.55.290 ["PUBLIC BUILDINGS" MEANS A PUBLICLY OWNED STRUCTURE LEASED TO THE STATE FOR GOVERNMENTAL, PUBLIC OR EDUCATIONAL USE];

(3) "project site" means area devoted for a public housing project;

(4) "public buildings" means a publicly owned structure leased to the state for governmental, public, or educational use.

* Sec. 6. AS 22.05.025 is amended to read:

Sec. 22.05.025. COURT FACILITIES. (a) The supreme court has authority over all matters relating to the planning, design, construction, maintenance, occupancy, leasing, and operation of all court facilities and shall cooperate and coordinate with the Department of Transportation and Public Facilities so that court facility construction projects are carried out in accordance with the statutes and regulations applicable to state public works projects.

(b) The supreme court may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the supreme court intends to enter into an agreement under this subsection, the supreme court shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment and the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority. The supreme court may not enter into an agreement under this subsection until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770.

(c) In this section, "court facility" means a state facility in

which 75 percent or more of the net usable space is occupied by the court system and other justice-related agencies.

* Sec. 7. AS 24.23 is amended by adding a new article to read:

ARTICLE 2. LEASE AGREEMENTS.

Sec. 24.23.100. LEASE OF SPACE. The Legislative Affairs Agency may lease necessary office space, and contract for the lease of space, for the use of the Alaska legislature and its employees. The Legislative Affairs Agency shall adopt regulations that establish procedures for the lease of space which are substantially comparable to the procedures under AS 37.05.280 governing the lease of space for state agencies.

Sec. 24.23.110. The Legislative Affairs Agency may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the agency intends to enter into an agreement under this subsection, the agency must provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment and the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority. [The agency may not enter into an agreement under this section until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770.]

* Sec. 8. AS 37.05.280 is amended to read:

Sec. 37.05.280. LEASES. (a) The department shall lease necessary space, and contract for the lease of space, for the use of the state or an agency of the state, wherever it is necessary and feasible, subject to compliance with the requirements of AS 37.05.220 -- 37.05.280. No lease or contract for a lease may provide for a period

of occupancy greater than 40 years. An agency of the state requiring office, warehouse, or other space shall lease the space through the department. [NO CONTRACT OR LEASE EXECUTED AFTER JANUARY 1, 1966, WHICH PROVIDES FOR A PAYMENT OR PAYMENTS BY THE STATE IN EXCESS OF $12,000 ANNUALLY IS VALID UNLESS THE USE OF THE SPACE TO BE PROVIDED FOR BY SUCH CONTRACT OR LEASE HAS BEEN EXPRESSLY APPROVED BY THE LEGISLATURE BY CONCURRENT RESOLUTION.]

(b) The department may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the department intends to enter into an agreement under this subsection, the department shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment and the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority. The department may not enter into an agreement under this subsection until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770.

* Sec. 9. AS 37.15.040 is amended to read:

Sec. 37.15.040. SALE OF BONDS. Before selling an issue or series of bonds, the state bond committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder or bidders. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

* Sec. 10. AS 37.15.110 is amended to read:

Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE.

WAS this IN HB4 NO

There is created within the Department of Revenue a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, and the commissioner of revenue. If a member of the committee is absent or otherwise unable to act, the member's designee [IN THE DEPARTMENT] shall act as a member of the committee in the member's place.

* Sec. 11. AS 37.15.130 is amended to read:

Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. The commissioner of commerce and economic development is the chairman of the state bond committee and the commissioner of revenue is the secretary. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent record of its proceedings. All records and correspondence of the committee must [SHALL] be kept in the office of the commissioner of revenue. For the purpose of this chapter and AS 44.62.310, public notice of 24 hours or more is adequate notice of a meeting of the committee at which the issuance of bonds is authorized. SAME LANGUAGE AS AHFC.

* Sec. 12. AS 37.15.140 is amended to read:

Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. (a) The state bond committee shall adopt the resolution and prepare ~~the documents necessary for the~~ issuance, sale, and delivery of state general obligation bonds.

~~(b)~~ The state bond committee shall prepare an annual report to be submitted to the governor and legislature before March 31 of each year. The report must show (1) all outstanding debt of debt-issuing entities of the state; (2) the anticipated effect on the finances and credit of the state, including the effect on long-term debt capacity and creditworthiness, resulting from that debt; (3) which long-term



debt is state supported and which is supported only by revenue attributable to the project being financed by the debt; (4) all long-term capital lease obligations of the state; (5) the volume of short-term debt issued and retired during the year by debt-issuing entities of the state; (6) specific identification of each issue for which the state has pledged some form of indirect support for the debt, including any moral obligation of the state to support the debt; (7) future bonding and debt capacity implications of legislation enacted in the previous legislative session; and (8) the recommended debt issuance capacity of the state for the next two years following the year of the report.

(c) The state bond committee may develop written policies concerning debt of the state.

* Sec. 13. AS 37.15.150 is amended to read:

Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SERVICES. The state bond committee may appoint an executive director who may, with approval of the committee, select and employ additional staff as necessary. Employees of the committee are in the partially exempt service under AS 39.25.120. If the [STATE BOND] committee considers it necessary and advisable, it may procure architectural or engineering, fiscal agent or municipal investment, legal, and other expert or specialized services at reasonable and customary fees to assist it in accomplishing the most advantageous sale of the bonds. The fees may be paid from the proceeds of the sale or advanced from the contingency fund in the Office [OFFICE] of the Governor [GOVERNOR] or otherwise.

* Sec. 14. AS 37.15.450(a) is amended to read:

(a) The bonds shall be sold in such amounts or series and at such time or times as determined by the committee. Before selling a

series of bonds, the committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered ~~for sale~~ must [SHALL] be awarded to the highest responsible bidder or bidders. If the committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received. The bonds, or each series of them, must [SHALL] be sold at such a price so that the effective interest rate over the life of the bonds does not exceed 11 percent per year or that rate of interest which is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest must [SHALL] be payable annually or semiannually.

* Sec. 15. AS 37.15 is amended by adding a new article to read:

ARTICLE 5. STATE-SUPPORTED DEBT.

Sec. 37.15.770. STATE AGENCY DEBT. (a) The state bond committee shall review proposals for the issuance of debt by or on behalf of

(1) the Alaska State Housing Authority acting as the Alaska State Building Authority for the purpose of providing public buildings; and

(2) the University of Alaska.

(b) The committee may review the general programs and financing plans of the agency that proposes to issue the debt as well as the specific aspects of the proposed debt issue, including

(1) amounts;

(2) times;

(3) maturities;

(4) debt structure and security features;

(5) credit enhancements;

(6) use of proceeds;

(7) official documents;

(8) planned rating agency presentations; and

(9) selection, retention, or compensation of financial advisors, bond counsel, trustees, underwriters, and other professionals.

(c) The state bond committee shall consider approval of the amount and time of sale of the debt. The committee shall approve the issuance of the debt if, in its judgment, issuance of the debt is in the best interests of the state. The committee may limit approval of the issuance of debt upon compliance with terms established by the committee.

(d) At the time of sale of the debt, the state bond committee shall review the bids or pricing of the debt, including discounts, underwriting spreads, and interest rates. If the committee determines that the bids or prices are not satisfactory or that the bidders are not responsible, the agency may not sell the debt.

Sec. 37.15.790. MUNICIPAL SCHOOL DEBT. If, at any time, the state bond committee, in its judgment, determines that the amount or retirement of debt issued by municipalities and subject to reimbursement by the state under AS 14.11.100 is not in the best interests of the state, the committee may

(1) establish an amount or amounts, for any or all years before the maturity of all of that municipal debt, which may not be exceeded by the Department of Education in approving requests under AS 14.11.103; or

(2) establish, under AS 14.11.100(j)(3), a term required for the maturities of municipal debt authorized by local voters after March 31, 1986.

* Sec. 16. AS 39.25.120(c) is amended by adding a new paragraph to

read:

(19) employees of the state bond committee.

* Sec. 17. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH S
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

February 20, 1986

The Honorable John Sund
Chairman
House Loans Committee
P.O. Box V
Juneau, AK 99811

Dear Chairman Sund:

Lease purchase financing was contemplated by the delegates to the constitutional convention when they incorporated Section 11 in Article IX. Statutory authority to do this type of financing was given to the Alaska State Housing Authority in 1966 where Chapter 60, SLA 1966, was enacted. A copy of that Act is enclosed for your ready reference.

Also enclosed are memoranda of the Attorney General, dated October 14, 1983, Wohlforth & Flint, dated January 17, 1984, and Birch, Horton, Bittner, Pestinger and Anderson, dated April 4, 1984. These memoranda deal with different questions arising out of lease purchase or, as it is frequently termed, lease revenue financing. As is pointed out in footnote 3 of the Birch, Horton et al., memorandum, between 1966 and 1974 ASHA financed 11 projects under the grant of authority contained in Chapter 60, SLA 1966.

In the context of this substantial history of activity in the area of lease revenue financing, I should like to reiterate that the purpose of HB 519 is 1) to establish a single landlord agency for the leasing by the state of buildings financed by lease revenue bonds and, 2) to provide the authority in the State Bond Committee to manage debt so acquired in a logical manner.

The bill merely seeks to order a potentially chaotic situation with regard to this type of financing. It does not mandate lease revenue financing any more than Section 11, Article IX, mandates such financing. Indeed, nothing in either the constitution or in statute compels the usage of such financing or, for that matter, compels the usage of any type of term financing. All public works projects could be financed through construction appropriations. All could be financed through general obligation bonds. Many, but not all, could be financed through revenue bonds. The method of financing should be chosen to accord with the best interests of the State after careful analysis of the short- and long-term implications of the financing.

As pointed out by Governor Sheffield in his transmittal letter, rating agencies have begun to take into account all state supported debt

when measuring the creditworthiness of a state or a particular financing. It is the informed belief of the members of the State Bond Committee that to fail to enact HB 519 as applicable to all branches of government is to fail to bring order and control to the management of the state's debt.

Some concern has been expressed that the State Bond Committee would, under the terms of HB 519, be vested with the ability to thwart the will of the Legislature by refusing to issue debt or allow the issuance of debt on a whim. The State Bond Committee has been in existence since 1960 and has managed the issuance of general obligation and revenue debt sold since that time. This debt has financed a substantial number of public works for the judicial branch and the executive branch. The management of that debt in a sound manner has resulted in the state's present rating of AA by Standard & Poors and a comparable rating from Moody's, the foremost rating agencies in the United States. I know of no instance when the State Bond Committee has made a judgment as to the value of the project itself. The judgments made by the Committee have been those solely relating to the debt, and the project itself has only been of interest for the role it plays in structuring the debt.

One difficulty could be presented and that would be when the dollar value of several projects, all ready for financing, exceeded the calculated capacity for new debt. Obviously, if all projects arose within one branch of government, that branch would have to establish financing priorities. If the projects arose in more than one branch, negotiations or consultations between or among those branches, conducted by the heads of those branches, would be required to establish financing priorities. The State Bond Committee would render to the negotiators what assistance it could, but since it has no authority to make selections of projects, it could not establish the priorities.

I call your attention to Section 12 of HB 519 which would require the State Bond Committee to report to the Legislature before March 31 of each year, not only as to existing debt, but also future debt and debt capacity. This is a new requirement and is sought as an additional element in the ordering and management of state debt. Such a report would enable the Legislature to make the discrete judgments it must make in authorizing or approving the projects presented during the budget process by each agency of government requiring the construction of public works projects.

Such centralization of management and reporting will greatly assist the state in maintaining creditworthiness in the nation's financial markets and, more importantly, fulfill on an orderly basis the needs of the public for sound and balanced development of public facilities.

Sincerely,

Mary A. Nordale
Commissioner of Revenue

MAN:mll
86-49

Enclosures

cc: Members of House Loans Committee

LAWS OF ALASKA

1966

Source:

SB 198 am by Conference Committee

Chapter No.

60

AN ACT

To provide public buildings for the use of the state and its political subdivisions.

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

* Section 1. AS 18.55.010 is amended to read:

Sec. 18.55.010. PURPOSE OF SECS. 10 - 290 OF THIS CHAPTER. The purpose of secs. 10 - 290 of this chapter is to remedy the acute housing shortage that exists in certain localities of the state by undertaking slum clearance, low-cost housing projects, housing for persons and their families engaged in national defense activities in the state, and housing projects and housing for veterans of World War II and other citizens of the state and to remedy the short supply of necessary public buildings by providing for the financing, construction and acquisition of public buildings for lease to the state and its political subdivisions.

* Sec. 2. AS 18.55.100(a)(15) is amended to read:

(15) arrange or contract for the financing, design, construction and acquisition of public buildings

for lease to the state or a political subdivision of the state in accordance with secs. 10 - 290 of this chapter.

* Sec. 3. AS 18.55 is amended by adding a new section to read:

Sec. 18.55.105. LEASE OF AUTHORITY'S PUBLIC BUILDINGS TO POLITICAL SUBDIVISIONS. (a) A public building owned by the authority may not be leased to a political subdivision of the state except upon execution of a prior agreement of lease of the premises between the state and the authority. An agreement of lease shall grant an option to the state to apply rental payments made under the lease towards purchase of the premises and receive conveyance of title upon satisfaction of the purchase price. The purchase price shall be a sum equal to all costs of the authority in financing, designing, constructing and acquiring the premises leased and shall include the cost of amortizing indebtedness incurred for those purposes. Total rental payments required under the lease shall equal the purchase price of the premises leased. Upon execution of an agreement of lease between the state and the authority, the state may sublease or assign its interest in the lease to a political subdivision which satisfies the requirements of (b) of this section. A sublease or lease assignment shall include the same option of purchase and right to conveyance of title upon satisfaction of the purchase price as is afforded the state in its agreement of lease with the authority. In case of a sublease to a political subdivision, the state shall covenant with the sublessee that it will not exercise its option to purchase the premises subleased during the term of the sublease.

r a political subdivision
secs. 10 - 290 of this chapter.
ed by adding a new section to
OF AUTHORITY'S PUBLIC BUT
a) A publ

(b) A political subdivision may qualify for a sublease or assignment of the state's interest in a lease with the authority as authorized by (a) of this section only if

(1) the premises which are the subject of the sublease or lease assignment are sought as a replacement for a local facility which is condemned, destroyed by fire or other calamity, or is certified by a state official to be inadequate, unsafe, or otherwise unsatisfactory under the laws of the state for its intended use;

(2) the purchase price of the premises does not exceed $2,500,000;

(3) the amount of total indebtedness outstanding on all premises subleased or assigned by the state under this section does not exceed $7,500,000;

(4) the political subdivision agrees to assign to the state, as security for payments required under the proposed sublease or lease assignment, receipts of state taxes shared with the political subdivision, to the extent of the amount of any default in payments required under the proposed sublease or lease assignment;

(5) the Department of Commerce investigates and certifies to the governor the feasibility of a proposed sublease or lease assignment, including but not limited to certification of the fiscal capacity of the political subdivision to meet payments required under the proposed sublease or lease assignment;

(6) the proposed sublease or lease assignment is ratified by referendum vote of a majority of the qualified voters voting in a regular or special local election

provided that the voters are apprised specifically on the ballot of

(A) the term of years of the proposed sublease or lease assignment;

(B) the amount of required payments;

(C) the security required under (4) of this subsection;

(D) the option to purchase and right of conveyance; and

(E) other terms and conditions of the proposed sublease or lease assignment, as determined by the governing body of the political subdivision;

(7) the proposed sublease or lease assignment is ratified by the legislature by concurrent resolution.

(c) If a political subdivision party to a sublease or lease assignment authorized by this section fails to make timely payment of sums due to be paid under the sublease or lease assignment, the state, upon not less than 90 days' notice to the governing body of the political subdivision, may assess, levy and collect taxes within the political subdivision in an amount equal to the payments due and limited to those taxes which the political subdivision is authorized to assess, levy and collect under other provisions of law. Assessment, levy, collection and enforcement of collection shall be at the time and in the manner authorized the political subdivision under other provisions of law.

* Sec. 4. AS 18.55.288(2) is amended to read:

(2) "public buildings" means a publicly owned structure leased to the state or a political subdivision of

the state for governmental, public or educational use;

Approved by Governor April 7, 1966
Actual effective date: July 6, 1966

MEMORANDUM State of Alaska

TO: Hon. Daniel A. Casey, Commissioner
Department of Transportation &
Public Facilities
AND
Hon. Lisa Rudd, Commissioner
Department of Administration

DATE: October 14, 1983

FILE NO: 366-101-84

TELEPHONE NO: 465-3600

SUBJECT: Construction financing of a public facility by lease agreement

FROM:
Norman C. Gorsuch
Attorney General

By: William F. Cummings
Assistant Attorney General
Transportation Section-Juneau

James L. Baldwin
Assistant Attorney General
Governmental Affairs-Juneau

The Department of Administration (DOA) and Department of Transportation and Public Facilities (DOT/PF) have requested our advice whetner there is sufficient authority granted by law to permit a state agency to finance the construction of a public facility on state land under a lease agreement with a developer and owner of the facility other than the state. Briefly, the lease agreement consists of a conveyance of a leasehold interest in state land to a developer who constructs a facility on the land which is leased back to the state. Upon expiration of the lease agreement, the facility either reverts to the state or the state has an option to purchase it.

Using this financing technique, DOA proposes to centralize state offices in Anchorage and DOT/PF proposes to construct a legislative hall in Juneau. Under both proposals, facilities owned by others would be located on state land. 1/ The answers to your questions involve consideration of the issues set out below.

1. Does financing a public facility through a lease agreement violate provisions of the Alaska Constitution governing the creation of state debt?

We believe that the financing of construction by lease is valid only if terms and conditions are imposed which provide sufficient evidence that future legislatures are not bound to ap-

1/ We believe that other public facilities are being studied for financing by lease agreement including facilities for the Alaska Vocational Technical Training Center in Seward and a maximum security prison.

propriate money for the rental. 2/ Article IX, section 8 of the Alaska Constitution prohibits the creation of public debt except for capital improvements and then only after authorization by the legislature and a vote of the people. The lease transactions proposed are a means to finance the construction of public facilities without directly appropriating from the general fund for the cost of construction or authorizing the creation of debt by selling general obligation bonds. This makes it imperative that the state's right to possess and use the facility is contingent on annual appropriations from revenue anticipated for the fiscal year in which the lease obligation is incurred. Traditionally, appropriations for lease payments are considered operating appropriations which lapse on June 30 of the fiscal year. A lease agreement which provides for termination of the leasehold if sufficient appropriations to pay rent are not enacted will negate the conclusion that a debt is created. A one-year lease with automatic annual renewal for a maximum number of years upon enactment of an appropriation to finance the annual rent has been approved as a term which negates any possibility that a debt is created. Gude v. City of Lakewood, 636 P.2d 691 (Colo. 1981). See also Glennon Heights, Inc. v. Central Bank and Trust, 658 P.2d 872 (Colo. 1983).

2. Does existing law prevent a state agency from entering into a lease agreement for the construction of a public facility?

The lease of state office space is governed by AS 37.-05.220 -- 37.05.280. These statutes require a competitive bidding process with award of the contract by DOA to the lowest responsible bidder for the lease. However, the statutes provide one further requirement for office space leases which is lacking in other state contracts for the purchase of goods or services. AS 37.05.280 provides in relevant part that "no contract or lease executed after January 1, 1966, which provides for a payment or payments by the state in excess of $12,000 annually is valid unless the use of the space to be provided for by such contract or lease has been expressly approved by the legislature by concurrent resolution." This provision requires legislative approval of virtually all leases which the state executes to procure office and other space. However, we believe that this part of the

2/ The advice given in this memorandum is consistent with the majority of state courts which have considered the question. E.g., Bulman v. McCrane, 312 A.2d 857 (N.J. 1973); State ex rel. Thomson v. Gisel, 72 N.W.2d 577 (Wisc. 1958); but see Opinion of the Justices, 79 A.2d 753 (Me. 1951).

statute is invalid for two reasons.

Article II of the Alaska Constitution requires that the legislature exercise the law-making power by the passage of a bill not by the adoption of a concurrent resolution. State v. A.L.I.V.E. Voluntary, 606 P.2d 769 (Alaska 1980). Furthermore, the requirement for legislative approval of a lease is a violation of the doctrine of the separation of powers. Governmental power is allocated among the three branches of government by the Alaska Constitution. Some powers are logically allocated to the executive and others to the legislature. The power to execute the law on behalf of the state is one which falls to the executive. Alaska Const. art. III, § 16. It is the role of the legislature to enact laws which establish the conditions under which the executive may enter into leases. Alaska Const. art. II, § 1. However, it is not appropriate for the legislature to reserve a veto power over the enforcement decisions made by the executive. The legislature may amend or repeal the leasing authority for DOA. However, the legislature may not usurp the executive function to lease facilities without destroying the system of checks and balances inherent in our tripartite system of government. 3/ Bradner v. Hammond, 553 P.2d 1 (Alaska 1976).

DOT/PF has limited authority to dispose of land acquired for public works other than highways. 4/ DOT/PF may "vacate land or part of it, or rights in land acquired for public work purposes" by executing and filing a deed in the appropriate recording district upon vacating. AS 35.20.070. "Title reverts to the persons, heirs, successors, or assigns in whom it was vested at the time of the taking." Id. All other disposals of land acquired for public works are conducted by the Department of Natural Resources (DNR).

Before DNR may lease state land, the public must be informed of the nature and terms of the conveyance. Alaska Const. art. VIII, § 10; AS 38.05.035(a)(14), 38.05.345. DNR, acting in

---

3/ The cited portion of AS 37.05.280 was held invalid on the basis of separation of powers and improper exercise of the law making power by the superior court in Marine View Tenants' Association v. ASHA, No. 1JU-80-1037 CIV (Nov. 1, 1981). That case was not appealed. However, this decision has limited precedential value until a final decision is rendered by the Alaska Supreme Court.

4/ AS 19.05.070 grants broader discretion to dispose of land acquired for highway purposes.

concert with DOA, must prescribe a disposal procedure for state land which provides the safeguards required by law and permits the construction of a facility which the state will lease from the developer. That procedure may include the grant of a lease under AS 38.05.315 to the state agency responsible for the facility. The lease granted by DNR will allow the lessee agency to sublease the land for development of a leased public facility under specified terms which will include prior DNR review and selection of the sublessee according to AS 37.05.230. The sublease of the land will continue in effect long enough to secure financing for the facility. The payment of rent under the lease to the state agency for the facility would be contingent on the enactment of annual appropriations. If the lease is terminated by the failure to appropriate, the lessor would be the successor to the state agency's right to possess the building until reversion or exercise of the option to purchase.

3. Does existing law prevent a state agency from obtaining financing from a municipality to design and construct a state-occupied facility on state-owned property and then enter into an agreement with the municipality for payback without competitive bidding?

DOT/PF is proposing to finance the construction of the legislative hall by lease agreement. The City and Borough of Juneau (city) would sell tax exempt municipal revenue bonds, secured by the lease payments to be paid by the state. The state would then supervise the design and construction of the facilities and be the contracting authority.

As a general proposition, DOT/PF has the authority to make contracts with municipalities for public works. AS 35.05.-040(7). The purpose of this form of contract is further defined by AS 35.15.080(c), which provides in relevant part, "[a] municipality may request joint assumption of responsibilities with the department relating to the planning, design, and construction of a public works project." The term "public works" is very broad and includes public buildings. A public building is one which is "owned or controlled and held by the state for government or public use." AS 35.25.020(5) and (6).

We believe that DOT/PF may contract with the city for the planning, design and construction of the legislative hall. We reach this conclusion because under the provisions of the lease agreement, the state will have control over the building which it will hold for government or public use. Additionally, the state will have significant ownership interests in the facility because it holds fee title to the land upon which the build-

ing will be constructed and at the expiration of the lease agreement, will own the building free of the interest of the city. However, a contract may not alter the city's responsibility for repaying the long term debt established to finance the cost of construction of the facility.

Our memorandum of May 9, 1983 indicated that AS 37.05.-230 generally required competitive bidding to award a lease agreement which provides for the construction of a public facility. However, competitive bidding is not required in all instances of public contracting. McKinnon v. Alpetco, 633 P.2d 281 (Alaska 1981). The lease transaction under consideration may present an instance where it is in the best interests of the state to negotiate directly with a municipality rather than offer the contract to the lowest bidder. See AS 37.05.230(2). A decision to negotiate directly requires a detailed finding of fact in writing by DOA. In the finding of fact, the commissioner must justify the conclusion that negotiation is in the best interests of the state. A municipality enjoys a preferred status when dealing with the state. Intergovernmental contracts are not governed by the same considerations applicable to the state when it is participating in the open market place. It is probable that a facility can be financed cheaper with municipal revenue bonds than by private means. It may be futile to obtain any advantage from the competitive bid process. If DOA sets out ultimate facts in the finding which supports the conclusion that negotiation furthers the public's interest, then competitive bidding is not required. Libby v. City of Dillingham, 612 P.2d 33, 45 (Alaska 1980)(Rabinowitz, J. concurring). However, the award without competitive bidding would be subject to judicial review to determine whether the decision was arbitrary, capricious or an abuse of discretion. McKinnon, 633 P.2d at 287; Hertz Drive-Ur-Self Systems, Inc. v. Tucson Airport Authority, 299 P.2d 1071 (Ariz. 1956); Volume Services Division or Interstate United Corp. v. Canteen Corp., 369 So. 2d 391 (Fla. App. 1979).

4. Does the appropriation to finance the site acquisition and planning for a legislative hall contain defects which prevent DOT/PF from proceeding with the project?

Section 95, ch. 106, SLA 1983 appropriates $4,500,000 to DOT/PF plus other money received for land acquisition and facilities planning in Juneau. The land acquisition, planning, and preliminary design efforts for the legislative hall will be paid from this appropriation.

This section makes an appropriation from two sources: $4,500,000 from the general fund and an unspecified amount from

an unspecified source. 5/ This appropriation is for land acquisition and facility planning in Juneau.

The appropriation contains a unambiguous statement of purpose that DOT/PF is appropriated at least $4,500,000 for land acquisition and facilities planning in Juneau. There is no specification of the public facility upon which the appropriation may be expended. The use of the $4,500,000 appropriated for site acquisition, planning, and preliminary design for the legislative hall is within the purpose set out in the appropriation. However, the appropriation of money which may be received from other sources presents a serious legal issue. Because no amount is stated for the appropriation, sufficient authorization may not exist to expend the money beyond the $4,500,000. 6/ Nonetheless, the unspecified source of the appropriation is presumably severable from the general fund part of the appropriation which is stated with specificity in the amount of $4,500,000. AS 01.10.-030. Consequently, until you begin receiving amounts from "other sources," whatever they may be, the expenditure of general fund money authorized by the appropriation is not a problem.

CONCLUSION

We believe there is sufficient authority under existing law to finance the construction of a public facility by lease. However, because this financing technique is not specifically authorized by law, we cannot with absolute certainty advise you that a court would agree with our opinion. You should make allowance for this risk when you plan further development of each project to be financed by the lease purchase method.

WFC:ebc:prm/JLB:pjg

cc: Hon. Harold J. Raynolds, Jr.
Commissioner
Department of Education

5/ We presume "the other money received" was intended to include money to be provided under a lease agreement with the city as discussed in section 3, supra.

6/ Each appropriation must state an amount. AS 24.30.030. It is not necessary for the appropriation Act to set out the amount in dollars and cents if the appropriation contains provisions which make the amount capable of mathematical calculation. Orbison v. Welsh, 179 N.E.2d 727 (Ind. 1962).

MILT

LAW OFFICES
WOHLFORTH & FLINT
A PROFESSIONAL CORPORATION
900 WEST 5TH AVENUE, SUITE 600
ANCHORAGE, ALASKA 99501-2086

ERIC E. WOHLFORTH
ROBERT B. FLINT
TIMOTHY G. MIDDLETON
PETER ARGETSINGER
ROBERT M. JOHNSON
KENNETH E. VASSAR

TELEPHONE
AREA CODE 907
276-6401

TELECOPIER
AREA CODE 907
276-5093

RECEIVED
ALASKA DEPARTMENT OF REVENUE
JAN 30 1984
OFFICE OF THE COMMISSIONER

January 17, 1984

MEMORANDUM

Constitutional Debt Limitation/State and Municipal Leaseback Transactions

This memorandum reviews cases relating to state and municipal leaseback transactions, focusing on the viability of such transactions under constitutional debt limitations. For purposes of clarity, it may help to begin by defining some of the terms used in this paragraph.

Our concept of "leaseback transaction" generally includes the following basic elements:

(1) one party is a state or local government which cannot or will not directly finance a capital project (with "capital project" here generally limited to those capital projects which do not generate user income other than in the form of rent from the state or local government users);

(2) a second party to the transaction is the financing entity, which may be either a public or private corporation;

(3) the financing mechanism generally involves the issuance of bonds; and

(4) the relationship between the state or local government and the corporation is established by a lease agreement under which the state or local government agrees to lease from the corporation the capital project financed with the corporation's bonds; there may also be a preceding lease or sale of land from the state or local government to the corporation for use as the site of the capital project.

By "consitutional debt limitations" we refer to those provisions in the various state constitutions which inhibit the ability of a state or local government to incur debt. These limitations generally fall into one of two categories: (1) those which prohibit debt absent voter approval except for certain

enumerated purposes; and (2) those which limit permissible debt to a particular amount, usually expressed as a percentage of revenues. Alaska's debt limitation falls into the former category, and, because of their relevance to proposed leaseback transactions in Alaska, we present here in full the four pertinent sections from the Constitution of the State of Alaska, Article IX:

> SECTION 8. STATE DEBT. No state debt shall be contracted unless authorized by law for capital improvements or unless authorized by law for housing loans for veterans, and ratified by a majority of the qualified voters of the State who vote on the question.The State may, as provided by law ratification, contract debt for the purpose of repelling invasion, suppressing insurrection, defending the State in war, meeting natural disasters, or redeeming indebtedness outstanding at the time this constitution becomes effective.
>
> SECTION 9. LOCAL DEBTS. No debt shall be contracted by any political subdivision of the State, unless authorized for capital improvement by its governing body and ratified by a majority vote of those qualified to vote and voting on the question.
>
> SECTION 10. INTERIM BORROWING. The State and its political subdivisions may borrow money to meet appropriations for any fiscal year in anticipation of the collection of the revenues for that year, but all debt so contracted shall be paid before the end of the next fiscal year.
>
> SECTION 11. EXCEPTIONS. The restrictions on contracting debt do not apply to debt incurred through the issuance of revenue bonds by a public enterprise or public corporation of the State or a political subdivision, when the only security is the revenues of the enterprise or corporation. The restrictions do not apply to indebtedness to be paid from special assessments on the benefited property, nor do they apply to refunding indebtedness of the State or its political subdivisions.

We note also the presence of Article IX, Section 16, of the Alaska Constitution, which establishes a ceiling on permissible annual appropriations by the State. While this section is not per se a limitation on debt (the section expressly exempts from its provisions appropriations of bond proceeds), it may have some effect on the feasibility of a proposed leaseback transaction to the extent that it limits the state's ability to make appropriations.

Finally, among our list of defined terms is "lease participation certificate." By this, we refer to the financing instrument used in a lease participation transaction. A "lease participation transaction" has the same basic elements described for a "leaseback transaction" with one exception: instead of or in addition to issuing bonds to finance the capital project, the corporation, as lessor of the project, issues lease participation certificateswhich entitle their holders to a share of the lease revenues generated by the project.

With these preliminary matters established, we proceed now to an overview of the research we have completed with regard to leaseback transactions and constitutional debt limitations.

OVERVIEW

In preparing this memorandum, we have reviewed some 47 cases decided in 26 states. The earliest case was decided in 1939, the most recent in 1982. There are earlier cases which we declined to include in this survey, primarily because of the existence of more recent cases in their jurisdictions. For ease of reference, we will refer to those cases which have invalidated leaseback transactions as invalidating cases and to those cases which have upheld leaseback transactions as validating cases.

While legal research can seldom, if ever, be satisfactorily reduced to figures and statistics, some of the numbers revealed by our research may be of interest. Of the 47 cases we reviewed, 21 were invalidating cases and 26 validating. Among the 26 states in which these 47 cases were decided, 16 states can be considered validating states in the sense that the most recent decisions in those states are validating decisions. The remaining 10 states have only invalidating decisions, but only two of those states -- Ohio and New Mexico -- have considered the question more than once. Of the 16 validating states, 10 have considered the question more than once. Six of the validating states had early invalidating decisions followed later by validating decisions. In no state has an invalidating decision followed a validating decision.

On the following pages of this memorandum, we will generally follow a chronological order in presenting the cases reviewed; however, three states -- New Jersey, Wisconsin, and Missouri -- have had such extensive judicial review of leaseback transactions that their cases are most instructive if viewed apart from the others. Therefore, the following pages will begin with cases decided in New Jersey, Wisconsin, and Missouri and will then proceed with a chronological review of the cases from the other states.

NEW JERSEY

New Jersey's supreme court has decided four leaseback transaction cases. Its first decision, McCutcheon v. State Building Authority, 97 A.2d 663 (N.J. 1953), became the most cited of the leaseback transaction cases of all the states. McCutcheon has been cited approvingly or for support in the invalidating cases of Arizona, Iowa, Massachusetts, Ohio, Oregon, Washington, West Virginia, and Wisconsin. It has also been cited and then ignored, distinguished, or dismissed by many of the validating cases.

In 1968, the New Jersey court expressed some clear misgivings about its McCutcheon decision, though it did not expressly overrule the decision at that time. In 1973, the court fortified the impression created in the 1968 case that it no longer endorsed McCutcheon. Again, however, the court did not expressly overrule the decision at that time. A New Jersey Appellate Court summed up the status of McCutcheon in 1981 with the following comment: "it is apparent that as precedent the case is dead; it simply has not as yet been interred." Enourato v. New Jersey Building Authority, 440 A.2d 42, 48 (N.J. Appel. 1981). Final interment arrived in 1982 when Enourato was appealed to the New Jersey Supreme Court, which expressly overruled McCutcheon.

The effect of McCutcheon on other state courts which have reached invalidating decisions should be noted. We listed above eight states whose courts have reached such invalidating decisions. Three of these states -- Arizona, West Virginia, and Wisconsin -- have since had validating cases decided in their supreme courts. The remaining five states have not had any other post-McCutcheon cases. It will be interesting to note the effect, if any, which the overruling of McCutcheon has on those states as future cases come before their courts.

McCutcheon involved a statutorily created public corporation known as the State Building Authority. The sole business of the Authority was to provide for the construction and acquisition of buildings through the issuance of its bonds. The source of income to the Authority from which the bonds were to be

repaid was the leasing of the buildings to the state and its various departments and agencies. Under the Authority's enabling statutes, the lease contracts would be "valid and binding upon the department, agency, or instrumentality of the State, notwithstanding that no appropriation was made or provided to cover the cost or estimated cost of the contract." 97 A.2d at 665.

Neither the statutory nor the lease provisions set forth by the court in its opinion indicate whether or under what circumstances title to the property would be transferred to the State; however, the statute did authorize the Authority to convey property it acquired. In any event, the most significant concern to the court, as reflected in the following passage from the opinion, was whether the lease contracts were actually purchase contracts:

> While in form a way of providing the State with leasehold interests in building facilities for public use, in reality the design of the act is to enable the State by contracts of purchase to acquire for state use buildings possessed and constructed by the Authority by means of bond issues sustained by the State's promise to supply in the guise of rentals sufficient money to liquidate the bonds, available only through the medium of annual appropriations. And this in disregard of the constitutional debt limitation and the restraints laid by the organic law upon the appropriations process. There is no pretense of conformance with the debt limitation provision; there was no submission of the project to the electorate .... The legislation proceeds upon the hypothesis that the fulfillment of the project will not burden the State with a debt or liability within the constitutional sense. But in this the accent is on the external appearance rather than the substance. The label is unimportant; it is the essence that controls. It is an obvious truism that constitutional limitations may not be set at naught by indirection.

97 A.2d at 668. It was this piercing of the lease contract to unveil an underlying purchase agreement which primarily led the court to conclude that the transaction was governed by, and invalid under, the State's constitutional debt limitations.

Another important factor to the court was the nature of the Authority. Regarding this factor, the court stated:

> There is for the reasons stated, a radical difference in the relationship between the State and the Authority and the State and a private corporate lessor....The Authority is not an independent autonomous public corporation. It may lease its building faciltities only to the State, its departments, agencies, and instrumentalities....And, quite apart from the other considerations heretofore adverted to, the State's taxing power is the sole source of its revenue.

97.A.2d at 671. The court's apparent perception of the Authority as, in essence, the alter ego of the State involved in a transaction which the court viewed as, in essence, a purchase agreement created the situation necessary for the court to reach its conclusion. From the court's perspective, it was reviewing, in essence, a capital construction contract entered into by the State without the required voter approval. The result was inevitable.

As noted above, the statute made the lease payments valid and binding against the state agencies entering into the lease contracts even if the legislature failed to make appropriations for such payments. While the meaning of the statute is not clear, one might have expected the court to use the statute to conclude that any lease entered into under it would be prohibited debt by virtue of its apparent attempt to avoid the appropriation process. Instead, the court virtually ignored the statute. In fact, the following passage, which should most likely be considered as dicta, reflects the opposite situation -- one in which there is no obligation to make payments except to the extent that appropriations so provide:

> The constitutional debt-limitation provision is not limited in quality and scope to debts enforceable by action. It has in view the temptation or inducement and incentive to make appropriations for "debts" beyond the prescribed amount, unless approved by the people in the manner ordained. Moral and ethical compulsions are not to be allowed to override the constitutional safeguard against improvidence and the integrity of the State's economy.

97 A.2d at 671

By the court's own account, McCutcheon stood as a rigid enforcement of the state's debt limitation provisions. Any leaseback transaction plan which reflected any indicia of a purchase -- whether by transfer of title at termination of the lease, or by the holding of title by a public corporation, or by lease payments fashioned to pay for debt service on the bonds -- would likely have failed before that court, at least to the extent that one party to the plan was a public corporation whose only customer was the State.

Fifteen years after McCutcheon, the New Jersey Supreme Court again considered a leaseback transaction case, this time with a markedly different result. The second of the New Jersey cases was Clayton v. Kervick, 244 A.2d 281 (N.J. 1968). The opinion was written by Justice Jacobs, the only remaining member of the McCutcheon court and a dissenter in that case (along with Justice, later to become Mr. Justice, Brennan).

The statute in Clayton established the New Jersey Educational Facilities Authority. The Authority was empowered to borrow money and issue bonds to construct projects to be leased to public and private colleges. The projects were anticipated to be revenue producing projects (such as dormitories), and the revenues they produced were primarily the source from which lease payments were to be derived. To this extent the transaction in Clayton was not a "leaseback transaction" as we have defined the term for purposes of this memorandum, and, indeed, it was the revenue-producing character of the projects upon which the court ultimately distinguished the Clayton situation from the McCutcheon situation.

Nevertheless, before distinguishing McCutcheon, the court referred approvingly for nearly two full pages in its opinion to the dissent in McCutcheon and to cases from other states which had rejected the majority opinion in McCutcheon. As to the McCutcheon dissent and the cases from the other states, the court stated:

> these decisions, along with the dissent in McCutcheon, appear to us to be clearly the more persuasive....

244 A.2d at 281. Although the court was able to find a way to distinguish, rather than expressly overrule, McCutcheon its disenchantment with the earlier case was apparent.

Thus, while Clayton, is not, strictly speaking, a leaseback transaction case under our definition, its use by the court as the vehicle to undercut McCutcheon, to warmly embrace

the McCutcheon dissent, and to cite approvingly the leaseback transaction cases from other states rejecting the McCutcheon thesis makes the case important for our purposes. Fifteen years after writing his dissent in McCutcheon, Justice Jacobs was finally able to incorporate into a majority opinion his thoughts about the McCutcheon case. Taking full advantage of the opportunity, he recorded the following pertinent comments, among others:

> In their separate opinion, the dissenting justices [in McCutcheon] referred to the fact that the generally accepted accounting practice thoughout the country does not encompass future rents as debts or liabilities and that corporate balance sheets would be examined in vain for references to lease rentals payable in future years....
>
> The majority in McCutcheon apparently viewed the rental plan as a purchase rather than a lease and as evasion rather than avoidance of the debt limitation....But, as the dissent pointed out, leases between affiliated governmental bodies are common and unquestioned in our society and there was no plausible basis for dishonoring the carefully formulated leasing arrangement between the independent Building Authority and the non-autonomous agencies of the State.

244 A.2d at 288.

Although the Clayton court chose to distinguish rather than overrule McCutcheon, and though much of what the Clayton opinion had to say about McCutcheon was, therefore, simply dicta, it should have been reasonably clear that Clayton marked the deathknell for the earlier case. Still, five years later, a New Jersey Superior Court apparently had not yet clearly received the message.

Bulman v. McCrane, 302 A.2d 163 (N.J. Super. 1973), involved the following issue as explained by the court:

> Put concisely, the problem presented is whether a lease-purchase arrangement whereby a state agency contracts with a builder to erect a facility on state-owned land and lease the same to the State for a term of

> years at stipulated annual rentals, with an option to purchase at intervals during the term, title to revert to the State at the expiration thereof, violates the debt limitation clause of the State Constitution.

302 A.2d at 164. After reviewing McCutcheon and Clayton, the Superior Court concluded that neither provided guidance for a situation involving a lease to the State of a non-income producing facility by a private corporation. While it avoided using either case as authority for its decision, the court nevertheless reached the McCutcheonesque conclusion that, while the arrangement was cast in the form of a lease, it was, in essence, a purchase agreement. As such, the court determined that the arrangement created prohibited debt. The reason for the court's perception of the arrangement as a purchase agreement basically rested upon the fact that the lease provided for reversion of the building (which was built on state-owned land) to the State at the expiration of the lease.

Nine months later, the New Jersey Supreme Court reversed. Bulman v. McCrane, 312 A.2d 857 (N.J. 1973). The court stated:

> The fact that the State may be advantaged by ultimately acquiring title to a potentially useful building as the residue of a transaction otherwise faithful to the theory of a lease...represents no good reason for judicial assiduity in laying hold of that circumstance to destroy the transaction as an unconstitutional debt. The sole obligation of the State here is for future installments of rent. They will presumably be paid out of current revenues as annually appropriated for the purpose. Under settled principles, there is no present debt in the constitutional sense.

312 A.2d at 863--864 (footnote omitted).

The most recent of the New Jersey leaseback transaction cases is Enourato v. New Jersey Building Authority, 448 A.2d 449 (N.J. 1982). The statute in this case, very much like that in McCutcheon, created a state building authority the sole function of which was to construct buildings for lease to the State. Rental payments, made subject to annual appropriations, were the sole source of repayment of the bonds issued by the Authority to finance the construction of the buildings. The bonds, of course,

expressly stated on their face that they were the obligations of the Authority and not the State. In a relatively brief review of the question, the court rejected the claim that the Authority's bonds would create a state debt. The court noted:

> The Authority's creditors have notice that their only remedy lies against the Authority.
>
> Nor does the liability of the State on its lease agreements with the Authority create any debt of the State. Both the statute and the lease make clear that all rent payments from the State are subject to legislative appropriations....
>
> Since the Building Authority Act does not authorize the creation of any debts by the State, the debt limitations clause...does not apply to the Authority's debts or any obligations of the State on its lease agreements with the Authority. We have already disapproved the contrary result reached by a sharply divided Court in McCutcheon...and now expressly overrule that case.

448 A.2d at 456.

These New Jersey cases, from McCutcheon to Enourato, demonstrate an evolution in judicial thinking with regard to leaseback financing. Several of the early cases took the view expressed in McCutcheon of rigid adherence to debt limitation provisions. Under that view, the enforceability of an obligation claimed to exist against a state was not determinative. Any arrangement which appeared to be or could plausibly be said to be a purchase agreement was equated with debt. If there were any moral obligation to make payments or even if the court surmised that, because of practical considerations, the legislature would most likely make the appropriation for the payments regardless of the existence of any moral or legal compulsion, that, too, could be equated with debt. We believe the modern trend and certainly the majority position is more closely attuned to the Enourato view. As long as the obligation of the state under the lease agreement is clearly subject to annual appropriation by the legislature, as long as the bonds issued to finance the project clearly identify the foregoing and clearly indicate that they are not the obligations of the state, as long as state property is not encumbered (a factor extensively discussed in the Wisconsin cases reviewed below), and as long as the enabling statutes

authorizing the transaction reflect all of the foregoing, the likelihood is that the transaction will be upheld.

WISCONSIN

Like New Jersey, Wisconsin's supreme court has reviewed four cases concerning leaseback transactions. Unlike New Jersey, however, all of Wisconsin's cases were decided in a two-year period (1953 -- 1954), and, in its four decisions, the Wisconsin court has not experienced the dramatic change in attitude reflected in New Jersey's cases.

The first Wisconsin case was State v. Giessel, 65 N.W.2d 529 (Wisc. 1954) (herein "Giessel I"). The plan in Giessel I called for the incorporation of a non-profit corporation by the State Building Commisssion. The Commission would lease state land to the corporation. The corporation would construct a building on the land and lease both land and building back to the Commission for the use of state agencies. As security for its loans, the corporation would have the ability to mortgage its lease of the land and of any buildings on the land. One project of the corporation was to construct an addition to an existing state office building. To secure financing for the project, the corporation intended to mortgage the lease to the corporation of the land and existing building.

The court found no fault with the financing plan except with regard to the mortgaging of an interest in state property. As to such mortgaging, the court declared the plan unconstitutional and void, stating:

> Logically there would seem to be just as much coercion on the part of the state to pay an indebtedness, for the payment of which existing state property, or an interest therein, had been pledged as security but the state had not otherwise agreed to pay the debt, as
>
> the state had made itself directly liable for the payment thereof.

65 N.W.2d at 540.

Three months later, the court decided State ex rel. Rogers v. Milligan, 66 N.W.2d 325 (Wisc. 1954) (herein "Milligan I"). This case involved virtually the same facts as in Giessel I and was decided in accordance with that case.

Early in 1955, the court had before it State ex rel. Rogers v. Milligan, 69 N.W.2d 485 (Wisc. 1955) (herein Milligan II"). Once again, the facts were virtually identical to Giessel I and Milligan I except that here the building company as lessor of the land (which was owned by the city and leased to the building company) and building, instead of mortgaging its leasehold interest in the land, would be able to re-enter and take possession of the land and building if the city failed to pay its rent. The court saw no distinction in this feature of the lease and ruled the plan unconstitutional, noting, however, that if the building company were also the owner of the land "this objection to the lease would be eliminated." 69 N.W.2d at 487.

Finally, toward the end of 1955, the Wisconsin court considered State ex rel. Thomson v. Giessel, 72 N.W.2d 577 (Wisc. 1955) (herein "Giessel II"). Decided only two years after McCutcheon, Giessel II became the second most prominent case on leaseback transactions (after McCutcheon). In a lengthy analysis of the leaseback transaction before it, the court considered McCutcheon and rejected the conclusions of that case, stating:

> That case is distinguishable from the present situation in that it rests on legal premises which this court has not adopted....This court....has heretofore held that no debt is created unless the state itself is under a legally enforceable obligation.

72 N.W.2d at 589. The Wisconsin court indicated various distinguishing factors between the two cases and between the constitutions of the two states. Whether it was a result of those distinguising factors or, more likely, a result of a plain disagreement between the two courts, the Winsconsin court reached conclusions opposite to those of the New Jersey court with respect to two significant legal issues: first, as noted above, the Wisconsin court found no constitutional debt in the absence of a legally enforceable obligation; and second, the Wisconsin court, though it did not find an installment purchase contract to exist in the plan before it, indicated that even if such contract did exist it would not necessarily create state debt (this second conclusion being no more than a corollary to the first in that a purchase contract, to the same extent as a lease, creates no debt in the absence of a legally enforceable obligation).

The plan before the court in Giessel II was a typical leaseback transaction involving a private, nonprofit corporation as the financing entity. The corporation was empowered to either purchase or lease land from the state for the purpose of constructing buildings on the land and either leasing or subleasing,

depending upon the interest initially conveyed to the corporation, the land and building to the state. There were three causes of action presented to the court in Giessel II.

The first cause of action related to a lease and sublease. Rent on the sublease was calculated to enable the corporation to retire the indebtedness to be created in the construction of the building. The sublease provided that "it is mutually agreed by the parties hereto that the corporation, its successors or assigns, hereby waive, relinquish and release any and all rights of re-entry, or to re-take possession of the herein demised premises, and hereby agree not to exercise any such rights, in the event of nonpayment of rent or of other defaults hereunder by the University, its successors or assigns." 72 N.W.2d at 580. The second cause of action involved the same type of arrangement with the same re-entry waiver.

The third cause of action related to a sale of land by the state to the corporation. The corporation was to build an office building on the land and lease it to the state building commission. The loan by the corporation to finance the construction was to be secured by a mortgage on the land. The lease provided that if the legislature failed to appropriate money for rental or for any other breach of the lease, the corporation would be entitled to "enter on, and expel, the commission from said premises forthwith, and without notice, and the corporation may from time to time apply all monies held by the corporation as security for faithful performance by the commission of its covenants and undertakings hereunder, to the payment of all damages sustained by the corporation by reason of any such default, which damages shall include, without limiting the generality of the foregoing thereby, the cost of decorating, altering and improving the premises and brokers' commission incurred in reletting the same, and also the difference between the net income actually received by the corporation from said demised premises upon reletting and the rent limited herein." 72 N.W.2d at 581. The lease further provided that it was made subject to a mortgage made by the corporation to its lender. Under the mortgage, rents to be paid by the commission were pledged to the lender.

With regard to these causes of action it should further be noted that (1) the state consented to a pledge or assignment of the state's obligation to pay rent by the corporation to its lender; (2) the state purchased equity in the building projects described in the first two causes of action in amounts greater than fifty percent of the cost of the projects; and (3) the state was authorized to use income derived from existing state buildings to pay the rent on the building described in the first cause of action.

The court first considered whether the state's consent to the assignment of its rental payments to the corporation's lender created debt. The court ruled that it did not and referred to the principle enunciated in Giessel I that the payment of future rent is not a presently existing debt. 72 N.W.2d at 584. The court noted that the assignment of the rents simply changed the party entitled to receive the rents if paid and did not obligate the state to pay the corporation's obligations.

The court next considered whether the state's investment in the projects led to prohibited debt. The court rejected the contention, stating that the investment did not obligate the state to pay all or any portion of the sums borrowed by the corporation to construct the buildings "even though good judgment may dictate that it do so voluntarily". 72 N.W.2d at 586.

The court next encountered the old McCutcheon argument that the leases and subleases were, in effect, contracts of purchase which created impermissible state debt. As noted above, the court chose not to follow McCutcheon and adhered to its general principle that where there is no obligation against the state to make payments, whether under a lease or under a purchase contract, there can be no debt.

Finally, the court considered whether the state's agreement to use income from existing state buildings to pay the rent on the building leased from the corporation created a state debt. The court noted that the nature of the fund from which the rental payments were to come had no bearing on the nonenforceable and contingent nature of the state's obligation and, therefore, did not affect the court's determination that no debt had been created.

To the degree that McCutcheon was rigid, Giessel II can be said to be flexible in considering its constitution's debt limitation provisions. Giessel II represents the position that as long as the state's obligation is nonenforceable and contingent and as long as there can be no loss of state-owned property there is no state debt.

MISSOURI

The first of the Missouri cases is Board of Public Buildings v. Crowe, 363 S.W.2d 598 (Mo. 1962). The financing entity in that case was a public corporation which had authority, once it constructed a building in a city, to require any state agency which occupied rental quarters in such city to rent space from the corporation's building and to contribute from funds

appropriated for such agency's support a proportion of the rentals of the building. It was argued in the case that the payment of rentals from funds appropriated to the state agencies and taken from revenue raised by taxation would create a "liability" of the state. The court noted that no rents could be paid by any agency unless the legislature appropriated money to that agency. Once such an appropriation was made, the money lost its character as general state revenue. The court rejected the contention and sustained the transaction.

Crowe was followed in 1971 by New Liberty Medical and Hospital Corporation v. E. F. Hutton and Company, 474 S.W.2d 1 (Mo. 1971). In this case the Missouri court did find constitutionally prohibited indebtedness arising from the provisions of the lease agreement used in the leaseback transaction. Under the agreement, the hospital district (which was subject to the state's constitutional debt limitations) was obligated unconditionally to pay rentals "without abatement, deduction, set-off, counterclaim, recoupment or defense or any right of termination or cancellation arising from any circumstances whatsoever." 474 S.W.2d at 6. The court noted that

> This is more than the usual obligation of lessee to pay rent for premises furnished. It is an unconditional undertaking to pay a sum total which will equal the principal and interest on the debentures plus taxes, costs and certain other items over a 30-year period, even if for some reason the premises become unavailable for use of lessee. This is assuming indebtedness which must be paid in all events.

474 S.W.2d at 6. Not surprisingly, the court invalidated this leaseback transaction. A similar lease agreement was used in the third Missouri case, Scroggs v. Kansas City, 499 S.W.2d 500 (Mo. 1973), and it, too, was invalidated by the court.

The last of the Missouri cases was St. Charles City-County Library District v. St. Charles Library Building Corporation, 627 S.W.2d 64 (Mo. 1981). Like the lease agreement in the Colorado Gude decision, discussed later in this memorandum, the district here was able to avail itself of annual options to renew. Because of this feature, the court distinguished Scroggs and held that there were no long-term repayment obligations created on the part of the district and, hence, no violation of the constitutional debt limitations of Missouri.

OTHER STATES

Having reviewed the cases of three of the most active courts in the leaseback transaction area, we proceed in this part to review the remaining cases from the other states. As noted earlier, this review will proceed in chronological order.

The earliest case in our survey is State v. Griffith, 22 N.E.2d 200 (Ohio 1939). The leaseback transaction in this case involved a public corporation which constructed additions to state mental hospitals and subleased the buildings back to the state Department of Public Welfare. Under their contract, the department pledged "all and every part of its available source of income" to pay the rent on and to maintain the buildings. There were a number of elements to the transaction to which the court took exception in invalidating the arrangement.

While the court accepted the concept that pure revenue bonds (that is, those payable solely from the revenues generated from the project financed with the bonds) were acceptable under constitutional debt limitations, the court could not accept a general obligation bond of a public corporation. This was particularly so in a situation, as in this case, where the public corporation was joined in its obligation by the Department of Public Welfare

The court noted that

> the obligation of the Department of Public Welfare of the state of Ohio under its contract with the authority to pay as rental for the state property turned over to the authority the sum of $421,500 per annum for twenty-five years, plus other expenses of the authity is an absolute and outright obligation of the department, an arm of the state, on account of such bonds. In addition the department obligates itself to liquidate the indebtedness to the authority by pledging "all and every part of its available sources of income" and "to fix the amount or amounts to be charged and collected for the support of patients and inmates of the hospitals under [its] control...so as to be sufficient in the aggregate to provide available funds to pay the maintenance costs of said buildings-...and to pay the Public Institutional Building Authority the sums" promised....

22 N.E.2d at 205. The court additionally disapproved of the pledging of income derived from existing buildings in addition to the income to be derived from the buildings financed with the bonds. The court reasoned that "to the extent that the income from the use of these buildings is diverted to the payment of rental to the authority for the purpose of servicing these bonds, the general revenues from taxation to support these institutions must necessarily be increased to the same extent. The income from the institutions ought to be increased, by reason of the new structures, but there will also be greater expense in administration and upkeep." 22 N.E.2d at 205.

Plainly, the most serious problem in the Griffith situation was the outright pledge by a department of the state to pay a sum certain annually under contract with the corporation. Because of the number of concerns expressed by the court, it is difficult to surmise how a provision making all payments subject to annual appropriation by the legislature might have changed the court's conclusion, but such provision could only have helped the situation.

In 1941, New Mexico's supreme court rendered the first of its two leaseback transaction cases, State Office Building Commission v. Trujillo, 120 P.2d 434 (N.M. 1941). Trujillo presented a lengthy and considered analysis of leaseback transactions in the light of constitutional debt limitations and became another oft-cited and significant case in the area.

As much as any other case in the field, Trujillo clearly pointed out the dual considerations inherent in any leaseback transaction involving a public corporation. The court carefully considered the relationship of the public corporation in Trujillo to the state and then considered the nature of the obligation entered into by the state itself.

The statute creating the corporation in Trujillo designated it "a public body corporate as an agency of the State." The court immediately seized upon this language and noted that "it is through such agency that the State is to act, and being an agency, its acts are the acts of the State." 120 P.2d at 440. The conclusion that the bonds of the corporation are then debts of the State itself could hardly be avoided from that point. It may not be likely that the same difficulty would be encountered in Alaska considering the Alaska Consitution's express reference to obligations of public corporations as exceptions to this state's debt limitation provisions. (Constitution of the State of Alaska, Article IX, Section 11); however, it is certainly advisable in any event to give the courts a clearer indication that a separate and independent legal entity is intended to be

created as has generally been done in the statutes creating Alaska's present public corporations.

From the perspective of the obligation created by the other state agencies in entering into the lease contracts, it was urged upon the court that the rental payments should not be considered debt for the reason that they amounted to current administrative expenses. This, of course, was the argument accepted by the Wisconsin court in Giessel II; however, the facts in this case did not permit such a conclusion. There was no provision in the agreement or in the statute making the payment of rent by the state agencies contingent upon appropriation for the purpose; in fact, once the agencies entered into the lease agreement, both the statute and the agreement prevented them from terminating the lease except under narrowly specified circumstances. As the court noted:

> Subject only to the one condition set out in said section, the state would be obligated to continue payment of rentals until the indebtedness of the Commission was satisfied. This would mean, so long as the agencies did not recede from the lease agreements under the one specified condition, that future legislatures would be bound to provide appropriations for payment of rentals.

120 P.2d at 448 (emphasis in original). The lesson from this aspect of the case is the now familiar refrain: the obligation of the state agency to pay rent must be contingent upon the legislature's decision to appropriate for that purpose. Such a provision might not have saved the case before a court such as that in McCutcheon, but it could have made a difference in many of the cases.

The next leaseback transaction case was Opinion of the Justices, 79 A.2d 753 (Maine 1951). In this lone entry into the leaseback transaction arena by the Supreme Court of Maine, the state senate presented to the Justices a proposed leaseback transaction the only significant feature of which was a statutory provision which appeared to make it mandatory upon the state and the public corporation to enter into a lease agreement upon completion of construction of the building by the corporation. The lease agreement was to provide rents sufficient to retire the corporation's bonds. There is no provision indicating that rental payments by the state were subject to appropriations.

The court foreshadowed the McCutcheon analysis by finding the "so-called" lease to be a contract of purchase.

> The so-called rental is not true rent, to wit, payment for the use of property. The total amount of so-called rental is the purchase price the State is to pay for the property....Being a contract of purchase, obligating the State to pay the purchase price, unless the entire amount thereof is to be paid pursuant to appropriation presently made from funds or revenues currently available therefor, such contract of purchase would in the consitutional sense be a liability created by the Legislature on behalf of the State.

79 A.2d at 756 (emphasis in original).

In 1955, two leaseback cases from two states emerged. In McArthur v. Smallwood, 281 S.W.2d 428 (Ark. 1955), the rental payments from the state to the public corporation were to come first from legislative appropriations and, if such appropriations were not forthcoming, then from a special levy to be assessed by various county treasurers. Noting particularly that there was no obligation on the legislature to make the appropriations, the court upheld the transaction. The special levy was upheld on the basis of the "special fund doctrine", which was also a significant consideration in the Trujillo case. The "special fund doctrine" provides, in essence, that the repayment of bonds from a special tax or levy does not violate state debt limitations because the general taxing power of the state is not involved. Any reliance upon such a doctrine in Alaska, of course, would require serious consideration of the dedicated fund prohibition in the Alaska Constitution (Article IX, Section 7).

The other 1955 case was State v. Yelle, 289 P.2d 355 (Wash. 1955). Yelle relied extensively on McCutcheon, employed the same analysis, determined that the lease was actually a purchase, and invalidated the arrangement. The opinion does not clearly indicate whether there was any compunction on the legislature to make the appropriations to pay for the rents, nor is it clear that the rental payments were contingent upon such appropriations. In any event, such considerations probably do not make much difference with regard to the McCutcheon progeny. We have discovered no Washington case subsequent to the crumble or demise of McCutcheon.

Illinois' court considered a municipal leaseback transaction in People v. Public Building Commission of Chicago, 142 N.E.2d 67 (Ill. 1957). Of particular importance to that case was a provision in the statute which required municipalities entering into leases with the public corporation to "enact an ordinance or

resolution providing for the levy or a direct annual tax sufficient to pay the annual rental under the lease when it becomes due and payable." 142 N.E.2d at 72. The Illinois court noted that its definition of "indebtedness" was "not as liberal as that indulged in by a majority of jurisdictions." 142 N.E.2d at 75. Nevertheles, even in the more liberal jurisdictions, a provision such as that embodied in the statute quoted above would have been likely to lead to a finding of debt. The Illinois court had no trouble reaching such conclusion.

In 1958, the Indiana Supreme Court was presented with a leaseback transaction involving a public corporation. In Book v. State Office Building Commission, 149 N.E.2d 273 (Ind. 1958), the lease agreement between the public corporation and its state agency lessees contained a provision, much like that in Trujillo, which permitted the lessees to terminate their agreement only under specified conditions. Nevertheless, the court upheld the agreement.

In Book, the court was presented with a series of assertions reflecting a McCutcheon-like analysis of the situation. The court repudiated each assertion as it was presented. Thus, the court, looking to the statute creating the public corporation and to previous Indiana cases, denied that the public corporation was "in reality" the State of Indiana. It followed that since the corporation was a corporate body separate from the state, the holders of its bonds would have to rely upon the corporation's revenues derived from rental income and would not have any recourse against the state. For these reasons, the court concluded that the bonds of the corporation were not debt of the state. In response to the assertion that the lease agreements were "in reality" contracts to pay the corporation's bonds, the court stated the general rule that

> a municipal corporation may lawfully contract for necessary services over a period of years and agree to pay therefor in periodic installments as the services are furnished. In such cases the aggregate of the amounts to be paid as the services are rendered under such contracts are not considered as an indebtedness of the corporation, and such contracts are not rendered invalid by the fact that the aggregate of the installments exceeds the debt limitation.

149 N.E.2d at 284 -- 285. In any event, the fact that the state agencies might obtain title to the buildings they rented at the expiration of their lease would not be sufficient to convert the

lease into a purchase agreement. The court further stated, reminiscent of Giessel II, that the Indiana debt limitation provisions applied only to legally enforceable obligations. Since the court found no language binding any future legislature to make appropriations for the rent under the lease agreement and since the rentals could be paid only by appropriations made by the legislature, the court concluded that the lease agreement created no constitutionally prohibited debt.

Giessel II and Book are located on the more liberal end of the leaseback transaction spectrum, with Book perhaps a bit more liberal because of the court's willingness to overlook the lease provision apparently limiting the state agencies' ability to terminate the lease.

It is worthwhile at this point to temporarily abandon our chronological order to briefly review a later Indiana case -- Teperich v. North Judson-San Pierre High School Building Corporation, 275, N.E.2d 814 (Ind. 1971). We note the case only for its reaffirmation of the Book principle that rent payments "cannot be considered debt until the payments become due." 275 N.E.2d at 817.

In 1960, the Massachusetts court issued its solitary opinion relating to leaseback transactions. Ayer v. Commissioner of Administration, 165 N.E.2d 885 (Mass. 1960), involved, as the financing entity, a nonprofit corporation created by statute. The sole purpose of the corporation was to construct a building to be leased, and ultimately transferred, to the state. Citing McCutcheon, Trujillo, and Yelle, among others, the court embarked upon its analysis by "looking through form to substance". 165 N.E.2d at 892. The court first considered the nature of the corporation and then considered the nature of the lease agreement.

Although the court agreed that the corporation was an entity separate from the state, it nevertheless concluded that the corporation was "nothing more than a mere intermediary to carry out only one purpose." The following factors were pertinent to the court's analysis: (1) the corporation's sole purpose was to construct and lease to the state a building to be used only by the state; (2) the corporation was given powers of eminent domain; (3) the building, at the expiration of the lease, would become the absolute property of the state and the corporation would fade from existence; and (4) the corporation had virtually no power to deal with its property except as provided in the lease agreement. Reflecting upon these factors, the court then considered the statutory provision that the bonds of the corporation would not constitute a debt of the state or a pledge

of its faith and credit. The court's opinion as to this was as follows:

> This disclaimer is ineffective if, contrary to the disclaimer, such be the natural and reasonable effect of the statute.

165 N.E.2d at 889.

With regard to the lease agreement, the court noted:

> Viewing realities, we consider that the so-called "rentals" are not really rentals at all, but in practical effect are installment payments on account of a purchase by the Commonwealth of an office building, with full title to be acquired at an indefinite future date.

165 N.E.2d at 890. One of the important characteristics of the lease agreement leading the court to this conclusion was the requirement in the agreement that the state continue to make rental payments even if the building was not completed on time or was damaged or destroyed.

This 1960 case, which to the best of our knowledge has not been followed by any other Massachusetts leaseback transaction case, employed the McCutcheon-like analysis of piercing through form to arrive at the court's impression of substance. In this regard, the presence of a provision making the state's rental payments contingent upon legislative appropriations may not have changed the result, particularly if the Massachusetts court adopted the McCutcheon view that a mere moral imperative or even a practical likelihood for making the appropriations would suffice to create debt. However, the absence of such a provision allowed the court to reach its conclusion without the necessity of taking that position, and the presence of the affirmative duty of the state to make the rental payments even in the absence of a completed or inhabitable building for the state to occupy doubtless provided a strong incentive to the court to find a prohibited debt.

Another 1960 case, which was also the only decision on the subject we have found for its jurisdiction, was Application of the Oklahoma Capitol Improvement Authority, 355 P.2d 1028 (Ok. 1960). While Ayer emulated McCutcheon and Yelle, the Oklahoma court closely followed the pattern of Giessel II and Book.

There were two significant features of the statute under review in the Oklahoma case. First, a provision of the statute required the state treasurer to purchase the public corporation's bonds issued to provide financing for the building to be leased to the state. Second, the public corporation was authorized to require state agencies and departments to occupy space in the building and pay rent. A third feature also merits consideration, that feature being the intended rental of a portion of the building to federal government agencies.

Despite the first two of the foregoing features of the statute, the court reasoned that housing for state agencies was essential to state government. If the state did not own the housing, a proper method of providing it was through leases.

The court then noted:

> We see no real distinction between a state department entering into a lease agreement and paying rent to a private party and having the same transaction with the Authority. In either event the state department receives a service in the form of housing which the state itself does not own. In addition the state will obtain two office buildings paid for in part from rentals from federal agencies.

355 P.2d at 1032. Given the second of the statutory provisions described above, we must allow that other courts might have seen a difference.

Two lower court California cases were decided in 1962 and 1963. In McClain v. County of Alameda, 25 Ca.R. 660 (Dist.-Ct. of App., First Dist., Calif. 1962), and City of La Habra v. Pellerin, 30 Ca. R. 752 (Dist. Ct. of App., Fourth Dist., Calif. 1963), the California courts upheld leaseback transactions on two bases:

(1) the leases did not create an immediate indebtedness for the aggregate amount of the installment rent due; and

(2) under previous California cases, an obligation imposed by law on a city (such as, in these cases, to provide facilities for city functions) is not an indebtedness or liability within the meaning of the California debt limitation provisions. At least with respect to the first of the foregoing bases, the California courts, without citing Giessel II or Book, reflected a judicial attitude similar to that expressed in those other cases.

The following year, 1964, brought forth Montana's only entry in the leaseback transaction area, State v. City of Missoula, 395 P.2d 249 (Mont. 1964). The transaction there was somewhat unique to the extent that the financing entity involved was an individual -- Theodore Jacobs. In a succinct opinion, the Montana court expressed its belief that

> A debt payable in the future is obviously no less a debt than if payable presently; and a debt payable upon a contingency, as upon the happening of some event, such as the rendering of service or the delivery of property, etc., is some kind of debt, and therefore within the prohibition.

395 P.2d at 251 (quoting from State ex rel. Helena Water Works v. City of Helena, 63 P. 99 (Mont. 1900)). Thus, with virtually no discussion of the elements of the lease from Jacobs to the city, the court reached the opinion that the lease would constitute prohibited debt. It is worth noting another difference in outlook, if not legal analysis, between this case and the California and Oklahoma cases described above: that is, in both California and Oklahoma the need for governmental facilities was viewed as rising to the level of a legal duty, while the Montana court expressed the following opinion as to the need of Missoula for the building in question:

> No one, we believe, would seriously contend that the acquisition of a building valued at approximately $46,000 would be a reasonable and necessary expense requisite to maintain the corporate existence of the City of Missoula.

395 P.2d at 251.

It took the Arizona court five years -- from 1965 through 1969 -- to ultimately conclude its leaseback transaction case. The case began as City of Phoenix v. Phoenix Civic Auditorium & Convention Center Association, Inc., 408 P.2d 818 (Ariz. 1965). Quoting extensively from McCutcheon, Trujillo, and Yelle, the court adopted the principles and reasoning of those cases and invalidated the leaseback transaction because (1) it was, in reality, a purchase agreement; and (2) the source of payment of rents by the city under the lease was to come from the general revenues of the city and not from a special fund derived other than from general taxes.

The next year, the court was asked to clarify its opinion as to whether the debt limitation would be violated if the lease agreement expressly provided that rental payments would come only from excise and ad valorem taxes and not from the city's general taxes and general fund. City of Phoenix v. Phoenix Civic Auditorium & Convention Center Association, Inc., 412 P.2d 43 (Ariz. 1966). Under such circumstances, the court indicated it would find no debt limitation violation.

After fully complying with the clarifications presented in the court's 1966 supplementary opinion, the City of Phoenix found itself once more challenged over the lease agreement. The City sought a peremptory writ of prohibition from the Supreme Court to prevent the City's challengers from proceeding with their case in the superior court. The Supreme Court issued the writ, thus finally concluding the case. City of Phoenix v. Superior Court, 455 P.2d 257 (Ariz. 1969).

In Hall v. Baltimore, 250 A.2d 233 (Md. 1969), the Maryland Supreme Court upheld a leaseback transaction relying on the prevalent common law rule that rent to fall due beyond the current period is not a present debt. The court specifically noted that there was no pledge of municipal assets as the leases involved were subordinate to the city's interest in the property. The court cited with approval Giessel II to the same effect.

Another 1969 case, McFarland v. Barron, 164 N.W.2d 607 (S. Dak. 1969) presented a leaseback transaction which should probably be the model for future endeavors in the area. The court provided the following summary of the plan which reflects a careful and thoughtful preparation for the avoidance of debt limitation problems:

> The leases must contain a provision that rents shall be payable solely from appropriations to be made by the legislature and any revenues derived from the operation of the leased premises. In the event of nonpayment of rents by the State, the building or facility may be leased to others for suitable purposes. A lease may be made for a term of one year from the time a building is completed and ready for occupancy, with an option to the lessee to extend the term for one year from the expiration of the original term and for one year from the expiration of each extended term until the original term of the lease has been extended for a total number of years to be agreed upon at a rental which, if

> paid for the original term and for each of the full number of years for which the term of the lease may be extended, will amortize the total cost of the erection of the building and appurtenances.

164 N.W.2d at 609. Referring to the common law concept that future rents do not create present indebtedness, the court upheld the arrangement. To the suggestion that the state would have a moral obligation to discharge the bonds, the court reponded:

> While the legislature in making appropriations may not be confined to legal obligations, but may recognize moral or equitable obligations...there would exist under the proposed leases no binding legal obligation to authorize expenditures for rent ....In the event of nonpayment of rent or failure of the legislature to appropriate funds the Building Authority is empowered to lease the building or facility to others for suitable purposes to meet accruing payments.

164 N.W.2d at 609 -- 610. And the court finally concluded:

> Since the stipulation of the State to pay rents to the Building Authority will be subject to available appropriations and current revenues, the inhibition of the debt limitation provisions of the Constitution will not apply.

164 N.W.2d at 611.

We temporarily abandon our chronological order once more to note here the subsequent South Dakota case, Millar v. Barnett, 221 N.W.2d 8 (S. Dak. 1974). Citing McFarland, the court again upheld a leaseback transaction similar to the transaction under review in the preceding case.

In 1970, three cases from three states were decided. New Mexico produced its second leaseback transaction case (following the 1941 Trujillo decision) in McKinley v. Alamogordo Municipal School District Authority, 465 P.2d 79 (N.W. 1970). The leaseback arrangement in Alamogordo stands in stark contrast to that crafted in the McFarland case. The financing entity in this arrangement was to be a nonprofit corporation whose membership was identical to the membership of the municipal agency which would be the corporation's lessee. As part of the lease

agreement the municipal corporation was to agree to budget and appropriate sufficient funds to pay the rent under the lease and, moreover, the municipal corporation agreed to the placement of a lien on all of its income from all sources, except ad valorem taxes, to cover the rental payments. There was at least one mitigating factor; that is, the lease was for only one year with successive one year extensions and was terminable at the request of either party. This mitigating factor was insufficient to prevent the court from invalidating the agreement.

In the Trujillo tradition, the court recognized the corporation as "nothing more nor less" than the municipal agency. Thus, the bonds of the corporation would necessarily be debts of the municipal agency. Although the court averred that the pledge of the municipal agency's income and the lien on funds to be received by the municipal agency were not critical factors in its decision (465 P.2d at 81), the court nevertheless referred to these factors in its concluding paragraphs:

> Here the only source of money to pay rent to accrue is state tax proceeds and amounts received from federal sources. As a matter of fact, these moneys are specifically pledged by the terms of the lease. It is quite apparent that the funds to be used are those realized from "general taxation" held unconstitutional in Trujillo.

465 P.2d at 84.

While McFarland reflects careful consideration in the preparation of a leaseback transaction to avoid the constitutional concerns expressed by the various courts, Alamogordo seems to represent a studied indifference to those concerns. The result is that New Mexico has two invalidating cases and none validating. It would be enlightening to see how the New Mexico court would handle a case involving a leaseback transaction which reflects some concern for judicial precedent.

The Nevada case of State v. Hancock, 468 P.2d 333 (Nev. 1970), approaches, but does not achieve, such an effort. The leaseback transaction in that case, invalidated by the Nevada court, provided on the one hand that rentals from the state would derive from biennial appropriations from the legislature; on the other hand, the drafters of the plan curiously chose to also provide that the legislature could choose to pledge itself to make future appropriations as necessary to pay the rents.

The Nevada court followed the McCutcheon, Trujillo, Yelle, and Ayer approach of looking to "the essence" of the plan to reveal the true nature of the public corporation as the alter ego of the state and, thus, concluded that the corporation's debt was the state's debt. The argument was presented to the court that biennial legislative appropriations for the rent would not present a debt problem, with regard to the lease, because the constitutional concern does not extend to expenses payable out of current revenues. The court conceded that the argument carried "some persuasive force" but, in reviewing the transaction as a whole, was convinced that

> successive biennial appropriations for rent until the bonds issued by the Authority are fully retired must be considered in the same light as a legislative pledge to make future appropriations for the same purpose. It is inconceivable that the legislature would default in either instance since the good faith of Nevada would not allow it.

468 P.2d at 338.

The third 1970 case was from West Virginia; it was followed in 1971 by a second West Virginia case. The 1970 case invalidated a leaseback transaction, while the 1971 case upheld such a transaction.

The 1970 case is State ex rel. Hall v. Taylor, 178 S.E.2d 48 (W. Va. 1970). Although the legislation authorizing the transaction in Taylor indicated that the rents to be paid by the state would come from annual appropriations, the court found an obligation, as a practical matter, for the state to make the appropriations. In the court's words:

> It is an exercise in fiction, semantics, sophistry or circumlocution, devoid of substance, to assert that the statute in question does not create a state debt. It is a debt which, in the contemplation of the statute, must necessarily be paid in annual installments over a period of years and by successive legislatures from fiscal year to fiscal year. The state is legally obligated to furnish office space and to pay other expenses incidental to the continued existence and functioning of the various state agencies and departments which rented office space in the building in question. The legislature is le-

> gally obligated to make appropriations from time to time to defray the costs of such essential governmental operations.
>
> It is no answer to the invalidity of this statute and of the action of the Building Commission in issuing these bonds to say that some future legislature is not required to make an appropriation to one of these agencies or departments in order that the agency or department might make its payment of rent. The failure to make such an appropriation could result in the holders of the bonds taking over the buildings involved, and it is incomprehensible that any legislature would permit any such thing to happen. However, the test is not whether a future legislature is required to make such appropriations. The test is the authority to do so. Clearly the only source of income by which the bonds may be liquidated is the rent to be paid by the occupants of the buildings. Therefore, the reason for the invalidity of the statute lies in the authority of the legislature to make such future appropriations. It is not necessary for this Court to wait until some future legislature refuses to make an appropriation to make a determination of the legality of this procedure.

178 S.E.2d at 57 and 58 -- 59 (emphasis in original). The reasoning employed by this court is singular among all the leaseback transaction cases.

In the following year, the West Virginia court reviewed another leaseback transaction which cured the problem apparently perceived by the court in the Taylor case. In State ex rel. State Building Commission v. Moore, 184 S.E.2d 94 (W. VA. 1971), the rental payments from the state were to be made from a special fund into which flowed proceeds from the state's sale of alcohol. Since the state's general revenues would not be considered for payment of the rents, the court was not offended by the plan. Curiously, however, a provision in the lease agreement which required the state agency occupants of the building to provide for the maintenance and operation of the buiding from their general revenue funds appropriated by the legislature survived the court's review notwithstanding Taylor. Without any explanation, the court simply ruled that payments under the provision by

the state agencies would conform with the provisions of the Act under review.

Ohio decided its second leaseback transaction case in 1972. The court's opinion in State ex rel. Kitchen v. Christman, 285 N.E.2d 362 (Ohio 1972), began with the court's recitation that

> At the outset, it should be emphasized that this court examines this transaction, not for what it purports to be, but for what, in essence, it is. In short, the court looks through the form to the substance of the proposed transaction.

285 N.E.2d at 365. The court's conclusion should come as no surprise. True to the McCutcheon, et al., tradition, the court pierced the lease agreement veil to find the hidden purchase agreement. The court concluded that

> the entire contract price is a present indebtedness of the city. The city has presently obligated itself to make future payments, and the Company has a present right to compel each succeeding administration to make those payments. The city's obligation under the contract is a continuing one, and no succeeding city council can refuse to appropriate available funds (generated by its taxing power) for payment.

285 N.E.2d at 367 (footnote omitted).

Of particular interest in the opinion is a footnote in which the court states;

> If such an unconditional obligation of payment [by the city] did not exist, but instead, the city were free to periodically choose whether to continue to appropriate monies for the purpose of acquiring eventual complete ownership of the property in question, an entirely different question might have been presented.

285 N.E.2d at 367, n.6.

Another 1972 case, Bachtell v. City of Waterloo, 200 N.W.2d 548 (Iowa 1972), also followed the "piercing" approach to

conclude that a leasing arrangement was merely a subterfuge for an attempted purchase. The court listed many of the cases both pro and con which had preceded it in the leaseback area. The court considered that those which had upheld such transactions were distinguishable from this case, though the court scarcely attempted to explain either the distinguishing features of the other cases or even the particular objectionable features of the plan under review.

In Opinion to the Governor, 308 A.2d 802 (R.I. 1973), the Rhode Island court responded to questions proposed by the governor of that state regarding a contemplated leaseback transaction. The governor asked whether lease payments under the transaction would involve debt of the state. Viewing the position that such payments would not constitute debt as the majority view and as the "sounder and more reasonable" position, the court answered the governor's question in the negative.

The Oregon Supreme Court, in Martin v. Oregon Building Authority, 554 P.2d 126 (Ore. 1976), reviewed a leaseback transaction which, among other things, provided that the state's obligation to make rental payments was unconditional as long as the premises were available for rental and which also provided that the state's full faith and credit supported such obligation. As the court noted regarding the use of a public corporation in such a scheme to attempt to avoid the constitutional debt limitation:

It is a scheme which would fool only a lawyer.

554 P.2d at 131. Although the provisions of the leaseback transaction noted above were relatively outlandish, the court's opinion creates the impression that even a more moderate plan would have reached the same result as long as it involved a public corporation whose only purpose for existence was to issue bonds to provide financing for state projects and whose only source of revenues was rental payments from the state. In this regard, Martin should probably be added to the list of McCutcheon-Trujillo-Ayer-Yelle type cases.

In an unusually flexible approach to debt limitations and leaseback transactions, the court in In re Request for Advisory Opinion Enrolled Senate Bill 558 (Being 1976 PA 240), 254 N.W.2d 554 (Mich. 1977), indicated that a leaseback transaction would be upheld even though it acknowledged that, under the plan, future legislatures would be bound to appropriate the necessary public funds to meet the state's rental obligation. The court took the following pragmatic approach to the question:

> However, in that its power to invoke sovereign immunity can particularly or even totally obstruct enforcement, the state differs essentially from non-governmental contractors....Although in granting limited jurisdiction over all contract claims against the state to the Court of Claims...the State of Michigan has waived its sovereign immunity, even that waiver is subject to legislative revocation.

254 N.W.2d at 547. This case probably should not be considered likely precedent for most other states.

In Laramie Citizens for Good Government v. City of Laramie, 617 P.2d 474 (Wyo. 1980), the leaseback transaction was not unusual except to the extent that it involved the purchase of a ranch by a public corporation with the intent that the corporation would lease the ranch to the city so that the city would have the benefit of water rights on the ranch. The public corporation was created solely for that purpose. Nine of the eleven members of the corporation's board of directors were elected city officials. The corporation had no financial base except for the rents it would receive from its lease of the ranch to the city. All of this led the court to the conclusion that the corporation was the alter ego of the city and that the corporation's debt was prohibited.

The court also considered the nature of the lease agreement and concluded that it was a mere subterfuge for a purchase of the ranch. In its opinion, the court listed the following factors which reflect a lease rather than a purchase:

> provision for cancellation of the lease by the lessee at its option at yearly intervals, or the converse provision that the term is for one year with yearly renewal options; provision for payment of a fixed and substantial amount at the end of the term, or the converse that there is no provision for transfer of title at the end of the term without payment at that time of a fixed and substantial amount in addition to rental payments; provision that the lessor pay the cost of upkeep, repair, taxes, etc., the amount of the rental payments being equal to the debt service amount.

617 P.2d at 479.

Eberhart v. Mayor & City Council of Baltimore, 433 A.2d 1118 (Md. 1981), was Maryland's second leaseback transaction case and was by far the most ornate of the plans we have reviewed. The subject of the plan was a parcel of land with improvements owned by the City. The City rented the land and building on a rent free at will basis to a culinary arts institute. The City desired to extract its capital out of the property while still enabling the institute to rent the property at no cost. Under the plan, the City would sell the building to a limited partnership and lease the land to the partnership for thirty-five years. The partnership would lease the land and building back to the City under a thirty year lease. The partnership, in order to obtain financing, would seek the issuance of industrial development bonds by the Industrial Development Authority of the Mayor and City Council of Baltimore, a public corporation. The authority would issue its bonds, and the proceeds of the sale of the bonds would be loaned to the partnership to finance the partnership's purchase of the building from the City. As security for the bonds, the partnership would grant a mortgage on the building and its leasehold interest in the land, which would be assigned to the trustee for the bonds. The mortgage would be subordinate to the City's interests as tenant under the ground and building lease and as fee simple owner of the land.

The partnership would also assign to the trustee the right to receive rent payments from the City.

This plan was challenged on the same grounds enunciated in the McCutcheon line of cases; that is, that the authority was simply the alter ego of the City so that the authority's bonds constituted debt of the City and that the use of the general funds of the City to pay rent under the lease amounted to an obligation on the part of the City to repay the authority's bonds. Although the court noted and the City conceded that the obligation to pay rental under the lease was a full faith and credit obligation of the City, the court rejected the challenge and upheld the arrangement.

With regard to the contention that the authority was the alter ego of the City, the court listed an interesting collection of statutory provisions rebutting the position.

> The provisions of Art. 41, secs. 266A--I indicate that an industrial development authority is not simply the alter ego or instrumentality of the county or municipality which creates it. An authority is a body politic and corporate and "a political subdivision of the State." Section 266A-3 mandates that none

> of the five members of the board of directors that govern an authority and exercise its powers by resolution may be officials or employees of the incorporating county or municipality. A director, although appointed by the incorporating county or municipality, may be removed only for misfeasance, neglect of duty, or other good cause. Sec. 266A-3(b)-(7). Section 266A-3(a) provides that the incorporating county or municipality may exercise its own powers under secs. 266A--I even though it has chosen to incorporate an authority with similar powers. These various statutory provisions suggest that an authority is a distinct entity from its incorporating county or municipality.

433 A.2d at 1127.

With regard to the notion that the City's rental payments will be used to pay the authority's bonds and therefore constitute debt, the court noted that the determinative factor was the payment of bona fide rent by the City. The court stated:

> Uncontradicted evidence was presented to the circuit court that the City's estimated annual rental payments under the Ground and Building Lease would represent the fair rental value of the Property. The correlation of the City's rental payments to Culinary Associates' debt service obligation does not, therefore, destroy the essential character of the Ground and Building Lease as a lease. Because the rent reserved under the Ground and Building Lease represents the fair rental value of the Property, and there are no factors that suggest a contrary result, the Ground and Building Lease is a bona fide lease. Thus, the City's obligation to make rental payments will not create debt even though the obligation to pay rent is an enforceable, full faith and credit obligation of the City.

433 A.2d at 1125.

Another 1981 case, Gude v. City of Lakewood, 636 P.2d 691 (Colo. 1931), also upheld a leaseback transaction against

similar contentions. The transaction took the form of a lease-back to the City of land by a nonprofit corporation, which lease provided for 25 consecutive one-year renewals which were automatic unless the City elected against the renewal. The rental payments from the City under the lease would be used to repay the bonds issued by the corporation, and the security for the bonds would include a lien on the corporation's building and on the corporation's lease of the land. Upon payment of the bonds, the corporation would transfer title to the building to the City.

The court first considered the contention that the corporation was the alter ego of the City, noting that, where the alter ego doctrine applies, the court will disregard a corporate entity, or pierce the corporate veil, and consider the actions ostensibly taken by the corporation to be those of its shareholders. The court noted that "the record fails to establish the essential element that the building authority is to be used to promote injustice or protect fraud." 636 P.2d at 697. The court found no fraud upon the taxpayers of the City, though the taxpayers had earlier voted on and rejected a general obligation bond issue to finance the facility now being financed through the issuance of the corporation's bonds, because it is not the construction of a facility that requires voter approval but rather, the creation of general obligation debt. The plan before the court did not create any general obligation debt. As to any potential fraud on purchasers of the bonds, the court noted:

> The record reflects that the financing plan has been carefully structured to assure that the city has no obligation on the anticipation notes or the revenue bonds and that purchasers of those instruments will be made fully aware of that fact by the terms of the notes and bonds. The purchasers also will be advised that the city's lease and attendant obligations can be terminated at the end of any year and that, should the city elect to terminate its lease, the security for the building authority's obligations is limited to the municipal office building itself and the building authority's 25-year lease on the building site.

636 P.2d at 698.

The court then considered whether the City's rental obligation for future years under the lease agreement constituted proscribed debt and concluded that it did not.

> Of particular importance to our conclusion that the city's rental obligations for future years do not constitute debt in contravention of Colo. Const. Art. XI, Sec. 6 is the lease provision that those obligations are contingent upon exercise of the city's renewal options. We have held that discretionary or
>
> contingent obligations are not constitutional debt. "To constitute a debt in the constitutional sense, one legislature, in effect, must obligate a future legislature to appropriate funds to discharge the debt created by the future legislature."

636 P.2d at 699.

Finally, the plaintiffs in the case urged the court to take the McCutcheon "total picture" approach to determine that the plan as a whole amounted, in essence, to a subterfuge and an evasion of the constitutional debt limitations. Taking such an approach, the court reached the opposite conclusion. Recognizing that the corporation was created solely for the purpose of providing financing for the project after the voter's had disapproved general obligation indebtedness for the project, the court found "no evil in seeking an alternate means of achieving a result so long as the alternate is itself consistent with the law." 636 P.2d at 699 -- 700.

> As noted earlier, there is a real difference between the city's proposed plan and the plan which was rejected by the voters. That difference is the absence of any obligation of the city on the anticipation notes or revenue bonds under the new plan. We are aware of the argument that, although the city's lease is terminable in form, practicalities dictate that the likelihood of termination is remote because the city hall will be specially designed to city specifications and because of the prospect, gaining substance with each rental payment, that the city will become the owner of the building when the bonds have been retired....The ability to terminate its lease gives the city flexibilty which is real, not illusory. We cannot say that the city will never avail itself of its termination rights.

636 P.2d at 700.

The final case in our review is Baliles v. Mazur, 297 S.E.2d 695 (Va. 1982), involving the financing of state capital projects through the issuance of revenue bonds by a public corporation of the state. To the question of whether the revenue bonds constituted debt of the state, the court answered they did not, noting that the enabling legislation specifically denied such assertion. To the assertion that the issuance of the revenue bonds was a transparent attempt to evade the constitutional debt limitations, the court summarily disagreed.

CONCLUSION

The foregoing review of cases demonstrates that the majority of jurisdictions which have considered the issue accept leaseback transactions as consitutionally permissible methods for financing public facilities. It is our opinion that the majority view upholding such transactions would be followed in Alaska. Moreoever, we are also of the opinion that the categorization of the agreement between the state and a financing entity as either a "lease" or an "installment purchase contract" is insignificant as long as the state's obligation to make payents is contingent upon annual appropriations by the legislature for that purpose. Thus, whether the arrangement is for a lease or for an installment sale, we believe the courts in Alaska will uphold it.

We noted in the "Overview" to this memorandum that 16 of the states whose cases we have reviewed can be considered as "validating states" in the sense that the most recent cases in those states are cases which uphold leaseback transactions. Ten of the states can be considered invalidating states. This does not necessarily mean that leaseback transactions are prohibited in the other ten states.

The only significance to the categorization of the 16 states as validating states is that we can be sure that in a clear majority of the states a constitutionally valid leaseback transaction can be created. It may be equally true that constitutionally valid leaseback transactions could be created in some or all of the invalidating states, with some changes in the features of the transactions presented to the courts in those states as a result of recent cases.

The following list describes features of a leaseback transaction which may be considered significant in analyzing the transaction under constitutional debt limitations. We emphasize that these should not be considered as "musts" (with the exception of item "3" below) but are provided only as suggestions. If all other considerations allow and if the concensus is to take

the most conservative approach, the preparation of a leaseback transaction containing all of the suggestions listed below would come as close as possible to satisfying the most conservative of the invalidating state courts. It should be recognized, however, that other considerations are likely to call for different or even conflicting features. We do not mean to imply that those other considerations cannot or should not be accomodated. Again, the following list is intended only to provide suggestions for contemplation in fashioning a leaseback (or installment purchase) agreement.

1. The financing entity, whether a public corporation or a private corporation, should have some business to perform other than and in addition to the financing of the particular project to be leased to the state. One of the common themes of the invalidating cases is the "alter ego" argument. If the financing entity has some other purpose for existence it will help to refute that argument.

2. For the reason stated in "1", the financing entity should have some source of revenue other than rents to be paid by the state.

3. In any lease agreement with the state, the state's obligation to pay rent must be contingent upon annual appropriations by the legislature.

4. The amount of rent to be paid by the state should bear some resemblance to "fair rental value" for the property rather than simply being based on debt service requirements for the bonds.

5. If possible, title to the property should remain in the financing entity (if a public corporation) at the expiration of the lease; alternatively, the state should be required to pay a significant amount to exercise an option to purchase at the term of the lease.

6. The lease should be terminable by the state at any time without any further obligation.

7. The financing entity should have the ability to lease the facility to users other than or in addition to the state during the period of the lease.

8. Should the state terminate the lease, the financing entity should have control over the use or disposition of the facility.

9. No existing state property should be encumbered except for the leaseholder interest granted to the financing entity.

10. If title to the property on which the facility is to be built remains in the state, provision should be made in the lease agreement for the disposition of the facility at the termination or expiration of the lease if the state does not exercise its purchase option.

11. The statute, the bonds, and any other pertinent documents should clearly indicate that the bonds are not obligations of the state and are payable solely from the revenues derived from the project.

12. Should the legislature fail to appropriate money for rental payments or the state fail for any reason to make rental payments, it should be clear that neither the financing entity nor the bondholders have any recourse against the state, though the financing entity may endeavor to enter into other lease agreements, and, if the financing entity holds title to the land and building, it may re-enter and take possession thereof.

13. If a financing entity is to be specially created for the purpose (which we advise against; see "1" above), membership in the entity should not include officers of the state.

14. There should be no possibility of loss by the state of any of its pre-existing property.

15. There should be a provision reducing or eliminating the state's rent to the extent that the facility is not timely completed or, upon completion, becomes unusable.

16. Any long-term lease should be prepared as a one-year lease with the proper number of annual options to renew.

17. Revenues from other state facilities should not be pledged as security for tne bonds. This is particularly so in Alaska given our state's dedicated fund prohibition.

18. The statute creating the financing entity, if any, should carefully describe the financing entity as having a separate and independent legal existence.

19. The financing entity, if a public corporation, should not be given powers of eminent domain.

20. The financing entity, as lessor to the state, should agree to pay the cost of upkeep, repairs, taxes, etc. with regard to the facility.

21. If the financing entity is created by statute, its directors should be removable from office only for malfeasance, neglect of duty, or other good cause.

Finally, with respecy to the applicability of this memorandum to lease participation certificates, we perceive no reason why such certificates should be considered differently from revenue bonds or why lease participation transactions should be considered differently from leaseback transactions.

LAW OFFICES
BIRCH, HORTON, BITTNER, PESTINGER AND ANDERSON
A PROFESSIONAL CORPORATION
1127 WEST SEVENTH AVENUE
ANCHORAGE, ALASKA 99501

MAYER, BROWN & PLATT
231 SOUTH LA SALLE STREET
CHICAGO, ILLINOIS 60604

April 4, 1984

State Bond Committee
Department of Revenue
State of Alaska
Pouch SB
Juneau, Alaska 99811

Attention: Mr. Milt Barker

Ladies and Gentlemen:

You have requested that we review various issues raised by the proposed lease-purchase financing by the State of Alaska ("State") of various State facilities.

Under the proposed financing structure, the Alaska State Housing Authority ("ASHA") would issue bonds or notes in order to provide funds to pay the costs of construction of the State facilities. Pursuant to a lease agreement ("Lease") between ASHA, as lessor ("Lessor"), and the State, as lessee, the Lessor would lease the State facilities and lease or sublease1/ the underlying land (collectively, the "Facilities") to the State. The State would be obligated to make rental payments2/ on a fixed basis throughout the term of the Lease in amounts sufficient to pay when due the principal and interest on the Lessor's outstanding bonds or notes. The State's rental payment obligation would be subject to annual appropriations; failure by the State legislature to appropriate sufficient funds to make rental payments would result in the termination of the Lease. Upon the expiration of the term of the Lease, the State would pay a predetermined purchase price in order to acquire title to the Facilities.

1/ If Lessor does not own, but rather leases from the owner thereof, the underlying land, the Lessor would sublease the land to the State.

2/ The interest component of the State's rental payments would be exempt from federal income taxation, assuming compliance with all applicable federal tax law requirements.

The question we have considered is whether this proposed financing of the Facilities would be in violation of the debt limitations set forth in the State Constitution. Analysis of this general issue requires consideration of two component issues: (1) whether debt issued by ASHA would be found to constitute prohibited State debt under the State Constitution and (2) whether the State's rental payment obligation under the Lease would be found to constitute prohibited State debt under the State Constitution.3/

Article IX, § 8 ("Section 8") of the State Constitution provides in pertinent part:

> No state debt shall be contracted unless authorized by law for capital improvements or unless authorized by law for housing loans for veterans, and ratified by a majority of the qualified voters of the State who vote on the question.

Article IX, § 11 ("Section 11") of the State Constitution, however, excepts from the Section 8 debt limitations revenue bonds of a public corporation of the State, as follows:

> The restrictions on contracting debt do not apply to debt incurred through the issuance of revenue bonds by a public enterprise or public corporation of the State or a political subdivision, when the only security is the revenues of the enterprise or corporation.

3/ We note that between 1966 and 1974 ASHA issued eleven separate series of bonds in the aggregate principal amount of $106,150,000 to finance construction of a variety of capital projects for lease to the State. The bonds were secured by lease rentals from the State. Over $60 million of the bonds remain outstanding. 1984 Moody's Municipal & Government Manual 244-246.

Thus, Section 8 restrictions on incurring State debt apply only to obligations against the general credit of the State. 1959 Op. Att'y Gen., No. 39.

If the debt to be issued by ASHA to finance the Facilities will fit within the Section 11 exception, the Section 8 debt limitations will not be applicable. In National Bank of Alaska v. State of Alaska, Department of Revenue, Sup. Ct. Op. No. 2480 (File No. 5482), 642 P.2d 811 (1982), the Supreme Court of Alaska ("Court") found that bonds issued by ASHA do not constitute debt of the State subject to the Section 8 debt limitations.4/ The Court based its conclusion on § 18.55.160 of the Alaska State Housing Authority Act ("Act"), which provides in pertinent part as follows:

> The bonds of the authority are not a debt of the state or a political or municipal corporation or other subdivision of the state and each bond shall so state on its face. Neither the state nor a political or municipal corporation or other subdivision of the state other than the authority is liable on the bonds, nor are the bonds payable out of funds or properties other than those of the authority. The authority may not pledge the faith of the people of the state for a loan or obligation. Bonds of the authority are not a debt, indebtedness or the borrowing of money within the meaning of any limitation or restriction on the issuance of bonds contained in the constitution or laws of the state.

4/ In National Bank of Alaska, the Court held, inter alia, that ASHA bonds (and bonds of the Alaska Housing Finance Corporation) are not "state obligations" for purposes of the Alaska Business License Act. Bonds at issue in the case appear to have included lease revenue bonds referred to in footnote 3/ above.

Without expressly referencing the Section 11 exception the Court found that § 18.55.160 of the Act placed ASHA bonds outside of the scope of the Section 8 debt limitations: "the ASHA . . . bonds in the instant case are not, by the very terms of AS 18.55.160 . . . state debts backed by general treasury funds." Id. at 817.

The Court cited as controlling two of its earlier decisions on the issue of whether bonds of public corporations are subject to the Section 8 debt limitations: DeArmond v. Alaska State Development Corporation, Sup. Ct. Op. No. 116 (File No. 285), 376 P.2d 717 (1962) (enabling act provisions determined finding that bonds of Alaska State Development Corporation are not debts of the State) and Walker v. Alaska State Mortgage Association, Sup. Ct. Op. No. 353 (File No. 669), 416 P.2d 245 (1966) (enabling act provisions determined finding that bonds of Alaska State Mortgage Association are not debts of the State within the scope of Section 8).

Thus, we conclude that ASHA bonds issued in conformance with the Act in order to finance the Facilities on the terms outlined above would not constitute prohibited debt of the State.

Arguably, the provisions of Section 11 as applied to a revenue bond financing secured by rental payments made by ASHA pursuant to the Lease are dispositive of the entire issue and render irrelevant the question of whether the Lease, in itself, constitutes State debt. Nonetheless, the majority of jurisdictions which have considered this issue have upheld the validity of lease financings of public facilities under state constitutional debt limitations. The generally accepted view is that a lease arrangement between a state and an independent state agency constitutes state debt only if the state presently has an unconditional, legally enforceable obligation binding future legislatures to make future annual rental payments under the terms of a multi-year lease. See, e.g., Gude v. City of Lakewood, 636 P.2d 691 (Colo. 1981); State ex rel. Kitchen v. Christman, 285 N.E.2d 362 (Ohio 1972); Book v. State Office Building Commission, 149 N.E.2d 273 (Ind. 1958); State ex rel. Thomson v. Giessel, 72 N.W.2d 577 (Wisc. 1955). If, however, under the terms of a multi-year lease the state has a present obligation to pay current rental payments out of current revenues and only a contingent, legally

nonenforceable obligation at the discretion of future legislatures to make future annual rental payments, no prohibited debt is created. Thus, the essence of the majority rule is that no constitutionally prohibited debt results from a state's obligation to make future annual rental payments under a multi-year lease if the obligation is conditioned upon legislative appropriations. See e.g., Enourato v. New Jersey Building Authority, 448 A.2d 449 (N.J. 1982); Bulman v. McCrane, 312 A.2d 857 (N.J. 1973); McFarland v. Barron, 164 N.W.2d 607 (S. Dak. 1969).5/

We are of the view that a lease-purchase financing of the Facilities on the terms outlined above is valid under Section 8 debt limitations. Support for our view comes from several sources.

In the Walker opinion, supra, at 253 and 254, the Court cited approvingly in footnotes two of the landmark decisions holding that lease-purchase financings do not violate state constitutional debt limitations. Although it cited the Book and Giessel opinions specifically in connection with its resolution of the issue of whether the debt of a public corporation constitutes state debt, it is reasonable to assume that the Court would similarly embrace the holdings in those decisions validating lease-purchase financings.

In the October 14, 1983 Informal Opinion of the Attorney General (File No. 366-101-84),6/ the Alaska

---

5/ In this connection we have also reviewed the following authorities, inter alia: Ayer v. Commissioner of Administration, 165 N.E.2d 885 (Mass. 1960); State v. Yelle, 289 P.2d 355 (Wash. 1955); McCutcheon v. State Building Authority, 97 A.2d 663 (N.J. 1953).

6/ Although opinions of the Attorney General are not controlling on a court, his opinions are entitled to great weight. See Allison v. State, 583 P.2d 813, 817 (Alaska, 1978) in which the Court adopted the following statement from a California appellate court decision:

> While opinions of the attorney general are not controlling as to the meaning of the statute the fact that his opinions

(Cont'd)

Attorney General opined in accordance with the majority position that a lease financing of a public facility by means of a lease agreement between the State and the developer of a public facility would not violate Section 8 if future legislatures of the State are not bound to appropriate funds for rental payments. As the Attorney General explained in interpreting Section 8:

> [It is] imperative that the state's right to possess and use the facility is contingent on annual appropriations from revenue anticipated for the fiscal year in which the lease obligation is incurred. Traditionally, appropriations for lease payments are considered operating appropriations which lapse on June 30 of the fiscal year. A lease agreement which provides for termination of the leasehold if sufficient appropriations to pay rent are not enacted will negate the conclusion that a debt is created. A one-year lease with automatic annual renewal for a maximum number of years upon enactment of an appropriation to finance the annual rent has been approved as a term which negates any possibility that a debt is created. Gude v. City of Lakewood, 636 P.2d 691 (Colo. 1981). See also Glennon Heights, Inc. v. Central Bank and Trust, 658 P.2d 872 (Colo. 1983).

Further support for our conclusion can be found in Proceedings of the Alaska Constitutional Convention, pages

---

> have not been challenged and that he is the officer charged by law with advising the officers charged with the enforcement of the law as to the meaning of it, entitl[illegible] his opinions to great weight. (citations omitted)

2435 - 2437.7/ Although the delegates to the Convention do not appear to have addressed directly the precise issue of the consitutional validity of lease financings of public facilities by the State, the following excerpts from an exchange between Delegate V. Fischer and Delegate White regarding the committee proposal form of Section 11 8/ suggest that the delegates viewed lease-purchase financings as being within the scope of the Section 11 exception:

V. FISCHER The committee proposal in Section 10 authorizes the floating of bonds by public corporation when the only security from such indebtedness is the revenue of the enterprise or public corporation. The Committee, in putting that in, has specifically told us in the commentary9/ that they're condoning

---

7/ Warren v. Boucher, 543 P. 2d 731, 735 (Alaska 1975) (In interpreting a constitutional provision, the Court "must infer the purposes and intentions of the framers from the language of the constitution itself, with careful regard for the apparent aims which the framers had in mind.")

8/ Referred to therein as Section 10.

9/ As noted in a Memorandum to the Constitutional Convention Committee on Finance and Taxation summarizing the comments of various finance specialists on proposal forms of Sections 8 and 11:

> The prohibition against incurring debt except by referendum in Section 9 [Section 8] and the exceptions in Section 11 as pertains to revenue bonds of public corporations would appear to be an open invitation to create 'authorities,' in the Pennsylvania pattern, for the financing of public improvements.

(Cont'd)

a practice which is used in every state as a means of getting around this kind of bonding restriction as we currently have in Section 8. In other words, we put the provision in Section 8, it is a cumbersome provision. We are telling the state that that of course is of too much bother. Therefore, go ahead and create a separate corporation; if you want to build highways, set up a toll road, set up a separate corporation. If you want to put up public buildings, set up a separate corporation and many states have done that, float bonds and then the state purchases those buildings from that corporation. What happens in those cases? In those cases the credit of the state is not pledged . . .

. . . .

WHITE: Mr. President, just in closing, briefly, in answer to Mr. Fischer I think he has brought a side issue in here by mentioning Section 10. If Mr. Fischer can draft language that would eliminate the necessity for Section 10, I'm sure the Committee would go for it. The reason Section 10 is in there is because it has been found that no matter what you do, as far as the Committee can find, that way can be found to get around debt limitations, and, therefore,

---

See Kelley v. Earle, 190 A. 140 (Pa. 1937), in which the Supreme Court of Pennsylvania upheld the validity under state constitutional debt limitations of lease financings between the State of Pennsylvania and the General State Authority for the construction of public projects.

> if in order to avoid suits in court you might just as well make the authority clear. . . . [I]f the legislature wants to take this end way around of getting at it and going to special authorities they are subject to check by the people, the people will know what's being done and they will react accordingly if they are not in favor of it. . . . Id. (Emphasis added)

In addition to reflecting the liberal, modern approach of the framers of the State Constitution, these comments suggest that the delegates did not consider as prohibited debt an obligation of the State to make payments to acquire a public facility financed with debt of a public corporation. It appears that the delegates contemplated and condoned reading Section 11 as authorizing an outright purchase by the State of a public building from the financing public corporation, a more extreme debt limitation circumvention device than the proposed lease-purchase financing.

Other statements of delegates to the Convention demonstrate that the fundamental impetus behind the Section 8 debt restrictions was the framers' desire to restrict the State's ability to contract debt prospectively. Since the proposed lease-purchase financing of the Facilities would not entail the creation of a rental payment obligation binding future legistlatures of the State, it is not likely that the Court would find that such a financing contravenes the Section 8 debt limitations.

Thus, in view of the apparent aim of the framers of the State Constitution in imposing the Section 8 debt limitations and in granting the Section 11 exception therefrom, and in light of the approach taken by the Court in this general area, we are of the opinion that the Lease would not constitute debt of the State.

After you have had an opportunity to review our views, we would be happy to discuss them, and any related concerns which you may have, with you at your convenience.

Very truly yours,

BIRCH, MORTON, BITTNER,
PESTINGER AND ANDERSON

MAYER, BROWN & PLATT

James

A M E N D M E N T

Offered in the House Special Committee or State Loans By Sund

TO: HB 519

Page 2, line 2, after "payment":

Delete "and" and insert ","

Page 2, line 4, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 2, lines 5 - 7:

Delete "until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770."

Insert "unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section"

Page 3, line 24, following "payment":

Delete "and" and insert ","

Page 3, line 26, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 3, lines 27 - 28:

Delete "until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770."

Insert "unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section."

Page 4, line 19, following "payment":

Delete "and" and insert ","

Page 4, line 21, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 4, lines 22 - 23:

Delete "until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770."

Insert "unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section."

Page 4, line 25, delete "(a)"

Page 5, lines 8 - 19, delete all material

Page 5, line 8, insert a new bill section to read:

"* Sec. 9. AS 37.05 is amended by adding a new section to read:

Sec. 37.05.285. LEASE FINANCING. The department may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the department intends to enter into an agreement under this subsection, the department shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The department may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section."

Renumber remaining bill sections accordingly.

Page 7, line 28, through page 8, line 6, delete all material and insert:

"(a) The bonds shall be sold in the manner, price or prices, [SUCH] amounts or series, and at the [SUCH] time or times [AS] determined by the committee, at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS

RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds,"

Page 8, following line 12, insert new bill sections to read:

"* Sec. 16. AS 37.15.460 is amended to read:

Sec. 37.15.460. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide where a [WHETHER THE] notice of sale, if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.450].

* Sec. 17. AS 37.15.650(a) is amended to read:

(a) The toll facilities bonds are sold in the manner, price or prices, amounts or series, and at the time as determined by the committee, at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.] Bonds, or a series of bonds, may not be sold if the effective interest rate over

the life of the bonds exceeds 11 percent per year or that rate of interest that is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest is payable annually or semiannually.

* Sec. 18. AS 37.15.660 is amended to read:

Sec. 37.15.660. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide <u>where a</u> [WHETHER THE] notice of sale<u>, if any,</u> is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.650]."

Renumber remaining bill sections accordingly.

James

AMENDMENT

Offered in the House Special Committee on State Loans By Sund

TO: HB 519

Page 2, line 2, after "payment":

Delete "and" and insert ","

Page 2, line 4, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 2, lines 5 - 7:

Delete "until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770."

Insert "unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section"

Page 3, line 24, following "payment":

Delete "and" and insert ","

Page 3, line 26, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 3, lines 27 - 28:

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

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

MEMORANDUM March 3, 1986

SUBJECT: Notice of Bond Sale - CSHB 519
(House Special Committee on State Loans)

TO: Representative John Sund
Attention: John Hartle

FROM: Joyce James
Legislative Counsel

The new text deletes the requirement of notice for international airport revenue bond sales in AS 37.15.450 and toll facility revenue bond sales in AS 37.15.650. Please be advised that AS 37.15.040 still requires notice inviting sealed bids before selling an issue or series of bonds. Because it is not clear that AS 37.15.040 applies only to general obligation bonds, or, if your intent is to allow flexibility in the sale of all bonds, you may want to amend this section also.

If I can be of further assistance please advise.

JJ:csh
c6/020

Briefing Materials

Debt Management Plan

February, 1986

State of Alaska
Office of the Governor

February 1986

DEBT MANAGEMENT PLAN

Governor Bill Sheffield

Through careful management, the State of Alaska has maintained the best credit rating we've ever had. That AA rating, in turn, has allowed local governments across Alaska to keep their investment grade ratings as well. This good credit rating translates into lower property taxes for Alaskans.

With dropping world oil prices, however, Alaska's annual debt payments automatically become a larger part of our expenses.

So, I have asked the 14th Alaska Legislature to approve a package of new laws which, viewed as a whole, will give our young state a plan for comprehensive debt management for the first time. None of these proposed improvements in our laws is flashy or exciting, but as a package they are vital to the continued financial health of Alaska. I encourage you to read the enclosed information.

In short, the debt management plan I have placed before the Alaska Legislature will keep the commitments voters have made to our future, particularly in regards to local school construction. The plan also will guarantee we can continue to incur a reasonable amount of debt for school construction and other improvements in the future, while we preserve our good credit rating.

Debt Management Plan

"We've borrowed a considerable amount of money to help build Alaska. We can manage that debt, but it takes planning...lest that debt manage us in the future."

Governor Bill Sheffield
January 14, 1986

DEBT MANAGEMENT PLAN

An Overview

Without firm control of public debt the credit rating of all debt issuers in Alaska could be in jeopardy. Right now the State has an AA rating, the highest it's ever had, and all issuers within the State are rated as investment grade. But as oil prices decline, the share of revenues devoted to debt service will become an increasingly heavier burden. The State of Alaska cannot control the price of oil. What we can and must control is the amount of public debt.

Proper stewardship of public debt in Alaska can be accomplished through enactment of legislation covering four distinct needs. Taken separately, each of the four bills brings reasonableness to a different aspect of public debt. But viewed as a whole, this legislation provides a plan for comprehensive debt management for the first time. It assures that all State-supported debt, which is any debt paid from the State general fund, is subject to the control of the State Bond Committee. It is this total of State supported debt which the rating agencies look to in establishing the State's credit rating.

The first bill, House Bill 293, provides for orderly financial management in the event of a default by a municipality of its debt obligations. This legislation protects both issuers of public debt in Alaska and creditors.

House Bill 519 provides for the lease financing of public buildings through the Alaska State Housing Authority, acting as

the Alaska State Building Authority. The bill gives the State Bond Committee control over issuance of this debt as well as debt of the University of Alaska.

House Bill 520 gives the State Bond Committee control over the total amount and maturity of municipal school debt to be reimbursed by the State. The investment community needs to see some control on this fast-growing part of State supported debt.

The fourth bill, House Bill 521 places a limit on the issuance of general obligation debt by municipalities. Even with this limit some municipalities in Alaska will have some of the highest debt ratios in the United States. This legislation does not limit the ability to issue revenue bonds.

As background, Alaska's combined debt (State, municipal and school district) through the issuance of general obligation bonds was $2.9 billion as of June 30, 1985. That amounts to about $5,500 per Alaskan. When the amount of G.O. Bond debt for veterans' housing is included in the total, Alaska's per capita debt load is $7,000.

That debt is manageable, but it takes planning. The State of Alaska has not had a bond authorization since 1980. Yet, the per capita interest on the State's general obligation bond debt is 20 times the national average. State policy limits debt service to five percent of unrestricted revenues, but that ratio is about 10 percent now and could climb to 16 percent by fiscal year 1989.

Again, this is a result of a combination of factors. World oil markets have seriously eroded the revenue Alaska receives from oil and gas production. At the same time, Alaska voters have authorized new debts, including $325.0 million in school construction bonds so far in fiscal year 1985 alone. That translates into a possible 30 percent increase in State

reimbursement for local school debt--added costs which show up in the State operating budget.

These and other construction commitments are viewed by the nation's financial markets in different ways. On one hand, Alaska's rating agencies know this is a unique state, with enormous potential for generating public revenues and a young, dynamic workforce; on the other hand, the rating agencies look at all of Alaska's debt together, and while they are concerned about how much we borrow, they are more concerned that Alaska have controls on the growth of debt statewide.

To tackle that issue, Governor Sheffield is asking the Legislature to take the following initiatives:

- For school construction, honor all existing debt (as of March 31, 1986) under the current 80 percent reimbursement law, and limit the growth of future State reimbursement to $10 million per year for school construction in the future.

- Set standards for school construction to guarantee more schools can be built with the funds available.

- Reimburse 100 percent of principal only for bonds authorized after April 1, 1986. This will encourage local districts to shop for the lowest interest rates.

- For local governments, limit debt to seven percent of assessed property values.

- Designate the Alaska State Housing Authority, acting as the Alaska State Building Authority, as the issuer of lease revenue bonds to finance public buildings. This

change was recommended by a citizens task force appointed by the Governor to study the issue in 1985.

- Designate the State Bond Committee as overseer of lease revenue bond issues and the total of State reimbursement for school debt (after March 31, 1986).

DEBT MANAGEMENT PLAN

Questions and Answers

QUESTION: Why do we need a debt management package?

ANSWER: The State has achieved a AA rating for its general obligation debt. However, the burden of paying the State's debt becomes heavier as revenues shrink. Now, with oil prices falling, the State must demonstrate to the rating agencies that it has the procedures, checks, and balances necessary to manage its debt obligations, if the State is to retain its high credit rating.

QUESTION: Why does the State have to be concerned about lease-purchase financing, University of Alaska, and municipal school debt? (HB 519, HB 520)

ANSWER: All or a major portion of the payments on this debt come from the State's general fund. These types of debt obligations are referred to as State supported debt. The total of State supported debt and State general obligation debt is the figure that Moody's and Standard and Poor's uses as the measure of the State's debt burden. As of June 30, 1985, this total was $1,610.3 million, of which less than half, $752.7 million, was State general obligation debt. Even the State's share of school debt alone, $753.6 million, exceeded State general obligation debt.

QUESTION: Why should the State seek to limit municipal debt generally? (HB 521)

ANSWER: Because of high levels of State support to municipalities, they may be tempted to issue more debt than they could reasonably expect tax payers to support without the State aid. With State revenues declining, State support for municipalities eventually may suffer budget cuts along with other programs. The State needs to insure that such developments do not create avoidable financial difficulties for municipalities.

QUESTION: Is one reason for the State's concern with municipal debt levels that municipal credit ratings affect the State's ratings? (HB 521)

ANSWER: No. The State's rating is not affected by the rating of any or all municipalities. Even a municipal financial emergency or default would not ordinarily affect the State's rating. However, an emergency or default would be likely to tarnish all Alaska issuers somewhat, much as the New York City default affected all municipal debt issuers and the WPPSS (Whoops) default affected Northwestern U.S. and public power supply issues. This could significantly raise, for some period of time, the interest rates the State and other municipalities have to pay on bonds.

QUESTION: Is the WPPSS (Whoops) syndrome the reason for the introduction of the Municipal Financial Emergency Commission legislation? (HB 293)

ANSWER: It's one reason. However, a more important reason is to establish a mechanism that ensures satisfactory and early resolution of a municipal financial crisis so that provision of public services is impeded. Unlike nuclear power plants, municipalities cannot be mothballed. A mechanism for

satisfactory and early resolution also provides a valuable assurance to bond buyers.

QUESTION: What is the State's debt capacity and how is it determined?

ANSWER: In recent years, the State's debt policy has been that the State had capacity to issue additional general obligation debt if the debt service on the new bonds, combined with the debt service on outstanding bonds, would not exceed 5 percent of the State's unrestricted revenues. 5 percent is a level which few states with a AA credit rating exceed.

QUESTION: What is the current level of debt service relative to unrestricted revenues?

ANSWER: Considering only State general obligation bonds, the level for fiscal year 1987 is 5.7%. However, inclusion of all State supported debt which the rating agencies look at boosts the percentage to 11.5%. Falling State revenues will push the debt service to a level of 16.4% of revenues in fiscal year 1989.

QUESTION: Does this mean the State can't issue any more debt in the near future?

ANSWER: No. In the first place, the State could issue additional debt if it were willing to sacrifice its credit rating and that of State agencies and municipalities, whose ratings generally are tied to the State's. More to the point, additional issuance in modest amounts with a AA rating might be possible if the rating agencies were assured total debt obligations will remain limited. The limits and controls in Governor Sheffield's debt management package are an essential step in providing these assurances.

QUESTION: What happens to the State's reimbursement of municipal school debt that was authorized last fall? (HB 520)

ANSWER: That debt and all municipal school debt authorized before April 1, 1986, will be grandfathered under current law. This means State reimbursement for that debt will be under the current formula of 80% of principal and interest.

QUESTION: Does the Governor's budget contain the funds necessary for the State to reimburse the grandfathered bonds? (HB 520)

ANSWER: The amount required is contained in the Department of Education's fiscal note for HB 520. The estimated amount required for fiscal year 1987 is $43 million. The Governor plans to support the $43 million appropriation if the legislation is passed.

QUESTION: How much additional school debt could be reimbursed by the State under HB 520?

ANSWER: HB 520 would permit State reimbursement of $10 million per year for debt authorized after March 31, 1986. Since the legislation establishes reimbursement at 100% of principal and requires the debt to have a 10 year term and constant principal payments, the $10 million State reimbursement could support as much as $100 million initially.

QUESTION: How does 100% of principal compare to 80% of principal and interest? (HB 520)

ANSWER: It depends on how much the interest is in relation to principal, which depends on the interest rates at the time the bonds are sold. At current interest rates, 100% of principal is approximately 89% of the current formula for reimbursement (80% of principal and interest). Thus, the new formula would provide

reimbursement at a level about 11% less than current reimbursement. 100% of principal would represent approximately 71% of total principal and interest.

QUESTION: How will it be decided what municipal school debt receives reimbursement if the $10 million limit otherwise would be exceeded? (HB 520)

ANSWER: The Department of Education will establish a priority list based on criteria specified by law. Portions of school construction project costs also may be deemed ineligible for reimbursement based on design standards and regional cost differentials determined by the Department of Transportation and Public Facilities. Financing costs will not be eligible for reimbursement. State reimbursement will be reduced further by the interest earned on bond proceeds, except arbitrage which would have to be paid to the federal government under pending congressional legislation. These limitations will spread increasingly scarce State dollars further and enable the State to support more schools under the $10 million limit.

QUESTION: Why is the limit set at only $10 million? (HB 520)

ANSWER: There has been an explosion of authorization of municipal school debt. Between October 1, 1985, and March 31, 1986, total municipal school debt receiving voter approval is expected to exceed $350 million. This would represent an increase of almost 50% in six months over the $739 million school debt outstanding as of June 30, 1985. It is this explosion which will propel State payments for debt service to over 16% of State revenues by fiscal year 1989.

QUESTION: Can the limit be revised? (HB 520)

ANSWER: Certainly the limit could be amended by law in future legislative sessions. A report to the 1988 session of the legislature by the Department of Education on school construction needs is required in section 17 of HB 520. This would be an appropriate time to consider a revision. As an alternative, the State bond committee may revise the limit at any time in light of State credit conditions, school requirements, or any other reason.

QUESTION: Will the State Bond Committee decide which schools receive funding? (HB 520)

ANSWER: No. This will be determined solely by the Department of Education in establishing the priority list. The State Bond Committee will be concerned only with the credit implications for the State of the total amount of reimbursement to be paid.

QUESTION: What is lease-purchase financing? (HB 519)

ANSWER: Lease-purchase financing consists of debt obligations issued by a private developer or State agency to finance the construction or acquisition of facilities which are leased to the State. The lease payments made by the State are in an amount and duration which is equal to the principal and interest payments on the debt obligation. The debt obligation may take the form of a revenue bond or a certificate of participation in rent (CP or COP as they are sometimes called). At the conclusion of the lease, title to the facility generally passes to the State.

QUESTION: Why is the Alaska State Housing Authority (ASHA) designated as the issuer of all lease-purchase financing for State facilities? (HB 519)

ANSWER: ASHA has previously issued lease revenue bonds for State facilities and is the current lessor of these facilities to the State. The designation of a single agency which has experience

and technical expertise in this area will improve accountability, efficiency, and control of these types of financing.

QUESTION: Why would ASHA be issuing debt under the name of the Alaska State Building Authority? (HB 519)

ANSWER: This name change, applicable only to the financing of public buildings, will improve the marketability of the debt. The alternate name avoids confusion about the issuer and debt since most state housing authorities issue debt only for the provision of low and moderate income housing. The name change helps recognize the higher credit standing accorded debt which is secured by payments from a state government for leases rather than from private individuals for rent.

QUESTION: What became of the State Office Complex Financing Task Force?

ANSWER: The Task Force, a body of executive branch officials, two legislators, and five members of the public with substantial financing experience, held hearings in the fall of 1985 and produced a report to the Governor which is available from the Treasury Division of the Department of Revenue. HB 519 implements the recommendations contained in that report.

QUESTION: Will ASHA be deciding what public buildings will be built or acquired? (HB 519)

ANSWER: No. Each branch of government and the University of Alaska would decide what facilities would be built or acquired. The facilities would have to meet the requirements and specifications of each branch or the University before the branch or University could be expected to execute the lease. No financing can occur without an executed lease.

QUESTION: Does this mean each branch or the University can enter into lease-purchase financings without legislative approval or approval by law? (HB 519)

ANSWER: Yes. However, the annual lease payments are subject to appropriation by the legislature as a matter of constitutional law. HB 519 requires lease-purchase agreements to state this fact so that it is clear to all parties. Because lease payments are subject to appropriation, lease-purchase financing is not debt from the standpoint of the State Constitution.

QUESTION: Could legislative approval or approval by law be required of lease-purchase financing by statute? (HB 519)

ANSWER: Alaska Supreme Court decisions indicate that this probably would violate the separation of powers doctrine and be unconstitutional. Legal questions of this caliber can easily derail debt financings because bond buyers will not purchase debt with such uncertainties about it. To achieve the same purpose, Governor Sheffield has pledged to seek legislative approval of any executive branch lease-purchase financings. The other branches and University might be expected to do the same.

QUESTION: Why does the State Bond Committee need to approve lease-purchase financings? (HB 519)

ANSWER: Lease-purchase financing is paid from the State general fund and, accordingly, is added into the State's debt burden by the credit rating agencies. Because of this, the State Bond Committee needs to control aspects of such financings which can affect the State's credit standing. This can include such things as the maturities of the debt, need for insurance, or the timing of the sale. The State Bond Committee will not be concerned with project justification or specification. This is the same manner

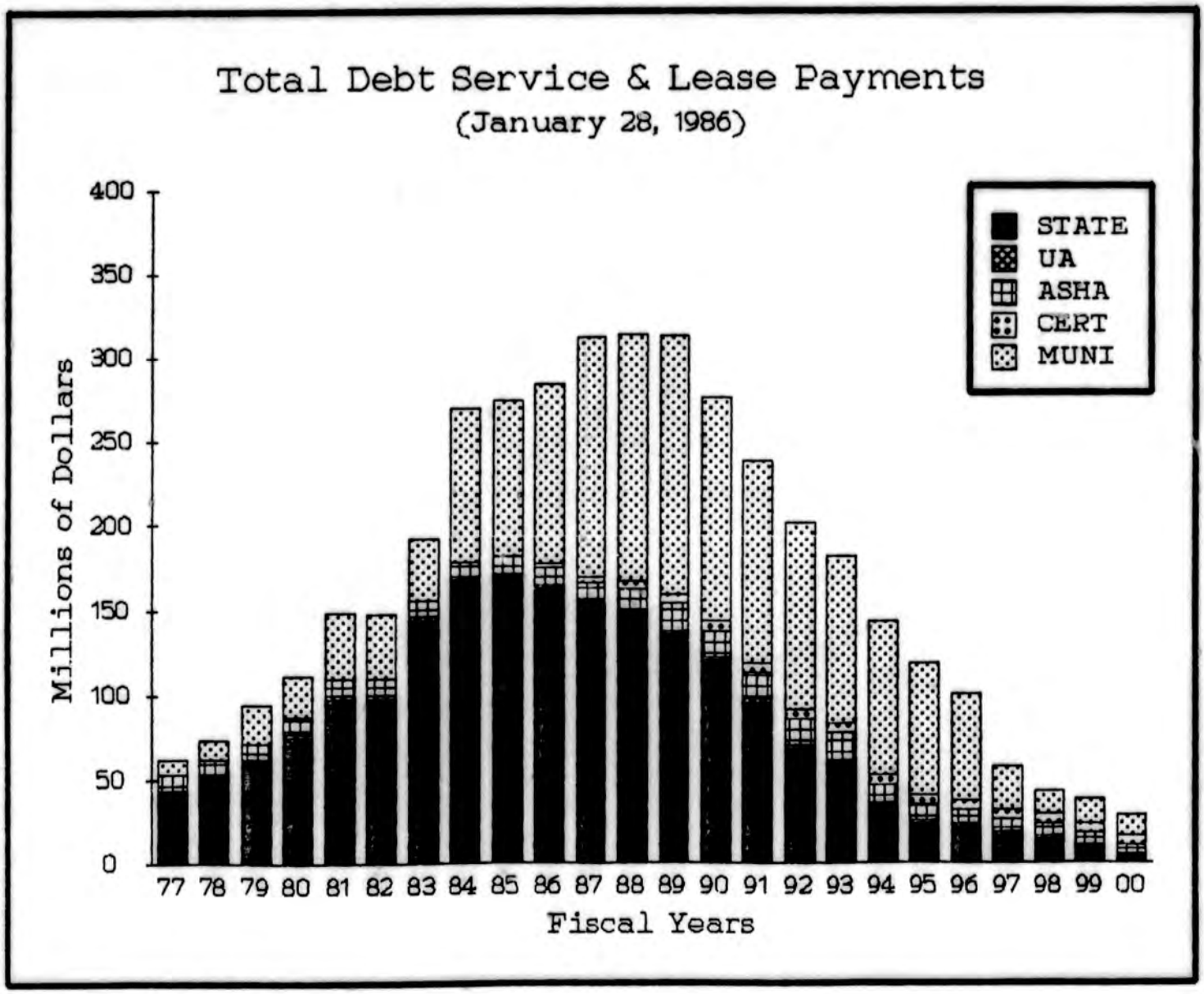
in which the Committee functions with respect to State general obligation debt.

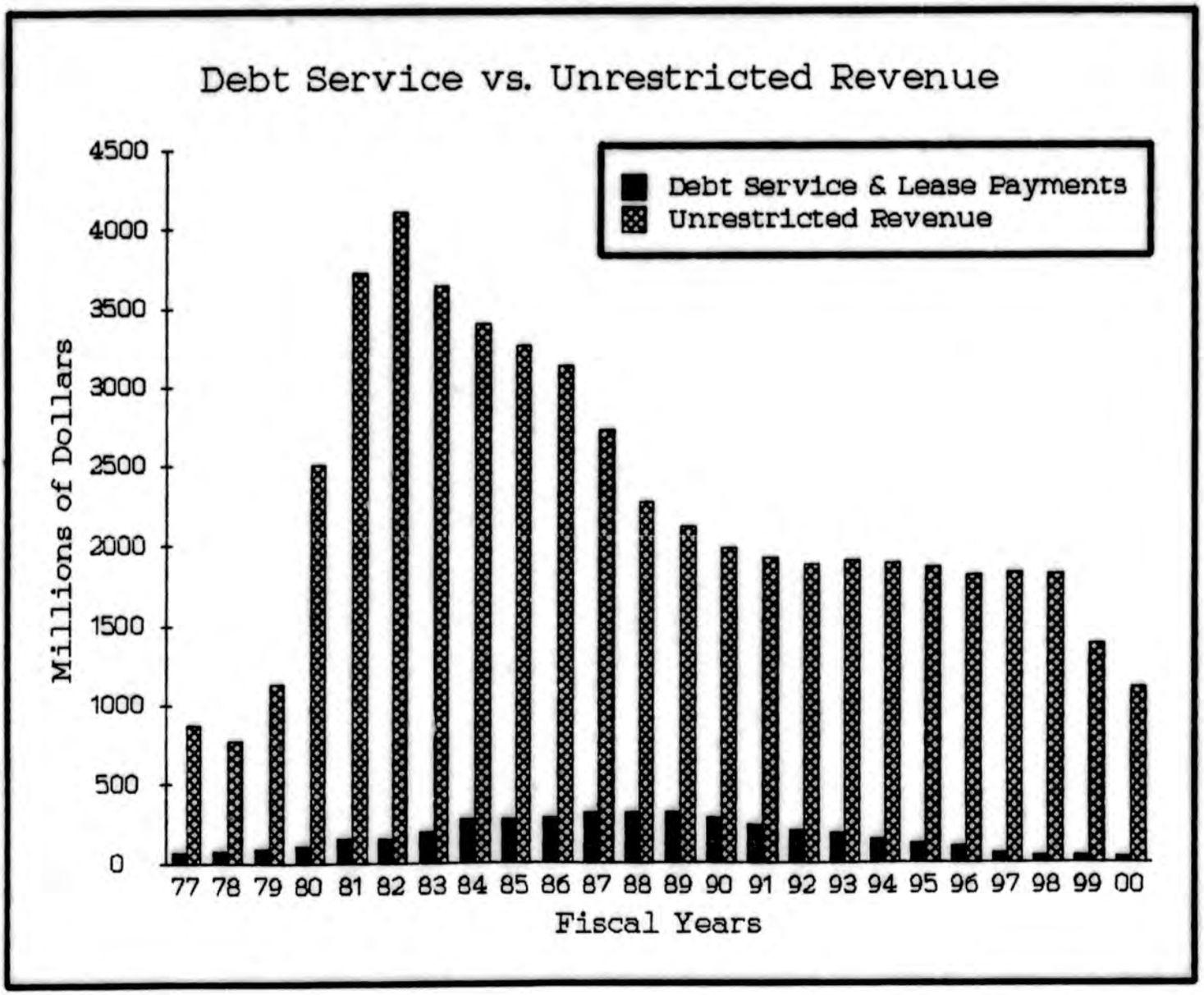
QUESTION: What municipalities would be forestalled from issuing additional debt under HB 521?

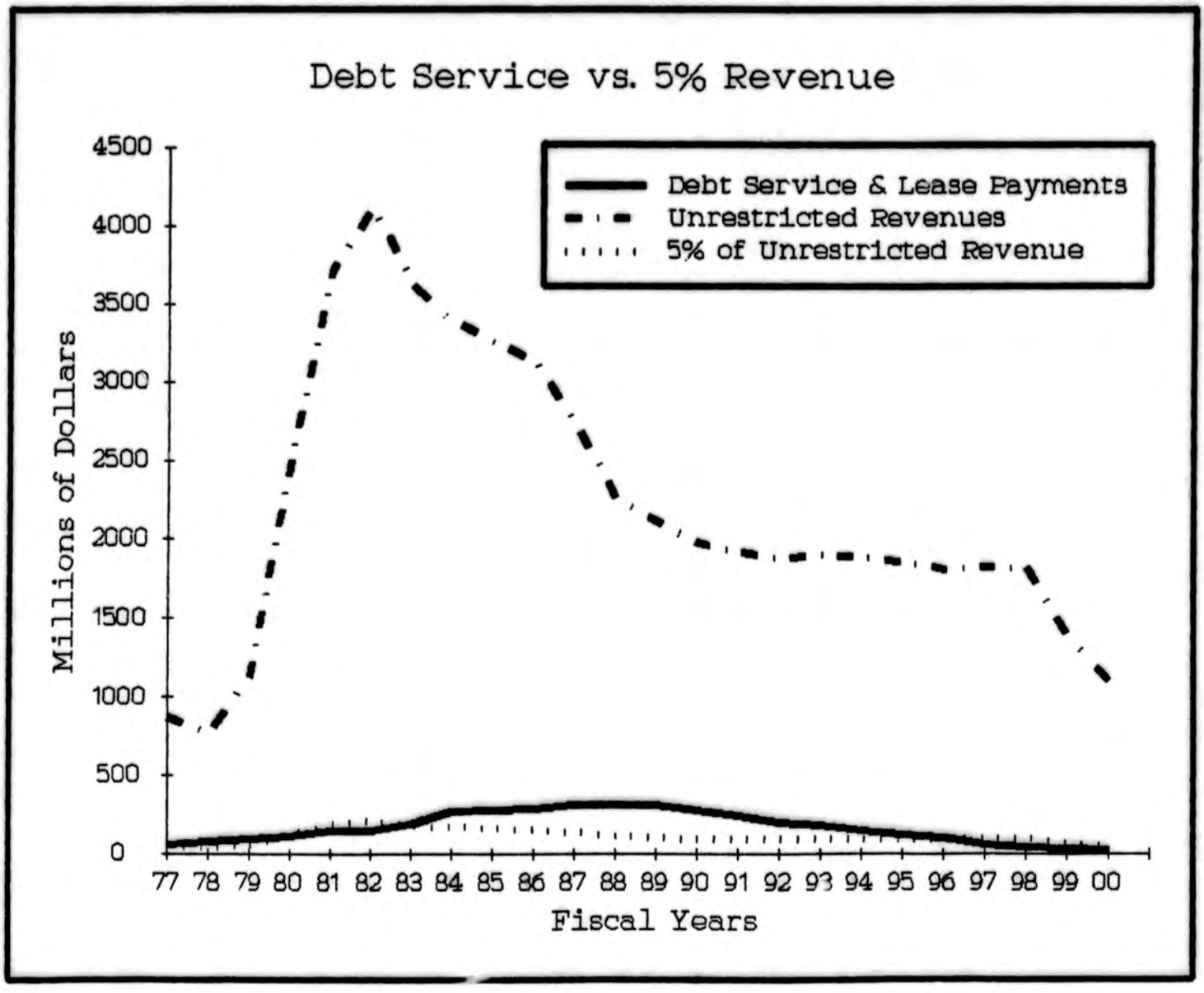
ANSWER: The North Slope Borough and the city of Wrangell currently have general obligation debt exceeding 7% of the full value of their property tax base. They would not be able to issue additional debt until their tax base has increased sufficiently or outstanding debt is paid down. The North Slope Borough should be able to issue additional debt again within two years. The city of Nenana would not be limited by the cap due to the exemption in HB 521 for self-supporting debt which is issued as a general obligation bond. Issuance of revenue bonds and refunding bonds are not limited by HB 521.

QUESTION: Why is the limit set at 7%? (HB 521)

ANSWER: National medians for municipal general obligation debt are in the range of 3% to 4% of full value. A higher level is appropriate for Alaska because the economy is still developing, with spurts of rapid growth in particular localities, if not statewide. However, a level significantly above 7% would not be an effective limit or provide the credit markets any comfort that Alaska is managing its debt.


Total Debt Service & Lease Payments
(January 28, 1986)
Millions of Dollars
400
350
300
250
200
150
100
50
0
STATE
UA
ASHA
CERT
MUNI
77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00
Fiscal Years


Debt Service vs. Unrestricted Revenue
Debt Service & Lease Payments
Unrestricted Revenue
Millions of Dollars
4500
4000
3500
3000
2500
2000
1500
1000
500
0
77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00
Fiscal Years


Debt Service vs. 5% Revenue
Debt Service & Lease Payments
Unrestricted Revenues
5% of Unrestricted Revenue
Millions of Dollars
4500
4000
3500
3000
2500
2000
1500
1000
500
0
77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00
Fiscal Years

Total Debt Service & Lease Payments
($ Millions)

Fiscal Year	State	UA	ASHA	Certificates of Participation (Cert)	School Debt (Muni)
77	41.9	1.5	9.9	0	9.0
78	50.0	1.7	10.1	0	11.4
79	60.0	1.7	10.1	0	22.3
80	75.1	1.8	10.1	0	24.1
81	97.6	2.2	10.0	0	38.4
82	97.5	2.3	10.0	0	38.3
83	143.6	2.3	9.9	0	36.2
84	166.3	2.0	9.9	0	91.2
85	169.5	2.0	9.9	.1	92.8
86	163.2	1.8	9.9	3.0	105.3
87	154.9	1.8	9.5	3.0	143.0
88	147.9	1.7	12.5	5.1	146.0
89	135.5	1.8	16.5	5.1	154.0
90	120.3	1.7	15.5	6.0	132.0
91	95.5	1.7	15.5	6.0	119.0
92	68.2	1.7	15.5	6.0	110.0
93	59.7	1.7	15.5	5.9	99.0
94	33.9	1.5	11.1	5.9	91.0
95	23.1	1.5	9.5	5.9	79.0
96	21.5	1.5	8.0	5.9	63.0
97	16.7	1.5	7.0	5.9	26.0
98	14.4	1.5	7.0	5.9	14.0
99	9.0	1.5	7.0	5.9	14.0
00	2.6	1.5	6.0	5.9	12.0

Debt Service vs. Unrestricted Revenue
($ Millions)

Fiscal Year	Total Debt Service	Unrestricted Revenue	Percentage
77	62.4	874.3	7.1%
78	73.3	764.9	9.6
79	94.1	1133.0	8.3
80	111.0	2501.2	4.4
81	148.2	3718.2	4.0
82	148.1	4108.4	3.6
83	192.0	3631.0	5.3
84	269.5	3390.1	7.9
85	274.3	3260.0	8.4
86	283.2	3124.6	9.1
87	312.0	2718.8	11.5
88	313.0	2257.4	13.9
89	313.0	2109.1	14.8
90	276.0	1980.4	13.9
91	238.0	1915.5	12.4
92	201.0	1874.6	10.7
93	182.0	1903.7	9.6
94	143.0	1881.8	7.6
95	119.0	1854.9	6.4
96	100.0	1808.2	5.5
97	57.0	1820.7	3.1
98	42.0	1812.5	2.3
99	37.0	1378.1	2.7
00	27.0	1106.0	2.4

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

SEVEN PERCENT CAP

Borough	FULL VALUE	G. O. DEBT	7% OF FULL VALUE	PERCENT OF G.O. DEBT/CAP	CURRENT PERCENT DEBT
Anchorage	$15,755,411,000.00	$358,799,900.00	$1,102,878,770.00	32.53%	2.28%
Bristol Bay	$101,798,800.00	$3,535,000.00	$7,125,916.00	49.61%	3.47%
Fairbanks	$4,210,997,700.00	$90,928,500.00	$294,769,839.00	30.85%	2.16%
Haines	$93,945,500.00	$1,300,000.00	$6,576,185.00	19.77%	1.38%
Juneau	$1,613,388,900.00	$47,651,000.00	$112,937,223.00	42.19%	2.95%
Kenai Peninsula	$3,290,219,200.00	$137,929,000.00	$230,315,344.00	59.89%	4.19%
Ketchikan Gateway	$675,985,100.00	$31,930,000.00	$47,318,957.00	67.48%	4.72%
Kodiak	$572,370,700.00	$28,270,000.00	$40,065,949.00	70.56%	4.94%
Mat-Su	$2,367,406,200.00	$112,208,000.00	$165,718,434.00	67.71%	4.74%
North Slope	$12,876,786,900.00	$1,155,680,000.00	$901,375,083.00	128.21%	8.97%
Sitka	$396,227,900.00	$12,400,000.00	$27,735,953.00	44.71%	3.13%
Total Boroughs	$41,954,537,900.00	$1,980,631,400.00	$2,936,817,653.00	67.44%	4.72%
CITIES					
Bethel	$182,296,900.00	$556,500.00	$12,760,783.00	4.36%	0.31%
Cordova	$120,673,000.00	$0.00	$8,447,110.00	0.00%	0.00%
Craig	$34,707,400.00	$0.00	$2,429,518.00	0.00%	0.00%
Delta Junction	$30,870,500	$0	$2,160,935.00	0.00%	0.00%
Dillingham	$94,669,900.00	$0.00	$6,626,893.00	0.00%	0.00%
Eagle	$9,104,500.00	$0.00	$637,315.00	0.00%	0.00%
Galena	$19,149,500.00	$900,000.00	$1,340,465.00	67.14%	4.70%
Hoonah	$27,845,200.00	$0.00	$1,949,164.00	0.00%	0.00%
Hydaburg	$12,688,900.00	$0.00	$888,223.00	0.00%	0.00%
Kake	$11,608,000.00	$0.00	$812,560.00	0.00%	0.00%
King Cove	$23,230,800.00	$0.00	$1,626,156.00	0.00%	0.00%
Klawock	$5,563,000.00	$0.00	$389,410.00	0.00%	0.00%
Kotzebue	$93,245,100.00	$0.00	$6,527,157.00	0.00%	0.00%
Nenana	$12,881,500.00	$2,717,300.00	$901,705.00	301.35%	21.09%
Nome	$116,712,900.00	$2,161,200.00	$8,169,903.00	26.45%	1.85%
Pelican	$10,155,400.00	$0.00	$710,878.00	0.00%	0.00%
Petersburg	$161,219,300.00	$6,195,000.00	$11,285,351.00	54.89%	3.84%
Sand Point	$71,086,800.00	$0.00	$4,976,076.00	0.00%	0.00%
Skagway	$58,447,100.00	$820,000.00	$4,091,297.00	20.04%	1.40%
St. Mary's	$4,239,400.00	$0.00	$296,758.00	0.00%	0.00%
Tanana	$11,195,400.00	$0.00	$783,678.00	0.00%	0.00%
Unalakleet	$19,714,500	$0	$1,380,015.00	0.00%	0.00%
Unalaska	$105,309,400.00	$3,299,000.00	$7,371,658.00	44.75%	3.13%
Valdez	$1,740,431,900.00	$75,833,000.00	$121,830,233.00	62.24%	4.36%
Whittier	$19,419,200.00	$0.00	$1,359,344.00	0.00%	0.00%
Wrangell	$111,757,000.00	$10,750,000.00	$7,822,990.00	137.42%	9.62%
Yakutat	$17,679,400.00	$235,200.00	$1,237,558.00	19.01%	1.33%
TOTAL CITIES	$3,125,901,900.00	$103,467,200.00	$218,813,133.00	47.29%	3.31%
STATE	$48,915,237,900.00	$816,100,000.00	$3,424,066,653.00	23.83%	1.67%
Total Boroughs	$41,954,537,900.00	$1,980,631,400.00	$2,936,817,653.00	67.44%	4.72%

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 27, 1986

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting two bills that provide for improved state debt management. One relates to control of state-supported school debt, the other to lease-financing transactions by the various branches of government.

These two bills are each cornerstones of a comprehensive proposal designed to monitor and control more effectively the issuance of debt instruments that harbor substantial credit implications for the state. (Some citations in each bill are to provisions in the other bill. The two work together.) Alaska's remarkable wealth has facilitated tremendous economic growth in all areas of the state's economy and at all levels of government. Many of these worthy projects and programs have been funded directly by the state. In other instances, however, funding has been obtained through the issuance of debt instruments, either by the state or by local governments. Where government activities are funded through the issuance of debt, maintenance of a favorable credit rating for the state assumes critical importance. Simply stated, actions detrimental to the state's credit standing are injurious to the Alaska economy.

Unlike past years, we approach an era where the state's vast wealth is not, in and of itself, sufficient to support a favorable credit rating. In my discussions with representatives of the national financial community, the constant theme stated was the need for Alaska to demonstrate its ability to effectively manage its resources. One critical

attribute of responsible state management is an effective debt management program.

Any discussion of maintenance of a favorable credit rating for the state must reflect the broad array of financial obligations encompassed within the term "state-supported debt." It is critical to bear in mind that state general obligation bonds are but one type of debt instrument that affects the state's credit standing. The financial community also looks to other recurring, long-term financial obligations which are paid from the general fund, such as those which arise under a lease-financing agreement. In a similar vein, the state's commitment to support school debt issued by municipalities is a type of long-term financial commitment with substantial credit implications.

Debt management concerns must further reflect the impact of excessive or improvident municipal debt issuance on the state's credit standing. I initially observe that responsible state debt management policies must necessarily include a degree of state supervision of municipal debt issuance. While I am, of course, cognizant and supportive of the prerogatives of local government, problems with municipal debt issuance inevitably burden the state as well. For that reason, I previously introduced a bill that relates directly to the issuance of municipal debt. Last session I proposed the establishment of a Municipal Financial Emergency Commission to assist municipalities that have defaulted in bonded indebtedness (HB 293). I am also proposing legislation that imposes reasonable limitations on a municipality's authority to issue general obligation debt. As noted in the transmittal letters accompanying each of those bills, responsible state management of municipal debt is necessary to assure the continued investment community support of and confidence in municipal and state debt issues.

The two bills attached to this letter today are intended to assure proper state oversight before the state enters into the type of recurring, long-term financial commitments that might have an impact on the state's credit standing. Where the state issues general obligation bonds, the constitutional requirement of voter approval offers an appropriate opportunity for the electorate and for elected officials to gauge any adverse effect that issuance of the debt may have on the state. Under present law, however, neither the statutory reimbursement formula for school debt nor the unrestricted authority to enter lease-financing agreements

offers comparable mechanisms to assure that state credit implications are adequately addressed. As the decline of available revenues further exacerbates the sensitivity of the state's credit standing, it is of critical importance to assure that each project is viewed not only on its own merits but also with consideration of how the issuance of additional state-supported debt will affect broader state interests. I believe that these two bills offer a responsible way of meeting the needs of the state to obtain office facilities and of municipalities to provide necessary educational facilities -- a way that best preserves the state's favorable credit standing.

I.

The shorter bill implements the recommendations of the State Office Complex Financing Task Force, a body whose membership brought together the views of executive-branch officials, two legislators, and several members of the public with substantial financing expertise. The task force conducted extensive hearings to consider the most appropriate method to provide state office facilities in the most cost-efficient manner possible. After review of the available financing alternatives, the task force recommended the enactment of legislation to facilitate the acquisition of state office facilities through lease-financing agreements. The bill designates the Alaska State Housing Authority as the appropriate financing entity, but provides that when the authority issues debt for this purpose, it do so as the Alaska State Building Authority. The name change is intended to prevent confusion in national financing markets.

Sections 1, 6, 7 and 8 provide that the university and each branch of government, respectively, have legal authority to enter into lease-financing agreements with the Alaska State Housing Authority acting as the Alaska State Building Authority. The state has previously executed lease-financing agreements under existing lease authority, and these sections are thus intended to remove any ambiguities regarding the legal authority to enter into lease-financing agreements. The cost of building acquisition or development would be provided by the sale of revenue bonds by the Alaska State Building Authority. In all instances, a lease-financing agreement preserves legislative prerogatives through the requirement that lease payments be subject to annual appropriation.

While the bill recognizes the desirability of the lease-financing technique, the bill also imposes effective debt

management controls. First, lease-financing agreements may only be executed with the Alaska State Building Authority, a limitation that ensures uniformity and continuity in the state's lease-financing programs.

More importantly, secs. 9 -- 16 expand the responsibilities of the state bond committee (AS 37.15) to ensure that the broader credit implications are adequately assessed before the state enters into a lease-financing agreement. Under sec. 15, for example, proposed AS 37.15.770 authorizes the state bond committee to review any proposed lease-financing in detail and to prohibit or condition the sale of the debt instruments if it is in the best interests of the state to do so.

I observe that sec. 8 of this bill is similar to legislation that I proposed last session in the wake of the controversy surrounding the Anchorage Office Complex. The bill proposed last session (HB 392 and the identical SB 293) provided for project-specific legislative approval before execution of a lease-financing agreement. In the transmittal letter accompanying the initial bill, dated April 19, 1985 (1985 H.J., p. 1001, and 1985 S.J., p. 856), I noted that the provision of project-specific legislative approval posed substantial constitutional problems. Both the constitutional doctrine of separation of powers and the constitutional prohibition against special and local legislation place in serious legal doubt any statutory requirement to seek project-specific approval. And public finance is the worst forum to interject such a substantial legal uncertainty. Accordingly, the present bill does not propose project-specific approval. To do so, in my view, would impermissibly intrude upon the constitutional prerogatives of future governors. Although I believe it inappropriate to require project-specific approval as a matter of law, I reaffirm my personal commitment to seek legislative approval before the executive branch enters into any lease-financing agreement.

II.

The longer of these two bills that I am transmitting makes several changes to the state's support of public school construction. Most notable of the significant changes proposed under this bill is a cap is placed upon the amount of municipal debt obligations for which the state will provide reimbursement. Municipalities issuing debt to finance school construction will pay the interest costs, while the state will pay the principal in equal payments up

to an aggregate amount of $10,000,000 in any year for debt approved by local voters after March 31, 1986.

The state presently provides, in addition to its municipal grant program, three forms of aid for school construction. Under AS 14.11.010 all school districts may apply to the Department of Education for an appropriation for school construction projects for which the department may request, in order of priority, appropriations from the legislature. If an appropriation for a school construction project is made, the school district may, under AS 14.11.020, request the assumption of the state's responsibility to plan, design, and construct the particular project. The department provides for the assumption of the responsibility by executing a grant agreement with the school district.

AS 14.11.100 provides two additional forms of state aid for public school construction which are only available to municipal school districts. The state reimburses municipal debt service payments in varying percentages which, because of amendments made in ch. 78, SLA 1985, are at least 80 percent. The state also reimburses a municipality for at least 80 percent of its cash payments used for school construction. To receive reimbursement of either debt service or cash payments, the municipality must first quantify the need for the project and provide a description of the project and an estimate of its cost. The Department of Education reviews the project and its justification, and, when appropriate, grants its approval of the project and its estimated costs. The next step is approval of the municipality's voters to sell the bonds. If the local voters approve the sale of the bonds, the state will reimburse the costs of debt service by requesting money in each year's budget.

There are several weaknesses in the state's present programs of financing school construction.

First, there are inadequate procedures to ensure that the estimates of project costs are reasonable. Before 1982, the administration of the school construction grant program was shared by the Department of Education and the Department of Transportation and Public Facilities. Chapter 92, SLA 1982 transferred all responsibility for the state's construction grant program to the Department of Education. This same weakness exists under AS 14.11.100.

The second major failing is that there is no ceiling for the amount of money which the state will be requested to reim-

burse under AS 14.11.100. In the proposed FY 1987 state budget, approximately $106,000,000 in municipal debt service payments is requested to continue existing level of debt.

During the last session of this legislature, the percentage of reimbursement for debt service costs was increased to 80 percent, although allowable projects were limited to facilities necessary for increased enrollment or to correct health and safety problems. The result of last session's amendments to AS 14.11.100 has been an identification of required projects with approval of the projects closely followed by local bond elections. These recent municipal elections have authorized approximately $312,500,000 of new municipal debt for which local communities will seek reimbursement from the state for debt service costs. I anticipate, if all of this newly authorized debt is incurred in the near term, that the impact on the debt retirement program could be as much as an additional $45,000,000 in requested reimbursements in FY 1987. I intend to support this additional funding as soon as the amount is determined and necessary debt management legislation is passed.

I, of course, recognize that there are municipalities in the state which have experienced significant population increases, and which therefore need the construction of new schools. I believe that these existing needs should be met at the current levels of state support. However, the future of state revenues and the need for new schools are uncertain. Consequently, I believe that different approaches need to be applied to the way the state considers all school construction in the state.

With discipline and altered approaches to the school construction, I believe that the state and its municipalities can contain state-supported debt and still allow for adequate state support of school construction.

This bill changes procedures for reviewing and approving school projects.

Section 1 amends AS 14.08.151. These amendments are desirable to clarify the manner in which the state conveys title for school sites to regional education attendance areas.

Section 2 amends AS 14.11.010(b) by requiring the Department of Education to request cost estimates from the Department of Transportation and Public Facilities and to base its

project approval upon that cost estimate. This same requirement is found in sec. 11 in amendments to AS 14.11.102, which relates to project approval for the debt retirement program. Section 14 contains new authority for DOT/PF to estimate construction costs for all school projects financed by appropriations and debt retirement. Included within that authority is the responsibility to establish design standards.

Section 3 of the bill amends AS 14.11.010(c) by adding new criteria, relating to population trends and the condition of facilities, which the Department of Education will consider when approving projects for appropriation. These amendments are also applicable to the debt retirement program under language found in sec. 11.

Section 4 proposes new language that will require school districts requesting state aid to inventory and inspect the schools in their districts and to revise that inventory on a yearly basis. The provisions of this section also require that school districts provide information relating to maintenance and operation costs. This information regarding existing school facilities will enable the state to better analyze new projects that the state will be asked to finance by appropriation or by debt reimbursement.

Sections 5 and 6 limit the state's reimbursement of school debt to principal only for approved projects financed by new municipal debt authorized by local voters after March 30, 1986. If the debt was authorized by local voters before April 1, 1986, the state's reimbursement continues as before. The state's reimbursement of cash payments by municipalities ends for payments made after June 30, 1986.

Section 7 amends AS 14.11.100(b) by offsetting the amount that the municipality receives for debt reimbursement by the amount of interest earned on the proceeds of bonds sold for a particular project. This amendment parallels existing law found in AS 14.11.100(k), which is repealed in sec. 16.

Sections 8, 9, and 10 contain a number of amendments to AS 14.11.100(h), (i), and (j), respectively, which are necessary to reflect the new class of reimbursement under the language proposed in AS 14.11.100(a)(6) in sec. 6 of the bill. Section 10 has a fiscal impact. It amends AS 14.11.100(j)(2) to allow refunding of bonds only in those situations where there is at least a five percent saving in debt service costs. It also amends AS 14.11.100(j)(3) by requiring that the principal on bonds be reimbursed in equal

annual payments over a period of 10 years or a term set by the state bond committee.

Under sec. 12, the Department of Education will continue to allocate money to reimburse municipal debt. However, a cap on reimbursement is placed upon debt authorized by local voters after April 1, 1986. The department may only allocate money for the reimbursement of principal paid on new debt if the new payments, when combined with all other reimbursements under this class of debt, do not exceed the $10,000,000 or an amount set by the state bond committee. This mechanism will have two results. It puts a cap on state-supported debt, but, with discipline, it will enable municipalities to construct needed school projects in addition to those that are financed by bonds authorized by local voters before April 1, 1986.

Section 13 amends AS 14.11.135(3) by changing the definition of school construction costs. It excludes all financing costs for debt authorized by local voters after March 31, 1986.

Section 14 adds three new sections to AS 35.15. Under the proposed language, the Department of Transportation and Public Facilities will estimate the costs of all school construction projects under common design standards that it will develop.

Section 15 amends AS 37.15 to give the state bond committee the ability to manage state-supported school debt, which is accomplished under two different mechanisms. First, it may establish a higher or lower ceiling for allocations for reimbursement of new authorizations of school debt under AS 14.11.100(a)(6) (found in sec. 6), depending on the state's credit standing as well as on the needs for school construction. Second, it may control the term of the obligations to ensure that their maturity structure does not adversely affect the state's credit standing. While a 10-year term is allowed by the proposed provisions of AS 14.11.100(j)(2) (found in sec. 10), the committee is accorded the ability to set a different term when it is in the state's best interest.

It is our intent with the language in sec. 17 to develop a long range plan for the state's school construction through the end of the century. The necessary components of this plan would include projected enrollments under reasonable population projections, construction costs, design parameters, and financing techniques. It is our hope that,

after the completion of the plan, a rational mechanism can be put in place to provide for the state's public school construction needs which is within the state's ability to pay.

III.

Continued economic prosperity for all sectors of the Alaska economy is in part inextricably tied to more rigorous state debt management. These two bills, as well as legislation relating to responsible limitation on municipal debt, promote more responsible state debt management. Alaska's credit standing is, of course, in part dependent on factors beyond our control. That the state cannot control all relevant factors is no excuse, however, for the inadequate management of those factors within our control. I believe that it is critical that the state become more sensitive to the long-term credit implications of each isolated funding decision. These two bills provide for responsible yet flexible state debt management, and I urge your prompt consideration and approval of these measures.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 15, 1985

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

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill to establish a Municipal Financial Emergency Commission that will provide assistance to municipalities that are in default on bonded indebtedness.

Recent controversy surrounding the financial practices of the North Slope Borough has led to a greater sensitivity to the consequences of local financial disorder. While there is absolutely no indication that the present problems of the North Slope Borough will have any effect on the borough's ability to satisfy all debt service obligations, the controversy has led to concern that current law does not provide a role for the state in the event of a municipal default. It bears noting that a municipal default will inevitably affect the state and other municipalities as well. While each municipality's general obligation debt is of course a direct financial burden of only the issuing municipality, the practical fact is that all governmental entities in the state share, to one degree or another, in the consequences of a municipal default. While I reiterate that there is no present prospect of municipal default, it is imperative to establish a procedure to deal with that event before a financial crisis occurs -- not in response to one.

The bill proposes the establishment of the Municipal Financial Emergency Commission which consists of the commissioners of the Departments of Community and Regional Affairs, Revenue, and Administration. Under proposed AS 29.58.420, a municipality must provide notice of a default to the commission, or the municipality may request the assistance of the commission in anticipation of financial distress. Once the commission receives notice of a municipality in financial disarray, the commission must

promptly convene and assess the municipality's financial affairs.

Under proposed AS 29.58.410, the commission enjoys extraordinarily broad powers to assure, to the extent possible, the resolution of the financial crisis. The fundamental objective of the commission is to adopt a plan that satisfies debt service obligations in a manner acceptable to municipal creditors. The commission enjoys the power to issue subpoenas and orders as are necessary to undertake this task.

I certainly anticipate that a municipality will act to implement the plan adopted by the commission. However, the bill provides that, in the unlikely event that a municipality fails to implement the plan, or if the commission determines that the municipality remains in financial disarray, the commission may assume full control of the defaulting municipality's financial affairs. This extraordinary intrusion upon local governmental prerogatives can only be exercised in narrowly prescribed instances and, as do all of the commission's powers, the authority of the commission expires upon the successful satisfaction of the default. While certain of these broad powers may approach the legal limit of the state's authority to impair local government powers, I believe that the overwhelming public concern for the financial stability of all Alaskan communities offers a compelling justification for this possible intrusion.

I again emphasize that this bill does not foretell any municipal default. In the area of municipal finance, however, it is not sufficient to act only in response to events. Instead, it is far preferable to establish a mechanism before any default, so that if a municipality does default on a debt service obligation, the repercussions to the state and to other municipalities are limited to the extent possible. With due respect for the prerogatives of local governments, I believe that this bill provides a needed mechanism for state involvement. I urge your prompt consideration and passage of this bill.

Sincerely,

Bill Sheffield
Governor

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 27, 1986

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that will establish a reasonable limit on the authority of a municipality or borough to issue general obligation bond debt.

At present, there is no limit as to the amount of general obligation debt that municipalities may incur. And, while taxing limits are generally prescribed by statute, current law specifically exempts from the taxing limitation any assessments necessary to satisfy debt service obligations. The potential for excessive municipal debt burdens -- a burden that both directly and indirectly affects the state and other municipalities -- is one which simply must be controlled.

I believe that reasonable general obligation bond debt limitations are essential to preserve the financial stability of Alaska municipalities. We are all aware that the level of per capita municipal debt in Alaska far exceeds the national average. To be sure, the lack of basic public services in many areas of the state contributes to the current level of debt. While I am certainly sensitive to the extreme, and at times costly, needs of rural communities, I am equally concerned that excessive municipal debt will only undermine the substantial economic progress enjoyed by all Alaska communities in the last several years.

The problems associated with excessive debt requirements will increase in the future. As state revenues decline,

municipalities will increasingly be responsible for the cost of governmental services, and this inevitable burden will only be further compounded if municipalities are saddled with excessive debt service obligations.

The bill proposes that a municipality may not incur additional general obligation debt if, upon issuance, the municipality's general obligation debt would exceed seven percent of the market value of property which is taxable under state law. The Department of Community and Regional Affairs is currently required by statute to ascertain annually the property value necessary for this limit. That only three communities -- the North Slope Borough, the cities of Nenana and Wrangell -- exceed the seven percent standard is indicative that the limit is reasonable, and will not unfairly limit the prerogatives of local governments.

It is equally important to note what the bill does not do. The bill does not limit in any manner a municipality's authority to levy taxes in order to satisfy debt service obligations. The bill does not limit a municipality's authority to issue revenue or refunding bonds. And finally, the bill does not penalize those municipalities that have issued debt in excess of the seven percent standard.

I believe that the bill provides a needed assurance that municipalities will not incur an unsupportable debt burden. Establishment of a debt ceiling greatly diminishes the prospect of a municipal default. It also prevents a decline in state revenues as municipal assessments are increased to support an ever-increasing debt burden. I urge your prompt passage of this legislation.

Sincerely,

Bill Sheffield
Governor

James
3/4/86
#2

Original sponsor: Rules/governor

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 519 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to public finance; and providing for an effective date."

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

* Section 1. AS 14.40.040 is amended to read:

Sec. 14.40.040. GENERAL POWERS OF THE UNIVERSITY. There is created and established a corporation to be called the University of Alaska. It may in that name

(1) sue and be sued;

(2) receive and hold real and personal property;

(3) contract and be contracted with;

(4) adopt, use and alter a corporate seal;

(5) borrow money, issue debt, or enter into long-term obligations for the purchase of facilities, goods, or services, which obligations secure, in whole or in part, debt issued by another party, as approved by the state bond committee under AS 37.15.770 and approved by law; an appropriation does not constitute approval by law for purposes of this paragraph;

(6) do and have done all matters necessary for the purpose of any function set out [FORTH] in this chapter.

* Sec. 2. AS 14.40 is amended by adding a new section to read:

Sec. 14.40.255. LEASE-FINANCING. The Board of Regents may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to

annual appropriation. If the board intends to enter into an agreement under this subsection, the board shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The board may not enter into an agreement under this section unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 3. AS 18.55.100(a)(15) is amended to read:

(15) acting as the Alaska State Building Authority arrange or contract for the financing or [, DESIGN, CONSTRUCTION AND] acquisition of public buildings designed by, constructed by, or whose acquisition has been approved by the Department of Transportation and Public Facilities for lease to the state in accordance with AS 18.55.-010 - 18.55.290 and AS 37.15.770.

* Sec. 4. AS 18.55.140 is amended to read:

Sec. 18.55.140. ISSUANCE OF BONDS, NOTES, AND REFUNDING BONDS. The authority may issue bonds and notes from time to time in its discretion for any of its corporate purposes and may issue refunding bonds for the purpose of paying or retiring bonds previously issued by it. The authority may not issue bonds for public buildings until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770 and the building has been approved by law. An appropriation for the building does not constitute approval by law for purposes of this section.

* Sec. 5. AS 18.55.140 is amended by adding a new subsection to read:

(b) Bonds issued by the authority for public buildings must be

issued in the name of the Alaska State Building Authority and are subject to AS 18.55.010 - 18.55.290.

* Sec. 6. AS 18.55.288 is amended by adding a new paragraph to read:

(4) "bond" means any bond, note, interim certificate, debenture, or other obligation issued by the authority or the authority acting as the Alaska State Building Authority under AS 18.55.010 - 18.55.290;

* Sec. 7. AS 22.05.025 is amended by adding a new subsection to read:

(c) The supreme court may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the supreme court intends to enter into an agreement under this subsection, the supreme court shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The supreme court may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 8. AS 24.23 is amended by adding new sections to read:

ARTICLE 2. LEASE AGREEMENTS.

Sec. 24.23.100. LEASE OF SPACE. The Legislative Affairs Agency may lease necessary office space, and contract for the lease of space, for the use of the Alaska legislature and its employees.

Sec. 24.23.110. The Legislative Affairs Agency may enter into lease-financing agreements only with the Alaska State Housing

Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the agency intends to enter into an agreement under this subsection, the agency shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The agency may not enter into an agreement under this section unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 9. AS 37.05.280 is amended to read:

Sec. 37.05.280. LEASES. The department shall lease necessary space, and contract for the lease of space, for the use of the state or an agency of the state, wherever it is necessary and feasible, subject to compliance with the requirements of AS 37.05.220 - 37.05.-280. A [NO] lease or contract for a lease may not provide for a period of occupancy greater than 40 years. A lease agreement must provide that lease payments are subject to annual appropriation. An agency of the state requiring office, warehouse, or other space shall lease the space through the department. [NO CONTRACT OR LEASE EXECUTED AFTER JANUARY 1, 1966, WHICH PROVIDES FOR A PAYMENT OR PAYMENTS BY THE STATE IN EXCESS OF $12,000 ANNUALLY IS VALID UNLESS THE USE OF THE SPACE TO BE PROVIDED FOR BY SUCH CONTRACT OR LEASE HAS BEEN EXPRESSLY APPROVED BY THE LEGISLATURE BY CONCURRENT RESOLUTION.]

* Sec. 10. AS 37.05 is amended by adding a new section to read:

Sec. 37.05.285. LEASE FINANCING. The department may enter into

lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the department intends to enter into an agreement under this subsection, the department shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The department may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 11. AS 37.15.040 is amended to read:

Sec. 37.15.040. SALE OF BONDS. Before selling an issue or series of bonds, the state bond committee shall give notice inviting sealed bids in <u>the</u> [SUCH] manner [AS] it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder <u>or bidders</u>. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

* Sec. 12. AS 37.15.110 is amended to read:

Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE. There is created <u>within the Department of Revenue</u> a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, and the commissioner of revenue. If a member of the committee is absent or otherwise unable to act, the member's designee <u>IN THE</u>

DEPARTMENT~~E~~ shall act as a member of the committee in the member's place.

* Sec. 13. AS 37.15.130 is amended to read:

Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. The commissioner of commerce and economic development is the chairman of the state bond committee and the commissioner of revenue is the secretary. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent record of its proceedings. All records and correspondence of the committee shall be kept in the office of the commissioner of revenue. For the purpose of this chapter and AS 44.62.310, public notice of 24 hours or more is adequate notice of a meeting of the committee at which the issuance of bonds is authorized.

* Sec. 14. AS 37.15.140 is amended to read:

Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, sale, and delivery of state general obligation bonds.

* Sec. 15. AS 37.15.140 is amended by adding new subsections to read:

(b) The state bond committee shall prepare an annual report to be submitted to the governor and legislature before March 31 of each year. The report must show

(1) all outstanding debt of debt-issuing entities of the state;

(2) the anticipated effect on the finances and credit of the state, including the effect on long-term debt capacity and creditworthiness, resulting from that debt;

(3) which long-term debt is state supported and which is supported only by revenue attributable to the project being financed

by the debt;

(4) all long-term capital lease obligations of the state;

(5) the volume of short-term debt issued and retired during the year by debt-issuing entities of the state;

(6) specific identification of each issue for which the state has pledged some form of indirect support for the debt, including any moral obligation of the state to support the debt; STATE GUARANTEE BONDS

(7) future bonding and debt capacity implications of legislation enacted in the previous legislative session; and

(8) the recommended debt issuance capacity of the state for the next two years following the year of the report.

(c) The state bond committee may develop written policies concerning debt of the state.

* Sec. 16. AS 37.15.150 is amended to read:

Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SERVICES. The state bond committee may appoint an executive director who may, with approval of the committee, select and employ additional staff as necessary. Employees of the committee are in the partially exempt service under AS 39.25.120. If the [STATE BOND] committee considers it necessary and advisable, it may procure architectural or engineering, fiscal agent or municipal investment, legal, and other expert or specialized services at reasonable and customary fees to assist it in accomplishing the most advantageous sale of the bonds. The fees may be paid from the proceeds of the sale or advanced from the contingency fund in the Office [OFFICE] of the Governor [GOVERNOR] or otherwise.

* Sec. 17. AS 37.15.450(a) is amended to read:

(a) The bonds shall be sold in the manner, price or prices, [SUCH] amounts or series, and at the [SUCH] time or times [AS]

determined by the committee at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds, or each series of them, shall be sold at such a price so that the effective interest rate over the life of the bonds does not exceed 11 percent per year or that rate of interest which is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest shall be payable annually or semiannually.

* Sec. 18. AS 37.15.460 is amended to read:

Sec. 37.15.460. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide where a [WHETHER THE] notice of sale, if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.450].

* Sec. 19. AS 37.15.650(a) is amended to read:

(a) The toll facilities bonds are sold in the manner, price or prices, amounts or series, and at the time as determined by the committee, at either public or private sale. [BEFORE SELLING A SERIES OF

BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.] Bonds, or a series of bonds, may not be sold if the effective interest rate over the life of the bonds exceeds 11 percent per year or that rate of interest that is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest is payable annually or semiannually.

* Sec. 20. AS 37.15.660 is amended to read:

Sec. 37.15.660. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide <u>where a</u> [WHETHER THE] notice of sale<u>, if any,</u> is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.650].

* Sec. 21. AS 37.15 is amended by adding new sections to read:

ARTICLE 5. STATE-SUPPORTED DEBT.

Sec. 37.15.770. STATE AGENCY DEBT. (a) The state bond committee shall review proposals for the issuance of debt by or on behalf of

(1) the Alaska State Housing Authority acting as the Alaska State Building Authority for the purpose of providing public

buildings; and

(2) the University of Alaska.

(b) The committee may review the general programs and financing plans of the agency that proposes to issue the debt as well as the specific aspects of the proposed debt issue, including

(1) amounts;

(2) times;

(3) maturities;

(4) debt structure and security features;

(5) credit enhancements;

(6) use of proceeds;

(7) official documents;

(8) planned rating agency presentations; and

(9) selection, retention, or compensation of financial advisors, bond counsel, trustees, underwriters, and other professionals.

G.O. DEBT

(c) The state bond committee shall consider approval of the amount and time of sale of the debt. The committee shall approve the issuance of the debt if, in its judgment, issuance of the debt is in the best interests of the state. The committee may limit approval of the issuance of debt upon compliance with terms established by the committee.

(d) At the time of sale of the debt, the state bond committee shall review the bids or pricing of the debt, including discounts, underwriting spreads, and interest rates. If the committee determines that the bids or prices are not satisfactory or that the bidders are not responsible, the agency may not sell the debt.

Sec. 37.15.790. MUNICIPAL SCHOOL DEBT. If, at any time, the state bond committee, in its judgment, determines that the amount or

retirement of debt issued by municipalities and subject to reimbursement by the state under AS 14.11.100 is not in the best interest of the state, the committee may

(1) establish an amount or amounts, for any or all years before the maturity of all of that municipal debt, that may not be exceeded by the Department of Education in approving requests under AS 14.11.103; or

(2) establish, under AS 14.11.100(j)(3), a term required for the maturities of municipal debt authorized by local voters after March 31, 1986.

* Sec. 22. AS 39.25.120(c) is amended by adding a new paragraph to read:

(19) employees of the state bond committee.

* Sec. 23. This Act takes effect immediately in accordance with AS 01.-10.070(c).

DO NOT PASS

James
3/3/86

Original sponsor: Rules/governor

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 519 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to public finance; and providing for an effective date."

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

* Section 1. AS 14.40.040 is amended to read:

Sec. 14.40.040. GENERAL POWERS OF THE UNIVERSITY. There is created and established a corporation to be called the University of Alaska. It may in that name

(1) sue and be sued;

(2) receive and hold real and personal property;

(3) contract and be contracted with;

(4) adopt, use and alter a corporate seal;

~~(5)~~ borrow money, issue debt, or enter into long-term obligations for the purchase of facilities, goods, or services, which obligations secure, in whole or in part, debt issued by another party, as approved by the state bond committee under AS 37.15.770;

(6) do and have done all matters necessary for the purpose of any function set out [FORTH] in this chapter.

* Sec. 2. AS 14.40 is amended by adding a new section to read:

Sec. 14.40.255. LEASE-FINANCING. The Board of Regents may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the board intends to enter into an agreement under this subsection, the board shall provide notice to the

legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The board may not enter into an agreement under this section unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 3. AS 18.55.100(a)(15) is amended to read:

(15) acting as the Alaska State Building Authority arrange or contract for the financing or [, DESIGN, CONSTRUCTION AND] acquisition of public buildings designed by, constructed by, or whose acquisition has been approved by the Department of Transportation and Public Facilities for lease to the state in accordance with AS 18.55.010 - 18.55.290 and AS 37.15.770.

* Sec. 4. AS 18.55.140 is amended to read:

Sec. 18.55.140. ISSUANCE OF BONDS, NOTES, AND REFUNDING BONDS. The authority may issue bonds and notes from time to time in its discretion for any of its corporate purposes and may issue refunding bonds for the purpose of paying or retiring bonds previously issued by it. The authority may not issue bonds for public buildings until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770.

* Sec. 5. AS 18.55.140 is amended by adding a new subsection to read:

(b) Bonds issued by the authority for public buildings must be issued in the name of the Alaska State Building Authority and are subject to AS 18.55.010 - 18.55.290.

* Sec. 6. AS 18.55.288 is amended by adding a new paragraph to read:

(4) "bond" means any bond, note, interim certificate, debenture, or other obligation issued by the authority or the authority acting as the Alaska State Building Authority under AS 18.55.010 - 18.55.290;

* Sec. 7. AS 22.05.025 is amended by adding a new subsection to read:

(c) The supreme court may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the supreme court intends to enter into an agreement under this subsection, the supreme court shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to e issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The supreme court may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 8. AS 24.23 is amended by adding new sections to read:

ARTICLE 2. LEASE AGREEMENTS.

Sec. 24.23.100. LEASE OF SPACE. The Legislative Affairs Agency may lease necessary office space, and contract for the lease of space, for the use of the Alaska legislature and its employees.

Sec. 24.23.110. The Legislative Affairs Agency may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the agency intends to enter into an agreement under

this subsection, the agency shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The agency may not enter into an agreement under this section unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 9. AS 37.05.280 is amended to read:

Sec. 37.05.280. LEASES. The department shall lease necessary space, and contract for the lease of space, for the use of the state or an agency of the state, wherever it is necessary and feasible, subject to compliance with the requirements of AS 37.05.220 - 37.05.280. A [NO] lease or contract for a lease may not provide for a period of occupancy greater than 40 years. An agency of the state requiring office, warehouse, or other space shall lease the space through the department. [NO CONTRACT OR LEASE EXECUTED AFTER JANUARY 1, 1966, WHICH PROVIDES FOR A PAYMENT OR PAYMENTS BY THE STATE IN EXCESS OF $12,000 ANNUALLY IS VALID UNLESS THE USE OF THE SPACE TO BE PROVIDED FOR BY SUCH CONTRACT OR LEASE HAS BEEN EXPRESSLY APPROVED BY THE LEGISLATURE BY CONCURRENT RESOLUTION.]

* Sec. 10. AS 37.05 is amended by adding a new section to read:

Sec. 37.05.285. LEASE FINANCING. The department may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the department intends to enter into an agreement

under this subsection, the department shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The department may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 11. AS 37.15.040 is amended to read:

Sec. 37.15.040. SALE OF BONDS. Before selling an issue or series of bonds, the state bond committee shall give notice inviting sealed bids in <u>the</u> [SUCH] manner [AS] it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder <u>or bidders</u>. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

* Sec. 12. AS 37.15.110 is amended to read:

Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE. There is created <u>within the Department of Revenue</u> a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, and the commissioner of revenue. If a member of the committee is absent or otherwise unable to act, the member's designee [IN THE DEPARTMENT] shall act as a member of the committee in the member's place.

* Sec. 13. AS 37.15.130 is amended to read:

Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. The commissioner of commerce and economic development is the chairman of the state bond committee and the commissioner of revenue is the secretary. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent record of its proceedings. All records and correspondence of the committee shall be kept in the office of the commissioner of revenue. For the purpose of this chapter and AS 44.62.310, public notice of 24 hours or more is adequate notice of a meeting of the committee at which the issuance of bonds is authorized.

* Sec. 14. AS 37.15.140 is amended to read:

Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, sale, and delivery of state general obligation bonds.

* Sec. 15. AS 37.15.140 is amended by adding new subsections to read:

(b) The state bond committee shall prepare an annual report to be submitted to the governor and legislature before March 31 of each year. The report must show

(1) all outstanding debt of debt-issuing entities of the state;

(2) the anticipated effect on the finances and credit of the state, including the effect on long-term debt capacity and creditworthiness, resulting from that debt;

(3) which long-term debt is state supported and which is supported only by revenue attributable to the project being financed by the debt;

(4) all long-term capital lease obligations of the state;

(5) the volume of short-term debt issued and retired during

the year by debt-issuing entities of the state;

(6) specific identification of each issue for which the state has pledged some form of indirect support for the debt, including any moral obligation of the state to support the debt;

(7) future bonding and debt capacity implications of legislation enacted in the previous legislative session; and

(8) the recommended debt issuance capacity of the state for the next two years following the year of the report.

(c) The state bond committee may develop written policies concerning debt of the state.

* Sec. 16. AS 37.15.150 is amended to read:

Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SERVICES. The state bond committee may appoint an executive director who may, with approval of the committee, select and employ additional staff as necessary. Employees of the committee are in the partially exempt service under AS 39.25.120. If the [STATE BOND] committee considers it necessary and advisable, it may procure architectural or engineering, fiscal agent or municipal investment, legal, and other expert or specialized services at reasonable and customary fees to assist it in accomplishing the most advantageous sale of the bonds. The fees may be paid from the proceeds of the sale or advanced from the contingency fund in the Office [OFFICE] of the Governor [GOVERNOR] or otherwise.

* Sec. 17. AS 37.15.450(a) is amended to read:

(a) The bonds shall be sold in the manner, price or prices, [SUCH] amounts or series, and at the [SUCH] time or times [AS] determined by the committee at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS

ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds, or each series of them, shall be sold at such a price so that the effective interest rate over the life of the bonds does not exceed 11 percent per year or that rate of interest which is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest shall be payable annually or semiannually.

* Sec. 18. AS 37.15.460 is amended to read:

Sec. 37.15.460. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide <u>where a</u> [WHETHER THE] notice of sale<u>, if any,</u> is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.450].

* Sec. 19. AS 37.15.650(a) is amended to read:

(a) The toll facilities bonds are sold in the <u>manner, price or prices,</u> amounts or series<u>,</u> and at the time as determined by the committee<u>, at either public or private sale</u>. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A

BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.] Bonds, or a series of bonds, may not be sold if the effective interest rate over the life of the bonds exceeds 11 percent per year or that rate of interest that is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest is payable annually or semiannually.

* Sec. 20. AS 37.15.660 is amended to read:

Sec. 37.15.660. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide <u>where a</u> [WHETHER THE] notice of sale<u>, if any,</u> is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.650].

* Sec. 21. AS 37.15 is amended by adding new sections to read:

ARTICLE 5. STATE-SUPPORTED DEBT.

Sec. 37.15.770. STATE AGENCY DEBT. (a) The state bond committee shall review proposals for the issuance of debt by or on behalf of

(1) the Alaska State Housing Authority acting as the Alaska State Building Authority for the purpose of providing public buildings; and

(2) the University of Alaska.

(b) The committee may review the general programs and financing

plans of the agency that proposes to issue the debt as well as the specific aspects of the proposed debt issue, including

(1) amounts;

(2) times;

(3) maturities;

(4) debt structure and security features;

(5) credit enhancements;

(6) use of proceeds;

(7) official documents;

(8) planned rating agency presentations; and

(9) selection, retention, or compensation of financial advisors, bond counsel, trustees, underwriters, and other professionals.

(c) The state bond committee shall consider approval of the amount and time of sale of the debt. The committee shall approve the issuance of the debt if, in its judgment, issuance of the debt is in the best interests of the state. The committee may limit approval of the issuance of debt upon compliance with terms established by the committee.

(d) At the time of sale of the debt, the state bond committee shall review the bids or pricing of the debt, including discounts, underwriting spreads, and interest rates. If the committee determines that the bids or prices are not satisfactory or that the bidders are not responsible, the agency may not sell the debt.

Sec. 37.15.790. MUNICIPAL SCHOOL DEBT. If, at any time, the state bond committee, in its judgment, determines that the amount or retirement of debt issued by municipalities and subject to reimbursement by the state under AS 14.11.100 is not in the best interest of the state, the committee may

(1) establish an amount or amounts, for any or all years before the maturity of all of that municipal debt, that may not be exceeded by the Department of Education in approving requests under AS 14.11.103; or

(2) establish, under AS 14.11.100(j)(3), a term required for the maturities of municipal debt authorized by local voters after March 31, 1986.

* Sec. 22. AS 39.25.120(c) is amended by adding a new paragraph to read:

(19) employees of the state bond committee.

* Sec. 23. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Cook ✓

A M E N D M E N T

Offered in the HOUSE By Sund

TO: CSHB 521(Loans)

Page 2, line 8:

Delete "seven" and insert "five"

Page 3, line 11:

Delete "." and insert ";"

Page 3, after line 11 insert the following new paragraph to read:

"(8) school construction debt for which reimbursement by the state is authorized under AS 14.11.100."

DOR

Introduced: 1/27/86
Referred: House Special Committee on State Loans
Community & Regional Affairs and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 521

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the issuance of municipal general obligation bonds; and providing for an effective date."

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

Section 1. AS 29.47.190(b) is amended to read:

(b) Before a general obligation bond issue election, the governing body shall have published a notice of the total existing bond indebtedness at least once a week for three consecutive weeks. The first notice must (SHALL) be published at least 20 days before the date of the election. A notice must (SHALL) include

(1) the current total general obligation bonded indebtedness, including authorized but unsold bonds, of the municipality and the current total general obligation bonded indebtedness, including authorized but unsold bonds, of any other municipalities which may be payable from taxes on taxable property in the municipality;

(2) the cost of the debt service on the current

indebtedness;

(3) the total assessed value of <u>taxable</u> property in the municipality;

<u>(4) the full value of taxable property as determined by the Department of Community and Regional Affairs under AS 14.17.140</u>.

* Sec. 2. AS 29.47 is amended by adding a new section to read:

Sec. 29.47.195. LIMITATION ON MUNICIPAL DEBT. (a) No general obligation bond authorization shall be finally adopted by a municipality unless the net debt of the municipality at the time of adoption of the bond authorization does not exceed 7 percent of average assessed valuation.

(b) Notwithstanding the provisions in (a) of this section, a bond authorization may be finally adopted if the bond authorization authorizes obligations solely for one of the following:

(1) to meet an expenditure which is the result of a natural disaster;

(2) to meet an expenditure which is necessary to protect the public health;

(3) for a purpose which is self-liquidating; or

(4) to refund existing debt.

(c) For purposes of this section the following terms shall have meanings as follows:

(1) "average assessed valuation" means the average of the full value of taxable property for the last two years as determined by the Department of Community and Regional Affairs under AS 14.17.140.

(2) "bond" or "debt" means bonds, notes, or other obligations.

(3) "bond authorization" means the action completed after the bond election by the governing body of the municipality which authorizes a specific amount of general obligation debt of the municipality for a specified purpose but need not include action to fix the rate or rates of interest on the debt or include action to fix further details of the debt or action to sell the debt.

(4) "self liquidating debt" is debt for which the cash receipts from fees, rents, or other charges (other than taxes) in a fiscal year pledged to pay the debt are sufficient to meet operating and maintenance costs (exclusive of depreciation and obsolescence) and interest and debt redemption charges payable or accruing in such year without recourse to general taxation.

(5) "net debt" means all general obligation debt issued, and all general obligation debt authorized but not issued, after deducting the following general obligation debt issued and authorized but not issued:

(A) bond anticipation notes;

(B) revenue anticipation notes issued

pursuant to Art. IX, Section 10, Alaska Constitution;

(C) self-liquidating debt; and

(D) debt for which there are funds on hand or sinking funds pledged to the payment thereof including the proceeds of any bonds or notes held for that purpose.

* Sec. 3. AS 29.10.200 is amen ed by adding a new subsection to read, and renumbering existing subsections accordingly:

(42) AS 29.47.195 (limitation on municipal debt)

* Sec. 4. This Act takes effect immediately in accordance with AS 01.10.070(c).

DRAFT

EEW/val
2-13-86

Introduced: 1/27/86
Referred: House Special Committee on State Loans, Community & Regional Affairs and Finance

---

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 521

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the issuance of municipal general obligation bonds; and providing for an effective date."

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

* Section 1. AS 29.47.190(b) is amended to read:

(b) Before a general obligation bond issue election, the governing body shall have published a notice of the total existing bond indebtedness at least once a week for three consecutive weeks. The first notice must (SHALL) be published at least 20 days before the date of the election. A notice must (SHALL) include

(1) the current total general obligation bonded indebtedness, including authorized but unsold bonds of the municipality;

(2) the cost of the debt service on the current indebtedness;

(3) the total assessed value of taxable property in the municipality;

(4) the full value of taxable property as determined by the Department of Community and Regional Affairs under AS 14.17.140.

* Sec. 2. AS 29.47 is amended by adding a new section to read:

Sec. 29.47.195. LIMITATION ON MUNICIPAL DEBT. (a) No general obligation bond authorization shall be finally adopted by a municipality unless the net debt of the municipality at the time of adoption of the bond authorization does not exceed seven percent of average assessed valuation.

(b) Notwithstanding the provisions in (a) of this section, a bond authorization may be finally adopted if the bond authorization authorizes obligations solely for one of the following:

(1) to meet an expenditure which is the result of a natural disaster;

(2) to meet an expenditure which is necessary to protect the public health;

(3) for a purpose which is self-liquidating; or

(4) to refund existing debt.

(c) For purposes of this section the following terms shall have meanings as follows:

(1) "average assessed valuation" means the average of the full value of taxable property for the last two years as determined by the Department of Community and Regional Affairs under AS 14.17.140.

(2) "bond" or "debt" means bonds, notes or other obligations.

(3) "bond authorization" means the action completed after the bond election of the governing body of the municipality which authorizes a specified amount of general

obligation debt of the municipality for a specified purpose but need not include action to fix the rate or rates of interest on the debt or include action to fix further details of the debt or action to sell the debt.

(4) "self liquidating Debt" is debt for which the cash receipts from fees, rents or other charges (other then taxes) in a fiscal year pledged to pay the debt are sufficient to meet operating and maintenance costs (exclusive of depreciation and obsolescence) and interest and debt redemption charges payable or accruing in such year without recourse to general taxation.

(5) "net debt" means all general obligation debt issued, and all general obligation debt authorized but not issued, after deducting the following general obligation debt issued, and authorized but not issued:

(a) as bond anticipation notes in anticipation of bonds;

(b) as revenue anticipation notes issued pursuant to Art. IX, Section 10, Alaska Constitution;

c. as self-liquidating debt; and

d. for which there are funds on hand or sinking funds applicable to the payment thereof only including the proceeds of any bonds or notes held for that purpose and any accounts receivable or amounts which may be payable from the United States, the state or any public instrumentality thereof, which funds are applicable only to the payment of any part of the debt not otherwise deductible.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.070(c).

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Table
As of 01/22/86

	Moody's	S&P		5 Years	10 Years	15 Years	20 Years
Group 1	Aa1	AA	Connecticut	-.10	-.10	-.10	-.10
	Aaa	AA	Georgia	-.10	-.10	-.10	-.10
	Aaa	AAA	Maryland	-.10	-.10	-.10	-.10
	Aaa	AAA	New Jersey	-.10	-.10	-.10	-.10
	Aaa	AAA	North Carolina	-.10	-.10	-.10	-.10
	Aaa	AAA	South Carolina	-.10	-.10	-.10	-.10
	Aaa	AAA	Utah	-.10	-.10	-.10	-.10
	Aaa	AAA	Virginia	-.10	-.10	-.10	-.10
Group 2 (BASE GROUP)	Aa	AA+	California	6.10	7.00	7.50	7.70
	Aaa	AAA	Missouri*	6.10	7.00	7.50	7.70
	Aaa	NR	Oklahoma*	6.10	7.00	7.50	7.70
	Aaa	AA+	Tennessee	6.10	7.00	7.50	7.70
	Aaa	AAA	Texas	6.10	7.00	7.50	7.70
Group 3	Aa	AA	Alabama	+.05	+.05	+.10	+.10
	Aa	AA	Delaware	+.05	+.05	+.10	+.10
	Aa	AA	Montana*	+.05	+.05	+.10	+.10
Group 4	A	A+	New York	6.20	7.20	7.70	7.90
	Aa	AA	Kentucky	+.10	+.10	+.10	+.20
	Aa1	AAA	Maine	+.10	+.10	+.10	+.20
	A1	AA	Massachusetts	+.10	+.10	+.10	+.20
	Aa	AA+	Minnesota	+.10	+.10	+.10	+.20
	Aa	AA-	Mississippi*	+.10	+.10	+.10	+.20
	Aa	AA	New Mexico*	+.10	+.10	+.10	+.20
	Aa	AA	Ohio	+.10	+.10	+.10	+.20
Group 5	Aa	AA	Florida	+.15	+.15	+.20	+.25
	Aa	AA	Hawaii	+.15	+.15	+.20	+.25
	Aaa	AA+	Illinois	+.15	+.15	+.20	+.25
	Aa	AA	Nevada	+.15	+.15	+.20	+.25
	Aa	AA-	Rhode Island	+.15	+.15	+.20	+.25
	Aa	AA	Wisconsin	+.15	+.15	+.20	+.25
Group 6	Aa	AA-	Alaska	+.20	+.20	+.40	+.35
	Aa	AA	New Hampshire*	+.20	+.20	+.40	+.35
	A	AA-	Pennsylvania	+.20	+.20	+.40	+.35
	Aa	NR	Vermont	+.20	+.20	+.40	+.35
Group 7	A1	AA-	Louisiana	+.25	+.30	+.50	+.50
	Aa	AA	North Dakota*	+.25	+.30	+.50	+.50
	A1	A+	Oregon	+.25	+.30	+.50	+.50
	A1	AA-	West Virginia	+.25	+.30	+.50	+.50
Group 8	A	AA-	Washington	+.30	+.40	+.60	+.60
Group 9	A	A+	Michigan	+.40	+.60	+.60	+.65
Group 10	Baa1	A	Puerto Rico	+.60	+.80	+.85	+.75

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have little or no outstanding state general obligation debt.

*** NR = not rated.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Chart
A/O 1/2/85

	Moody's	S&P		5 Years	10 Years	15 Years	20 Years
Group 1	Aaa	AA	Georgia	-.10	-.10	-.10	-.10
	Aaa	AAA	North Carolina	-.10	-.10	-.10	-.10
	Aaa	NR	Oklahoma*	-.10	-.10	-.10	-.10
	Aaa	AAA	South Carolina	-.10	-.10	-.10	-.10
	Aaa	AAA	Utah	-.10	-.10	-.10	-.10
	Aaa	AAA	Virginia	-.10	-.10	-.10	-.10
Group 2 (BASE GROUP)	Aa	AA	Connecticut	7.25	8.40	9.10	9.35
	Aaa	AAA	Missouri*	7.25	8.40	9.10	9.35
	Aal	AA	Montana*	7.25	8.40	9.10	9.35
	Aaa	AAA	Maryland	7.25	8.40	9.10	9.35
	Aaa	AAA	New Jersey	7.25	8.40	9.10	9.35
	Aaa	AA+	Tennessee	7.25	8.40	9.10	9.35
	Aaa	AAA	Texas	7.25	8.40	9.10	9.35
Group 3	Aa	AA	Alabama	+.10	+.10	+.20	+.10
	Aa	AA	California	+.10	+.10	+.20	+.10
	Aa	AA	Delaware	+.10	+.10	+.20	+.10
	Aa	AA	Florida	+.10	+.10	+.20	+.10
	Aa	AA	Kentucky	+.10	+.10	+.20	+.10
	Aa	AA-	Mississippi*	+.10	+.10	+.20	+.10
	Aal	AA	New Mexico*	+.10	+.10	+.20	+.10
Group 4	Aa	AA	Louisiana	+.15	+.15	+.30	+.20
	Aal	AAA	Maine	+.15	+.15	+.30	+.20
	Aa	AA	Minnesota	+.15	+.15	+.30	+.20
	Aa	AA	Nevada	+.15	+.15	+.30	+.20
	Aa	AA-	Rhode Island	+.15	+.15	+.30	+.20
	Aa	AA	Ohio	+.15	+.15	+.30	+.20
	Aa	AA	Wisconsin	+.15	+.15	+.30	+.20
Group 5	A	A+	New York	7.50	8.40	9.40	9.60
Group 6	Aa	AA-	Alaska	+.20	+.20	+.40	+.30
	Aa	AA	Hawaii	+.20	+.20	+.40	+.30
	Aaa	AA+	Illinois	+.20	+.20	+.40	+.30
	Al	AA	Massachusetts	+.20	+.20	+.40	+.30
	Al	AA-	New Hampshire*	+.20	+.20	+.40	+.30
	Aa	AA	North Dakota*	+.20	+.20	+.40	+.30
	A	A+	Pennsylvania	+.20	+.20	+.40	+.30
	Aa	NR	Vermont	+.20	+.20	+.40	+.30
	Al	AA+	West Virginia	+.20	+.20	+.40	+.30
Group 7	Al	AA	Oregon	+.25	+.35	+.55	+.50
Group 8	A	AA-	Washington	+.30	+.45	+.65	+.65
Group 9	Baal	A	Puerto Rico	+.75	+.90	+.90	+.90
Group 10	A	A+	Michigan	+.75	+1.00	+1.00	+1.00

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have little or no outstanding state general obligation debt.

*** NR = not rated.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Chart
A/O 1/4/84

	Moody's	S&P		5 Years	10 Years	15 Years	20 Years
Group 1	Aaa	AA	Georgia	-.10	-.10	-.10	-.05
	Aaa	AAA	Missouri*	-.10	-.10	-.10	-.05
	Aaa	AAA	North Carolina	-.10	-.10	-.10	-.05
	Aaa	NR	Oklahoma*	-.10	-.10	-.10	-.05
	Aaa	AAA	South Carolina	-.10	-.10	-.10	-.05
	Aaa	AAA	Texas	-.10	-.10	-.10	-.05
	Aaa	AAA	Utah	-.10	-.10	-.10	-.05
	Aaa	AAA	Virginia	-.10	-.10	-.10	-.05
Group 2	Aa1	AA	Montana*	7.40	8.40	9.10	9.35
(BASE GROUP)	Aaa	AAA	Maryland	7.40	8.40	9.10	9.35
	Aa	AA	North Dakota*	7.40	8.40	9.10	9.35
	Aaa	AA+	Tennessee	7.40	8.40	9.10	9.35
	Aaa	AAA	New Jersey	7.40	8.40	9.10	9.35
Group 3	A	A+	New York	7.50	8.50	9.20	9.40
Group 4	Aa	AA	Alabama	+.10	+.10	+.10	+.15
	Aa	AA	California	+.10	+.10	+.10	+.15
	Aa	AA-	Connecticut	+.10	+.10	+.10	+.15
	Aa	AA	Kentucky	+.10	+.10	+.10	+.15
	Aa	AA	Louisiana	+.10	+.10	+.10	+.15
	Aa	AA-	Mississippi*	+.10	+.10	+.10	+.15
	Aa1	AA	New Mexico*	+.10	+.10	+.10	+.15
Group 5	Aa	AA-	Alaska	+.15	+.15	+.15	+.25
	Aa	AA	Delaware	+.15	+.15	+.15	+.25
	Aa	AA	Florida	+.15	+.15	+.15	+.25
	Aaa	AA+	Illinois	+.15	+.15	+.15	+.25
	Aa1	AAA	Maine	+.15	+.15	+.15	+.25
	Aa	AA	Minnesota	+.15	+.15	+.15	+.25
	Aa	AA	Ohio	+.15	+.15	+.15	+.25
	Aa	AA+	Wisconsin	+.15	+.15	+.15	+.25
Group 6	Aa	AA	Hawaii	+.20	+.25	+.25	+.35
	Aa	AA	Nevada	+.20	+.25	+.25	+.35
	Aa	AA-	Rhode Island	+.20	+.25	+.25	+.35
	Aa	NR	Vermont	+.20	+.25	+.25	+.35
	A1	AA+	West Virginia	+.20	+.25	+.25	+.35
Group 7	A1	AA-	Massachusetts	+.30	+.45	+.40	+.50
	A1	AA-	New Hampshire*	+.30	+.45	+.40	+.50
Group 8	A1	AA	Oregon	+.45	+.60	+.70	+.55
	A	A+	Pennsylvania	+.30	+.50	+.50	+.55
Group 9	A	AA-	Washington	+.50	+.75	+.80	+.80
Group 10	Baa1	A+	Michigan	+.75	+1.00	+1.00	+1.10
Group 11	Baa1	A	Puerto Rico	+1.25	+1.40	+1.30	+1.15

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have little or no outstanding state general obligation debt.

*** NR = not rated.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Chart
A/O 1/5/83

	Moody's	S&P		5 Years	10 Years	15 Years	20 Years
Group 1	Aaa	AA	Georgia	-.10	-.10	-.15	-.15
	Aa	AA	Idaho*	-.10	-.10	-.15	-.15
	Aaa	AAA	Missouri*	-.10	-.10	-.15	-.15
	Aa1	AA	Montana*	-.10	-.10	-.15	-.15
	Aaa	AAA	North Carolina	-.10	-.10	-.15	-.15
	Aa	AA	North Dakota*	-.10	-.10	-.15	-.15
	Aaa	NR	Oklahoma*	-.10	-.10	-.15	-.15
	Aaa	AAA	South Carolina	-.10	-.10	-.15	-.15
	Aaa	AA+	Tennessee*	-.10	-.10	-.15	-.15
	Aaa	AAA	Texas*	-.10	-.10	-.15	-.15
	Aaa	AAA	Utah*	-.10	-.10	-.15	-.15
	Aaa	AAA	Virginia*	-.10	-.10	-.15	-.15
Group 2 (BASE GROUP)	Aaa	AAA	Maryland	6.30%	7.50%	8.50%	8.75%
	Aaa	AAA	New Jersey	6.30	7.50	8.50	8.75
Group 3	Aa	AA	Alabama*	+.10	+.10	+.10	+.10
	Aa	AA	Kentucky	+.10	+.10	+.10	+.10
	Aa	AA	Louisiana*	+.10	+.10	+.10	+.10
	Aa	AA-	Mississippi*	+.10	+.10	+.10	+.10
	Aa1	AA	New Mexico*	+.10	+.10	+.10	+.10
Group 4	Aa	AA-	Alaska	+.20	+.20	+.20	+.20
	Aa	AA+	California	+.20	+.20	+.20	+.20
	Aa	AA	Florida	+.20	+.20	+.20	+.20
	Aaa	AAA	Illinois	+.20	+.20	+.20	+.20
	Aa1	AAA	Maine	+.20	+.20	+.20	+.20
	Aa	AA	Minnesota*	+.20	+.20	+.20	+.20
	Aa	AA	Nevada	+.20	+.20	+.20	+.20
	Aa	AA+	Wisconsin	+.20	+.20	+.20	+.20
Group 5	Aa	AA-	Connecticut	+.25	+.30	+.35	+.35
	Aa	AA	Delaware	+.25	+.30	+.35	+.35
	Aa	AA	Hawaii	+.25	+.30	+.35	+.35
	Aa	AA	Ohio	+.25	+.30	+.35	+.35
	Aa	AA-	Rhode Island	+.25	+.30	+.35	+.35
	Aa	NR	Vermont	+.25	+.30	+.35	+.35
	A1	AA+	West Virginia	+.25	+.30	+.35	+.35
Group 6	A1	NR	New Hampshire*	+.40	+.40	+.50	+.65
	A1	AA	Oregon	+.50	+.50	+.50	+.65
Group 7	A	A+	Pennsylvania	+.40	+.40	+.50	+.75
Group 8	A1	AA-	Massachusetts	+.50	+.50	+.60	+.85
	A	AA-	Washington	+.50	+.50	+.60	+.85
Group 9	A	A+	New York	+1.95	+1.40	+1.00	+1.00
Group 10	Baa1	A+	Michigan	+1.00	+1.10	+1.20	+1.25
Group 11	Baa1	A	Puerto Rico	+2.70	+3.25	+2.50	+2.50

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have no outstanding state general obligation debt.

*** NR = not reviewed.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Marilyn Madden
Sr. Fixed Income Analyst
Fixed Income Research Department

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Chart
A/O 1/6/82

	Moody's	S&P	Merrill Lynch Trading Equivalent		5 Years	10 Years	15 Years	20 Years
Group 1	Aa	Aa	NR	Idaho*	-.10	-.15	-.20	-.20
	Aaa	AAA	High-Range Triple A	Missouri*	-.10	-.15	-.20	-.20
	Aa1	AA	Low-Range Triple A	Montana*	-.10	-.15	-.20	-.20
	Aaa	AAA	Mid-Range Triple A	North Carolina*	-.10	-.15	-.20	-.20
	Aaa	NR	NR	North Dakota*	-.10	-.15	-.20	-.20
	Aaa	NR	NR	Oklahoma*	-.10	-.15	-.20	-.20
	Aaa	AAA	High-Range Triple A	Texas*	-.10	-.15	-.20	-.20
	Aaa	AAA	Mid-Range Triple A	Utah*	-.10	-.15	-.20	-.20
	Aaa	AAA	High-Range Triple A	Virginia*	-.10	-.15	-.20	-.20
Group 2	Aa	AA	NR	Alabama*	-.05	-.05	-.10	-.10
	Aaa	AA	NR	Georgia	-.05	-.05	-.10	-.10
	Aa	AA	NR	Kentucky*	-.05	-.05	-.10	-.10
	Aa	AA	NR	New Mexico*	-.05	-.05	-.10	-.10
	Aaa	AAA	High-Range Double A	South Carolina*	-.05	-.05	-.10	-.10
	Aaa	AA+	NR	Tennessee*	-.05	-.05	-.10	-.10
Group 3 (BASE GROUP)	Aa	AA	Mid-Range Double A	Louisiana*	10.00%	11.10%	11.90%	12.30%
	Aaa	AAA	High-Range Double A	Maryland	10.00	11.10	11.90	12.30
	Aaa	AA+	Mid-Range Double A	Minnesota*	10.00	11.10	11.90	12.30
	Aa	AA-	Mid-Range Double A	Mississippi*	10.00	11.10	11.90	12.30
	Aaa	NR	High-Range Double A	New Hampshire*	10.00	11.10	11.90	12.30
	Aaa	AAA	NR	New Jersey	10.00	11.10	11.90	12.30
	Aaa	AA+	High-Range Double A	Wisconsin	10.00	11.10	11.90	12.30
Group 4	Aaa	AAA	Mid-Range Double A	Illinois	+.10	+.10	+.10	+.10
Group 5	Aa	AA-	Mid-Range Double A	Alaska	+.10	+.10	+.15	+.15
	Aa	AA+	Low-Range Double A	California	+.10	+.10	+.15	+.15
Group 6	Aa	AAA	High-Range Double A	Maine	+.10	+.15	+.20	+.20
	Aa	AA	Mid-Range "Aa/AA"	Nevada	+.10	+.15	+.20	+.20
	Aa	AA+	NR	Ohio	+.15	+.15	+.20	+.20
	Aa	AA	NR	Rhode Island	+.10	+.15	+.20	+.20
	Aa	Nh	Low-Range Double A	Vermont	+.10	+.15	+.20	+.20
Group 7	A1	AA+	Low-Range Double A	West Virginia	+.15	+.15	+.20	+.30
Group 8	Aa	AA-	High-Range "A1/A+"	Connecticut	+.20	+.20	+.30	+.40
	Aa	AA	Low-Range Triple A	Florida	+.10	+.15	+.25	+.40
Group 9	A	AA-	Mid-Range "A1/A+"	New York	+1.50	+1.15	+.60	+.45
	Aa	AA	High-Range Double A	Oregon	+.20	+.30	+.40	+.45
Group 10	A1	AA	High-Range Single A	Delaware	+.40	+.60	+.60	+.70
	Aa	AA	Mid-Range "A1/A+"	Hawaii	+.40	+.60	+.60	+.70
Group 11	A	A+	Low-Range "A1/A+"	Pennsylvania	+.60	+.65	+.65	+.85
	A1	AA	High-Range "A1/A+"	Washington	+.60	+.65	+.65	+.85
Group 12	A1	AA-	Low-Range "A1/A+"	Massachusetts	+.75	+.75	+.75	+1.00
	A	A+	Mid-Range "Baa1/BBB+"	Michigan	+.75	+.75	+.75	+1.00
Group 13	Baa1	A	Mid-Range "Baa1/BBB+"	Puerto Rico	+2.00	+3.15	+2.00	+2.20

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have no outstanding state general obligation debt.

*** NR = not reviewed.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Marilyn Madden
Sr. Fixed Income Analyst
Fixed Income Research Department

Alex J. Marcinkiewcz
Asst. Vice President
Municipal Bond Department

Introduced: 1/27/86
Referred: House Special Committee on State Loans, Judiciary and Finance

(LANDLORD) (TENNANT) ASHA. MANAGEMENT OF REAL ESTATE

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 519

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to public finance; and providing for an effective date."

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

* Section 1. AS 14.40.040 is amended to read:

Sec. 14.40.040. GENERAL POWERS OF THE UNIVERSITY. There is created and established a corporation to be called the University of Alaska. It may in that name

(1) sue and be sued;

(2) receive and hold real and personal property;

(3) contract and be contracted with;

(4) adopt, use and alter a corporate seal;

(5) borrow money, issue debt, or enter into long-term obligations for the purchase of facilities, goods, or services, which obligations secure, in whole or in part, debt issued by another party, as approved by the state bond committee under AS 37.15.770;

(6) do and have done all matters necessary for the purpose of any functions set forth in this chapter.

* Sec. 2. AS 14.40 is amended by adding a new section to read:

Sec. 14.40.255. LEASE-FINANCING. The Board of Regents may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the board intends to enter into an agreement under this subsection, the board shall provide notice to the

legislature and to the state bond committee. The notice must include the anticipated annual lease payment and the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority The board may not enter into an agreement under this section until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770.

* Sec. 3. AS 18.55.100(a)(15) is amended to read:

(15) acting as the Alaska State Building Authority arrange or contract for the financing or [, DESIGN, CONSTRUCTION AND] acquisition of public buildings designed by, constructed by, or whose acquisition has been approved by the Department of Transportation and Public Facilities for lease to the state in accordance with AS 18.55.-010 -- 18.55.290 and AS 37.15.770.

* Sec. 4. AS 18.55.140 is amended to read:

Sec. 18.55.140. ISSUANCE OF BONDS, NOTES, AND REFUNDING BONDS. (a) The authority may issue bonds and notes from time to time in its discretion for any of its corporate purposes and may issue refunding bonds for the purpose of paying or retiring bonds previously issued by it. The authority may not issue bonds for public buildings until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770.

(b) Bonds issued by the authority for public buildings must be issued in the name of the Alaska State Building Authority and are subject to AS 18.55.010 -- 18.55.290.

* Sec. 5. AS 18.55.288 is amended to read:

Sec. 18.55.288. DEFINITIONS. In AS 18.55.010 -- 18.55.290[:]

(1) "authority" means the Alaska State Housing Authority;

(2) "bond" means any bond, note, interim certificate,

debenture, or other obligation issued by the authority or the authority acting as the Alaska State Building Authority under AS 18.55.-010 -- 18.55.290 ["PUBLIC BUILDINGS" MEANS A PUBLICLY OWNED STRUCTURE LEASED TO THE STATE FOR GOVERNMENTAL, PUBLIC OR EDUCATIONAL USE];

(3) "project site" means area devoted for a public housing project;

(4) "public buildings" means a publicly owned structure leased to the state for governmental, public, or educational use.

* Sec. 6. AS 22.05.025 is amended to read:

Sec. 22.05.025. COURT FACILITIES. (a) The supreme court has authority over all matters relating to the planning, design, construction, maintenance, occupancy, leasing, and operation of all court facilities and shall cooperate and coordinate with the Department of Transportation and Public Facilities so that court facility construction projects are carried out in accordance with the statutes and regulations applicable to state public works projects.

(b) The supreme court may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the supreme court intends to enter into an agreement under this subsection, the supreme court shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment and the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority. The supreme court may not enter into an agreement under this subsection until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770.

(c) In this section, "court facility" means a state facility in

which 75 percent or more of the net usable space is occupied by the court system and other justice-related agencies.

* Sec. 7. AS 24.23 is amended by adding a new article to read:

ARTICLE 2. LEASE AGREEMENTS.

Sec. 24.23.100. LEASE OF SPACE. The Legislative Affairs Agency may lease necessary office space, and contract for the lease of space, for the use of the Alaska legislature and its employees. The Legislative Affairs Agency shall adopt regulations that establish procedures for the lease of space which are substantially comparable to the procedures under AS 37.05.280 governing the lease of space for state agencies.

Sec. 24.23.110. The Legislative Affairs Agency may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the agency intends to enter into an agreement under this subsection, the agency must provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment and the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority. The agency may not enter into an agreement under this section until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770.

* Sec. 8. AS 37.05.280 is amended to read:

Sec. 37.05.280. LEASES. (a) The department shall lease necessary space, and contract for the lease of space, for the use of the state or an agency of the state, wherever it is necessary and feasible, subject to compliance with the requirements of AS 37.05.220 -- 37.05.280. No lease or contract for a lease may provide for a period

of occupancy greater than 40 years. An agency of the state requiring office, warehouse, or other space shall lease the space through the department. [NO CONTRACT OR LEASE EXECUTED AFTER JANUARY 1, 1966, WHICH PROVIDES FOR A PAYMENT OR PAYMENTS BY THE STATE IN EXCESS OF $12,000 ANNUALLY IS VALID UNLESS THE USE OF THE SPACE TO BE PROVIDED FOR BY SUCH CONTRACT OR LEASE HAS BEEN EXPRESSLY APPROVED BY THE LEGISLATURE BY CONCURRENT RESOLUTION.]

(b) The department may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the department intends to enter into an agreement under this subsection, the department shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment and the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority. The department may not enter into an agreement under this subsection until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770.

* Sec. 9. AS 37.15.040 is amended to read:

Sec. 37.15.040. SALE OF BONDS. Before selling an issue or series of bonds, the state bond committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder or bidders. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

* Sec. 10. AS 37.15.110 is amended to read:

Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE.

There is created within the Department of Revenue a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, and the commissioner of revenue. If a member of the committee is absent or otherwise unable to act, the member's designee [IN THE DEPARTMENT] shall act as a member of the committee in the member's place.

* Sec. 11. AS 37.15.130 is amended to read:

Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. The commissioner of commerce and economic development is the chairman of the state bond committee and the commissioner of revenue is the secretary. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent record of its proceedings. All records and correspondence of the committee must [SHALL] be kept in the office of the commissioner of revenue. For the purpose of this chapter and AS 44.62.310, public notice of 24 hours or more is adequate notice of a meeting of the committee at which the issuance of bonds is authorized.

* Sec. 12. AS 37.15.140 is amended to read:

Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. (a) The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, sale, and delivery of state general obligation bonds.

(b) The state bond committee shall prepare an annual report to be submitted to the governor and legislature before March 31 of each year. The report must show (1) all outstanding debt of debt-issuing entities of the state; (2) the anticipated effect on the finances and credit of the state, including the effect on long-term debt capacity and creditworthiness, resulting from that debt; (3) which long-term

debt is state supported and which is supported only by revenue attributable to the project being financed by the debt; (4) all long-term capital lease obligations of the state; (5) the volume of short-term debt issued and retired during the year by debt-issuing entities of the state; (6) specific identification of each issue for which the state has pledged some form of indirect support for the debt, including any moral obligation of the state to support the debt; (7) future bonding and debt capacity implications of legislation enacted in the previous legislative session; and (8) the recommended debt issuance capacity of the state for the next two years following the year of the report.

(c) The state bond committee may develop written policies concerning debt of the state.

* Sec. 13. AS 37.15.150 is amended to read:

Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SERVICES. The state bond committee may appoint an executive director who may, with approval of the committee, select and employ additional staff as necessary. Employees of the committee are in the partially exempt service under AS 39.25.120. If the [STATE BOND] committee considers it necessary and advisable, it may procure architectural or engineering, fiscal agent or municipal investment, legal, and other expert or specialized services at reasonable and customary fees to assist it in accomplishing the most advantageous sale of the bonds. The fees may be paid from the proceeds of the sale or advanced from the contingency fund in the Office [OFFICE] of the Governor [GOVERNOR] or otherwise.

* Sec. 14. AS 37.15.450(a) is amended to read:

(a) The bonds shall be sold in such amounts or series and at such time or times as determined by the committee. Before selling a

series of bonds, the committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale must [SHALL] be awarded to the highest responsible bidder or bidders. If the committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received. The bonds, or each series of them, must [SHALL] be sold at such a price so that the effective interest rate over the life of the bonds does not exceed 11 percent per year or that rate of interest which is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest must [SHALL] be payable annually or semiannually.

* Sec. 15. AS 37.15 is amended by adding a new article to read:

ARTICLE 5. STATE-SUPPORTED DEBT.

Sec. 37.15.770. STATE AGENCY DEBT. (a) The state bond committee shall review proposals for the issuance of debt by or on behalf of

(1) the Alaska State Housing Authority acting as the Alaska State Building Authority for the purpose of providing public buildings; and

(2) the University of Alaska.

(b) The committee may review the general programs and financing plans of the agency that proposes to issue the debt as well as the specific aspects of the proposed debt issue, including

(1) amounts;

(2) times;

(3) maturities;

(4) debt structure and security features;

(5) credit enhancements;

(6) use of proceeds;

(7) official documents;

(8) planned rating agency presentations; and

(9) selection, retention, or compensation of financial advisors, bond counsel, trustees, underwriters, and other professionals.

(c) The state bond committee shall consider approval of the amount and time of sale of the debt. The committee shall approve the issuance of the debt if, in its judgment, issuance of the debt is in the best interests of the state. The committee may limit approval of the issuance of debt upon compliance with terms established by the committee.

(d) At the time of sale of the debt, the state bond committee shall review the bids or pricing of the debt, including discounts, underwriting spreads, and interest rates. If the committee determines that the bids or prices are not satisfactory or that the bidders are not responsible, the agency may not sell the debt.

Sec. 37.15.790. MUNICIPAL SCHOOL DEBT. If, at any time, the state bond committee, in its judgment, determines that the amount or retirement of debt issued by municipalities and subject to reimbursement by the state under AS 14.11.100 is not in the best interests of the state, the committee may

(1) establish an amount or amounts, for any or all years before the maturity of all of that municipal debt, which may not be exceeded by the Department of Education in approving requests under AS 14.11.103; or

(2) establish, under AS 14.11.100(j)(3), a term required for the maturities of municipal debt authorized by local voters after March 31, 1986.

* Sec. 16. AS 39.25.120(c) is amended by adding a new paragraph to

read:

(19) employees of the state bond committee.

* Sec. 17. This Act takes effect immediately in accordance with AS 01.-10.070(c).

LAW OFFICES
WOHLFORTH & FLINT
A PROFESSIONAL CORPORATION
900 WEST 5TH AVENUE, SUITE 600
ANCHORAGE, ALASKA 99501-2086

ERIC E. WOHLFORTH
ROBERT B. FLINT
PETER ARGETSINGER
ROBERT M. JOHNSON
KENNETH E. VASSAR
THOMAS F. KLINKNER
CHARLES F. SCHUFTZE

TELEPHONE
AREA CODE 907
276-6401

TELECOPIER
AREA CODE 907
276-5093

February 3, 1986

Representative John Sund
Alaska State Legislature
Pouch V (MS3100)
Juneau, Alaska 99811

Re: House Bill No. 521

Dear Representative Sund:

In case I cannot testify at your Loans Committee hearing on House Bill 521, I would like to submit this letter in the record to point out some of the technical deficiencies in this Bill.

The Bill creates a limit on municipal general obligation bonded debt. The limit created is that general obligation bonded debt cannot exceed 7% of the full property value of the municipality as determined by the Department of Community and Regional Affairs under AS 14.17.140. Exceptions are refunding bonds or self-supporting debt even though such debt may also be general obligation debt of the municipality.

For the purposes of this letter and for your hearing record this week, I call to your attention the following shortcomings of House Bill 519:

1. It is generally conceded that "authorization" debt limits are more efficient and effective then the "issuance" debt limit proposed here. An authorization debt limit provides that the authorizing document may not finally be adopted if the debt authorized would cause debt to exceed a certain percentage of assessed valuation. This is desirable to permit effective and efficient planning of municipal improvements so that expenditures may be made with assurances that they will be bond funded.

REFINANCING

Representative John Sund
February 3, 1986
Page 2.

2. In common with other States the New Jersey Local Bond Law (NJSA 40:A) provides for an average of assessed valuation over the last three years. Under House Bill 519 the debt limit may change annually and perhaps suddenly when the Department of Community and Regional Affairs makes its AS 14.17.140 determination. An average figure of two or more years is suggested.

3. The attempt to provide for the overlapping indebtedness situation in section 2(b) is defective. This provision will not work as an independent municipality cannot share the debt limit of another municipality. Conceivably each will be pitted in a race against each other to exhaust the authorized indebtedness limitation which applies to both.

#521 (%)

4. Many debt limit provisions have a list of exceptions which would permit indebtedness raised to meet the effects of a natural disaster or to prevent a menace to public health as well as for refund purposes or when the debt is "self-liquidating". Despite the fact that other legislation introduced expands the power of the State Bond Committee, this Bill fails to permit exceptions to the debt limit for cases of public emergency upon the approval of any official body or person.

5. The bill does not define "bond" and we are left to speculate whether or not short-term notes including revenue anticipation notes are included within the overall limit.

6. The Bill does not specify the extent to which it controls home rule municipalities, if at all.

7. Finally the Bill should have an effective date as of July 1 or October 1 so that public bond issuing planning can proceed without being impeded.

PASSAGE - CERTAIN

Very truly yours,

Eric E. Wohlforth

Eric E. Wohlforth

REVENUE - (ADMINISTRATION) STATE DEBT LIMIT DRAFTING

EEW/val

HB-521

DEBT-LIMIT BILL

Debt Outstanding

Years Ended June 30	Alaska G.O. Debt	University of Alaska	ASHA	Certificates of Participation 1/	Total
1977	$530,008,000	$19,246,000	$93,190,000	$	$ 642,444,000
1978	596,213,000	18,605,000	88,575,000		703,393,000
1979	670,503,000	17,893,000	83,730,000		772,126,000
1980	573,186,000	22,251,000	78,550,000		673,987,000
1981	701,178,000	21,363,000	73,015,000		795,556,000
1982	842,413,000	20,305,000	67,125,000		929,843,000
1983	946,183,000	19,191,000	60,985,000		1,026,359,000
1984	924,008,000	18,316,000	54,440,000		996,764,000
1985	846,008,000	17,396,000	47,470,000	6,000,000	916,874,000
1986	738,148,000	16,660,000	40,055,000	51,265,000	846,128,000

1 Seward Student Service Center and Spring Creek Correctional Center.

SCOMM
#50:34

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

January 21, 1986

MEMORANDUM

TO: Representative John Sund

ATTN: John Hartle

FROM: Mary Jennings
Legislative Analyst

RE: Bonded Indebtedness of Schools in Alaska
Research Request 86-063

You requested a short history of the State program which reimburses construction costs incurred by schools in Alaska. You also requested a tabulation of debt by election district and the amount of the debt covered by the State.

History

Under AS 14.11.100 (originally enacted in 1970 as AS 43.18.100), the State reimburses municipalities 50, 80, 90, or 100 percent of cash expenditures on school construction and debt service on bonds issued to finance school construction. The percentage depends on the year in which the costs were incurred or the debt was issued. School construction costs in Regional Education Attendance Areas (REAAs) are paid by the State and are not included in the reimbursement program.

Although the statute specifies reimbursement rates, the actual amount reimbursed through the program is dependent on annual legislative appropriations to the school construction account and on the amount of cigarette tax receipts allocated to the districts. Historically, appropriations have usually been sufficient to fully fund the level of payments authorized by statute. When amounts in the account are insufficient, the available funds are allocated pro rata among the eligible districts. This was done in FY 79, FY 80, and FY 83.

The 1970 statute provided for a two-year lag between the debt service payment by the municipality and reimbursement by the State. This lag does not apply to debt authorized by the voters after June 30, 1983,

but it still applies to all cash payments. The 1970 statute also stated that reimbursement of debt service is "exclusive of any funds from state or federal sources", which includes cigarette tax receipts. This language continues to be applied.

Table 1 contains a chronology of changes in the percentage of school construction costs reimbursed by the State. The first column lists the percentage of coverage for bonds, notes, or other indebtedness. The second column lists the coverage for cash payments made by the muncipality to pay the costs of school construction, additions to schools, and major rehabilitation projects.

For municipalities that constructed schools with cash prior to the enactment of the reimbursement law, the State bases payments on the debt service costs that would been incurred if the municipality had issued debt securities of 10 years' duration bearing interest at the rate of six percent per year.

Debt

Table 2 shows the amount of school debt outstanding at the end of FY 84 and 85. The percentage of school debt covered by the State is a blending of reimbursement rates in effect for the years in which the debt was incurred.[1] The figures represent maximum potential coverage; they will be realized only if full funding is available every year and there are no cigarette tax receipts.

---

[1]The Department of Revenue has not yet compiled debt coverage figures for FY 85. The information is expected to be available in March.

Table 1

History of Changes in the Percentage of School Construction Costs Reimbursed by the State of Alaska

	Percentage Reimbursement by the State on Debt Service of the Municipality	Percentage Reimbursement by the State for Cash Payments made by the Municipality
1970	50 percent	0 percent
1971		50 percent*
1972	75 percent (Vocational Education)	
1973		50 percent
1977	100 percent before 7-1-77 50 percent After 7-1-77	100 percent Before 7-1-76 50 percent After 7-1-77
1978	80 percent After 6-30-77	80 percent After 6-30-76
1982	90 percent After 6-30-77	90 percent After 6-30-76
1983	50 percent After 6-30-83	50 percent After 6-30-83
1985	80 percent After 6-30-83	80 percent After 6-30-83

*For municipalities that constructed schools with cash prior to 1973, the State bases payments on the debt service cost that would have been incurred if the municipality had issued debt securities of 10 years duration bearing interest at the rate of six percent per year. The 1973 amendments allowed recovery of the entire amount of cash payments made two years prior to the current year.

Prepared by the House Research Agency, January 1986.

TABLE 2

State of Alaska School Debt and Debt Service

House Election District	School District	School Debt Outstanding 6-30-84	Maximum % of School Debt Paid by State 6-30-84	School Debt Outstanding 6-30-85	% of Statewide School Debt Outstanding 6-30-85	Sum of FY 1979-1985 School Debt Service	Cigarette Tax	Percent of Debt Service Covered by Cigarette Tax	Calculated State Share Before Deducting Cig Tax	Actual State Reimbursement (Cigarette Tax Deducted) Amount	Percent	Calculated Local Share Amount	Actual Local Share (Cig Tax Deducted) Amount	Percent
1 Ketchikan		$20,030,000	92%	$31,000,000	4%	$15,492,849	$1,091,844	7%	$13,733,898	$12,642,854	82%	$1,758,951	$1,758,951	11%
	Ketchikan	20,450,000	92	19,175,000	3	9,998,952	720,348	7	9,030,131	8,389,783	83	960,821	960,821	10
	Petersburg	5,225,000	95	2,440,000	0	4,231,617	199,686	5	3,842,964	3,643,278	86	408,653	408,653	10
	Wrangell	2,355,000	90	9,385,000	1	1,242,280	171,810	14	868,883	688,993	55	381,477	381,477	31
2 Inside Passage		555,000	100	500,000	0	1,042,826	653,447	63	956,719	593,083	57	86,107	58,790	6
	Craig	0	0	0	0	0	66,231	0	0	0	0	0	0	0
	Haines	555,000	100	500,000	0	663,892	150,662	24	623,330	464,668	70	40,562	40,562	6
	Hoonah	0	0	0	0	0	79,659	0	0	0	0	0	0	0
	Hydaburg	0	0	0	0	0	43,500	0	0	0	0	0	0	0
	Kake	0	0	0	0	86,282	91,768	106	58,885	0	0	27,317	0	0
	Klawock	0	0	0	0	0	39,392	0	0	0	0	0	0	0
	Pelican	0	0	0	0	0	20,146	0	0	0	0	0	0	0
	Skagway	0	0	0	0	289,175	89,116	43	199,303	110,187	53	9,872	9,872	5
	Yakutat	0	0	0	0	83,557	36,973	68	75,201	18,228	22	8,356	8,356	10
3 Baranof-Chichagof (Sitka)		2,129,000	100	2,852,250	0	4,793,276	580,294	10	4,249,859	3,748,765	78	544,217	544,217	11
4 Juneau		41,406,350	60	42,089,010	6	20,498,073	1,144,604	6	18,386,618	17,242,014	84	2,111,455	2,111,455	10
5-Kenai Cook Inlet (Kenai)*		106,615,000	94	100,000,000	13	60,149,268	1,660,454	3	51,755,513	50,095,059	83	8,393,755	8,393,755	14
6 Prince Wm Sound		24,385,000	93	22,153,089	3	17,034,662	454,760	3	16,207,760	15,753,000	88	1,626,902	1,626,902	9
	Cordova	445,000	100	268,089	0	912,984	174,214	19	851,212	676,998	74	61,692	61,692	7
	Valdez	23,940,000	93	21,885,000	3	16,921,758	280,546	2	15,356,548	15,076,002	89	1,565,210	1,565,210	9
7-15 Anchorage		212,275,000	91	214,390,000	29	106,556,696	8,805,246	8	96,371,897	87,566,651	82	10,184,799	10,184,799	10
16 Mat-Su		78,340,000	93	103,360,000	14	40,346,136	1,161,726	3	36,230,006	35,077,160	87	4,107,250	4,107,250	10
17 Interior Highways (Nenana)			0	190,000	0	214,376	88,974	42	187,952	98,978	46	26,424	26,424	12
18-21 Fairbanks		82,115,516	94	134,731,120	18	48,843,430	2,410,822	5	44,497,756	42,086,934	86	4,365,674	4,365,674	9
22 North Slope-Koterbue		143,822,000	91	67,900,000	9	76,921,075	441,674	1	67,646,412	67,204,738	87	9,274,663	9,274,663	12
23 Norton Sound (Nome)		0	0	0	0	97,475	239,095	246	81,230	0	0	16,245	0	0
24 Interior Rivers		0	0	0	0	807,257	141,774	18	662,891	521,117	65	144,366	144,366	18
	Galena	0	0	0	0	615,185	79,842	13	528,401	448,559	73	86,784	86,784	14
	St Mary's	0	0	0	0	192,152	61,932	32	134,490	72,558	38	57,662	57,662	30
	Tanana	0	0	0	0	0	0	0	0	0	0	0	0	0
26 Bristol Bay-Aleutian Is		7,032,472	90	4,455,000	1	2,993,960	419,128	14	2,531,897	2,163,908	72	462,063	454,975	15
	Bristol Bay	3,665,000	90	3,535,000	0	1,576,869	101,885	6	1,352,253	1,251,248	79	224,616	224,616	14
	Dillingham	0	0	0	0	878,684	139,639	16	717,524	577,885	66	161,160	161,160	18
	King Cove	0	0	0	0	85,397	63,002	74	55,914	0	0	29,483	22,395	26
	Sand Point	0	0	0	0	0	44,851	0	0	0	0	0	0	0
	Unalaska	3,367,472	90	920,000	0	453,810	71,431	16	406,287	334,776	74	46,803	46,803	10
27 Kodiak-E Ak Peninsula		29,725,000	83	25,515,000	3	12,823,773	617,694	5	11,540,664	10,922,970	85	1,283,109	1,283,189	10
Total		$756,430,346	90%	$750,256,285	100%	$409,435,132	$19,832,336	5%	$365,049,152	$345,716,431	84%	$44,385,980	$44,335,330	11%

*Parts of the Kenai school district are in four different election districts. Because the majority of the school district is in election district five, we have attributed all Kenai school district debt to election district five.

Note: Election District 25 contains Rural Education Attendance Areas. There is no debt outstanding because construction costs are paid by the State.

Prepared by the House Research Agency January 21, 1985

Table 2 also shows the State and local shares of school district debt service for the period FY 79 through FY 85.[2] The column labeled "Cigarette Tax" refers to the school district's share of cigarette tax receipts.[3] The cigarette tax is an excise tax of two and one-half mills on the value of all cigarettes imported or acquired in the state. These proceeds and those derived from manufacturer, retailer, and vendor machine license fees are paid into a State fund entitled "School Fund" and are used exclusively to rehabilitate, construct, and repair the State's school facilities and for the insurance to cover these activities. The allocation of this tax is independent of the amount of debt service and/or construction activity of school districts.

The "Calculated State Share" indicates the amount of debt service the State would have reimbursed if cigarette tax allocations were not deducted from the State's share. The "Actual State Reimbursement" is payments net of the cigarette tax allocations. The "Calculated Local Share" and the "Actual Local Share" are the municipalities' shares of debt service before and after deducting cigarette tax, respectively.

Generally, the cigarette tax allocations, actual State reimbursement, and actual local share add up to 100 percent of debt service costs. However, there are some cases where cigarette tax allocations exceed the State and/or State plus local share of debt service. Kake, Norton Sound and King Cove had the local share of debt service reduced by "surplus" cigarette tax allocations.

The average actual State reimbursement of debt service was 84 percent, the average local share was 11 percent, and cigarette tax allocations covered the remaining five percent.

I have attached AS 14.11.100, giving the current percentages of reimbursement and years to which the two-year lag applies. Also attached are amendments to this statute. If you have any questions about this memorandum, or if we can be of further assistance, please contact us.

MJ

Attachments

---

[2]Although data for earlier years may be available from the Department of Education, FY 79 is the earliest data we have on file.

[3]In a given year, the Cigarette tax allocation made two years prior is deducted from the State's share of debt service. Table 2 shows the cigarette tax receipts distributed between 1977 and 1983.

Sec. 14.11.100 State aid for retirement of school construction debt. (a) During each fiscal year, the state shall allocate to a municipality that is a school district, the following sums:

(1) payments made by the municipality during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred before July 1, 1977 to pay costs of school construction;

(2) 90 percent of

(A) payments made by the municipality during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1977 and before July 1, 1978 to pay costs of school construction;

(B) cash payments made after June 30, 1976 and before July 1, 1978 by the municipality during the fiscal year two year earlier to pay costs of school construction;

(3) 90 percent of

(A) payments made by the municipality during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1978 and before January 1, 1982 to pay costs of school construction projects approved under AS 14.07.020(11);

(B) cash payments made after June 30, 1978 and before July 1, 1982 by the municipality during the fiscal year two years earlier to pay costs of school construction projects approved under AS 14.07.020(11);

(4) subject to (h) and (i) of this section up to 90 percent of

(A) payments made by the municipality during the current fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after December 31, 1981, and authorized by the qualified voters of the municipality before July 1, 1983, to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 14.07.020(11); and

(B) cash payments made after June 30, 1982, and before July 1, 1983, by the municipality during the fiscal year two years earlier to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 14.07.020(11); and

(C) payments made by the municipality during the current year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are submitted to the Department of Education for approval under AS 14.07.020(11) before July 1, 1983, and approved by the qualified voters of the municipality before October 15, 1983, not to exceed a total project cost of (i) $6,600,000 if the annual growth rate of average daily membership of the municipality is more than 7 percent but less than 12 percent, or (ii) $20,000,000 if the annual growth rate of average daily membership of the municipality is 12 percent or more; payments made by a municipality under this paragraph on total project costs that exceed the amount set out in (i) and (ii) of this paragraph are subject to (a)(5)(A) of this section.

(5) subject to (h), (i) and (j) of this section, 80 percent of

(A) payments made by the municipality during the fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness authorized by the qualified voters of the municipality after June 30, 1983 to pay costs of school construction, additions, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 14.07.020(11); and

(B) cash payments made after June 30, 1983 by the municipality during the fiscal year two years earlier to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 14.07.020(11).

(b) The commissioner shall administer the program of reimbursement authorized under this section and shall provide by regulation for the filing of applications for reimbursement, the form of proof of costs for which application for reimbursement is made, and other regulations necessary to administer the program. The commissioner shall exclude from the total school construction cost of the local district all state and federal funds included in these costs except funds provided under this section and AS 43.50.140. In approving applications for reimbursement, the commissioner shall

(1) Offset against the amount of reimbursement authorized the amount of any funds distributed to the borough or city in the second preceding fiscal year from the school fund provided for in AS 43.50.140;

(2) Repealed. (Sec. 10 ch 92 SLA 1982)

(c) The school construction account is established. Funds to carry out the provisions of this section may be appropriated annually by the legislature to the account. If amounts in the account are insufficient for the purpose of providing the share to which a borough or city is entitled under this section, those funds that are available shall be distributed pro rata among the eligible local governments.

(d) Money in the school construction account which, at the end of the fiscal year for wnich the money is appropriated, exceeds the amount required for the allocations authorized in this section reverts to the general fund.

(e) The commissioner shall annually provide a report to the legislature on allocations of state aid made under this section, including but not limited to, the amount of state aid paid on a per capital and per student basis and the resultant effect on the rate of levy of taxes by the municipality for educational purposes.

(f) Repealed. (Sec. 17 ch 147 SLA 1978)

(g) Repealed. (Sec. 47 ch 6 SLA 1984)

(h) An allocation under (a)(4) or (5) of this section for school construction begun after July 1, 1982, shall be reduced by the amount of money used for the construction of residential space, hockey rinks, planetariums, saunas, and other facilities for the single purpose of sporting or recreational uses that are not suitable for other activities and the money used for construction that exceeds the amount needed for construction of a facility of efficient design as determined by the department. An allocation under (a)(4) or (5) of this section may not be reduced by the amount of money used for construction of a small swimming pool, tank, or water storage facility used for water sports. However, an allocation shall be reduced by the difference between the amount of money used to construct a swimming pool that exceeds the standards adopted by the department and the amount of money that would have been used to construct a small swimming pool, tank, or water storage facility, as determined by the commissioner.

(i) For the purpose of (a)(4) and (5) of this section

(1) an indebtedness for bonds is incurred after the bonds are sold;

(2) reimbursement for a cash payment may only be made after the payment is made to a vendor; and

(3) payments may not be made for costs that are incurred under a contract after the contract has been released.

(j) The state may not allocate money to a municipality for a school construction project under (a)(5) of this section unless the municipality complies with the requirements of (1) - (4) of this subsection and the project is approved by the commissioner before the local vote on the bond issue for the project. In approving a project under this subsection, the commissioner shall require

(1) the municipality to include on the ballot for the bond issue the estimated total cost of each project including estimated annual operation and maintenance costs and the estimated amounts that will be paid by the state and by the municipality;

(2) that the bonds may not be refunded unless the annual debt service on the refunding issue is not greater than the annual debt service on the original issue;

(3) that the bonds must be repaid in approximately equal annual principal payments or approximate equal debt service payments over a period of at least 10 years.

(k) An amount equal to the interest earned on the investment of the proceeds of bonds issued for a school construction project shall be used by the municipality to

(1) pay the costs of the project;

(2) pay accrued interest on the bond issue;

(3) redeem all or part of the bonds; or

(4) pay the costs of issuing the bonds;

(4) the municipality to demonstrate need for the project by establishing that the school district has

(A) projected long-term student enrollment that indicates the district has inadequate facilities to meet present or projected enrollment; or

(B) facilities that require repair or replacement in order to meet health and safety laws or regulations or building codes.

Sec. 14.11.102. EVALUATION OF PROJECTS. The department shall evaluate projects for which retirement of school construction debt is requested by school districts in accordance with the procedures set out in AS 14.11.010. A request for an allocation of funds under AS 14.11.100 must be submitted to the department by the school district no later than October 15 of the fiscal year before the fiscal year for which the request is made.

Sec. 14.11.105. Public School facilities construction advance account. The public school facilities construction advance account is established. The account consists of appropriations for distribution under AS 14.11.105-14.11.135 to boroughs and cities which are school districts to assist in paying the costs of the public school facilities projects approved under AS 14.07.020(11) for which construction is commenced after June 30, 1978 and for which no bonding, notes, or other indebtedness was incurred before July 1,1978. (Sec. 13 ch 147 SLA 1978)

Sec. 14.11.110. Eligibility. Eligibility of a proposed construction project for funding assistance under AS 14.11.105-14.11.135 shall determined by the department based on standards and criteria established by regulation. The standard and criteria to be considered in determining eligibility include the following:

(1) emergency requirements;

(2) number of unhoused students;

(3) new elementary or secondary programs;

(4) existing community and school facilities and their condition; and

(5) economic and social stability of the community. (Sec. 13 ch 147 SLA 1978)

Sec. 14.11.115. State Aid. (a) The amount of state aid payable in advance under AS 14.11.105-14.11.135 is the amount by which the cost of construction of the approved school construction project would cause the debt-to-valuation ratio of the municipality to exceed 12 percent.

(b) A payment under (a) of this section is limited to an amount which, when combined with estimated payments to the school district for the retirement of the principal and interest on bonds, notes or other indebtedness or reimbursement of cash payments for a school construction project for which payment is made under AS 14.11.100(a)(1) or (2) or for an approved school construction project for which payment is made under AS 14.11.100(a)(3), does not exceed 80 percent of the cost of the school construction project.

(c) For purposes of this section,

(1) "debt" means the principal amount of the direct and general obligation indebtedness of the municipality for which all taxable property is subject to taxation to pay the bond, note or other evidence of the debt, determined and reported in accordance with AS 14.17.140(c);

(2) "valuation" means the full and true value of the real and personal property of the municipality determined in accordance with AS 14.17.140(a). (Sec. 13 ch 147 SLA 1978)

Sec. 14.11.120. Application for Aid. (a) The commissioner shall prescribe the necessary forms and procedures to be used in applying for construction cost assistance under AS 14.11.105-14.11.135.

(b) A borough or city which is a school district seeking construction cost aid shall apply to the department by October 15 prior to fiscal year.

(c) Based on the commissioner's review of applications and determination of project eligibility, the commissioner shall recommend to the governor an appropriation of funds for state aid for those projects under AS 14.11.105-14.11.135. (Sec. 13 ch 147 SLA 1978)

Sec. 14.11.125. Conditions of state aid. (a) Funds distributed to a borough or city which is a school district during a school year under AS 14.11.105-14.11.135 shall be received, held, and expended by the district in accordance with the applicable provisions of law and of regulations adopted by the department. Funds provided under AS 14.11.105-14.11.135, but which are not required for the project for which they were granted or which are in excess of that borough's or city which is a district's entitlement for aid under AS 14.11.115 shall be returned to the department and deposited in the general fund.

(b) Each borough or city which is a school district shall maintain financial records of the receipt and disbursement of state funds received under AS 14.11.105-14.11.135 and money provided toward local effort. The records shall be in the form prescribed by the department and are subject to audit by it at any time.

(c) Upon completion of the construction project, the chief school administrator of the district shall report the total cost of the project and means of financing it to the commissioner.

(d) Boroughs and cities that are school district shall secure and maintain in full force and effect adequate property loss insurance for the replacement cost of all facilities constructed after July 1, 1978 and for which state funds are available under AS 14.11.100-14.11.135. (Sec. 13 ch 147 SLA 1978)

Sec. 14.11.130. Construction and Implementation. (a) AS 14.11.105-14.11.135 may not be construed so as to create a debt to the state.

(b) Funds to carry out the provisions of AS 14.11.105-14.11.135 may be appropriated annually by the legislature into the public school facilities construction advance account. If amounts in the account are insufficient to meet the allocations authorized by the commissioner under AS 14.11.105-14.11.135, such funds as are available shall be distributed pro rata among each borough and city which is a school based upon its computed entitlement. (Sec. 13 ch 147 SLA 1978)

Sec. 14.11.135. Definitions. In this chapter, unless the context requires otherwise.

(1) "approved school construction project" means the plan for a new school or an addition to or major rehabilitation of an existing school to the extent to which approved by the commissioner in accordance with AS 14.07.020(11);

(2) "commissioner" means the commissioner of education;

(3) "costs of school construction" means the cost of acquiring, construction, enlarging, repairing, remodeling, equipping or furnishing of public elementary secondary school buildings and includes the sum total of all costs of financing or carrying out the project; these include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special service, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the administrative and operating expenses of the grantee; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary;

(4) "department" means the Department of Education.

Sec. 14.11.140. REGULATIONS. The department shall adopt regulations to carry out the purpose of this chapter.

Sec. 9 LEGISLATIVE REVIEW. Proposed permanent regulations under AS 14.11.140 as enacted in sec. 8 of this Act shall be submitted to the legislature no later than the 10th day of the Second Session of the Fourteenth Alaska State Legislature. Notwithstanding AS 44.62, permanent regulations adopted under AS 14.11.140 take effect the 90th day of the Second Session of the Fourteenth Alaska State Legislature, unless a law is enacted disapproving the regulations.

Ch

LAWS OF ALASKA

1970

Source

[illegible]

Chapter No

249

AN ACT

[illegible]ing state aid to organized boroughs [illegible] for [illegible]ment of school construction debt; and [illegible] for an [illegible]tive date.

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

Section 1. AS 43.18 is amended by adding [illegible]

ARTICLE 2. STATE AID FOR SCHOOL [illegible]

Sec. 43.18.100. STATE AID FOR [illegible] CONSTRUCTION DEBT. (a) During each fiscal [illegible] the [illegible] shall allocate to an organized borough [illegible] which [illegible] school district one-half the sum, exclusive of any funds from state or federal sources, which [illegible] pays during the fiscal year two years [illegible] of principal and interest on bonds, [illegible] indebtedness issued or incurred to pay [illegible] construction.

(b) The commissioner shall admi[illegible] of reimbursement authorized under this [illegible] provide by regulation for the filing of [illegible] reimbursement, the form of proof of [illegible] tion for reimbursement is made, and [illegible] necessary to administer the program. [illegible] tions for reimbursement, the commissioner [illegible] against the amount of reimbursement [illegible] any funds distributed to the borough [illegible] preceding fiscal year from the school [illegible] in AS 43.50.140.

(c) The school construction account [illegible] funds to carry out the provisions of [illegible] appropriated annually by the legislature [illegible] If amounts in the account are insuffi[illegible] of providing the share to which a borough [illegible]

(1) 90
(2) 7 year Lag
(3) Cash Payments

LAWS OF ALASKA

Source

15

Chapter No.

AN ACT

[illegible] to state aid for school [illegible] and cities which are [illegible] effective date.

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

* Section 1. AS 43.18.100(a) [illegible]

(a) During each fiscal [illegible] to an organized borough or a [illegible] trict one-half of the following [illegible] funds received from state [illegible] construction costs:

(1) payments [illegible] the fiscal year two years [illegible] principal and interest on [illegible] incurred to pay costs [illegible]

(2) the amount [illegible] expended by a borough or [illegible] retirement of principal [illegible] other indebtedness incurred [illegible] struction had the borough [illegible] other indebtedness of 10 [illegible] the rate of six per [illegible] rather than paying those [illegible] local sources.

* Sec. 2. This Act takes [illegible] approval or [illegible]

[illegible] governor [illegible] effective date [illegible]

[illegible] under this section, such funds as are available [illegible] distributed pro rata among the eligible local [illegible].

(d) Money in the school construction account which, [illegible] end of the fiscal year for which the money is [illegible]riated, exceeds the amount required for the all[illegible] authorized in this section reverts to the general [illegible]

(e) The commissioner shall annually provide a repo[illegible] legislature on allocations of state aid made under [illegible] section.

(f) In this section, unless the context requires [illegible]erwise,

(1) "commissioner" means the commissioner of [illegible]ication;

(2) "costs of school construction" means the [illegible] of acquiring, constructing, enlarging, repairing, [illegible]deling, equipping or furnishing of public elementar[illegible] and secondary school buildings and includes but is not [illegible]imited to the cost of acquisition of sites, legal, engineering, fiscal, architectural and other fees of specialists or consultants, costs of labor, materials, equipment and supplies, costs of authorization, issuance and sale of bonds, notes, or other evidences of debt.

* Sec. 2. This Act takes effect July 1, 1970.

LAWS OF ALASKA

1970

Source

FCCS SCS CSHB 452

Chapter No.

25[illegible]

AN ACT

Appropriating for the operating and capital expenses of [illegible] departments, offices and agencies of state government; [illegible] viding for an effective date.

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

* Section 1. The sum of $314,120,500 is he[illegible]y appro[illegible] from the general fund and from the unreserved special acc[illegible] in the general fund for the period beginning July 1, 197[illegible] apportioned according to the schedules in secs. 8, 9 and [illegible] this Act.

General Fund	$30[illegible]
Highway Fuel Tax Account	7,[illegible]
Aviation Fuel Tax Account	[illegible]
Watercraft Fuel Tax Account	[illegible]

* Sec. 2. The sum of $915,100 is appropriated from [illegible] fund reserve accounts in the general fund for the period [illegible] ning July 1, 1970, to be apportioned according to the [illegible] in secs. 8, 9 and 10 of this Act.

FICA Administration Fund Reserve Account	[illegible]
Special Surplus Property Revolving Fund Reserve Account	
Small Business Enterprise Revolving Fund Reserve Account	
Second Injury Fund Reserve Account	
Sick and Disabled Fishermen's Fund Reserve Account	
Oil and Gas Conservation Fund Reserve Account	

* Sec. 3. The sum of $18,903,900 is appropriated fr[illegible] funds of the state for the period beginning July 1, 197[illegible] apportioned according to the schedules in secs. 8, 9 an[illegible] this Act.

LAWS OF ALASKA

1972

Source: SSHB 441

Chapter No. 137

AN ACT

Relating to state support for vocational education; and providing for an effective date.

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

* Section 1. AS 14.17.041(c) is repealed and re-enacted to read:

(c) Vocational education schedule:

ADM Full-Time Equivalent	No Instructional Units
5 - 10	1
11 - 25	2
26 - 40	3
41 and over	3 plus 1 for each 20 pupils or fraction of 20 pupils in Full-Time Equivalent ADM

* Sec. 2. AS 43.18.100(a) is amended to read:

(a) During each fiscal year the state shall allocate to an organized borough or a city which is a school district one-half, or if school construction is for ~~vocational education~~ facilities as determined by the commissioner, ~~three-quarters~~ of the following sums, exclusive of any funds received from state or federal sources for school construction costs:

(1) payments made by the borough or city during the fiscal year two years prior for the retirement of



principal and interest on bonds, notes, or other indebtedness incurred to pay costs of school construction;

(2) the amount of payments that would have been expended by a borough or city two years prior for the retirement of principal and interest on bonds, notes, or other indebtedness incurred to pay costs of school construction had the borough or city issued bonds, notes, or other indebtedness of 10 years duration bearing interest at the rate of six per cent a year to finance the costs rather than paying those costs through taxes or other local sources.

* Sec. 3. This Act takes effect on July 1, 1972.

Approved by governor: June 20, 1972
Actual effective date: July 1, 1972

LAWS OF ALASKA

Source Chapt

[illegible] 114

AN ACT

Relating to state school building [illegible] tive date.

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

* Section 1. AS 43.18.100 is [illegible]

Sec. 43.18.100. STATE [illegible] CONSTRUCTION DEBT. (a) [illegible] shall allocate to an organized [illegible] a school district one-half, or if [illegible] vocational education facilities [illegible] missioner, three-quarters of [illegible]

(1) payments made [illegible] the fiscal year two years prior [illegible] cipal and interest on bonds, [illegible] incurred to pay costs of [illegible]

(2) the amount of [illegible] expended by a borough or city [illegible] tirement of principal and interest [illegible] indebtedness incurred to pay cost [illegible] had the borough or city issued [illegible] debtedness of 10 years duration [illegible] of six per cent a year to [illegible] paying those costs through [illegible]

(3) cash payments made [illegible] during the fiscal year two years [illegible] school construction.

(b) The commissioner [illegible] reimbursement authorized [illegible] vide by regulation for the [illegible] bursement, the form of [illegible]

...reimbursement is made, and other regulations necessary ... administer the program. The commissioner shall exclude from the total school construction cost of the local district all state and federal funds included in these costs except funds provided under this section and AS 43.50.140. In approving applications for reimbursement, the commissioner shall offset against the amount of reimbursement authorized the amount of any funds distributed to the borough or city in the second preceding fiscal year from the school fund provided for in AS 43.50.140.

(c) The school construction account is established. Funds to carry out the provisions of this section may be appropriated annually by the legislature to the account. If amounts in the account are insufficient for the purpose of providing the share to which a borough or city is entitled under this section, those funds that are available shall be distributed pro rata among the eligible local governments.

(d) Money in the school construction account which, at the end of the fiscal year for which the money is appropriated, exceeds the amount required for the allocations authorized in this section reverts to the general fund.

(e) The commissioner shall annually provide a report to the legislature on allocations of state aid made under this section.

(f) The provisions of (a)(2) of this section apply only to payments made before July 1, 1971. The provisions of (a)(3) of this section apply to payments made after ... 1971.

(g) In this section

(1) "commissioner" means the commissioner of ...;

(2) "costs of school construction" means the ... acquiring, constructing, enlarging, repairing, ..., equipping, or furnishing, including but not ... the cost of acquisition of sites, legal, engineering, fiscal, architectural and other fees of specialists or consultants, costs of labor, materials, equipment and supplies, costs of authorization, issuance and sale of ..., notes, or other evidences of debt.

* Sec. 2. This Act takes effect on the day after its passage ... or on the day it becomes law without approval.

... by governor: March 29, 1971
... effective date: March 30, 1971

LAWS OF ALASKA

1971

Source: HCSSB 11

Chapter No. 29

AN ACT

Extending workmen's compensation benefits to firemen in certain situations where they would not otherwise be covered.

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

* Section 1. AS 23.30 is amended by adding a new section to read:

Sec. 23.30.243. EXTENDING COVERAGE TO CERTAIN FIREMEN. (a) For the purposes of workmen's compensation, any injury, disability or death incurred by a fireman by reason of his proceeding to or engaging in a fire suppression or rescue operation, or the protection or preservation of life or property, anywhere in the state shall be considered to have arisen out of and been sustained in the course of employment, and the fire department or regularly organized volunteer fire department of his primary employment or registration is considered to be the employer, except when the injured, at the time of injury or death, is acting for compensation from another.

(b) Nothing in this section requires the extension of benefits to a fireman employed by a home rule or general law municipality which by law or regulation expressly prohibits the activity giving rise to the injury, disability or death.

Approved by governor: March 29, 1971
Actual effective date: June 27, 1971

quantities, shall be made by the commissioner upon recommendations of the director, the state geologist or the United States Geological Survey under AS 41.08.060.

* Sec. 41. AS 38.05.181(s) is amended to read:

(s) Short title. This section may be cited as the Geothermal Resources Act.

* Sec. 42. AS 39.25.110 is amended by adding a new paragraph to read:

(14) commissioners and employees of the Alaska Commercial Fisheries Entry Commission.

* Sec. 43. AS 42.05.351 is amended to read:

Sec. 42.05.351. TESTING OF APPLIANCES. The commission shall provide for the examination and testing of appliances used for the measuring of a service of a public utility, and may purchase equipment, apparatus, and standards required for this purpose. The commissioner of commerce may assign the examination and testing function to the section of weights and measures. Upon the payment of a reasonable fee established by the commission, a consumer may have an appliance, which is used by him, tested. The commission shall establish by regulation allowable tolerances with respect to the functioning or operation of the appliance. If the measuring appliance does not perform within those tolerances, the utility concerned shall pay the cost of the test by reimbursing the person requesting the test for the fee paid by him. This reimbursement shall be made not later than at the time of the next regular billing following the test.

* Sec. 44. AS 43.18.010(h)(4) is amended to read:

(4) funds received by a local government under (1), (2) or (3) of this subsection shall be used for the costs of operation, maintenance, or health services or facilities, as the local government or hospital outside a municipality determines;

* Sec. 45. AS 43.18.040 is amended to read:

Sec. 43.18.040. REGULATIONS. The Department of Community and Regional Affairs shall adopt regulations necessary to carry out the purposes of secs. 10 - 99 of this chapter.

* Sec. 46. AS 43.18.050 is amended to read:

Sec. 43.18.050. SPECIFIC EXPENDITURES. A municipality shall expend funds received for the operation and maintenance of hospitals and health facilities and services under secs. 10 - 99 of this chapter only for those specific facilities and services.

* Sec. 47. AS 43.18.100(g) is amended to read:

(g) In this section, unless the context requires otherwise,

(1) "commissioner" means the commissioner of education;

(2) "costs of school construction" means the cost of acquiring, constructing, enlarging, repairing, remodeling, equipping or furnishing of public elementary and secondary school buildings and includes but is not limited to the cost of acquisition of sites, legal, engineering, fiscal, architectural and other fees of specialists or consultants, costs of labor, materials, equipment and supplies, costs of authorization, issuance and sale of bonds, notes, or other evidences of debt.

* Sec. 48. AS 43.20.335(a) - (e) are amended to read:

(a) A person who wilfully attempts to evade the tax imposed by this chapter is, in addition to other penalties provided by this chapter, guilty of a felony and, upon conviction, shall be fined not more than $5,000, or imprisoned for not more than five years, or both.

(b) A person required under this chapter to collect, account for, and pay over the tax imposed by this chapter who wilfully fails to collect or truthfully account for and pay over the tax is, in addition to other penalties provided by this chapter, guilty of a felony and, upon conviction, shall be fined not more than $10,000, or imprisoned for not more than five years, or both.

(c) A person required under this chapter to pay a tax, make a return, keep records, or supply information, who wilfully fails to pay the tax or estimated tax, make the return, keep the records, or supply the information, is, in addition to other penalties provided by this chapter, guilty of a misdemeanor and, upon conviction, shall be fined not more than $5,000, or imprisoned for not more than one year, or both.

(d) A person who wilfully makes and subscribes a return, statement, or other document required under this chapter which contains or is verified by a written declaration that it is made under the penalties of perjury which he does not believe to be true and correct as to every material matter is, in addition to other penalties provided by this chapter, guilty of a felony and, upon conviction, shall be fined not more than $5,000, or imprisoned for not more than three years, or by both.

(e) A person who wilfully and knowingly aids or assists in, or procures, or counsels the preparation or presentation in connection with any matter arising under this chapter of a return, affidavit, claim, or other document, which is fraudulent or is false as to any material matter is guilty of a felony whether or not the falsity or fraud is with the knowledge or consent of the person required to present the return, affidavit, claim, or document, and, upon conviction, shall be fined not more than $5,000, or imprisoned for not more than three years, or both.

* Sec. 49. AS 44.62.150 is repealed.

* Sec. 50. AS 44.68.020 is amended to read:

* Sec. 24. AS 43.18.010 is amended by adding a new subsection to read:

(1) For the purposes of (j) of this section, "total project cost" includes, in addition to costs directly related to the project, the sum total of all costs of financing and carrying out the project. These include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the administrative and operating expenses of the grantee; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary.

* Sec. 25. AS 43.18.100(g)(2) is repealed and re-enacted to read:

(2) "costs of school construction" means the cost of acquiring, constructing, enlarging, repairing, remodeling, equipping or furnishing of public elementary and secondary school buildings and includes the sum total of all costs of financing and carrying out the project; these include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the administrative and operating expenses of the grantee; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary.

* Sec. 26. AS 43.18.300(h) is amended by adding a new paragraph to read:

(3) "costs of construction" includes, in addition to costs directly related to the project, the sum total of all costs of financing and carrying out the project; these include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the administrative and operating expenses of the grantee; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of

other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary; it does not include the cost of feasibility studies.

* Sec. 27. AS 43.18.460(` is repealed and re-enacted to read:

(2) "cost of construction" includes, in addition to costs directly related to the project, the sum total of all costs of financing and carrying out the project; these include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the administrative and operating expenses of the grantee; the cost of financing the project, including interest on bonds issued to finance the project; and the cost of other items, including any indemnity and surety bonds and premiums on insurance, legal fees, fees and expenses of trustees, depositaries, financial advisors, and paying agents for the bonds issued as the issuer considers necessary; it does not include the cost of promotion, travel, or feasibility studies;

* Sec. 28. AS 44.33.150 is amended to read:

Sec. 44.33.150. QUALIFYING FOR MATCHING MONEY. In order to qualify for tourist attraction development matching money, the applicant shall submit and have approved by the director of tourism, a feasibility study of the program to be used for carrying out the development of the tourist attraction. Subject to the provisions of sec. 120(8) of this chapter, matching money may also be secured by an applicant for the cost of construction, improvement or operation of a visitor information center established for the intent of providing Alaska visitors and residents with tourist travel information on a local and statewide basis. This may include printing and distributing travel promotion material about Alaska. In order to qualify for visitor information center matching money, the applicant must first submit and have approved by the director of tourism a feasibility study of the construction, improvement or operation of the visitor information center.

* Sec. 29. AS 44.33.150 is amended by adding a new subsection to read:

(b) For purposes of (a) of this section, "cost of construction" includes, in addition to costs directly related to the project, the sum total of all costs of financing and carrying out the project. These include, but are not limited to, the costs of all necessary studies, surveys, plans and specifications, architectural, engineering or other special services, acquisition of real property, site preparation and development, purchase, construction, reconstruction and improvement of real property and the acquisition of machinery and equipment as may be necessary in connection with the project; an allocable portion of the

LAWS OF ALASKA

1977

Source

FCCS SCS CSHB 89

Chapter No.

120

AN ACT

Relating to state aid for school construction; and providing for an effective date.

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

* Section 1. AS 43.18.100(a) is repealed and re-enacted to read:

(a) During each fiscal year, the state shall allocate to an organized borough or a city which is a school district, the following sums:

(1) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred before July 1, 1977 to pay costs of school construction, and cash payments made by the borough or city before July 1, 1976 to pay the cost of school construction;

(2) 50 per cent of

(A) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after July 1, 1977 to pay costs of school construction;

(B) cash payments made after July 1, 1977 by the borough or city during the fiscal year two years earlier to pay costs of school construction.

* Sec. 2. AS 43.18.100(b) is amended to read:

(b) The commissioner shall administer the program of reimbursement authorized under this section and shall

provide by regulation for the filing of applications for reimbursement, the form of proof of costs for which application for reimbursement is made, and other regulations necessary to administer the program. The commissioner shall exclude from the total school construction cost of the local district all state and federal funds included in these costs except funds provided under this section and AS 43.50.140. In approving applications for reimbursement, the commissioner shall

(1) offset against the amount of reimbursement authorized the amount of any funds distributed to the borough or city in the second preceding fiscal year from the school fund provided for in AS 43.50.140;

(2) require the borough or city to provide, with its application, a certified copy of the notice to taxpayers required by sec. 30 of this chapter.

* Sec. 3. AS 43.18.100(e) is amended to read:

(e) The commissioner shall annually provide a report to the legislature on allocations of state aid made under this section, including but not limited to, the amount of state aid paid on a per capita and per student basis and the resultant effect on the rate of levy of taxes by the municipality for educational purposes.

* Sec. 4. AS 43.18.030 is amended to read:

Sec. 43.18.030. LOCAL TAX LEVY REDUCTION. (a) The intent of secs. 10 - 100 of this chapter in authorizing state aid for educational purposes and municipal services is that municipalities which levy taxes reduce those levies in reasonable proportion to the amount of state aid received by the municipality for a given fiscal year.

(b) If the municipality levies and collects real or personal property taxes, the governing body shall furnish the following notice with tax statements mailed for the fiscal year for which aid is received under AS 14.17 and secs. 10 - 100 of this chapter:

"NOTICE TO TAXPAYER

For the current fiscal year the (city) (borough) has been allocated the following amount of state aid for school and municipal purposes under the public school foundation program (Alaska Statutes 14.17), the municipal services revenue sharing program of Alaska Statutes 43.18.010 - 43.18.050, and the program of state aid for retirement of school construction debt (Alaska Statute 43.18.100):

PUBLIC SCHOOL FOUNDATION PROGRAM ASSISTANCE	$
STATE AID FOR RETIREMENT OF SCHOOL CONSTRUCTION DEBT	$
AID BASED ON MUNICIPAL SERVICES FURNISHED (fire protection, police protection, air or water pollution control, land use planning, road maintenance, parks and recreation, transportation facilities and services, hospital operation)	$
Total Aid	$

The millage equivalent of this state aid, based on the dollar value of a mill in the municipality for the current assessment year and for the previous assessment year, is:

	MILLAGE EQUIVALENT PREVIOUS YEAR
PUBLIC SCHOOL FOUNDATION PROGRAM ASSISTANCE	...MILLS
STATE AID FOR RETIREMENT OF SCHOOL CONSTRUCTION DEBT	....MILLS
AID BASED ON MUNICIPAL SERVICES FURNISHED	....MILLS
TOTAL MILLAGE EQUIVALENT	....MILLS

* Sec. 5. AS 43.18.030 is amended by adding a new subsection to read:

(c) If the municipality levies and collects a general sales tax, the governing body shall provide a notice substantially in the form set out in (b) of this section. In providing notice under this subsection, the governing body shall substitute for the millage equivalent an estimate of the equivalent sales tax rate for all categories of financial assistance set out in this section. Notice shall be provided

(1) by publishing in a newspaper of general circulation within the municipality a copy of the notice once each week for a period of three successive weeks with first publication to occur not earlier than 45 days before the first day of the municipality's fiscal year;

(2) if there is no newspaper of general circulation in the municipality, by posting a copy of the notice for at least 20 days in at least two public places within the municipality, with posting to occur not more than 45 days before the first day of the municipality's fiscal year.

* Sec. 6. This Act takes effect July 1, 1978.

Approved by the Governor: June 14, 1977
Actual Effective Date: July 1, 1978

necessary, the commissioner may require as a condition of an agreement approval of the agreement by the federal government. Regulations adopted, amended or repealed by the department under this section which relate to educational facilities shall be developed in conjunction with the Alaska Association of School Boards and the Alaska Association of School Administrators and reviewed by those associations before final action on the regulations is taken by the department.

* Sec. 8. AS 35.15.090 is amended to read:

Sec. 35.15.090. USE OF APPROPRIATED FUNDS. Upon assumption by a municipality or regional educational attendance area of the department's responsibilities under sec. 80(a)(1) of this chapter, or upon execution of an agreement under sec. 80(a)(2) of this chapter, state funds appropriated for a public works project which is the subject of the assumption or the agreement shall be transferred to a special account in the state treasury. A municipality or regional educational attendance area administering the project under the assumption or agreement may draw on the account for costs of the project, under fiscal control of the department. If an agreement provides for joint or cooperative administration of the project, payment of costs shall be made to the party incurring the costs.

* Sec. 9. AS 35.15.110(a) is amended to read:

(a) Title acceptable to the department to a suitable project site shall be vested in the state before work is begun on the site, except that, if the project involves construction of an educational facility, title or sufficient interest determined acceptable by the department to an approved site for a school building shall be vested in the municipality, the regional educational attendance area or the state before advertisement for bids or initiation of construction contract negotiations.

* Sec. 10. AS 14.07.020 is amended by adding a new paragraph to read:

(10) review plans for construction of new public elementary and secondary schools and for additions to and major rehabilitation of existing public elementary and secondary schools and, in accordance with regulations adopted by the department, determine the extent of eligibility for state aid of a school construction project begun after the effective date of this Act; for purposes of this paragraph, a "plan" includes educational specifications, schematic designs, and final contract documents.

* Sec. 11. AS 14.14.060(e) is amended to read:

(e) The borough school board is responsible for the design criteria of school buildings. To the maximum extent consistent with education needs, a design of a school building shall provide for multiple use of the building for community purposes. Subject to the approval of the assembly, the school board shall select the appropriate professional personnel to develop the designs. The school board shall submit preliminary and subsequent designs for a school building to the assembly for approval or disapproval;

if the design is disapproved, a revised design shall be prepared and presented to the assembly. A design or revised design approved by the assembly shall be submitted by the board to the department in accordance with AS 14.07.020(10).

* Sec. 12. AS 43.18.100(a) is repealed and re-enacted to read:

(a) During each fiscal year, the state shall allocate to an organized borough or a city which is a school district, the following sums:

(1) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred before July 1, 1977 to pay costs of school construction;

(2) 80 per cent of

(A) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1977 and before July 1, 1978 to pay costs of school construction;

(B) cash payments made after June 30, 1976 and before July 1, 1978 by the borough or city during the fiscal year two years earlier to pay costs of school construction;

(3) 80 per cent of

(A) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1978 to pay costs of school construction projects approved under AS 14.07.020(10);

(B) cash payments made after June 30, 1978 by the borough or city during the fiscal year two years earlier to pay costs of school construction projects approved under AS 14.07.020(10).

* Sec. 13. AS 43.18 is amended by adding new sections to read:

Sec. 43.18.105. PUBLIC SCHOOL FACILITIES CONSTRUCTION ADVANCE ACCOUNT. The public school facilities construction advance account is established. The account consists of appropriations for distribution under secs. 105 - 135 of this chapter to boroughs and cities which are school districts to assist in paying the costs of public school facilities projects approved under AS 14.07.020(10) for which construction is commenced after June 30, 1978 and for which no bonding, notes, or other indebtedness was incurred before July 1, 1978.

Sec. 43.18.110. ELIGIBILITY. Eligibility of a proposed construction project for funding assistance under secs. 105 - 135 of this chapter shall be determined by the

92

Chapter 92

* Sec. 7. AS 35.15.090 is amended to read:

Sec. 35.15.090. USE OF APPROPRIATED FUNDS. Upon [ASSUMPTION OF MUNICIPALITY OR REGIONAL EDUCATIONAL ATTENDANCE AREA OF THE DEPARTMENT RESPONSIBILITIES UNDER AS 35.15.080(a)(1), OR UPON] execution of an agreement under AS 35.15.080(a) [AS 35.15.080(a)(2)], state funds appropriated for a public works project which is the subject of the [ASSUMPTION OR THE] agreement shall be transferred to a special account in the state treasury. A municipality [OR REGIONAL EDUCATIONAL ATTENDANCE AREA] administering the project under the [ASSUMPTION OR] agreement may draw on the account for costs of the project, under fiscal control of the department. If an agreement provides for joint or cooperative administration of the project, payment of costs shall be made to the party incurring the costs.

* Sec. 8. AS 43.18.100(a) is amended to read:

(a) During each fiscal year, the state shall allocate to a municipality that [AN ORGANIZED BOROUGH OR A CITY WHICH] is a school district the following sums:

(1) payments made by the municipality [BOROUGH OR CITY] during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred before July 1, 1977 to pay costs of school construction;

(2) 90 [80] percent of

(A) payments made by the municipality [BOROUGH OR CITY] during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1977 and before July 1, 1978 to pay costs of school construction;

(B) cash payments made after June 30, 1976 and before July 1, 1978 by the municipality [BOROUGH OR CITY] during the

fiscal year two years earlier to pay costs of school construction;

(3) 90 [80] percent of

(A) payments made by the municipality [BOROUGH OR CITY] during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1978 and before January 1, 1982 to pay costs of school construction projects approved under AS 14.07.020(11);

(B) cash payments made after June 30, 1978 and before July 1, 1982 by the municipality [BOROUGH OR CITY] during the fiscal year two years earlier to pay costs of school construction projects approved under AS 14.07.020(11);

(4) subject to (h) and (i) of this section 90 percent of

(A) payments made by the municipality during the current fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after December 31, 1981 to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 14.07.020(11); and

(B) cash payments made after June 30, 1982, by the municipality during the fiscal year two years earlier to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 14.07.020(11).

Sec. 9. AS 43.18.100 is amended by adding new subsections to read:

(h) An allocation under (a)(4) of this section for school construction begun after July 1, 1982, shall be reduced by the amount used for the construction of residential space, hockey rinks, pools, saunas, and other facilities for single purpose sports or recre-

tional uses that are not suitable for other activities. An allocation under (a)(4) of this section may not be reduced by the amount of money used for construction of a small swimming pool, tank, or water storage facility used for water sports. However, an allocation shall be reduced by the difference between the amount of money used to construct a swimming pool that is competition size or larger and the amount of money that would have been used to construct a small swimming pool, tank, or water storage facility, as determined by the commissioner.

(i) For the purposes of (a)(4) of this section

(1) an indebtedness for bonds is incurred after the bonds are sold;

(2) reimbursement for a cash payment may only be made after the payment is made to a vendor; and

(3) payments may not be made for costs that are incurred under a contract after the contract has been released.

* Sec. 10. AS 14.08.161 and AS 43.18.100(b)(2) are repealed.

* Sec. 11. This Act takes effect July 1, 1982.

LAWS OF ALASKA

1982

Source SCS CSHB 159(L&C)

Chapter No. 93

AN ACT

Relating to workers' compensation, and providing for an effective date.

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

THE ACT FOLLOWS ON PAGE 1, LINE 9

UNDERLINED MATERIAL INDICATES TEXT THAT IS BEING ADDED TO THE LAW AND BRACKETED MATERIAL IN CAPITAL LETTERS INDICATES DELETIONS FROM THE LAW; COMPLETELY NEW TEXT OR MATERIAL REPEALED AND RE-ENACTED IS IDENTIFIED IN THE INTRODUCTORY LINE OF EACH BILL SECTION.

Approved by the Governor: June 14, 1982
Actual Effective Date: July 1, 1982

LAWS OF ALASKA

1983

Source
CCSHB 251

Chapter No.
82

AN ACT

Relating to state support for education; and providing for an effective date.

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

THE ACT FOLLOWS ON PAGE 1, LINE 9

UNDERLINED MATERIAL INDICATES TEXT THAT IS BEING ADDED TO THE LAW AND BRACKETED MATERIAL IN CAPITAL LETTERS INDICATES DELETIONS FROM THE LAW; COMPLETELY NEW TEXT OR MATERIAL REPEALED AND RE-ENACTED IS IDENTIFIED IN THE INTRODUCTORY LINE OF EACH BILL SECTION.

Approved by the Governor: July 19, 1983
Actual Effective Date: July 20, 1983

83

Chapter 83

AN ACT

Relating to state support for education; and providing for an effective date.

---

* Section 1. AS 43.18.100(a)(4) is amended to read:

(4) subject to (h) and (i) of this section up to 90 percent of

(A) payments made by the municipality during the current fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after December 31, 1981, and authorized by the qualified voters of the municipality before July 1, 1983, to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 14.07.020(11); and

(B) cash payments made after June 30, 1982, and before July 1, 1983, by the municipality during the fiscal year two years earlier to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 14.07.020(11); and

(C) payments made by the municipality during the current fiscal year for the retirement of principal and interest on outstanding bonds, notes, or other indebtedness to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are submitted to the

83

Mat-Su

Department of Education for approval under AS 14.07 before July 1, 1983, and approved by the qualified voters [illegible] municipality before October 15, 1983, not to exceed a [illegible] project cost of (i) $6,600,000 if the annual growth rate average daily membership of the municipality is more [illegible] percent but less than 12 percent, or (ii) $20,000,000 [illegible] annual growth rate of average daily membership of [illegible] municipality is 12 percent or more; payments made by a [illegible]ipality under this paragraph on total project costs that [illegible] the amounts set out in (i) and (ii) of this paragraph are subject to (a)(5)(A) of this section.

* Sec. 2. AS 43.18.100(a) is amended by adding a new paragraph to read:

(5) subject to (h) and (i) of this section, 50 percent of

(A) payments made by the municipality during the [illegible] year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness authorized by the qualified voters of the municipality after June 30, 1983 to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 14.07.020(11); and

(B) cash payments made after June 30, 1983 by the municipality during the fiscal year two years earlier for costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 14.07.020(11).

* Sec. 3. AS 43.18.100 is amended by adding a new subsection to read:

(j) The state may not allocate money to a municipality for a school construction project under (a)(5) of this section unless the project is approved by the commissioner before the local vote on

nd issue for the project. In approving a project under this subsection, the commissioner shall require

(1) the municipality to include on the ballot for the bond issue the estimated total cost of each project and the estimated amounts that will be paid by the state and by the municipality;

(2) that the bonds may not be refunded unless the annual debt service on the refunding issue is not greater than the annual debt service on the original issue;

(3) that the bonds must be repaid in approximately equal annual principal payments or approximate equal debt service payments over a period of at least 10 years;

(4) the municipality to demonstrate need for the project by factors such as increased enrollment in the school district, the health and safety of the students, and the factors listed in AS 14.11.010(c).

* Sec. 4. FINDINGS. The legislature finds that the present system of providing assistance to school systems should be studied for modification and improvement. The legislature further finds that during the period of study an alternative mechanism to the existing foundation support system is desirable.

* Sec. 5. The operation of AS 14.17.021(a), 14.17.022, 14.17.031(a), (b), (c), and (e), 14.17.041, 14.17.051, 14.17.056, 14.17.160, 14.17.180, 14.17.225(b), and the provision of 14.17.170 that requires the withholding of one-half of the June payment of state aid pending a final determination of each school district's state aid is suspended from July 1, 1983, through June 30, 1984. During the period of suspension, the provisions of AS 14.17.031(d) remain in effect except that the number of students in average daily membership in each school district may be used instead of instructional units to calculate reductions in

state aid. During the period of suspension, funding for the b... aid and supplemental equalization aid that otherwise would have be... vided under the provisions of AS 14.17.021(a), 14.17.022, and 1... shall be provided to school districts and for centralized corres... study in accordance with the provisions of sec. 6 of this Act.

* Sec. 6. For fiscal year 1984 the amount of state aid for each ... district and for centralized correspondence study is the following ... subject to adjustment under AS 14.17.021(b), for each pupil in ... daily membership less any aid overpaid as determined by the commissio... education:

Anchorage School District	$ 3,3...
Bristol Bay Borough School District	9,...
Cordova City School District	5,0...
Craig City School District	6,...
Dillingham City School District	8,6...
Fairbanks North Star Borough School District	3,...
Galena City School District	...
Haines Borough School District	...
Hoonah City School District	...
Hydaburg City School District	...
City and Borough of Juneau School District	3,...
Kake City School District	...
Kenai Peninsula Borough School District	3,...
Ketchikan Gateway Borough School District	3,...
King Cove City School District	...
Klawock City School District	...
Kodiak Island School District	...
Matanuska-Susitna Borough School District	3,5...
Nenana City School District	10,5...

...e City School District	7,165
North Slope Borough School District	9,202
Pelican City School District	12,438
Petersburg City School District	4,049
Sand Point City School District	8,283
Sitka Borough School District	3,711
Skagway City School District	,379
St. Mary's City School District	14,946
Tanana School District	13,361
Unalaska City School District	8,210
Valdez City School District	4,786
Wrangell City School District	4,726
Yakutat City School District	7,749
Adak Regional School District	6,643
Alaska Gateway School District	8,639
Aleutian Chain School District	16,674
Annette Island School District	6,572
Bering Straits School District	12,197
Chatham School District	8,682
Chugach School District	11,758
Copper River School District	7,178
Delta School District	5,915
Iditarod Area School District	14,972
Kuspuk School District	16,376
Lake and Peninsula School District	15,476
Lower Kuskokwim School District	11,033
Lower Yukon School District	9,864
Northwest Arctic School District	10,387
Pribilof Islands School District	11,475

Upper Railbelt Regional School District	[illegible]
Southeast Island School District	[illegible]
Southwest Regional School District	[illegible]
Yukon Flats School District	[illegible]
Yukon Koyukuk School District	[illegible]
Central Correspondence	[illegible]

* Sec. 7. The commissioner shall determine the state aid for each school district on the basis of the reports submitted under AS 14.[illegible] for fiscal year 1983. Beginning July 15 of the fiscal year, and on the 15th of each month, for seven successive months, 1/12th of each district's state aid shall be distributed.

* Sec. 8. Appropriations made for fiscal year 1984 for supplemental programs under AS 14.17.061(a) may be used only for average daily membership increases beyond the average daily membership reported by the districts under AS 14.17.170 for fiscal year 1983. If the amount appropriated for fiscal year 1984 is insufficient to meet the average daily membership allocations authorized under sec. 6 of this Act with respect to the increased average daily membership, the available funds shall be distributed on a pro rata basis among the school districts with increased average daily membership.

Sec. 9. During the period of suspension under sec. 5 of this Act, a school district shall continue to provide services to students in programs of bilingual, special, and vocational education commensurate with the needs of the students and in strict accordance with applicable state and federal laws and regulations.

* Sec. 10. The commissioner of education shall recommend to the legislature a method of revising and improving the public school foundation program no later than January 9, 1984. If the commissioner of education has not made recommendations to the legislature by January 9, 1984,

[illegible]ions of AS 14.17 notwithstanding, the amount of basic state aid to [illegible] school district and regional educational attendance area under the [illegible]ic school foundation program as calculated by fiscal year 1984 revised [illegible]rage daily membership calculations, beginning in fiscal year 1985, shall be adjusted and identified in January 1984 to reflect the changes in the Consumer Price Index for all Urban Consumers for the Anchorage Metropolitan Area compiled by the Bureau of Labor Statistics, United States Department of Labor in January 1984, for the preceding twelve-month period. The index for January 1983 is the reference base index.

* Sec. 11. Sections 4 - 10 of this Act are repealed June 30, 1985.

* Sec. 12. Sections 1 - 3 of this Act take effect July 1, 1983.

* Sec. 13. Sections 4 - 13 of this Act take effect immediately in accordance with AS 01. 10.070(c).

right-of-way of the highway to gain access to the [HIS] mining

* Sec. 3. This Act is retroactive to October 5, 1980.

* Sec. 4. This Act takes effect immediately in accordance with [illegible](c).

LAWS OF ALASKA

1985

Source: CCSSB 51

Chapter No.: 79

AN ACT

Relating to state aid for school construction, and providing for an effective date.

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

THE ACT FOLLOWS ON PAGE 1, LINE 9

UNDERLINED MATERIAL INDICATES TEXT THAT IS BEING ADDED TO THE LAW AND BRACKETED MATERIAL IN CAPITAL LETTERS INDICATES DELETIONS FROM THE LAW; COMPLETELY NEW TEXT OR MATERIAL REPEALED AND RE-ENACTED IS IDENTIFIED IN THE INTRODUCTORY LINE OF EACH BILL SECTION.

Approved by the Governor June 2, 1985
Actual Effective Date July 1, 1985

AN ACT

Relating to state aid for school construction; and providing for an effective date.

---

* Section 1. AS 14.11.100(a)(5) is amended to read:

(5) subject to (h), [AND] (i), and (j) of this section, 80 [50] percent of

(A) payments made by the municipality during the fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness authorized by the qualified voters of the municipality after June 30, 1983, to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 14.07.020(11); and

(B) cash payments made after June 30, 1983, by the municipality during the fiscal year two years earlier to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 14.07.020(11).

* Sec. 2. AS 14.11.100(h) is amended to read:

(h) An allocation under (a)(4) or (5) of this section for school construction begun after July 1, 1982, shall be reduced by the amount [illegible] used for the construction of residential space, [illegible], saunas, and other facilities for single purpose sporting [illegible]ional uses that are not suitable for other activities and by

the money used for construction that exceeds the amount needed
construction of a facility of efficient design as determined by
department. An allocation under (a)(4) or (5) of this section may
be reduced by the amount of money used for construction of a
swimming pool, tank, or water storage facility used for water spo
However, an allocation shall be reduced by the difference between
amount of money used to construct a swimming pool that exceeds
standards adopted by the department [IS COMPETITION SIZE OR LAN
and the amount of money that would have been used to construct a
swimming pool, tank, or water storage facility, as determined by
commissioner.

* Sec. 3. AS 14.11.100(i) is amended to read:

(i) For the purposes of (a)(4) and (5) of this section

(1) an indebtedness for bonds is incurred after the
are sold;

(2) reimbursement for a cash payment may only be made
the payment is made to a vendor; and

(3) payments may not be made for costs that are inc
under a contract after the contract has been released.

* Sec. 4. AS 14.11.100(j) is amended to read:

(j) The state may not allocate money to a municipality
school construction project under (a)(5) of this section unless
municipality complies with the requirements of (1) - (4) of
subsection and the project is approved by the commissioner before
local vote on the bond issue for the project. In approving a pr
under this subsection, the commissioner shall require

(1) the municipality to include on the ballot for the
issue the estimated total cost of each project including
annual operation and maintenance costs and the estimated amoun

will be paid by the state and by the municipality;

(2) that the bonds may not be refunded unless the
debt service on the refunding issue is not greater than
debt service on the original issue;

(3) that the bonds must be repaid in approximately
annual principal payments or approximate equal debt service payments
over a period of at least 10 years;

(4) the municipality to demonstrate need for the project by establishing that the school district has

(A) projected long-term student enrollment that indicates the district has inadequate facilities to meet present or projected enrollment; or

(B) facilities that require repair or replacement in order to meet health and safety laws or regulations or building codes [; FACTORS SUCH AS INCREASED ENROLLMENT IN THE
TRICT, THE HEALTH AND SAFETY OF THE STUDENTS, AND
LISTED IN AS 14.11.010(c)].

* Sec. 5. AS 14.11.100 is amended by adding a new subsection to read:

(k) An amount equal to the interest earned on the investment of the proceeds of bonds issued for a school construction project shall be used by the municipality to

(1) pay the costs of the project;

(2) pay accrued interest on the bond issue;

(3) redeem all or part of the bonds; or

(4) pay the costs of issuing the bonds.

* Sec. 6. AS 14.11 is amended by adding a new section to read:

Sec. 14.11.102. EVALUATION OF PROJECTS. The department shall evaluate projects for which retirement of school construction debt is requested by school districts in accordance with the

out in AS 14.11.010. A request for an allocation of funds u
AS 14.11.100 must be submitted to the department by the school
trict no later than October 15 of the fiscal year before the fi
year for which the request is made.

* Sec. 7. AS 14.11.135 is amended to read:

Sec. 14.11.135. DEFINITIONS. In this chapter [AS 14.11.1
14.11.135], unless the context requires otherwise,

(1) "approved school construction project" means the
for a new school or an addition to or major rehabilitation of
existing school to the extent to which approved by the commissioner
accordance with AS 14.07.020(11);

(2) "commissioner" means the commissioner of education;

(3) "costs of school construction" means the cost of
quiring, constructing, enlarging, repairing, remodeling, equipping
furnishing of public elementary and secondary school buildings
includes the sum total of all costs of financing and carrying out
project; these include, but are not limited to, the costs of
necessary studies, surveys, plans and specifications, architectu
engineering or other special services, acquisition of real prope
site preparation and development, purchase, construction, reconst
tion and improvement of real property and the acquisition of machi
and equipment as may be necessary in connection with the project;
allocable portion of the administrative and operating expenses of
grantee; the cost of financing the project, including interest
bonds issued to finance the project; and the cost of other it
including any indemnity and surety bonds and premiums on insura
legal fees, fees and expenses of trustees, depositaries, fi
advisors, and paying agents for the bonds issued as the issuer
siders necessary;

(4) "department" means the Department of Education.

* Sec. 8. AS 14.11 is amended by adding a new section to read:

Sec. 14.11.140. REGULATIONS. The department shall adopt regulations to carry out the purposes of this chapter.

* Sec. 9. LEGISLATIVE REVIEW. Proposed permanent regulations under AS 14.11.140 as enacted in sec. 8 of this Act shall be submitted to the legislature no later than the 10th day of the Second Session of the Fourteenth Alaska State Legislature. Notwithstanding AS 44.62, permanent regulations adopted under AS 14.11.140 take effect the 90th day of the Second Session of the Fourteenth Alaska State Legislature, unless a law is enacted disapproving the regulations.

* Sec. 10. (a) The amendments to AS 14.11.100(j) provided for in sec. 4 of this Act apply only to school construction projects approved by the commissioner of education after the effective date of this Act.

(b) The requirement of AS 14.11.102, added by sec. 6 of this Act, that requests for an allocation of funds under AS 14.11.100 be submitted by October 15 of the fiscal year before the fiscal year for which the request is made, does not apply to requests for fiscal year 1987.

* Sec. 11. This Act takes effect July 1, 1985.

Moody's **Municipal** Department

1985 Medians

Selected Indicators of Municipal Performance

State Indicators and Rankings

City and County Debt Medians

Enterprise Performance Medians



As a measure of a government's burden of debt, a ratio is calculated between its net debt and the estimated full value of taxable property. The estimated full value serves as a direct measure of local government wealth and, therefore, is reflective of the government's capacity to service public debt. Taxable valuation is utilized as a wealth measure because it tends to be up-to-date and readily [illegible] sizes of municipal government.

Ratio of Net Debt to E.F.V. (%) [1]

Population Range	Direct Net Debt Median	Overall Net Debt Low	Overall Net Debt Median	Overall Net Debt High
[illegible] and over	[illegible]	[illegible]	4.2	5.9
[illegible] to [illegible]	[illegible]	1.1	3.1	10.4
[illegible] to [illegible]	2.2	1.5	2.6	9.0
[illegible] to [illegible]	1.6	0.3	2.5	9.3
[illegible]	1.7	1.0	2.8	16.1
[illegible]	[illegible]	[illegible]	2.9	15.0
[illegible]	[illegible]	[illegible]	3.3	24.5
Under [illegible]	2.4	[illegible]	3.6	20.0

Ratio of Net Debt to E.F.V. (%) [1]

Population Range	Direct Net Debt Median	Overall Net Debt Low	Overall Net Debt Median	Overall Net Debt High
[illegible] and over	0.4	[illegible]	4.2	4.1
[illegible] to [illegible]	[illegible]	[illegible]	[illegible]	5.2
[illegible] to [illegible]	[illegible]	[illegible]	[illegible]	5.5
[illegible]	[illegible]	[illegible]	[illegible]	12.2

[1] [illegible] those observations have been displayed accord- [illegible]

[illegible]

Amendments to HB 519

1. Page 2, lines 5-7: delete

"until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770"

and ~~insert~~ add

"unless the ~~public building~~ public building to be provided has been specifically approved by law"

2. Page 3, lines 27-28: delete

ditto #1

3. Page 4, lines 22-23: delete

ditto #1

~~5. Page 4, lines 25-29 and~~
~~Page 5, lines 1-7: delete~~ amend to ~~delete~~ repeal
AS 37.05.280(a) in its entirety

~~5. Page 5, 1~~

~~4. Page 4, line 24: amend to read~~

"Sec. 8. AS 37.05 ~~is repealed~~ is amended by adding a new section to read"

4. Page 4, line 25: delete

"(a)"

5. Page 5, after line 7: insert

" * Sec. 9. AS 37.05 is amended by adding a new section to read

Sec. 37.05.285 " ,

~~Page and~~ continue with ~~subsection~~ line 8, and renumber succeeding bill sections.

6. Page 5, line 8: delete

"(b)"

7. Page 5, lines 18-19: delete

Ditto # 1

8. Page 7, lines 28-29 and
Page 8, lines 1-6: ~~repeal~~ delete and insert

the manner, ~~[illegible]~~ price or prices,

~~Sec. 37.15.150. Bond terms.~~ (a) The bonds shall be sold in [such] amounts or series and at such time or times as determined by the committee. [Before selling a series of bonds, the committee shall give notice inviting sealed bids in such manner as it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder. If the committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.]

~~at either~~ public or private sale

9. Page 8, after line 13: insert

"Sec. 16. AS 37.15.460 is amended to read:

Sec. 37.15.460. Bond resolution. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide [WHETHER] whether the notice of sale is to be published [ELSEWHERE] elsewhere in addition to the publication required by AS 37.15.450.

Sec. 17. AS 37.15.650 (a) is amended to read.

manner, price or prices

at either public or private sale

Sec. 37.15.650. Bond terms. (a) The toll facilities bonds are sold in the amounts or series, and at the time as determined by the committee. [Before selling a series of bonds, the committee shall give notice inviting sealed bids. If satisfactory bids are received, the bonds offered for sale are awarded to the highest responsible bidder. If the committee determines that a bid received is not satisfactory as to price or responsibility of the bidder, the committee may reject the bid received.] Bonds, or a series of bonds, may not be sold if the effective interest rate over the life of the bonds exceeds 11 percent per year or that rate of interest that is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest is payable annually or semiannually.

Sec. 18. AS 37.15.660 is amended to read:

Sec. 37.15.660. Bond resolution. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide [WHETHER] whether the notice of sale is to be published [ELSEWHERE] elsewhere in addition to the publication required by AS 37.15.650.

"

HB 519

No State Agency or quasi State Agency may incur long-term debt except in accordance with the provisions of this chapter.

State Agency or quasi State Agency includes but is not limited to the following:

All Operating Departments of the Executive Branch
All Agencies of the Judicial Branch
All Agencies of the Legislative Branch
The University of Alaska
The Alaska State Housing (Building) Authority
The Alaska Municipal Bond Bank Authority
The Alaska Power Authority
The Alaska Industrial Development Authority

Long-term debt is defined as any debt with a payment period that extends beyond the end of the fiscal year in which the debt is incurred.

So called "lease financing" contracts where the object is for the state to acquire the attributes of ownership of real property after making "rent" payments for a number of years are considered long-term debt and are subject to the provisions of this chapter.

Leases that are cancellable at the end of each fiscal year without penalty to the State are not considered long-term debt for purposes of this chapter.

A State Agency or quasi State Agency with the authority by statute or regulation to incur long-term debt shall do so in accordance with the terms of legislation signed into law by the Governor and approved by a vote of the people in a general election.

No State Agency or quasi State Agency may issue bonds or sign contracts for long-term debt until the state bond committee has approved the proposal for the issuance of debt in accordance with the terms of this chapter.

CITY of WRANGELL, ALASKA

INCORPORATED JUNE 15, 1903

BOX 531, 99929 (907) 874-2381

ADOPTED AUGUST 1972

February 26, 1986

Senator Robert H. Ziegler, Sr.
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

RE: Alaska Legal Services Funding

Dear Senator Ziegler:

The Wrangell City Council has been informed that the Ketchikan office of Alaska Legal Services is closing due to a cutback in State funding. Although we do not know the actual number of cases in Wrangell, we do know that Alaska Legal Services has provided the assistance necessary to some of our senior citizens to resolve problems on their property discriptions and/or title. From all reports, many persons receive assistance from Alaska Legal Services that they would otherwise be unable to afford.

The City Council request your support for the funding necessary to maintain the office in Ketchikan to at least continue the level of service previously provided to the area.

Sincerely,

Joyce Rasler
City Manager

cc: Representative John Sund
Representative Robin Taylor

City of Ketchikan

334 Front Street
Ketchikan, Alaska 99901
907 225-3111

February 25, 1986

The Honorable John Sund
Representative
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Mr. Sund:

This letter is a followup to your conversation with Councilmember Tom Friesen regarding House Bill 521. As you know, House Bill 521 would establish a limit on general obligations indebtedness that a municipality could maintain. Although a limit on such bor .ng may be appropriate, I have the following concerns.

A summary of the bill shows that the bill limits general obligation bond debt to seven percent of the full property value of the municipality. A municipality is defined as "a municipality or a combination of municipalities that occupy, in whole or in part, the same geographic area." G.O. bonded debt does not include refunding bonds or "self supporting debt".

I have discussed this bill with Al Learned, Finance Director, and we suggest that based on our brief review there are two areas of concern.

1. The seven percent limitation may be too low (based on our interpretation of self-supporting debt). Currently, our debt ratio is approximately 3%. However, with the potential decline in state money available for local projects, including school projects, and the need in the future for various capital projects in the City, including those of the school district, we may find ourselves close to or over the 7% limitation even with our excellent debt ratio.

2. The definition of self supporting debt is not clear. If self supporting debt includes the state's portion of school construction debt and debt supported by sales tax (for example), then the impact of this bill may be lessened. In any case, we (municipality as defined above) can issue approximately $14 million additional bonds not considered to be self-supporting [there is cur ently approximately $20 million outstanding]. This could easily be achieved by a combination of school, borough and city bond issues over the next few years.

LT3/114

In order to cushion the effects of this bill on this municipality, I would recommend an increase of the limit to a higher level [15% for example] and a clear definition of debt that is included in self supporting debt.

Sincerely,

Dan Allen
Assistant City Manager

DA:lm

c.c. Tom Friesen, Council Member
Al Learned, Finance Director

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

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

February 11, 1986

The Honorable John Sund
Chairman
House Special Committee on Loans
P.O. Box V
Juneau, AK 99811

Dear Representative Sund:

Enclosed is information requested by your committee at hearings on HB 519 and HB 521 on February 3 and 4, 1986.

Included are excerpts from various official statements for municipal bonds containing statements regarding State reimbursement for municipal school debt. Also included are Merrill Lynch's comparative tables on State general obligation bonds dating from January 6, 1982, their first publication.

Sincerely,

Milt Barker
Deputy Commissioner

MB/gb
86-46

Enclosures

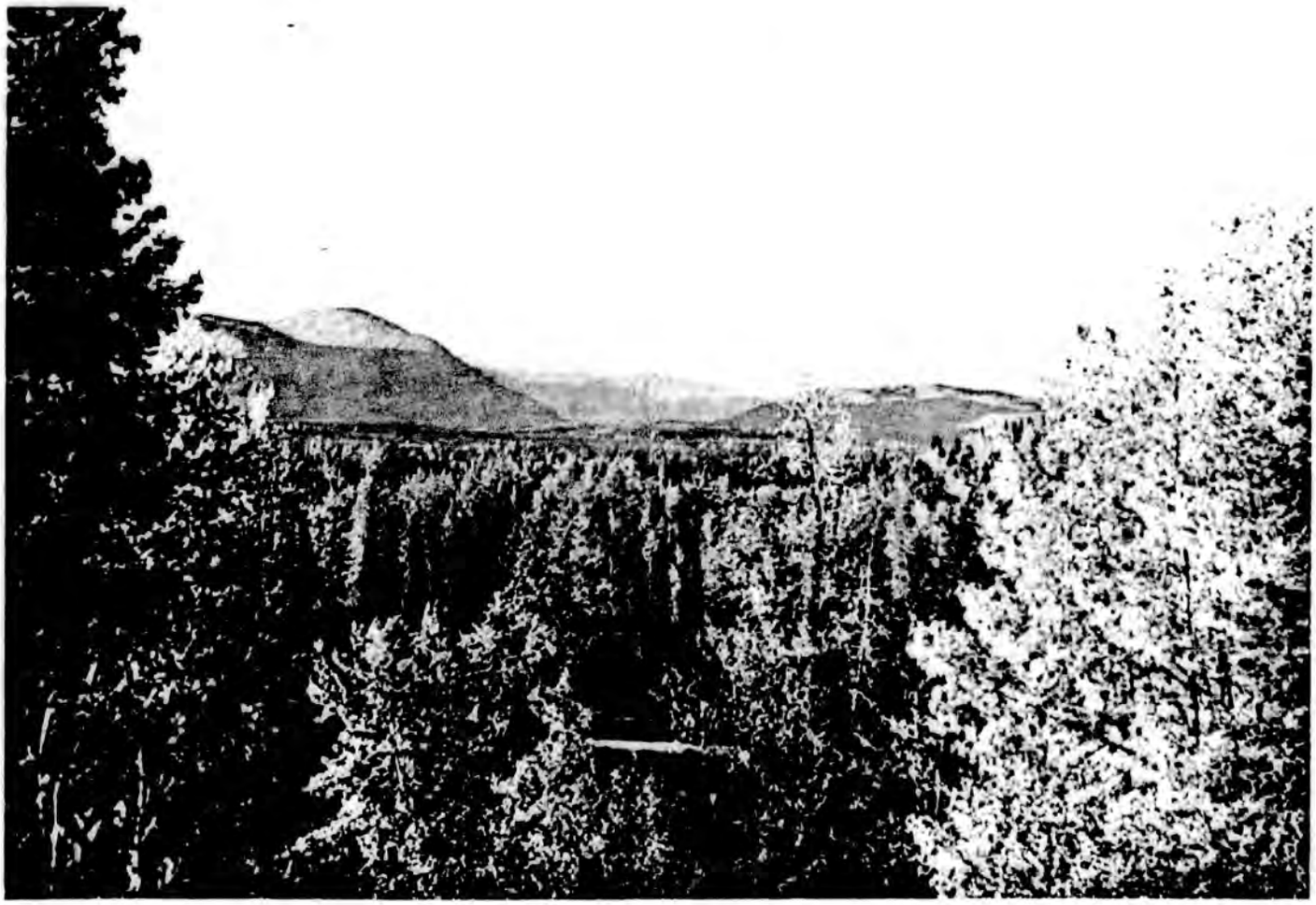
04-012LH

Matanuska — Susitna Borough
Alaska

$8,460,000

General Obligation School Construction Bonds

1977 Series A



Selling Tuesday, April 4, 1978 at 10:00 AM, Alaska Standard Time

PROCEEDS DUE BOROUGH FROM LAND SALES

Fiscal Year Ending June 30,	Principal	Interest	Total
1979	$ 560,757	$ 316,850	$ 877,607
1980	560,757	275,790	836,547
1981	546,182	234,731	780,913
1982	428,684	194,545	623,229
1983	325,956	161,407	487,363
1984	258,926	134,845	393,771
	$2,681,262	$1,318,168	$3,999,430

STATE AID TO EDUCATION

Subject to annual legislative appropriations, the State of Alaska Department of Education makes direct payments to the Borough and other governmental units which operate schools under the following major education aid programs:

1. *Reimbursement of Debt Service and Cash Payments on School Facilities.* Except as noted below, the State reimburses 50% of debt service payments on bonds sold, or of cash payments made, for school construction. For some facilities, such as vocational classrooms and equipment, the State's share is 75%. Beginning July 1, 1978, the State law provides for reimbursement of 100% of debt service payments for debt incurred prior to July 1, 1977 and 100% of local cash payments made prior to July 1, 1976, for school construction. These payments lag two years behind the actual debt service or cash payments. The State makes such payments in two installments during the fiscal year.

2. *Construction Funds.* A portion of the cigarette taxes levied by the State and collected within a Governmental Unit's jurisdiction are returned to the Governmental Unit. These funds are designated for new construction, rehabilitation or maintenance and insurance of schools or for the payment of debt service on bonds issued for such purposes. Payments are generally made in December.

3. *Education Operation Expenses.* The State reimburses Governmental Units for 95% (increased from 93% for fiscal years prior to 1976/1977) of their "basic education" operating expenses as defined by the State, calculated on the basis of the pre-fiscal year computations. Beginning July 1, 1978, the State will increase the reimbursement to 97%. The State applies differential adjustments based on area.

4. *Pupil Transportation.* The State reimburses local school districts for 100% of the costs of transporting pupils to and from school for distances greater than one and a half miles.

5. *State Impact.* This program offers financial relief to schools providing free public education to students whose parents work and/or live on State property.

6. *Additional Support.* The State provides additional support to schools for food service, community schools and boarding school home grants.

DEBT SERVICE REQUIREMENTS

GENERAL OBLIGATION BONDS

Fiscal Year Ending 6-30,	Outstanding Bonds Principal	Outstanding Bonds Interest	Outstanding Bonds Total	The Bonds Principal	The Bonds Interest(1)	The Bonds Total	Grand Total Requirements	Estimated State Debt Service Reimbursement(2)	Estimated Net Debt Service Requirements	% of Principal Retired
1978	$ 1,055,000	$ 1,460,538	$ 2,515,538	$ —	$ —	$ —	$ 2,515,538	$ 905,928	$1,609,610	
1979	1,355,000	1,401,994	2,756,994	260,000	507,600	767,600	3,524,594	2,192,266	1,332,328	
1980	1,350,000	1,322,700	2,672,700	300,000	492,000	792,000	3,464,700	2,553,985	910,715	
1981	1,555,000	1,240,038	2,795,038	300,000	474,000	774,000	3,569,038	3,129,055	439,983	
1982	1,355,000	1,146,312	2,501,312	300,000	456,000	756,000	3,257,312	3,057,238	200,074	24.54%
1983	1,310,000	1,064,375	2,374,375	300,000	438,000	738,000	3,112,375	3,170,850	(58,475)	
1984	1,115,000	981,488	2,096,488	400,000	420,000	820,000	2,916,488	2,868,400	48,088	
1985	1,220,000	910,700	2,130,700	400,000	396,000	796,000	2,926,700	2,732,738	193,962	
1986	1,160,000	836,800	1,996,800	400,000	372,000	772,000	2,768,800	2,491,263	277,537	
1987	1,160,000	765,475	1,925,475	400,000	348,000	748,000	2,673,475	2,514,025	159,450	49.29%
1988	1,260,000	692,800	1,952,800	400,000	324,000	724,000	2,676,800	2,368,675	308,125	
1989	1,260,000	616,138	1,876,138	500,000	300,000	800,000	2,676,138	2,285,900	390,238	
1990	1,360,000	535,088	1,895,088	500,000	270,000	770,000	2,665,088	2,301,775	363,313	
1991	1,410,000	449,475	1,859,475	500,000	240,000	740,000	2,599,475	2,263,663	335,812	
1992	1,210,000	358,975	1,568,975	500,000	210,000	710,000	2,278,975	2,268,163	10,812	77.18%
1993	1,110,000	279,000	1,389,000	500,000	180,000	680,000	2,069,000	2,218,100	(149,100)	
1994	1,100,000	203,350	1,303,350	500,000	150,000	650,000	1,953,350	1,913,150	40,200	
1995	1,100,000	127,125	1,227,125	500,000	120,000	620,000	1,847,125	1,718,725	128,400	
1996	500,000	50,625	550,625	500,000	90,000	590,000	1,140,625	1,618,625	(478,000)	
1997	500,000	16,875	516,875	500,000	60,000	560,000	1,076,875	1,527,950	(451,075)	
1998	—	—	—	500,000	30,000	530,000	530,000	837,000	(307,000)	100.00%
	$23,445,000	$14,459,871	$37,904,871	$8,460,000	$5,877,600	$14,337,600	$52,242,471	$46,937,474	$5,304,997	

(1) Interest on the Bonds has been calculated at the rate of 6% for purposes of illustration.

(2) See "State Aid to Education".

OFFICIAL STATEMENT DATED: January 3, 1978 **RATING: Moody's** **NEW ISSUE**
SALE DATE: January 17, 1978 **S & P**
SALE TIME: 9:00 a.m., Alaska Standard Time (11:00 a.m., Pacific Standard Time)

In the opinion of Counsel, interest on the bonds is exempt from federal income tax under present statutes, regulations and court decisions.

KENAI PENINSULA BOROUGH

$25,970,000

1978 GENERAL OBLIGATION SCHOOL BONDS



FINANCIAL CONSULTANTS

FOSTER & MARSHALL INC.

MEMBERS NEW YORK STOCK EXCHANGE, INC., AMERICAN STOCK EXCHANGE,INC.,
PACIFIC STOCK EXCHANGE, INC., MIDWEST STOCK EXCHANGE, INC.,
CHICAGO BOARD OPTION EXCHANGE

205 COLUMBIA, SEATTLE, WASHINGTON 98104 • AREA CODE 206-344-3500
OFFICES IN ALL THE PRINCIPAL CITIES OF THE PACIFIC NORTHWEST AND ALASKA

ANTICIPATED FUTURE FINANCING

In addition to the improvements to be financed by proceeds of this bond issue, Borough officials indicate a need for additional major capital projects, all of which are for school purposes (primarily new facilities and additions to existing facilities). The combined total costs of needed projects is estimated at approximately $20 million. The timing of and funding for these projects have not been established nor have bonds been authorized by the voters.

KENAI PENINSULA BOROUGH
SCHEDULE OF DIRECT AND OVERLAPPING GENERAL OBLIGATION DEBT (1)
June 30, 1977

Outstanding General Obligation Debt:	
Kenai Peninsula Borough: School Purposes (2)	$21,822,000
Service Areas: Fire, Recreation and Hospital Purposes (3)	1,870,097
This Issue (4)	25,970,000
Total Direct Debt, Including This Issue	$49,662,097
Estimated Overlapping Debt (100%):	
Cities of:	
Seldovia	$ 505,000
Homer	2,381,000
Kenai	4,690,000
Seward	1,489,000
Soldotna	1,648,000
Total Overlapping Debt	$10,713,000
Direct and Overlapping Debt, Including This Issue	$60,375,097

(1) Source: Kenai Peninsula Borough; the Borough has no authorized but unissued general obligation debt.

(2) Excludes refunded issues; 100% of the debt service requirements on these bonds will be reimbursed by the State of Alaska (see page 14) for payments made in 1976 and after.

(3) Includes $334,597 Central Hospital Service Area Small Business Administration Loan (see page 30, Appendix B).

(4) Approximately 50% of the debt service requirements on these bonds will be reimbursed by the State of Alaska (see page 14).

BONDED DEBT RATIOS*
June 30, 1977

Assessed Value (100% of Actual Value)	$1,188,172,242
Estimated Borough Population (see page 10)	24,611
Ratio of:	
Direct Debt to Assessed Value	4.18%
Direct and Overlapping Debt to Assessed Value	5.08%
Per Capita:	
Assessed Value	$48,278
Direct Debt	2,018
Direct and Overlapping Debt	2,453

*Includes this $25,970,000 issue.

Major industrial growth is occurring within the Borough, most notably, expansion of petrochemical industries and petroleum and natural gas exploration in the Gulf of Alaska and Cook Inlet (see page 16). However, District officials predict normal permanent growth (excluding any growth due to major oil related industrial expansion) as follows:

1977-78 Actual Enrollment	1978-79 Projected	1979-80 Projected	1980-81 Projected	% Increase 1977-78 to 1980-81
5,708	6,189	6,531	6,934	21.5%

Any significant additional growth prompted by major industrial expansion is expected to occur after 1980 and much of that growth would have a temporary effect. District officials expect to accommodate any such temporary growth in portable classrooms or rented spaces.

BOROUGH FINANCES

Major sources of revenue for the Borough include contributions from the state and federal governments and levy of property and sales taxes. The largest expenditures are for education, general administration and capital projects.

The State Department of Revenue collects the following taxes at the local level and returns all or a portion of the tax revenues to the local governments: general business license tax, amusement and gaming tax, aviation fuel tax, electric and telephone tax, liquor license tax and raw fish tax.

SCHOOL FINANCES

ESTIMATED REVENUE RECEIPTS FOR PUBLIC SCHOOLS, 1975-76 (1)

	Amount (millions)				Source: Percent of Total		
	Total	Federal	State	Local & Other	Federal	State	Local & Other
Average, All States	$67,136.9	$5,345.9	$29,321.6	$32,469.4	8.0	43.7	48.3
State of Alaska	$ 232.9	$ 35.2	$ 151.2	$ 46.5	15.1	64.9*	20.0

*% contribution by State of Alaska exceeded only by Hawaii and North Carolina; "Revenue Receipts" include receipts for: current expenditures, capital outlay and interest, and for summer school, adult programs and community services.

(1) Source: Tax Foundation, Inc.

STATE AID TO EDUCATION

The State of Alaska Department of Education makes direct payments to the Borough and other governmental units which operate schools under the following education aid programs: construction funds; reimbursements for debt service and cash payments on school facilities; general fund operation expenses; state impact; non-resident tuition; and pupil transportation.

None of these programs creates a debt or liability of the State, and each is subject to annual legislative appropriations. The following descriptions are based on Alaska Statutes as amended through the First Session of the Tenth Legislature (1977) and on records and documents of the Department of Education.

1. **Construction Funds** — A portion of the cigarette taxes levied by the State and collected within a Governmental Unit's jurisdiction are returned to the Governmental Unit. These funds are designated for new construction or major rehabilitation of schools or for the payment of debt service on bonds issued for such purposes. Moneys can be accumulated over a period of years as long as they are used only for the designated purposes. Payments are generally made in December following November 15 audits of the prior fiscal year.

2. **Reimbursement of Debt Service and Cash Payments on School Facilities** — Except as noted below, the State reimburses 50% of debt service payments on bonds sold, or of cash payments made, for school construction. For some facilities, such as vocational classrooms and equipment, the State's share is 75%. Beginning July 1, 1978, the State will reimburse 100% of debt service payments for debt incurred prior to July 1, 1977 and 100% of cash payments made prior to July 1, 1976, for school construction. These payments lag two years behind the actual debt service or cash payments. The calculation of school construction costs excludes all state and federal funds included in these costs except funds provided under the Construction Funds Program (described in the preceding paragraph) which are offset against the amount of reimbursement under this program. The State makes such payments in two installments, one in the late fall and one in the early spring of the fiscal year.

3. **General Fund Operation Expenses ("Public School Foundation Act")** — The State reimburses Governmental Units for 95% (increased from 93% for fiscal years prior to 1976/77) of their "basic needs" operating expenses as defined by the State, calculated on the basis of the pre-fiscal year computations. Beginning July 1, 1978, the State will increase the reimbursement to 97% of "basic needs." This money, prorated according to its availability, is generally paid monthly. A formula is used to adjust payments to schools based upon factors such as assessed valuations per pupil for the school district as compared to the Statewide average, location of the schools and the like.

4. **State Impact** — This program offers financial relief to schools providing free public education to students whose parents work and/or live on State property. The amount of State aid is based on the State average cost of education per student, as reflected in the audit report of district schools for the prior fiscal year, times the number of qualifying students in average daily membership. The State pays 50% of this amount to schools for each pupil with a parent who lives on *and* works on State property, and 25% for each pupil with a parent who lives on *or* works on State property. This money is also prorated according to its availability and generally paid in December based on the prior fiscal year. The Governor line-item vetoed a portion of the legislative appropriation for this program for fiscal year 1977/78 to reduce the amount to approximately 50% of entitlement for fiscal year 1976/77, as the first step of an expected two year phase-out of the program.

5. **Non-Resident Tuition** — When pupils residing outside of a city or borough, where the State is responsible for operating schools, attend a school operated by a city or borough, the State makes tuition payments to the Governmental Unit operating the school.

6. **Pupil Transportation** — The State reimburses local school districts for 100% of the costs of transporting pupils to and from school for distances greater than one and a half miles.

SALES TAX

Alaska Statutes allow boroughs to levy and collect sales tax not exceeding 3%, on sales and rents and on services performed within the borough. The Borough levies a sales tax which is dedicated to school purposes including debt service on school construction bonds. Total annual sales taxes have been collected by the Borough as follows:

Fiscal Year Ending June 30:	Tax Rate % of Sales	Sales Tax Collection*
1978	2	$2,600,000
1977	2	2,243,065
1976	2**	2,349,342
1975	3	2,144,923
1974	3	1,644,363
1973	3	1,423,111
1972	3	1,304,990
1971	3	1,277,148
1970	3	1,385,452

*Source: Kenai Peninsula Borough.

**The rate was changed from 3% to 2% in October, 1975; Borough officials anticipate maintaining the rate at 2%.

KENAI PENINSULA BOROUGH
GENERAL OBLIGATION BOND DEBT SERVICE SCHEDULE (1)

Year	Existing Debt: General Obligation School Bonds (100% Funded by the State) (2) Principal	Interest	Total	Total General Obligation Bonds: School and Service Area Bonds Principal	Interest	Total	This $25,970,000 Issue (Approx. 50% Funded by the State) (3) Principal	Interest (assuming 5.5%)	Total	Total General Obligation Bond Debt Service	Estimated State Reimbursement(2)(3)	Estimated Net Debt Service
1978-79	$ 1,290,000	$ 1,233,963	$ 2,523,963	$ 1,316,500	$ 1,330,673	$ 2,647,173	$ 1,150,000	$ 1,396,725	$ 2,546,725	$ 5,193,898	$ 2,422,485	$ 2,771,413
1979-80	1,365,000	1,153,182	2,518,182	1,391,500	1,248,300	2,639,800	1,210,000	1,331,825	2,541,825	5,181,625	2,542,586	2,639,039
1980-81	1,485,000	1,065,949	2,550,949	1,571,500	1,157,753	2,729,253	1,275,000	1,263,488	2,538,488	5,267,741	3,797,325	1,470,416
1981-82	1,575,000	972,237	2,547,237	1,606,500	1,060,411	2,666,911	1,350,000	1,191,300	2,541,300	5,208,211	3,789,095	1,419,116
1982-83	1,675,000	872,421	2,547,421	1,700,000	958,683	2,658,683	1,425,000	1,114,988	2,539,988	5,198,671	3,820,193	1,378,478
1983-84	1,770,000	771,173	2,541,173	1,795,000	855,850	2,650,850	1,500,000	1,034,550	2,534,550	5,185,400	3,817,887	1,367,513
1984-85	1,875,000	663,974	2,538,974	2,605,000	747,063	3,352,063	1,600,000	949,300	2,549,300	5,901,363	3,817,415	2,083,948
1985-86	2,005,000	539,835	2,544,835	2,030,000	575,507	2,605,507	1,685,000	858,963	2,543,963	5,149,470	3,808,448	1,341,022
1986-87	2,150,000	401,310	2,551,310	2,175,000	435,390	2,610,390	1,775,000	763,813	2,538,813	5,149,203	3,813,624	1,335,579
1987-88	2,290,000	271,770	2,561,770	2,320,000	304,257	2,624,257	1,875,000	663,438	2,538,438	5,162,695	3,816,816	1,345,879
1988-89	2,445,000	132,695	2,577,695	2,475,000	163,271	2,638,271	1,975,000	557,563	2,532,563	5,170,834	3,820,717	1,350,117
1989-90	670,000	29,185	699,185	705,000	57,850	762,850	2,100,000	445,500	2,545,500	3,308,350	3,830,989	(522,639)
1990-91				35,000	26,435	61,435	2,225,000	326,563	2,551,563	2,612,998	3,843,976	(1,230,978)
1991-92				35,000	24,206	59,206	2,350,000	200,750	2,550,750	2,609,956	1,971,935	638,021
1992-93				40,000	21,977	61,977	2,475,000	68,063	2,543,063	2,605,040	1,275,781	1,329,259
1993-94				45,000	19,428	64,428				64,428	1,275,375	(1,210,947)
1994-95				45,000	16,562	61,562				61,562	1,271,531	(1,209,969)
1995-96				50,000	13,696	63,696				63,696		63,696
1996-97				50,000	10,511	60,511				60,511		60,511
1997-98				55,000	7,325	62,325				62,325		62,325
1998-99				60,000	3,822	63,822				63,822		63,822
	$20,595,000	$ 8,107,694	$28,702,694	$22,106,000	$ 9,038,970	$31,144,970	$25,970,000	$12,166,829	$38,136,829	$69,281,799	$52,616,077	$16,665,722

(1) Includes all Kenai Peninsula Borough General Obligation Bonds as listed in Appendix B, page 30. Excludes a Small Business Administration loan for the Central Hospital Service Area with an outstanding principal balance due of $334,597 at June 30, 1977.

(2) Beginning July 1, 1978, the State of Alaska will reimburse 100% of debt service payments issued for school construction for general obligation bonds issued prior to July 1, 1977.

(3) The State will reimburse 50% of debt service payments on bonds sold for school construction (where bonds were issued subsequent to July 1, 1977) except for vocational classrooms (75% reimbursement); reimbursement will lag two years behind actual debt service payments.

Interest exempt, in the opinion of bond counsel, from present federal income taxes under existing statutes, regulations, rulings and court decisions.

OFFICIAL STATEMENT

$48,000,000

CITY OF VALDEZ, ALASKA

City General Obligation Bonds, Series 1979

Dated: June 1, 1979 **Dated: June 1, as shown below**

Principal and semi-annual interest (June 1 and December 1) payable at the Seattle-First National Bank, Seattle, Washington, or, at the option of the holder, at The Chase Manhattan Bank, N.A., New York, New York. First interest coupon due December 1, 1979. Coupon bearer bonds, not registrable.

These bonds (the "Bonds") constitute direct and voted general obligations of the City, payable from ad valorem taxes levied, *without limitation as to rate and amount*, on taxable property located within the City. The City has never defaulted.

The Bonds maturing on and after June 1, 1990, will be subject to redemption prior to maturity, at the option of the City, on or after June 1, 1989 at the redemption prices set forth herein.

MATURITY SCHEDULE

Amount	Due June 1	Rate	Yield	Amount	Due June 1	Rate	Yield
$ 700,000	1983			$1,700,000	1997		
800,000	1984			1,800,000	1998		
800,000	1985			1,900,000	1999		
900,000	1986			2,000,000	2000		
1,000,000	1987			2,200,000	2001		
1,000,000	1988			2,300,000	2002		
1,100,000	1989			2,400,000	2003		
1,100,000	1990			2,600,000	2004		
1,200,000	1991			2,700,000	2005		
1,300,000	1992			2,900,000	2006		
1,400,000	1993			3,100,000	2007		
1,400,000	1994			3,200,000	2008		
1,500,000	1995			3,400,000	2009		
1,600,000	1996						

(Accrued Interest from June 1, 1979, to be added)

The Bonds are offered for delivery when, as and if issued, and subject to the approving opinion of Wohlforth & Flint, Anchorage, Alaska, Bond Counsel, whose approving opinion will be printed on the Bonds. It is expected that the Bonds will be delivered on or about June 12, 1979.

May 7, 1979

REVENUES FROM OTHER GOVERNMENTAL AGENCIES

Education—Operating

The principal source of aid is the State's basic Foundation Program for support of education operating activities. The formula of the 1976 Legislature according to the State Department of Education would provide support for the operating school budget of $4,002,468.75 for FY 1976-77, and $4,402,715.52 for FY 1977-78.

The revisions of the 1977 Legislature resulted in the FY 1977-78 amount being increased to $4,859,250, and an amount of $5,232,180 for FY 1978-79.

Education—Construction

The 1977 Legislature passed legislation which as of July 1, 1978 revises the aid program to provide for 100% of the debt service incurred before July 1, 1977 and thereafter reverts back to the 50% formula for debt service incurred after July 1, 1977 or cash payments. The specific statute is as follows:

AS 43.18.100(a): "During each fiscal year, the state shall allocate to an organized borough or a city which is a school district, the following sums:

(1) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred before July 1, 1977 to pay costs of school construction, and cash payments made by the borough or city before July 1, 1976 to pay the cost of school construction;

(2) 50 percent of

(A) payments made by the borough or city during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after July 1, 1977 to pay costs of school construction;

(B) cash payments made after July 1, 1977 by the borough or city during the fiscal year two years earlier to pay costs of school construction."

(See Table A-3, Appendix A, Projections of Debt Service—State Aid—School Bonds.) This table reflects the aid at 50%. However, those principal and interest payments after July 1, 1978 will result in 100% aid authorization. This additional aid is projected at $22,670,500 for those projected disbursements from FY 1978/79 above the projected $12,014,000 outlined for those bonds outstanding as of June 30, 1976 and the $15,315,000 projected for the $23,000,000 of this issue for a total aid of $49,999,500 over the life of the $40,000,000 in school bonds issued by the Borough.

Other Intergovernmental Receipts

Table IV illustrates the detailed receipts of Revenues from Other Governmental Agencies.

OTHER RECEIPTS

Table V contains details concerning Miscellaneous Revenues of the Borough.

OTHER MISCELLANEOUS DATA

Retirement

As of December 31, 1975, an actuarial study indicated unfunded accrued benefits at $246,690 to the State Public Employees' Retirement System. The consolidated employer rate is 9.43% of salaries of which 3.10% is for prior service benefits to be amortized over a 40-year period at $14,382 per year.

TABLE XII

DEBT SERVICE REQUIREMENTS TO MATURITY—ACTUAL AND ESTIMATED

GENERAL OBLIGATION BONDS

(In $000's to nearest $1,000)

June 30	Bonds Outstanding		This Issue*—Series H		Estimated Total Debt Service
	Principal	Interest	Principal	Interest—7.00%	
1978	$ 2,600	$ 2,218.5	$ —	$ — **	$ 4,818.5
1979	3,100	2,011.5	4,000	7,154	16,265.5
1980	3,600	1,785.5	4,500	3,297	13,182.5
1981	3,300	1,558.6	4,500	2,982	12,340.6
1982	2,800	1,340.9	5,000	2,667	11,807.9
1983	2,200	1,154.8	5,500	2,317	11,171.8
1984	2,100	1,003.7	7,500	1,932	12,535.7
1985	1,800	868.3	5,000	1,407	9,075.3
1986	1,600	742.0	4,500	1,057	7,899.0
1987	2,400	627.3	4,000	742	7,769.3
1988	2,900	437.0	3,000	462	6,799.0
1989	2,900	228.8	2,600	252	5,980.8
1990	1,200	44.8	1,000	70	2,314.8
TOTALS	$32,500	$14,021.7	$51,100	$24,339	$121,960.7

*Memo —

School Facilities	$23,000,000	$3,000,000 1979; $3,500,000 1980-81; $4,000,000 1982; $4,500,000 1983-84
Housing	7,600,000	$2,000,000 1985-87; $1,000,000 1988; $600,000 1989
Roads	7,800,000	$1,000,000 1979-83; $800,000 1984; $1,000,000 1989-90
Light, Power & Heating Systems	5,500,000	$500,000 1984; $1,000,000 1985; $2,000,000 1986; $1,000,000 1987-88
Sanitary Fac.—Prudhoe Bay	5,500,000	$1,500,000 1985; $1,000,000 1986-1989
Water Facilities	75,000	$75,000 1984
Sewer Facilities	350,000	$350,000 1984
Airport Facilities	175,000	$175,000 1984
Urban Development	830,000	$830,000 1984
Sanitary Facilities	270,000	$270,000 1984
TOTAL	$51,100,000	

**Included in an 18-month coupon is $3,577,000 for the 12-month period.

OFFICIAL STATEMENT DATED: August 21, 1980

NEW ISSUE
RATINGS: Moody's A
S&P A

In the opinion of Counsel, interest on the Bonds is exempt from Federal income tax under present statutes, regulations and court decisions.

ALASKA MUNICIPAL BOND BANK

$16,170,000

1980 SERIES A BONDS
GENERAL OBLIGATION SERIES

DATED: August 1, 1980 **DUE: August 1, 1982-2000**

The Bonds will be general obligations of the Alaska Municipal Bond Bank (the "Bank") issued in the denomination of $5,000 either in coupon form, payable to bearer and registrable as to principal alone, or in fully registered form without coupons. Both principal of and interest on the Bonds will be payable at the offices of the Trustee, Rainier National Bank, Seattle, Washington, or, in the case of coupon bonds only, coupons and unregistered principal are also payable at Chemical Bank, New York, New York. The Bonds will pay interest semi-annually on the first days of August and February commencing August 1, 1981.

MATURITY SCHEDULE

Amount	Due August 1,	Coupon	Yield or Price	Amount	Due August 1,	Coupon	Yield or Price
$370,000	1982	9.00%	5.50%	$ 800,000	1992	7.45%	7.60%
395,000	1983	9.00	5.75	865,000	1993	7.60	7.75
430,000	1984	9.00	6.00	935,000	1994	7.75	7.90
470,000	1985	9.00	6.20	1,010,000	1995	8.00	8.10
510,000	1986	9.00	6.40	1,095,000	1996	8.00	8.20
550,000	1987	9.00	6.70	1,175,000	1997	8.00	8.30
595,000	1988	9.00	6.90	1,275,000	1998	8.00	8.40
635,000	1989	9.00	7.10	1,370,000	1999	8.00	8.50
690,000	1990	7.30	7.25	2,255,000	2000	8.00	8.50
745,000	1991	7.30	7.40				

See Redemption Provision

(Accrued Interest to be Added)

Redemption Provision — The Bank reserves the right to redeem any or all of the Bonds outstanding, in whole or in part, on or after August 1, 1990 at par plus accrued interest to the date of redemption. Notice will be given by publication once a week for two successive weeks, the first such publication not less than 30 days nor more than 60 days prior to date of redemption, in a newspaper of general circulation publishing financial news in New York, New York. A like notice will be mailed to registered owners of any Bonds. Interest on any Bonds called for redemption will cease on such redemption date.

Legal Opinion and No Litigation Certificate — These Bonds are offered when, as and if issued, subject to the approval of legality by Wohlforth & Flint, Bond Counsel, Anchorage, Alaska. The Bank will furnish the unqualified approving legal opinion of Wohlforth & Flint, to the effect that the Bonds are valid and legally binding obligations of the Bank and to the effect that the interest on the Bonds is exempt from Federal income taxation under existing statutes, regulations, rulings and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds or the coupons appertaining thereto, will also be furnished.

It is anticipated that these Bonds in definitive form will be ready for delivery on or about August 21, 1980.

nuveen

John Nuveen & Co. Incorporated

State Payments to Government Units

The State of Alaska disburses funds to the Government Units (as described below) which generally are available for uses other than paying Municipal Bond debt service. However, in event of default by the Government Units, the Bank can cause such funds, held in custody by the State, to be paid over to the Bank.

Three State Departments disburse moneys to Government Units as follows:

(1) *Department of Education* — State appropriations and cigarette taxes earmarked for education, including reimbursements (at rates of 50-100%) of both debt service and cash payments on school facilities.

(2) *Department of Revenue* — Local share of various taxes collected by the State within the jurisdiction of the local governments including corporate income, amusement, aviation fuel, electric, telephone, liquor and raw fish taxes.

(3) *Department of Community and Regional Affairs* — State Aid to local governments includes direct grants and contributions for roads, health facilities, and hospitals under 1980 legislation.

During the year 1979 State payments totalling approximately $50.1 million for the three categories of payments outlined above were made to Government Units which currently have general obligation Municipal Bonds outstanding (owned by the Bank) under the General Resolution and the 1980 Bond Resolution.

Government Unit	Education Aid (1)	Shared Taxes (2)	State Aid (3)	Totals	Future Average Annual Debt Service (5)	State Payments Ratio (6)
City and Borough of Sitka (4)	$ 4,150,546	$ 197,315	$ 375,960	$ 4,723,821	$ 924,804	5.11
Bristol Bay Borough (4)	1,103,482	203,202	34,970	1,341,654	408,360	3.29
City of Kodiak	—	376,621	193,850	570,471	160,314	1.40
City of Seward	—	102,701	218,723	321,424	110,014	2.92
Matanuska-Susitna Borough	12,712,605	229,379	277,661	13,219,645	829,760	15.93
City of Homer	—	109,693	77,893	187,586	225,225	.83
City of Nome	3,430,334	57,669	348,267	3,836,270	46,651	82.14
City of Soldotna	—	135,756	108,066	243,822	171,779	1.42
City and Borough of Juneau	9,872,298	500,371	755,106	11,127,775	374,988	29.67
City of Ketchikan	—	250,278	360,286	610,564	507,376	1.21
City of Bethel	—	93,504	253,997	347,501	86,472	4.05
City of Wrangell	1,310,221	54,159	191,071	1,555,451	135,375	11.52
City of Fairbanks	—	1,307,405	1,533,375	2,840,780	161,506	17.54
City of Palmer	—	91,013	149,820	240,833	183,186	1.32
City of Kenai	—	231,166	223,633	454,799	41,280	11.09
City of Unalaska	743,506	267,447	92,731	1,103,684	102,780	10.71
Kodiak Island Borough	6,843,336	382,864	194,481	7,420,681	1,245,360	5.96
Total	$40,166,328	$4,590,543	$5,389,890	$50,146,761		

Sources:

(1) State of Alaska Department of Education, Fiscal Year 1979/80, the Cities of Kodiak, Seward, Homer, Soldotna, Ketchikan, Bethel, Palmer and Fairbanks do not operate schools.

(2) State of Alaska Department of Revenue, Fiscal Year 1978/79.

(3) State of Alaska Department of Community and Regional Affairs, Fiscal Year 1978/79.

(4) Only State payments payable to Bristol Bay Borough and the City and Borough of Sitka after May 1, 1980 may be withheld in the event of default on the general obligation Municipal Bonds which secure the 1980 First Special Issue bonds. These bonds together with Reserve Fund Obligations comprised the 1980 First Special Issue dated April 1, 1980.

(5) This column shows the future average annual debt service due on Municipal Bonds purchased by the Bank.

(6) This column represents the ratio of State Payments to Government Units versus future average annual debt service for the respective municipalities on one or more bond issues including this Bond issue. Debt service for this Bond issue was calculated assuming an interest rate of 8% per annum. State aid in future years is subject to legislative appropriation.



KODIAK ISLAND BOROUGH

Kodiak, Alaska

May, 1983

FINANCIAL AND FISCAL MATTERS

Debt Structure

Neither state law nor the Kodiak Island Borough Code imposes any debt limit on Alaskan municipalities. The Borough Code does, however, require general obligation bond issues, except refunding bonds, to be authorized by a majority vote of the electorate voting on the question.

The following statement of direct and overlapping bonded debt relates to the outstanding general obligation bonds of the Borough, including the $7,400,000 of general obligation bonds sold in May 1983.

Outstanding General Obligation Bonds:		
School Bonds	$ 22,000,000	
Other Bonds	300,000	
Gross Debt	$ —	$ 22,300,000
Less: Self-Supporting Bonds	—	—
Special Assessments	—	—
Total Net Direct Debt		$ 22,300,000
Assessed Valuation, 1982①		
Real Property	$370,439,377	
Personal Property	67,606,123	
		$438,045,500

Ratios to 1982 Assessed Valuation①		**Per Capita**②	
Net Direct Debt	5.1%	Net Direct Debt	$ 1,754
Total Debt	5.1%	Total Debt	1,754
		1982 Assessed Valuation①	34,454

① Valuations are at 100% of estimated full value.

② Population of 12,714 as of August 1, 1982 per Special Census and accepted by the State Demographer.

Including the recent sale of the $7,400,000 general obligation bonds, the Borough will have a total of general obligation bonds authorized but unissued of $9,500,000, all for school purposes. The Borough presently has no other types of bonds authorized.

State Contribution Toward School Bond Debt Service

The State of Alaska contributes to local school construction and debt retirement primarily through two programs. The first involves a share of State tobacco tax revenues, which share the District has dedicated to debt service on school bonds and the amounts of which are included in Table 3 below.

The second program was created by the State Legislature in 1970 and provides a system under which the State, subject to annual appropriation by the Legislature, will reimburse local school districts part of the cost of debt service on school construction bonds and a share of the cost of construction of school plant not financed by bonds. About 90% of the State's revenue comes from oil and gas production in the form of royalties and taxes. A decrease in the world market price of crude oil has had an adverse impact on the State's ability to fund this program. Under the statute (AS 43.18.100), which created the second program, the amount of the tobacco tax allocation received by a school district is offset against the amount of the reimbursement. The reimbursement each year is based upon the amount of debt service on school debt and/or the amount paid for school construction from funds other than bond proceeds during the fiscal year two years prior to the year of the reimbursement. The allocations pursuant to this program received by the School District are shown below and are available for debt service on school bonds, although such allocations are unrestricted revenue and can be used to fund general education expenditures as well.



TABLE 17

STATE CONTRIBUTION TO KODIAK ISLAND BOROUGH SCHOOL DISTRICT CONSTRUCTION

Year Ended June 30	Tobacco Tax Allocation	State Aid Allocation	Total
1982	$79,326	$634,491	$713,817
1981	65,784	616,108	681,892
1980	62,086	317,602	379,688
1979	59,891	283,969	343,860
1978	61,969	173,701	235,670
1977	73,508	157,424	230,932
1976	59,628	215,693	275,321
1975	63,835	223,000	286,835
1974	62,659	168,578	231,237
1973	67,427	8,462	75,889

Source: Kodiak Island Borough.

Legislation entitled "Senate Committee Substitute for Committee Substitute for House Bill No. 279 (Finance)" was enacted in 1982. Such legislation provides generally that for debt issued prior to 1977, the State will reimburse the Borough at 100% of annual costs, but with a two-year lag. Debt incurred after June 30, 1977 and before December 31, 1981 would have the State reimburse 90% of annual costs with a two-year lag. Debt issued after December 31, 1981 (the Bonds would apply) would have the State reimburse 90% debt service in the fiscal year paid. As noted previously, this reimbursement is subject to annual appropriations and could be adversely impacted by a decrease in state revenues due to a decline in crude oil prices.

Revenues and Expenditures

Each year the Borough must approve a budget and a tax levy ordinance. Budget hearings are held during the months of March and April and individual budget sessions follow with departments and agencies. The total 1982/83 budget called for expenditures of $5,030,760 compared to revenues received in 1981/82 of $5,964,088.

In fiscal year ei led June 30, 1982, General Fund revenues generated locally totalled $3,260,827 of which 69%—or $2,236,368—was from property taxes. Receipts from State and Federal governments increased revenues by $2,703,261 to a total of $5,964,088 of which only 37% was represented by local property taxes. Total expenditures for the period equalled $3,893,139.

The Marching Band during the annual Crab Festival



This is a Preliminary Official Statement and is subject to change and correction. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 28, 1983

NEW ISSUE

Ratings: Fitch's:
Moody's:
Standard & Poor's:

OFFICIAL STATEMENT
Relating to the Original Issuance of

$90,800,000
North Slope Borough, Alaska

General Obligation Refunding Bonds of 1983
Series B
Dated: November 15, 1983 **Due: June 30, As Shown Below**

The General Obligation Refunding Bonds of 1983, Series B will be issued only as fully registered bonds in the denomination of $5,000 or any integral multiple thereof. These Bonds are not subject to redemption prior to maturity.

Interest from the date of the Bonds will be payable annually at the rates specified below on June 30, commencing June 30, 1984, by check or draft mailed to the owner in whose name the Bond is registered upon the Books of Registry as of the close of business on the fifteenth day of June in each year at his address appearing upon such Books of Registry to be kept by Rainier National Bank, Registrar, at its principal office in Seattle, Washington, and by Chemical Bank, Co-Registrar, at its principal office in New York, New York. Principal payable at Rainier National Bank, Paying Agent, in Seattle, Washington.

The Bonds are general obligations of the Borough, and the full faith and credit of the Borough are pledged to the payment of the principal of and interest on the Bonds The Borough has the power and is obligated to levy ad valorem taxes on all property within the Borough, subject to taxation by the Borough, without limitation as to rate or amount, for the payment of the principal of and interest on the Bonds. The Bonds are issued for the purpose of refunding certain outstanding bonds of the Borough. The proceeds of the Bonds, together with other funds of the Borough, will be applied to the purchase of direct obligations of the United States the principal of and interest on which will be used to pay the interest on and principal of such outstanding bonds as they become due.

MATURITIES

Year	Amount	Interest Rate	Yield or Price
1987	$18,200,000	8.75 %	%
1988	31,200,000	8.75	
1989	25,500,000	9.25	
1990	15,900,000	9.50	

(Plus accrued interest from November 15, 1983.)

The Bonds are offered when, as and if issued by the Borough, and accepted by the Underwriter named below, subject to prior sale and subject to the approval as to their validity by Wood & Dawson, New York, New York, Bond Counsel. Certain legal matters will be passed upon by Counsel to the Underwriter, Willkie Farr & Gallagher, New York, New York. It is expected that the Bonds will be available for delivery in definitive form on or about November 15, 1983. In the opinion of Bond Counsel interest on the Bonds is exempt from federal income taxation under existing law and regulations. See "Opinion of Bond Counsel."

E. F. Hutton & Company Inc.

Dated: , 1983

State Aid for Education—Operations

The Foundation Program of the State is the principal source of aid to education. The formula is as follows:

FY	Amount Per Instructional Unit		District Multiplier			State Share		Total No. of Units		Total Aid
80-81	$34,935	X	1.55	=	$54,149	X 97%	X	142	=	$7,458,483
81-82	$38,590	X	1.55	=	$59,815	X 100%	X	144	=	$8,613,360
82-83	$42,450	X	1.55	=	$65,797	X 100%	X	149	=	$9,803,753*
83-84	$42,450	X	1.55	=	$65,797	X 100%	X	149	=	$9,803,753

	Fiscal Year 1977-78	Fiscal Year 1978-79	Fiscal Year 1979-80	Fiscal Year 1980-81	Fiscal Year 1981-82	Fiscal Year 1982-83
Community Education	1	—	—	—	—	—
Reg. Instruct. Units	83	93	92	100	101	106
Vocational Education	14	15	21	18	15	18
Special Education	19	17	16	11	11	12
Correspondence	3	2	3	3	3	3
Bilingual Education	—	—	7	10	14	13
TOTALS	120	127	139	142	144	152

*Note: The Legislature underfunded this program by 4% to date.

State Aid for Education—Construction

Pursuant to Alaska Statutes 43.18.100, State aid is authorized for the payment of 100% of the debt service incurred prior to July 1, 1977 by a municipality for school construction, and 90% of the debt service so incurred or cash payments made subsequent to June 30, 1978 by an organized borough or city for school construction projects, as approved by the State. Alaska Statutes provide as follows:

"(a) During each fiscal year the state shall allocate to a municipality that is a school district, the following sums:

(1) payments made by the municipality during the fiscal year or two years earlier for the retirement of principal and interst on outstanding bonds, notes or other indebtedness incurred before July 1, 1977 to pay costs of school construction;

(2) 90 per cent of

(A) payments made by the municipality during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1977 and before July 1, 1978 to pay costs of school construction;

(B) cash payments made after June 30, 1976 and before July 1, 1978 by the municipality during the fiscal year two years earlier to pay costs of school construction; and

(3) 90 percent of

(A) payments made by the municipality during the fiscal year two years earlier for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after June 30, 1978 and before January 1, 1982 to pay costs of school construction projects approved under AS 14.07.020(11);

(B) cash payments made after June 30, 1978 and before July 1, 1982 by the municipality during the fiscal year two years earlier to pay costs of school construction projects approved under AS 14.07.020(11)."

(4) subject to (h) and (i) of this section 90 percent of

(A) payments made by the municipality during the current fiscal year for the retirement of principal and interest on outstanding bonds, notes or other indebtedness incurred after December 31, 1981 to pay costs of school construction, additions to schools, and major rehabilitation projects that exceed $25,000 and are approved under AS 1407.020(11); and

(B) cash payments made after June 30, 1982 by the municipality during the fiscal year two years earlier to pay costs of school construction, additions to schools, and major rehabilitation projects that exeed $25,000 and are approved under AS 14.07.010(11).

Alaska Statutes 14.07.020(11) requires the approval by the State Department of Education of plans for construction and the extent of eligibility for State aid of school construction projects. The critical effect of the preceding statutory requirements on the Borough is the consequent statutory diminution of the financial participation in school construction by the State after July 1, 1978, to 90% of the approved costs of basic educational facilities, as defined by regulation. The remaining 10% of such costs will not be funded by the State. To the extent that such costs for the additional facilities exceed regulatory standards set by the Department of Education, such costs will not be funded by the State.

State aid for construction of educational facilities is projected as follows:

	Aggregate Principal Amount Outstanding	Total Debt Service	State Aid*
	($000)	($000)	($000)
Bonds Issued Prior to June 30, 1978	$ 40,000	$ 53,838	$ 49,985
Gen. Obligation Bonds, Series I-K,N,O,P	131,100	205,743	126,398
Bonds Authorized and to be Issued**	36,120	55,338	27,669
	$207,220	$314,919	$204,052

*State Aid is projected at approximately 50% of debt service on bonds issued subsequent to June 30, 1978 to pay the costs of school construction, thereby assuming, among other factors, appropriations by the State Legislature at a level below that authorized by statute.

**Pursuant to Ordinance 82-10A, bonds authorized but unisused $34,555,000 and $1,565,000 to be authorized (see "Operating and Capital Budget Procedures").

See Table II-8, Code 50-507 Debt Service, for past receipts and budget estimate FY 1982/83.

Federal Aid—Operations

Table II-10 provides a summary of federal aid in prior years as well as budgetary estimates; while Table II-8 outlines the detailed receipt code (asterisked) for aid. The principal single source is Public Law 874 reimbursement for certain children whose parents live or work on federal property. The next major source is in the area of health and social services for various contract work performed throughout the Borough's eight communities.

Federal Aid—Construction

There has been little federal aid for construction directly to the Borough; the exception being for construction of the Point Lay school of $4,542,000.

NEW ISSUE
CITIZEN BONDS™

RATINGS: Moody's: A1
Standard & Poors: A

In the opinion of Bond Counsel, interest on the Bonds is exempt from all present Federal income taxes under existing statutes, regulations, court decisions and rulings.

$14,000,000
MUNICIPALITY OF ANCHORAGE, ALASKA
1985B GENERAL OBLIGATION GENERAL PURPOSE BONDS

Dated: June 1, 1985

Due: August 1, 1986-2005

The Bonds are to be issued only as fully registered bonds without coupons and when issued will be registered to Cede & Co. as nominee of The Depository Trust Company, New York, New York, which will act as depositary. Individual purchases of Bonds will be made in the principal amount of $1,000 or integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership interests in the Bonds, but each will receive a credit balance on the books of its nominee, and this credit balance will be confirmed by an initial-transaction statement stating the details of the Bonds purchased. Certain concepts and procedures employed in the issuance of, and the registration program for, the Bonds are embraced by the CITIZEN BONDS™ program developed by Prudential-Bache Securities Inc. (See "CITIZEN BONDS™" hereinafter.)

Principal of and interest (February 1, 1986, and semiannually thereafter February 1 and August 1) on the Bonds are payable to Cede & Co., and such principal and interest payments will in turn be disbursed to the owners of the Bonds through their nominees. Transfer of ownership interests in the Bonds will be accomplished by book entries made by the depositary and the nominees of Bond owners so that a new Bond owner will receive a credit balance on the books of its nominee and a confirming statement in the same manner as an initial purchaser of an ownership interest in the Bonds. The Bonds are subject to redemption prior to maturity on any interest payment date on and after August 1, 1995, at the redemption prices set forth herein.

The Bonds are general obligations of the Municipality of Anchorage, and the full faith, credit and taxing power of the Municipality are pledged for the payment of the principal of and interest on the Bonds when due. The Municipality has irrevocably pledged and covenanted to levy and collect taxes upon all taxable property within the Municipality, without limitation as to rate or amount, in amounts sufficient together with other funds available therefor to pay the principal of and interest on the Bonds when due.

MATURITIES, AMOUNTS, RATES AND PRICES OR YIELDS

Due August 1	Amount	Rate	Price	Due August 1	Amount	Rate	Price
1986	$340,000	5.50%	100%	1996	$ 885,000	8.50%	100%
1987	355,000	6.00	100	1997	990,000	8.70	100
1988	395,000	6.50	100	1998	865,000	8.80	100
1989	410,000	7.00	100	1999	945,000	8.90	100
1990	105,000	7.20	100	2000	635,000	9.00	100
1991	560,000	7.40	100	2001	990,000	9.00	100
1992	605,000	7.60	100	2002	1,025,000	9.05	100
1993	425,000	7.80	100	2003	1,040,000	9.10	100
1994	345,000	8.00	100	2004	1,210,000	9.10	100
1995	595,000	8.25	100	2005	1,280,000	9.10	100

(Accrued interest from June 1, 1985 to be added)

The Bonds are offered in book-entry form when, as and if issued and received by the Underwriters and subject to the approving legal opinion of Wohlforth & Flint, Bond Counsel, of Anchorage, Alaska, as to validity and the exemption of interest thereon from Federal income taxation. Certain legal matters will be passed upon for the Underwriters by Preston, Thorgrimson, Ellis & Holman, Underwriters' Counsel, of Seattle, Washington.

It is expected the Bonds will be delivered to the Underwriters for deposit with The Depository Trust Company in New York, New York, on or about June 27, 1985.

June 4, 1985

Prudential-Bache
Securities

Boettcher & Company
Merrill Lynch Capital Markets
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Wedbush, Noble, Cooke, Inc.

E.F. Hutton & Company Inc.
Shearson Lehman Brothers Inc.
Foster & Marshall Division
Dean Witter Reynolds Inc.

Taxes levied by a municipality for purposes other than debt service on general obligation bonds are limited by Alaska Statutes 29.53.050(a) to an amount equal to 3 percent of the assessed valuation of taxable property. Certain types of property related to oil and gas production and transmission, as defined by AS 43.56, are assessed by the State Department of Revenue and, except for taxes levied for debt service on general obligation bonds, taxes against such properties are limited to a State levy maximum rate of 20 mills (2%) on the true value, and levies by municipalities against such properties are treated as credits against the State levy and are subject to certain limitations designed to restrict taxation of such properties by sparsely settled municipalities which have disproportionately large installations of oil and gas facilities within their boundaries. These limitations appear to have no foreseeable material effect upon the financial position or resources of the Municipality, the assessed valuation of such oil and gas properties within the Municipality being only $85,796,600 for 1984 taxes.

At the October 4, 1983 election, voters of the Municipality approved an initiative measure amending the Municipal Charter effective with the 1984 municipal budget (and the 1984-85 School District budget) which provides that the total amount of municipal tax that can be levied during a fiscal year shall not exceed the total amount approved by the Assembly for the preceding year by more than a percentage determined by multiplying the percentage increase in the Federal Consumer Price Index for Anchorage from the preceding fiscal year times the average percentage growth or loss in the Anchorage municipal population over the preceding five fiscal years as determined by the State Department of Community and Regional Affairs. This tax limitation does not apply to:

1. Taxes on new construction or property improvements which occur during the current fiscal year.

2. Taxes required to fund additional services mandated by voter-approved ballot issues.

3. Special taxes authorized by voter-approved ballot issues.

4. Taxes required to fund the costs of judgments entered against the Municipality.

5. Taxes required to pay principal or interest on bonds, including revenue bonds.

6. Taxes required to fund the cost of an emergency ordinance enacted pursuant to the Municipal Charter.

Any tax increases which result from exceptions 1 through 3 set forth above will be added to the base amount which is used for the calculation of the subsequent year tax increase limit.

STATE CONTRIBUTIONS TOWARD SCHOOL BOND DEBT SERVICE

The outstanding general obligation debt of the Municipality included $150,235,000 School Bonds, as of December 31, 1984, issued by the Municipality and its predecessor, the Greater Anchorage Area Borough. The Anchorage School District does not have the authority to issue bonds.

The State of Alaska contributes to local school construction and debt retirement primarily through two programs. Under the first program, the State distributes a share of State tobacco tax revenues among local school districts. The Anchorage School District has dedicated its share of these revenues to debt service on school bonds although it is not required to do so.

The second program was created by the State Legislature in 1970 and provides a system under which the State, subject to annual appropriation, will reimburse local school districts part of the cost of debt service on school construction bonds and a share of the cost of construction of school plant not financed by bonds. Under the statute (AS 43.18.100), the amount of the tobacco tax allocation received by a school district is an offset against the amount of the reimbursement. The reimbursement formula has been revised by the State Legislature several times. Under the current formula, the reimbursement for school bond debt service will be calculated as follows:

1. For debt issued prior to July 1, 1977, the amount of the reimbursement will be 100 percent of debt service

during the fiscal year two years prior to the year of reimbursement (in other words, there is a two-year lag between the year of payment of debt service and the year of reimbursement).

2. For debt issued between July 1, 1977, and December 31, 1981, the amount of the reimbursement will be 90 percent of debt service during the fiscal year two years prior to the year of reimbursement.

3. For debt issued on or after January 1, 1982, and authorized on or before June 30, 1983, the amount of the reimbursement will also be 90 percent of debt service, but the reimbursement will be made in the fiscal year in which the debt service is paid.

4. For debt authorized after June 30, 1983, the amount of the reimbursement will be 80 percent of debt service, and the reimbursement will be made in the fiscal year in which the debt service is paid. None of the outstanding school bonds of the Municipality fall within this category.

Approximately 90 percent of the State of Alaska's revenue is derived from oil and gas production in the form of royalties and taxes. A decrease in the world market price of crude oil has an adverse impact on the State's financial position and, consequently, its ability to fund this program.

Under the statute, in the event funds are not available to fully fund the program, the funds that are available will be distributed pro rata among the eligible local governments. State appropriations are also subject to a Constitutional amendment passed in 1982 which limits State appropriations.

The allocations pursuant to the tobacco tax and State aid programs received by the Anchorage School District the past 10 years have been as follows:

Year Ended June 30	Tobacco Tax Allocation	State Aid Allocation	Total
1985 (Preliminary)	$1,079,068	$17,368.913	$18,447,981
1984	1,069,038	18,552,237	19,621,275
1983	3,075,365	14,272,757	17,348,122
1982	1,061,903	9,914,812	10,976,715
1981	855,623	11,446,809	12,302,432
1980	869,367	9,739,183	10,608,550
1979	894,332	9,944,227	10,838,559
1978	957,931	5,598,798	6,556,729
1977	1,090,725	4,866,856	5,957,581
1976	802,369	4,649,923	5,452,292

MUNICIPALITY OF ANCHORAGE

Anchorage, situated on a broad plain at the head of Cook Inlet in southcentral Alaska, was settled in 1915 as a construction base of the Alaska Railroad built by the Federal Government from the Gulf of Alaska to Fairbanks in interior Alaska. The largest of Alaska's cities, Anchorage is a modern, progressive and dynamic metropolitan center with a population, estimated by the Community Planning Department of the Municipality, of 244,030, as of July 1, 1984.

In 1975, the citizens of the Anchorage area ratified a Home Rule Charter for a unified municipal government, and under the Charter the former governments (the City of Anchorage (the "City"), incorporated in 1920; the Greater Anchorage Area Borough (the "Borough"), incorporated in 1964; and two small incorporated communities, Girdwood and Glen Alps) were dissolved as of September 15, 1975, and the Municipality became their legal successor for all rights, titles, actions, suits, franchises, contracts and liabilities and all civil, criminal or administrative proceedings. The area of the Municipality is coterminous with the area of the former Borough and totals approximately 2,006 square miles (approximately 1,717 square miles of land area).

DEBT SERVICE SCHEDULE
GENERAL OBLIGATION BONDS
MUNICIPALITY OF ANCHORAGE
As of December 31, 1984

	School Bonds				Other Bonds[2]				
Year	Principal Outstanding[1]	Interest	Principal Maturity	Total Debt Service	Principal Outstanding[1]	Interest	Principal Maturity	Total Debt Service	Total Requirements
1985	$150,235,000	$10,529,256	$ 9,645,000	$ 20,174,256	$244,107,900	$ 16,977,162	$ 13,371,000	$ 30,348,162	$ 50,522,418
1986	140,590,000	9,958.059	10,185,000	20,143,059	230,736,900	18,376,562	14,877,000	33,253,562	53,396,621
1987	130,405,000	9,327,957	10,750,000	20,077,957	215,859,900	17,124,303	15,812,000	32,936,303	53,014,260
1988	119,655,000	8,640,202	11,390,000	20,030,202	200,047,900	15,971,130	16,402,000	32,373,130	52,403,332
1989	108,265,000	7,894,394	12,090,000	19,984,394	183,645,900	14,762,824	17,248,000	32,010,824	51,995,218
1990	96,175,000	7,084,265	12,800,000	19,884,265	166,397,900	13,502,768	16,973,000	30,475,768	50,360,033
1991	83,375,000	6,249,123	13,525,000	19,774,123	149,424,900	12,254,559	17,468,000	29,722,559	49,496,682
1992	69,850,000	5,341,370	14,360,000	19,701,370	131,956,900	10,917,146	17,784,000	28,701,146	48,402,516
1993	55,490,000	4,395,700	15,220,000	19,615,700	114,172,900	9,512,267	17,084,000	26,596,267	46,211,967
1994	40,270,000	3,212,325	16,330,000	19,542,325	97,088,900	8,136,609	14,354,000	22,490,609	42,032,934
1995	23,940,000	1,861,239	17,595,000	19,456,239	82,734,900	6,914,227	11,760,000	18,674,227	38,130,466
1996	6,345,000	388,805	2,260,000	2,648,805	70,974,900	5,967,130	11,575,000	17,542,130	20,190,935
1997	4,085,000	220,320	1,285,000	1,505,320	59,399,900	5,074,052	10,456,000	15,530,052	17,035,372
1998	2,800,000	135,680	1,360,000	1,495,680	48,943,900	4,276,520	9,341,000	13,617,520	15,113,200
1999	1,440,000	46,080	1,440,000	1,486,080	39,602,900	3,534,616	8,187,000	11,721,616	13,207,696
2000					31,415,900	2,760,862	7,977,000	10,737,862	10,737,862
2001					23,438,900	2,027,687	7,061,900	9,089,587	9,089,587
2002					16,377,000	1,322,128	6,543,000	7,865,128	7,865,128
2003					9,834,000	756,290	3,354,000	4,110,290	4,110,290
2004					6,480,000	478,418	3,069,000	3,547,418	3,547,418
2005					3,411,000	206,424	3,300,000	3,506,424	3,506,424
2006					111,000	5,273	16,000	21,273	21,273
2007					95,000	4,512	17,000	21,512	21,512
2008					78,000	3,705	18,000	21,705	21,705
2009					60,000	2,850	19,000	21,850	21,850
2010					41,000	1,947	20,000	21,947	21,947
2011					21,000	998	21,000	21,998	21,998
		$75,284,775	$150,235,000	$225,519,775		$170,872,969	$244,107,900	$414,980,869	$640,500,644

(1) Outstanding at beginning of year plus, for 1985, the Bonds and the $21,220,000 1985 General Obligation General Purpose Bonds sold January 8, 1985.

(2) Includes the Bonds and the $21,220,000 1985 General Obligation General Purpose Bonds sold January 8, 1985.

NOTE: School Bonds are shown separately because they are substantially supported by State sources as described under "State Contributions Toward School Bond Debt Service."

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Table
As of 01/22/86

	Moody's	S&P		5 Years	10 Years	15 Years	20 Years
Group 1	Aa1	AA	Connecticut	-.10	-.10	-.10	-.10
	Aaa	AA	Georgia	-.10	-.10	-.10	-.10
	Aaa	AAA	Maryland	-.10	-.10	-.10	-.10
	Aaa	AAA	New Jersey	-.10	-.10	-.10	-.10
	Aaa	AAA	North Carolina	-.10	-.10	-.10	-.10
	Aaa	AAA	South Carolina	-.10	-.10	-.10	-.10
	Aaa	AAA	Utah	-.10	-.10	-.10	-.10
	Aaa	AAA	Virginia	-.10	-.10	-.10	-.10
Group 2 (BASE GROUP)	Aa	AA+	California	6.10	7.00	7.50	7.70
	Aaa	AAA	Missouri*	6.10	7.00	7.50	7.70
	Aaa	NR	Oklahoma*	6.10	7.00	7.50	7.70
	Aaa	AA+	Tennessee	6.10	7.00	7.50	7.70
	Aaa	AAA	Texas	6.10	7.00	7.50	7.70
Group 3	Aa	AA	Alabama	+.05	+.05	+.10	+.10
	Aa	AA	Delaware	+.05	+.05	+.10	+.10
	Aa	AA	Montana*	+.05	+.05	+.10	+.10
Group 4	A	A+	New York	6.20	7.20	7.70	7.90
	Aa	AA	Kentucky	+.10	+.10	+.10	+.20
	Aa1	AAA	Maine	+.10	+.10	+.10	+.20
	A1	AA	Massachusetts	+.10	+.10	+.10	+.20
	Aa	AA+	Minnesota	+.10	+.10	+.10	+.20
	Aa	AA-	Mississippi*	+.10	+.10	+.10	+.20
	Aa	AA	New Mexico*	+.10	+.10	+.10	+.20
	Aa	AA	Ohio	+.10	+.10	+.10	+.20
Group 5	Aa	AA	Florida	+.15	+.15	+.20	+.25
	Aa	AA	Hawaii	+.15	+.15	+.20	+.25
	Aaa	AA+	Illinois	+.15	+.15	+.20	+.25
	Aa	AA	Nevada	+.15	+.15	+.20	+.25
	Aa	AA-	Rhode Island	+.15	+.15	+.20	+.25
	Aa	AA	Wisconsin	+.15	+.15	+.20	+.25
Group 6	Aa	AA-	Alaska	+.20	+.20	+.40	+.35
	Aa	AA	New Hampshire*	+.20	+.20	+.40	+.35
	A	AA-	Pennsylvania	+.20	+.20	+.40	+.35
	Aa	NR	Vermont	+.20	+.20	+.40	+.35
Group 7	A1	AA-	Louisiana	+.25	+.30	+.50	+.50
	Aa	AA	North Dakota*	+.25	+.30	+.50	+.50
	A1	A+	Oregon	+.25	+.30	+.50	+.50
	A1	AA-	West Virginia	+.25	+.30	+.50	+.50
Group 8	A	AA-	Washington	+.30	+.40	+.60	+.60
Group 9	A	A+	Michigan	+.40	+.60	+.60	+.65
Group 10	Baa1	A	Puerto Rico	+.60	+.80	+.85	+.75

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have little or no outstanding state general obligation debt.

*** NR = not rated.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Chart
A/O 1/2/85

	Moody's	S&P		5 Years	10 Years	15 Years	20 Years
Group 1	Aaa	AA	Georgia	-.10	-.10	-.10	-.10
	Aaa	AAA	North Carolina	-.10	-.10	-.10	-.10
	Aaa	NR	Oklahoma*	-.10	-.10	-.10	-.10
	Aaa	AAA	South Carolina	-.10	-.10	-.10	-.10
	Aaa	AAA	Utah	-.10	-.10	-.10	-.10
	Aaa	AAA	Virginia	-.10	-.10	-.10	-.10
Group 2 (BASE GROUP)	Aa	AA	Connecticut	7.25	8.40	9.10	9.35
	Aaa	AAA	Missouri*	7.25	8.40	9.10	9.35
	Aa1	AA	Montana*	7.25	8.40	9.10	9.35
	Aaa	AAA	Maryland	7.25	8.40	9.10	9.35
	Aaa	AAA	New Jersey	7.25	8.40	9.10	9.35
	Aaa	AA+	Tennessee	7.25	8.40	9.10	9.35
	Aaa	AAA	Texas	7.25	8.40	9.10	9.35
Group 3	Aa	AA	Alabama	+.10	+.10	+.20	+.10
	Aa	AA	California	+.10	+.10	+.20	+.10
	Aa	AA	Delaware	+.10	+.10	+.20	+.10
	Aa	AA	Florida	+.10	+.10	+.20	+.10
	Aa	AA	Kentucky	+.10	+.10	+.20	+.10
	Aa	AA-	Mississippi*	+.10	+.10	+.20	+.10
	Aa1	AA	New Mexico*	+.10	+.10	+.20	+.10
Group 4	Aa	AA	Louisiana	+.15	+.15	+.30	+.20
	Aa1	AAA	Maine	+.15	+.15	+.30	+.20
	Aa	AA	Minnesota	+.15	+.15	+.30	+.20
	Aa	AA	Nevada	+.15	+.15	+.30	+.20
	Aa	AA-	Rhode Island	+.15	+.15	+.30	+.20
	Aa	AA	Ohio	+.15	+.15	+.30	+.20
	Aa	AA	Wisconsin	+.15	+.15	+.30	+.20
Group 5	A	A+	New York	7.50	8.40	9.40	9.60
Group 6	Aa	AA-	Alaska	+.20	+.20	+.40	+.30
	Aa	AA	Hawaii	+.20	+.20	+.40	+.30
	Aaa	AA+	Illinois	+.20	+.20	+.40	+.30
	A1	AA	Massachusetts	+.20	+.20	+.40	+.30
	A1	AA-	New Hampshire*	+.20	+.20	+.40	+.30
	Aa	AA	North Dakota*	+.20	+.20	+.40	+.30
	A	A+	Pennsylvania	+.20	+.20	+.40	+.30
	Aa	NR	Vermont	+.20	+.20	+.40	+.30
	A1	AA+	West Virginia	+.20	+.20	+.40	+.30
Group 7	A1	AA	Oregon	+.25	+.35	+.55	+.50
Group 8	A	AA-	Washington	+.30	+.45	+.65	+.65
Group 9	Baa1	A	Puerto Rico	+.75	+.90	+.90	+.90
Group 10	A	A+	Michigan	+.75	+1.00	+1.00	+1.00

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have little or no outstanding state general obligation debt.

*** NR = not rated.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Chart
A/O 1/4/84

	Moody's	S&P		5 Years	10 Years	15 Years	20 Years
Group 1	Aaa	AA	Georgia	-.10	-.10	-.10	-.05
	Aaa	AAA	Missouri*	-.10	-.10	-.10	-.05
	Aaa	AAA	North Carolina	-.10	-.10	-.10	-.05
	Aaa	NR	Oklahoma*	-.10	-.10	-.10	-.05
	Aaa	AAA	South Carolina	-.10	-.10	-.10	-.05
	Aaa	AAA	Texas	-.10	-.10	-.10	-.05
	Aaa	AAA	Utah	-.10	-.10	-.10	-.05
	Aaa	AAA	Virginia	-.10	-.10	-.10	-.05
Group 2	Aa1	AA	Montana*	7.40	8.40	9.10	9.35
(BASE GROUP)	Aaa	AAA	Maryland	7.40	8.40	9.10	9.35
	Aa	AA	North Dakota*	7.40	8.40	9.10	9.35
	Aaa	AA+	Tennessee	7.40	8.40	9.10	9.35
	Aaa	AAA	New Jersey	7.40	8.40	9.10	9.35
Group 3	A	A+	New York	7.50	8.50	9.20	9.40
Group 4	Aa	AA	Alabama	+.10	+.10	+.10	+.15
	Aa	AA	California	+.10	+.10	+.10	+.15
	Aa	AA-	Connecticut	+.10	+.10	+.10	+.15
	Aa	AA	Kentucky	+.10	+.10	+.10	+.15
	Aa	AA	Louisiana	+.10	+.10	+.10	+.15
	Aa	AA-	Mississippi*	+.10	+.10	+.10	+.15
	Aa1	AA	New Mexico*	+.10	+.10	+.10	+.15
Group 5	Aa	AA-	Alaska	+.15	+.15	+.15	+.25
	Aa	AA	Delaware	+.15	+.15	+.15	+.25
	Aa	AA	Florida	+.15	+.15	+.15	+.25
	Aaa	AA+	Illinois	+.15	+.15	+.15	+.25
	Aa1	AAA	Maine	+.15	+.15	+.15	+.25
	Aa	AA	Minnesota	+.15	+.15	+.15	+.25
	Aa	AA	Ohio	+.15	+.15	+.15	+.25
	Aa	AA+	Wisconsin	+.15	+.15	+.15	+.25
Group 6	Aa	AA	Hawaii	+.20	+.25	+.25	+.35
	Aa	AA	Nevada	+.20	+.25	+.25	+.35
	Aa	AA-	Rhode Island	+.20	+.25	+.25	+.35
	Aa	NR	Vermont	+.20	+.25	+.25	+.35
	A1	AA+	West Virginia	+.20	+.25	+.25	+.35
Group 7	A1	AA-	Massachusetts	+.30	+.45	+.40	+.50
	A1	AA-	New Hampshire*	+.30	+.45	+.40	+.50
Group 8	A1	AA	Oregon	+.45	+.60	+.70	+.55
	A	A+	Pennsylvania	+.30	+.50	+.50	+.55
Group 9	A	AA-	Washington	+.50	+.75	+.80	+.80
Group 10	Baa1	A+	Michigan	+.75	+1.00	+1.00	+1.10
Group 11	Baa1	A	Puerto Rico	+1.25	+1.40	+1.30	+1.15

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have little or no outstanding state general obligation debt.

*** NR = not rated.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Chart
A/O 1/5/83

	Moody's	S&P		5 Years	10 Years	15 Years	20 Years
Group 1	Aaa	AA	Georgia	-.10	-.10	-.15	-.15
	Aa	AA	Idaho*	-.10	-.10	-.15	-.15
	Aaa	AAA	Missouri*	-.10	-.10	-.15	-.15
	Aa1	AA	Montana*	-.10	-.10	-.15	-.15
	Aaa	AAA	North Carolina	-.10	-.10	-.15	-.15
	Aa	AA	North Dakota*	-.10	-.10	-.15	-.15
	Aaa	NR	Oklahoma*	-.10	-.10	-.15	-.15
	Aaa	AAA	South Carolina	-.10	-.10	-.15	-.15
	Aaa	AA+	Tennessee*	-.10	-.10	-.15	-.15
	Aaa	AAA	Texas*	-.10	-.10	-.15	-.15
	Aaa	AAA	Utah*	-.10	-.10	-.15	-.15
	Aaa	AAA	Virginia*	-.10	-.10	-.15	-.15
Group 2 (BASE GROUP)	Aaa	AAA	Maryland	6.30%	7.50%	8.50%	8.75%
	Aaa	AAA	New Jersey	6.30	7.50	8.50	8.75
Group 3	Aa	AA	Alabama*	+.10	+.10	+.10	+.10
	Aa	AA	Kentucky	+.10	+.10	+.10	+.10
	Aa	AA	Louisiana*	+.10	+.10	+.10	+.10
	Aa	AA-	Mississippi*	+.10	+.10	+.10	+.10
	Aa1	AA	New Mexico*	+.10	+.10	+.10	+.10
Group 4	Aa	AA-	Alaska	+.20	+.20	+.20	+.20
	Aa	AA+	California	+.20	+.20	+.20	+.20
	Aa	AA	Florida	+.20	+.20	+.20	+.20
	Aaa	AAA	Illinois	+.20	+.20	+.20	+.20
	Aa1	AAA	Maine	+.20	+.20	+.20	+.20
	Aa	AA	Minnesota*	+.20	+.20	+.20	+.20
	Aa	AA	Nevada	+.20	+.20	+.20	+.20
	Aa	AA+	Wisconsin	+.20	+.20	+.20	+.20
Group 5	Aa	AA-	Connecticut	+.25	+.30	+.35	+.35
	Aa	AA	Delaware	+.25	+.30	+.35	+.35
	Aa	AA	Hawaii	+.25	+.30	+.35	+.35
	Aa	AA	Ohio	+.25	+.30	+.35	+.35
	Aa	AA-	Rhode Island	+.25	+.30	+.35	+.35
	Aa	NR	Vermont	+.25	+.30	+.35	+.35
	A1	AA+	West Virginia	+.25	+.30	+.35	+.35
Group 6	A1	NR	New Hampshire*	+.40	+.40	+.50	+.65
	A1	AA	Oregon	+.50	+.50	+.50	+.65
Group 7	A	A+	Pennsylvania	+.40	+.40	+.50	+.75
Group 8	A1	AA-	Massachusetts	+.50	+.50	+.60	+.85
	A	AA-	Washington	+.50	+.50	+.60	+.85
Group 9	A	A+	New York	+1.95	+1.40	+1.00	+1.00
Group 10	Baa1	A+	Michigan	+1.00	+1.10	+1.20	+1.25
Group 11	Baa1	A	Puerto Rico	+2.70	+3.25	+2.50	+2.50

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have no outstanding state general obligation debt.

*** NR = not reviewed.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Marilyn Madden
Sr. Fixed Income Analyst
Fixed Income Research Department

Merrill Lynch
State General Obligation Bonds
Comparative Value Trading Chart
A/O 1/6/82

	Moody's	S&P	Merrill Lynch Trading Equivalent		5 Years	10 Years	15 Years	20 Years
Group 1	Aa	Aa	NR	Idaho*	-.10	-.15	-.20	-.20
	Aaa	AAA	High-Range Triple A	Missouri*	-.10	-.15	-.20	-.20
	Aa1	AA	Low-Range Triple A	Montana*	-.10	-.15	-.20	-.20
	Aaa	AAA	Mid-Range Triple A	North Carolina*	-.10	-.15	-.20	-.20
	Aaa	NR	NR	North Dakota*	-.10	-.15	-.20	-.20
	Aaa	NR	NR	Oklahoma*	-.10	-.15	-.20	-.20
	Aaa	AAA	High-Range Triple A	Texas*	-.10	-.15	-.20	-.20
	Aaa	AAA	Mid-Range Triple A	Utah*	-.10	-.15	-.20	-.20
	Aaa	AAA	High-Range Triple A	Virginia*	-.10	-.15	-.20	-.20
Group 2	Aa	AA	NR	Alabama*	-.05	-.05	-.10	-.10
	Aaa	AA	NR	Georgia	-.05	-.05	-.10	-.10
	Aa	AA	NR	Kentucky*	-.05	-.05	-.10	-.10
	Aa	AA	NR	New Mexico*	-.05	-.05	-.10	-.10
	Aaa	AAA	High-Range Double A	South Carolina*	-.05	-.05	-.10	-.10
	Aaa	AA+	NR	Tennessee*	-.05	-.05	-.10	-.10
Group 3 (BASE GROUP)	Aa	AA	Mid-Range Double A	Louisiana*	10.00%	11.10%	11.90%	12.30%
	Aaa	AAA	High-Range Double A	Maryland	10.00	11.10	11.90	12.30
	Aaa	AA+	Mid-Range Double A	Minnesota*	10.00	11.10	11.90	12.30
	Aa	AA-	Mid-Range Double A	Mississippi*	10.00	11.10	11.90	12.30
	Aaa	NR	High-Range Double A	New Hampshire*	10.00	11.10	11.90	12.30
	Aaa	AAA	NR	New Jersey	10.00	11.10	11.90	12.30
	Aaa	AA+	High-Range Double A	Wisconsin	10.00	11.10	11.90	12.30
Group 4	Aaa	AAA	Mid-Range Double A	Illinois	+.10	+.10	+.10	+.10
Group 5	Aa	AA-	Mid-Range Double A	Alaska	+.10	+.10	+.15	+.15
	Aa	AA+	Low-Range Double A	California	+.10	+.10	+.15	+.15
Group 6	Aa	AAA	High-Range Double A	Maine	+.10	+.15	+.20	+.20
	Aa	AA	Mid-Range "Aa/AA"	Nevada	+.10	+.15	+.20	+.20
	Aa	AA+	NR	Ohio	+.15	+.15	+.20	+.20
	Aa	AA	NR	Rhode Island	+.10	+.15	+.20	+.20
	Aa	NR	Low-Range Double A	Vermont	+.10	+.15	+.20	+.20
Group 7	A1	AA+	Low-Range Double A	West Virginia	+.15	+.15	+.20	+.30
Group 8	Aa	AA-	High-Range "A1/A+"	Connecticut	+.20	+.20	+.30	+.40
	Aa	AA	Low-Range Triple A	Florida	+.10	+.15	+.25	+.40
Group 9	A	AA-	Mid-Range "A1/A+"	New York	+1.50	+1.15	+.60	+.45
	Aa	AA	High-Range Double A	Oregon	+.20	+.30	+.40	+.45
Group 10	A1	AA	High-Range Single A	Delaware	+.40	+.60	+.60	+.70
	Aa	AA	Mid-Range "A1/A+"	Hawaii	+.40	+.60	+.60	+.70
Group 11	A	A+	Low-Range "A1/A+"	Pennsylvania	+.60	+.65	+.65	+.85
	A1	AA	High-Range "A1/A+"	Washington	+.60	+.65	+.65	+.85
Group 12	A1	AA-	Low-Range "A1/A+"	Massachusetts	+.75	+.75	+.75	+1.00
	A	A+	Mid-Range "Baa1/BBB+"	Michigan	+.75	+.75	+.75	+1.00
Group 13	Baa1	A	Mid-Range "Baa1/BBB+"	Puerto Rico	+2.00	+3.15	+2.60	+2.20

* Yield is estimated because of thin secondary market supply. Estimate is based on previous trading characteristics.

** Arizona, Arkansas, Colorado, Indiana, Iowa, Kansas, Nebraska, South Dakota, and Wyoming have no outstanding state general obligation debt.

*** NR = not reviewed.

**** State comparative trading relationships are subject to change at any moment due to extreme market volatility and heavy supply of new issue state general obligation debt in the primary market.

Marilyn Madden
Sr. Fixed Income Analyst
Fixed Income Research Department

Alex J. Marcinkiewcz
Asst. Vice President
Municipal Bond Department

TABLE 1.21 (DRAFT FOR ALASKA PUBLIC DEBT 1986)

Debt of Alaska Municipalities
6-30-85
(Dollars)

Boroughs	G.O. Debt	Revenue Debt	Total Debt	School G.O. Debt	% of School Debt Paid by State	Net G.O. Debt	Total Net Debt
ANCHORAGE, MUNICIPALITY OF	358,799,900	347,080,000	705,879,900	139,965,000	94 %	227,232,800	574,312,800
BRISTOL BAY	3,535,000	-	3,535,000	3,535,000	90	353,500	353,500
FAIRBANKS NORTH STAR	80,700,000	-	80,700,000	79,900,000	92	7,192,000	7,192,000
Fairbanks City	9,010,000	61,170,000	70,180,000	-	-	9,010,000	70,180,000
North Pole	1,218,550	-	1,218,550	-	-	1,218,550	1,218,550
TOTAL	90,928,500	61,170,000	152,098,500	79,900,000	92	17,420,550	78,591,050
HAINES	555,000	-	555,000	500,000	100	-	-
Haines City	745,000	-	745,000	-	-	745,000	745,000
TOTAL	1,300,000	-	1,300,000	500,000	100	800,000	800,000
JUNEAU, CITY & BOROUGH	47,651,000	27,480,000	75,131,000	30,209,018	91	20,160,794	47,640,794
KENAI PENINSULA	119,324,005	-	119,324,005	100,120,000	90	29,216,005	29,216,005
Homer City	2,113,000	1,025,000	3,138,000	-	-	2,113,000	3,138,000
Kenai City	5,835,000	235,000	6,070,000	-	-	5,835,000	6,070,000
Seldovia City	378,000	43,000	421,000	-	-	378,000	421,000
Seward City	10,000	7,672,000	7,682,000	-	-	10,000	7,682,000
Soldotna City	2,800,000	-	2,800,000	-	-	2,800,000	2,800,000
TOTAL	130,460,005	8,975,000	139,435,005	100,120,000	90	40,352,005	49,327,005
KETCHIKAN GATEWAY	21,090,000	410,000	21,500,000	16,445,000	92	5,960,600	6,370,600
Ketchikan City	10,840,000	23,280,000	34,120,000	-	-	10,840,000	34,120,000
TOTAL	31,930,000	23,690,000	55,620,000	16,445,000	92	16,800,600	40,490,600
KODIAK ISLAND	25,815,000	-	25,815,000	25,515,000	91	2,596,350	2,596,350
Kodiak City	2,455,000	3,298,000	5,753,000	-	-	2,455,000	5,753,000
TOTAL	28,270,000	3,298,000	31,568,000	25,515,000	91	5,051,350	8,349,350
MATANUSKA-SUSITNA	110,160,000	-	110,160,000	95,120,000	90	24,552,000	24,552,000
Palmer City	2,048,000	290,000	2,338,000	-	-	2,048,000	2,338,000
TOTAL	112,208,000	290,000	112,498,000	95,120,000	90	26,600,000	26,890,000
NORTH SLOPE	1,155,680,000	-	1,155,680,000	207,220,000	97	954,676,600	954,676,600
SITKA, CITY & BOROUGH	12,400,000	53,675,000	66,075,000	2,052,258	100	10,347,742	64,022,742
TOTAL BOROUGHS	1,973,162,405	525,658,000	2,498,820,405	700,581,276	93 %	1,319,795,941	1,845,453,941

TABLE 1.21 (continued)

Cities	G.O. Debt	Revenue Debt	Total Debt	School G.O. Debt	% of School Debt Paid by State	Net G.O. Debt	Total Net Debt
Bethel	556,505	535,000	1,091,505	-	- %	556,505	1,091,508
Cordova	-	1,456,000	1,456,000	-	-	-	1,456,000
Craig	35,646	87,000	128,646	-	-	35,646	120,646
Dillingham	-	286,000	286,000	-	-	-	286,000
Galena	900,000	-	900,000	-	-	900,000	900,000
Hoonah	-	-	-	-	-	-	-
Hydaburg	-	-	-	-	-	-	-
Kake	-	86,000	86,000	-	-	-	86,000
King Cove	-	-	-	-	-	-	-
Klawock	-	-	-	-	-	-	-
Kotzebue	-	-	-	-	-	-	-
Nenana	397,356	2,320,000	2,717,356	190,000	100	207,356	2,527,356
Nome	2,161,250	-	2,161,250	-	-	2,161,250	2,161,250
Pelican	-	-	-	-	-	-	-
Petersburg	6,195,000	4,367,835	10,562,835	4,826,500	96	1,561,560	5,929,395
St. Mary's	-	-	-	-	-	-	-
Sand Point	-	-	-	-	-	-	-
Skagway	820,000	-	820,000	-	-	820,000	820,000
Tanana	-	-	-	-	-	-	-
Unalaska	3,299,032	429,216	3,728,248	925,000	90	2,466,532	2,895,748
Valdez	75,833,000	7,650,000	83,483,000	22,585,000	94	54,603,100	62,253,100
Whittier	-	-	-	-	-	-	-
Wrangell	10,750,000	812,600	11,562,600	9,385,777	82	3,053,663	3,866,263
Yakutat	235,193	490,476	725,669	-	-	235,193	725,669
TOTAL CITIES	101,182,982	18,520,127	119,703,109	37,912,277	91	66,600,805	85,120,932
TOTAL MUNICIPALITIES	2,074,345,387	544,178,127	2,618,523,514	738,493,553	93 %	1,386,396,746	1,930,574,873

Sources: Alaska Department of Education and Alaska Taxable 1985, Alaska Department of Community and Regional Affairs.

TABLE 1.22

Alaska Municipal Debt Ratios (DRAFT FOR ALASKA PUBLIC DEBT 1986)
6-30-85

Boroughs	Full Value	Population	GO Debt Per Capita	Ratio of GO Debt to Full Value	Net GO Debt Per Capita [1]	Ratio of Net GO Debt to Full Value [1]
ANCHORAGE, MUNICIPALITY OF	$15,755,411,000	248,263	$1,445	2.28%	$915	1.44%
BRISTOL BAY	101,798,800	1,271	2,781	3.47	278	.35
FAIRBANKS NORTH STAR	2,564,966,300	46,340				
Fairbanks City	1,458,574,300	27,099	332	.62	332	.62
North Pole	187,457,100	1,640	742	.65	742	.65
TOTAL	4,210,997,700	75,079	1,211	2.16	232	.41
HAINES	49,029,200	768				
Haines City	44,916,300	1,079	690	1.66	690	1.66
TOTAL	93,945,500	1,847	703	1.38	433	.85
JUNEAU, CITY & BOROUGH	1,613,388,900	29,370	1,622	2.95	686	1.25
KENAI PENINSULA	2,417,376,100	22,321				
Homer City	215,845,000	3,817	553	.98	553	.98
Kenai City	282,950,000	6,434	906	2.06	906	2.06
Seldovia City	16,451,300	678	557	2.30	557	2.30
Seward City	142,170,600	2,072	5	.01	5	.01
Soldotna City	215,425,400	3,597	778	1.30	778	1.30
TOTAL	3,290,219,200	38,919	3,352	3.97	1,037	1.23
KETCHIKAN GATEWAY	284,545,100	5,900				
Ketchikan City	391,440,000	8,414	1,288	3.81	1,288	3.81
TOTAL	675,985,100	14,314	2,230	4.72	1,174	2.49
KODIAK ISLAND	180,536,600	7,146				
Kodiak City	391,834,100	6,602	371	.63	371	.63
TOTAL	572,370,700	13,748	2,056	4.94	367	.88
MATANUSKA-SUSITNA	2,225,993,800	38,077				
Palmer City	141,412,400	3,016	679	1.45	679	1.45
TOTAL	2,367,406,200	41,093	2,730	4.74	647	1.12
NORTH SLOPE		12,342	93,638		77,352	
AS 29.53.045(b) Tax Limit	12,876,786,900			8.97		7.41
AS 29.53.045(c) Tax Limit	2,397,118,779			48.21		39.83
SITKA, CITY & BOROUGH	396,227,900	8,221	1,508	3.13	1,259	2.61
TOTAL BOROUGHS	41,954,537,900 [2]	484,467	4,073	4.70	2,724	3.15

TABLE 1.22 (continued)

Cities	Full Value	Population	GO Debt Per Capita	Ratio of GO Debt to Full Value	Net GO Debt Per Capita [1]	Ratio of Net GO Debt to Full Value [1]
Bethel	$182,296,900	3,681	$151	.31%	$151	.31%
Cordova	120,673,000	2,520				
Craig	34,707,400	1,167	31	.10	31	.10
Delta Junction	30,870,500	1,207				
Dillingham	94,669,900	2,100				
Eagle	9,104,500	194				
Galena	19,149,500	942	955	4.70	955	4.70
Hoonah	27,845,200	906				
Hydaburg	12,688,900	463				
Kake	11,608,000	633				
King Cove	23,230,800	547				
Klawock	5,563,000	600				
Kotzebue	93,245,100	2,981				
Nenana	12,881,500	542	733	3.08	383	2.10
Nome	116,712,900	3,876	558	1.85	558	1.85
Pelican	10,155,400	213				
Petersburg	161,219,300	3,137	1,975	3.84	498	.97
St. Mary's	4,239,400	563				
Sand Point	71,086,800	900				
Skagway	58,447,100	790	1,038	1.40	1,038	1.40
Tanana	11,195,400	425				
Unalaska	105,309,400	1,922	1,716	3.13	1,283	2.34
Unalakleet	19,714,500	787				
Valdez		3,687	20,581		14,810	
AS 29.53.045(b) Tax Limit	1,740,431,900			4.36		3.14
AS 29.53.045(c) Tax Limit	716,105,732			10.59		7.63
Whittier	19,419,200	338				
Wrangell	111,757,000	2,376	4,524	9.62	1,285	2.73
Yakutat	17,679,400	462	509	1.33	509	1.33
TOTAL CITIES	3,125,901,900 [2]	37,959	2,666	3.24	1,755	2.13
TOTAL MUNICIPALITIES	45,080,439,800	522,426	3,971	4.61	2,654	3.08
TOTAL STATEWIDE	48,915,237,900	566,657				

Source: Alaska Taxable 1985, Alaska Department of Community & Regional Affairs

1/ Net of school debt.

2/ Includes the higher full value under tax limits

PROPOSED DRAFT LANGUAGE
FOR MUNICIPAL SCHOOL DEBT SECTION OF
ALASKA PUBLIC DEBT 1986

As of June 30, 1985, $738 million of municipal school debt was outstanding. Under a program enacted in 1970 (Alaska Statutes 14.11.100) the State will reimburse the municipalities for debt service on certain portions of that debt. On June 30, 1985, the aggregate total percentage of municipal school debt to be reimbursed by the State was 93%. The State share of municipal school debt was thus $687 million.

Because the statute which provides for reimbursement of a portion (100, 90 or 80 percent) of debt service on municipal school debt specifies a two year lag between payment by the municipality and reimbursement by the State for debt incurred prior to January 1, 1982, some principal and interest paid during the fiscal years ending June 30, 1984 and June 30, 1985 has not yet been reimbursed. The State share of municipal school debt outstanding on June 30, 1985 plus the State share of municipal school debt principal payments made by the municipalities during prior years but not yet reimbursed by the State amounted to a total of $754 million. If added to the total of State and State supported debt, the amount of the State's principal outstanding on that debt would have been $1,686 million.

On October 1, 1985 voters in six municipalities approved the issuance of an additional $303 million of general obligation school debt. Most of that debt will have been issued by June 30, 1986. Voters in the City of Sitka approved the issuance of $22.6 million of general obligation school debt in a special election on January 27, 1986. Voters in the Kodiak Island Borough will decide on the issuance of almost $10 million of general obligation school debt in a special election on March 25, 1986. If issued, current statute provides for State reimbursement of up to eighty percent of the debt service on that debt during the year in which the payments are made.

3,8

178,000

SEVEN PERCENT CAP

Borough	FULL VALUE	G. O. DEBT	7% OF FULL VALUE	PERCENT OF G.O. DEBT/CAP	CURRENT PERCENT DEBT
Anchorage	$15,755,411,000.00	$358,799,900.00	$1,102,878,770.00	32.53%	2.28%
Bristol Bay	$101,798,800.00	$3,535,000.00	$7,125,916.00	49.61%	3.47%
Fairbanks	$4,210,997,700.00	$90,928,500.00	$294,769,839.00	30.85%	2.16%
Haines	$93,945,500.00	$1,300,000.00	$6,576,185.00	19.77%	1.38%
Juneau	$1,613,388,900.00	$47,651,000.00	$112,937,223.00	42.19%	2.95%
Kenai Peninsula	$3,290,219,200.00	$137,929,000.00	$230,315,344.00	59.89%	4.19%
Ketchikan Gateway	$675,985,100.00	$31,930,000.00	$47,318,957.00	67.48%	4.72%
Kodiak	$572,370,700.00	$28,270,000.00	$40,065,949.00	70.56%	4.94%
Mat-Su	$2,367,406,200.00	$112,208,000.00	$165,718,434.00	67.71%	4.74%
North Slope	$12,876,786,900.00	$1,155,680,000.00	$901,375,083.00	128.21%	8.97% ←
Sitka	$396,227,900.00	$12,400,000.00	$27,735,953.00	44.71%	3.13%
Total Boroughs	$41,954,537,900.00	$1,980,631,400.00	$2,936,817,653.00	67.44%	4.72%

CITIES

Bethel	$182,296,900.00	$556,500.00	$12,760,783.00	4.36%	0.31%
Barrow	$120,673,000.00	$0.00	$8,447,110.00	0.00%	0.00%
Craig	$34,707,400.00	$0.00	$2,429,518.00	0.00%	0.00%
Delta Junction	$30,870,500	$0	$2,160,935.00	0.00%	0.00%
Dillingham	$94,669,900.00	$0.00	$6,626,893.00	0.00%	0.00%
Eagle	$9,104,500.00	$0.00	$637,315.00	0.00%	0.00%
Galena	$19,149,500.00	$900,000.00	$1,340,465.00	67.14%	4.70%
Hoonah	$27,845,200.00	$0.00	$1,949,164.00	0.00%	0.00%
Hydaburg	$12,688,900.00	$0.00	$888,223.00	0.00%	0.00%
Kake	$11,608,000.00	$0.00	$812,560.00	0.00%	0.00%
King Cove	$23,230,800.00	$0.00	$1,626,156.00	0.00%	0.00%
Klawock	$5,563,000.00	$0.00	$389,410.00	0.00%	0.00%
Kotzebue	$93,245,100.00	$0.00	$6,527,157.00	0.00%	0.00%
Nenana	$12,881,500.00	$396,300.00	$901,705.00	43.95%	3.08%
Nome	$116,712,900.00	$2,161,200.00	$8,169,903.00	26.45%	1.85%
Pelican	$10,155,400.00	$0.00	$710,878.00	0.00%	0.00%
Petersburg	$161,219,300.00	$6,195,000.00	$11,285,351.00	54.89%	3.84%
Sand Point	$71,066,800.00	$0.00	$4,976,076.00	0.00%	0.00%
Skagway	$58,447,100.00	$820,000.00	$4,091,297.00	20.04%	1.40%
St. Mary's	$4,239,400.00	$0.00	$296,758.00	0.00%	0.00%
Tanana	$11,195,400.00	$0.00	$783,678.00	0.00%	0.00%
Unalakleet	$19,714,500	$0	$1,380,015.00	0.00%	0.00%
Unalaska	$105,309,400.00	$3,299,000.00	$7,371,658.00	44.75%	3.13%
Valdez	$1,740,431,900.00	$75,833,000.00	$121,830,233.00	62.24%	4.36%
Whittier	$19,419,200.00	$0.00	$1,359,344.00	0.00%	0.00%
Wrangell	$111,737,000.00	$10,750,000.00	$7,822,990.00	137.42%	9.62% ←
Yakutat	$17,679,400.00	$235,200.00	$1,237,558.00	19.01%	1.33%
TOTAL CITIES	$3,125,901,900.00	$101,146,200.00	$218,813,133.00	46.22%	3.24%
STATE	$48,915,237,900.00	$816,100,000.00	$3,424,066,653.00	23.83%	1.67%
Total Boroughs	$41,954,537,900.00	$1,980,631,400.00	$2,936,817,653.00	67.44%	4.72%

Cook ✓

A M E N D M E N T

Offered in the HOUSE By Sund

TO: CSHB 521(Loans)

~~Page 2, line 8:~~

~~Delete "seven" and insert "five"~~

Page 3, line 11:

Delete "." and insert ";"

Page 3, after line 11 insert the following new paragraph to read:

"(7) school construction debt for which reimbursement by the state is authorized under AS 14.11.100."

138
8-1
2-2

DOR

Introduced: 1/27/86
Referred: House Special Committee on State Loans
Community & Regional Affairs and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 521

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the issuance of municipal general obligation bonds; and providing for an effective date."

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

* Section 1. AS 29.47.190(b) is amended to read:

(b) Before a general obligation bond issue election, the governing body shall have published a notice of the total existing bond indebtedness at least once a week for three consecutive weeks. The first notice must (SHALL) be published at least 20 days before the date of the election. A notice must (SHALL) include

(1) the current total general obligation bonded indebtedness, including authorized but unsold bonds, of the municipality and the current total general obligation bonded indebtedness, including authorized but unsold bonds, of any other municipalities which may be payable from taxes on taxable property in the municipality;

(2) the cost of the debt service on the current

indebtedness;

(3) the total assessed value of taxable property in the municipality; in the municipality

(4) the full value of taxable property as determined by the Department of Community and Regional Affairs ~~under AS 14.17.140~~.

* Sec. 2. AS 29.47 is amended by adding a new section to read:

Sec. 29.47.195. LIMITATION ON MUNICIPAL DEBT. (a) No general obligation bond authorization shall be finally adopted by a municipality unless the net debt of the municipality at the time of adoption of the bond authorization does not exceed 7 percent of average assessed valuation.

insert (b) From HB521 Pg 2, line 1-4 →

(~~b~~ c) Notwithstanding the provisions in (a) of this section, a bond authorization may be finally adopted if the bond authorization authorizes obligations solely for one of the following:

(1) to meet an expenditure which is the result of a natural disaster;

(2) to meet an expenditure which is necessary to protect the public health;

(3) for a purpose which is self-liquidating; or

(4) to refund existing debt.

(~~c~~ d) For purposes of this section the following terms shall have meanings as follows:

(1) "average assessed valuation" means the average of the full value of taxable property for the last two years as determined by the Department of Community and Regional Affairs under AS 14.17.140.

(2) "bond" or "debt" means bonds, notes, or other obligations.

(3) "bond authorization" means the action completed after the bond election by the governing body of the municipality which authorizes a specific amount of general obligation debt of the municipality for a specified purpose but need not include action to fix the rate or rates of interest on the debt or include action to fix further details of the debt or action to sell the debt.

(4) "self liquidating debt" is debt for which the cash receipts from fees, rents, or other charges (other than taxes) [~~in a fiscal year~~] pledged to pay the debt [~~are~~] have been sufficient in each fiscal year since issuance of the debt to meet operating and maintenance costs (exclusive of depreciation and obsolescence) and interest and [~~debt~~] redemption charges on the debt payable or accruing in such year without recourse to general taxation.

(5) "net debt" means all general obligation debt issued, and all general obligation debt authorized but not issued, after deducting the following general obligation debt issued and authorized but not issued:

(A) bond anticipation notes;

(B) revenue anticipation notes issued

pursuant to Art. IX, Section 10, Alaska Constitution;

(C) self-liquidating debt; and

(D) debt for which there are funds on hand or sinking funds pledged to the payment thereof including the proceeds of any bonds or notes held for that purpose.

* Sec. 3. AS 29.10.200 is amended by adding a new subsection to read, and renumbering existing subsections accordingly:

(42) AS 29.47.195 (limitation on municipal debt)

* Sec. 4. This Act takes effect immediately in accordance with AS 01.10.070(c).

(4) the full value of taxable property as determined by the Department of Community and Regional Affairs under AS 14.17.140.

* Sec. 2. AS 29.47 is amended by adding a new section to read:

Sec. 29.47.195. LIMITATION ON MUNICIPAL DEBT. (a) No general obligation bond authorization shall be finally adopted by a municipality unless the net debt of the municipality at the time of adoption of the bond authorization does not exceed seven percent of average assessed valuation.

(b) Notwithstanding the provisions in (a) of this section, a bond authorization may be finally adopted if the bond authorization authorizes obligations solely for one of the following:

(1) to meet an expenditure which is the result of a natural disaster;

(2) to meet an expenditure which is necessary to protect the public health;

(3) for a purpose which is self-liquidating; or

(4) to refund existing debt.

(c) For purposes of this section the following terms shall have meanings as follows:

(1) "average assessed valuation" means the average of the full value of taxable property for the last two years as determined by the Department of Community and Regional Affairs under AS 14.17.140.

(2) "bond" or "debt" means bonds, notes or other obligations.

(3) "bond authorization" means the action completed after the bond election of the governing body of the municipality which authorizes a specified amount of general

obligation debt of the municipality for a specified purpose but need not include action to fix the rate or rates of interest on the debt or include action to fix further details of the debt or action to sell the debt.

(4) "self liquidating Debt" is debt for which the cash receipts from fees, rents or other charges (other then taxes) in a fiscal year pledged to pay the debt are sufficient to meet operating and maintenance costs (exclusive of depreciation and obsolescence) and interest and debt redemption charges payable or accruing in such year without recourse to general taxation.

(5) "net debt" means all general obligation debt issued, and all general obligation debt authorized but not issued, after deducting the following general obligation debt issued, and authorized but not issued:

(a) as bond anticipation notes in anticipation of bonds;

(b) as revenue anticipation notes issued pursuant to Art. IX, Section 10, Alaska Constitution;

c. as self-liquidating debt; and

d. for which there are funds on hand or sinking funds applicable to the payment thereof only including the proceeds of any bonds or notes held for that purpose and any accounts receivable or amounts which may be payable from the United States, the state or any public instrumentality thereof, which funds are applicable only to the payment of any part of the debt not otherwise deductible.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.070(c).

DELIVER TO: JPOM

ORIGINAL
SENT: 02/17/86 TIME: 11:28
FROM: ANNIE NEUBAUER
SUBJECT: POM/FAIRBANKS
PRINT DATE: 02/17/86 TIME: 11:29

2

TO: REP. SUND, ATTN: SHARI KOCHMAN

FROM STEVE BAINBRIDGE, CITY ENGINEER,
CITY OF NENANA, NENANA 99760

PHONE 832-5441

RE: HB521 MUNICIPAL GENERAL OBLIGATION BONDS

I HAVE THE FOLLOWING CONCERNS: REGARDING "SELF-SUPPORTING DEBT", IT IS NOT CLEAR AS TO WHO WOULD MAKE THIS DETERMINATION AND THE PARAMETERS THAT WOULD BE UTILIZED. FOR INSTANCE WOULD G. O. BONDS REPAID FROM DESIGNATED SALES TAX BE CONSIDERED SELF SUPPORTING?

I HAVE OTHER CONCERNS, BUT POM LIMIT IS 50 WORDS.

James
3/3/86

Original sponsor: Rules/governor

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 519 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to public finance; and providing for an effective date."

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

* Section 1. AS 14.40.040 is amended to read:

Sec. 14.40.040. GENERAL POWERS OF THE UNIVERSITY. There is created and established a corporation to be called the University of Alaska. It may in that name

(1) sue and be sued;

(2) receive and hold real and personal property;

(3) contract and be contracted with;

(4) adopt, use and alter a corporate seal;

(5) borrow money, issue debt, or enter into long-term obligations for the purchase of facilities, goods, or services, which obligations secure, in whole or in part, debt issued by another party, as approved by the state bond committee under AS 37.15.770;

(6) do and have done all matters necessary for the purpose of any function set out [FORTH] in this chapter.

* Sec. 2. AS 14.40 is amended by adding a new section to read:

Sec. 14.40.255. LEASE-FINANCING. The Board of Regents may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the board intends to enter into an agreement under this subsection, the board shall provide notice to the

legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The board may not enter into an agreement under this section unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 3. AS 18.55.100(a)(15) is amended to read:

(15) acting as the Alaska State Building Authority arrange or contract for the financing or [, DESIGN, CONSTRUCTION AND] acquisition of public buildings designed by, constructed by, or whose acquisition has been approved by the Department of Transportation and Public Facilities for lease to the state in accordance with AS 18.55.010 - 18.55.290 and AS 37.15.770.

* Sec. 4. AS 18.55.140 is amended to read:

Sec. 18.55.140. ISSUANCE OF BONDS, NOTES, AND REFUNDING BONDS. The authority may issue bonds and notes from time to time in its discretion for any of its corporate purposes and may issue refunding bonds for the purpose of paying or retiring bonds previously issued by it. The authority may not issue bonds for public buildings until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770.

* Sec. 5. AS 18.55.140 is amended by adding a new subsection to read:

(b) Bonds issued by the authority for public buildings must be issued in the name of the Alaska State Building Authority and are subject to AS 18.55.010 - 18.55.290.

* Sec. 6. AS 18.55.288 is amended by adding a new paragraph to read:

(4) "bond" means any bond, note, interim certificate, debenture, or other obligation issued by the authority or the authority acting as the Alaska State Building Authority under AS 18.55.010 - 18.55.290;

* Sec. 7. AS 22.05.025 is amended by adding a new subsection to read:

(c) The supreme court may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the supreme court intends to enter into an agreement under this subsection, the supreme court shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The supreme court may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 8. AS 24.23 is amended by adding new sections to read:

ARTICLE 2. LEASE AGREEMENTS.

Sec. 24.23.100. LEASE OF SPACE. The Legislative Affairs Agency may lease necessary office space, and contract for the lease of space, for the use of the Alaska legislature and its employees.

Sec. 24.23.110. The Legislative Affairs Agency may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the agency intends to enter into an agreement under

this subsection, the agency shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The agency may not enter into an agreement under this section unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 9. AS 37.05.280 is amended to read:

Sec. 37.05.280. LEASES. The department shall lease necessary space, and contract for the lease of space, for the use of the state or an agency of the state, wherever it is necessary and feasible, subject to compliance with the requirements of AS 37.05.220 - 37.05.280 A [NO] lease or contract for a lease may not provide for a period of occupancy greater than 40 years. An agency of the state requiring office, warehouse, or other space shall lease the space through the department. [NO CONTRACT OR LEASE EXECUTED AFTER JANUARY 1, 1966, WHICH PROVIDES FOR A PAYMENT OR PAYMENTS BY THE STATE IN EXCESS OF $12,000 ANNUALLY IS VALID UNLESS THE USE OF THE SPACE TO BE PROVIDED FOR BY SUCH CONTRACT OR LEASE HAS BEEN EXPRESSLY APPROVED BY THE LEGISLATURE BY CONCURRENT RESOLUTION.]

* Sec. 10. AS 37.05 is amended by adding a new section to read:

Sec. 37.05.285. LEASE FINANCING. The department may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the department intends to enter into an agreement

under this subsection, the department shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The department may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 11. AS 37.15.040 is amended to read:

Sec. 37.15.040. SALE OF BONDS. Before selling an issue or series of bonds, the state bond committee shall give notice inviting sealed bids in <u>the</u> [SUCH] manner [AS] it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder <u>or bidders</u>. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

* Sec. 12. AS 37.15.110 is amended to read:

Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE. There is created <u>within the Department of Revenue</u> a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, and the commissioner of revenue. If a member of the committee is absent or otherwise unable to act, the member's designee <u>[IN THE DEPARTMENT]</u> shall act as a member of the committee in the member's place.

* Sec. 13. AS 37.15.130 is amended to read:

Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. The commissioner of commerce and economic development is the chairman of the state bond committee and the commissioner of revenue is the secretary. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent record of its proceedings. All records and correspondence of the committee shall be kept in the office of the commissioner of revenue. For the purpose of this chapter and AS 44.62.310, public notice of 24 hours or more is adequate notice of a meeting of the committee at which the issuance of bonds is authorized.

* Sec. 14. AS 37.15.140 is amended to read:

Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, sale, and delivery of state general obligation bonds.

* Sec. 15. AS 37.15.140 is amended by adding new subsections to read:

(b) The state bond committee shall prepare an annual report to be submitted to the governor and legislature before March 31 of each year. The report must show

(1) all outstanding debt of debt-issuing entities of the state;

(2) the anticipated effect on the finances and credit of the state, including the effect on long-term debt capacity and creditworthiness, resulting from that debt;

(3) which long-term debt is state supported and which is supported only by revenue attributable to the project being financed by the debt;

(4) all long-term capital lease obligations of the state;

(5) the volume of short-term debt issued and retired during

the year by debt-issuing entities of the state;

(6) specific identification of each issue for which the state has pledged some form of indirect support for the debt, including any moral obligation of the state to support the debt;

(7) future bonding and debt capacity implications of legislation enacted in the previous legislative session; and

(8) the recommended debt issuance capacity of the state for the next two years following the year of the report.

(c) The state bond committee may develop written policies concerning debt of the state.

* Sec. 16. AS 37.15.150 is amended to read:

Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SERVICES. The state bond committee may appoint an executive director who may, with approval of the committee, select and employ additional staff as necessary. Employees of the committee are in the partially exempt service under AS 39.25.120. If the [STATE BOND] committee considers it necessary and advisable, it may procure architectural or engineering, fiscal agent or municipal investment, legal, and other expert or specialized services at reasonable and customary fees to assist it in accomplishing the most advantageous sale of the bonds. The fees may be paid from the proceeds of the sale or advanced from the contingency fund in the Office [OFFICE] of the Governor [GOVERNOR] or otherwise.

* Sec. 17. AS 37.15.450(a) is amended to read:

(a) The bonds shall be sold in the manner, price or prices, [SUCH] amounts or series, and at the [SUCH] time or times [AS] determined by the committee at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS

ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds, or each series of them, shall be sold at such a price so that the effective interest rate over the life of the bonds does not exceed 11 percent per year or that rate of interest which is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest shall be payable annually or semiannually.

* Sec. 18. AS 37.15.460 is amended to read:

Sec. 37.15.460. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide where a [WHETHER THE] notice of sale, if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.450].

* Sec. 19. AS 37.15.650(a) is amended to read:

(a) The toll facilities bonds are sold in the manner, price or prices, amounts or series, and at the time as determined by the committee, at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A

BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.] Bonds, or a series of bonds, may not be sold if the effective interest rate over the life of the bonds exceeds 11 percent per year or that rate of interest that is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest is payable annually or semiannually.

* Sec. 20. AS 37.15.660 is amended to read:

Sec. 37.15.660. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide <u>where a</u> [WHETHER THE] notice of sale<u>, if any,</u> is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.650].

* Sec. 21. AS 37.15 is amended by adding new sections to read:

ARTICLE 5. STATE-SUPPORTED DEBT.

Sec. 37.15.770. STATE AGENCY DEBT. (a) The state bond committee shall review proposals for the issuance of debt by or on behalf of

(1) the Alaska State Housing Authority acting as the Alaska State Building Authority for the purpose of providing public buildings; and

(2) the University of Alaska.

(b) The committee may review the general programs and financing

plans of the agency that proposes to issue the debt as well as the specific aspects of the proposed debt issue, including

(1) amounts;

(2) times;

(3) maturities;

(4) debt structure and security features;

(5) credit enhancements;

(6) use of proceeds;

(7) official documents;

(8) planned rating agency presentations; and

(9) selection, retention, or compensation of financial advisors, bond counsel, trustees, underwriters, and other professionals.

(c) The state bond committee shall consider approval of the amount and time of sale of the debt. The committee shall approve the issuance of the debt if, in its judgment, issuance of the debt is in the best interests of the state. The committee may limit approval of the issuance of debt upon compliance with terms established by the committee.

(d) At the time of sale of the debt, the state bond committee shall review the bids or pricing of the debt, including discounts, underwriting spreads, and interest rates. If the committee determines that the bids or prices are not satisfactory or that the bidders are not responsible, the agency may not sell the debt.

Sec. 37.15.790. MUNICIPAL SCHOOL DEBT. If, at any time, the state bond committee, in its judgment, determines that the amount or retirement of debt issued by municipalities and subject to reimbursement by the state under AS 14.11.100 is not in the best interest of the state, the committee may

School debt PN

(1) establish an amount or amounts, for any or all years before the maturity of all of that municipal debt, that may not be exceeded by the Department of Education in approving requests under AS 14.11.103; or

(2) establish, under AS 14.11.100(j)(3), a term required for the maturities of municipal debt authorized by local voters after March 31, 1986.

* Sec. 22. AS 39.25.120(c) is amended by adding a new paragraph to read:

(19) employees of the state bond committee.

* Sec. 23. This Act takes effect immediately in accordance with AS 01.-10.070(c).

James
3/4/86
#2

Original sponsor: Rules/governor

IN THE HOUSE BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 519 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to public finance; and providing for an effective date."

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

* Section 1. AS 14.40.040 is amended to read:

Sec. 14.40.040. GENERAL POWERS OF THE UNIVERSITY. There is created and established a corporation to be called the University of Alaska. It may in that name

(1) sue and be sued;

(2) receive and hold real and personal property;

(3) contract and be contracted with;

(4) adopt, use and alter a corporate seal;

(5) borrow money, issue debt, or enter into long-term obligations for the purchase of facilities, goods, or services, which obligations secure, in whole or in part, debt issued by another party, as approved by the state bond committee under AS 37.15.770 and approved by law; an appropriation does not constitute approval by law for purposes of this paragraph;

(6) do and have done all matters necessary for the purpose of any function set out [FORTH] in this chapter.

* Sec. 2. AS 14.40 is amended by adding a new section to read:

Sec. 14.40.255. LEASE-FINANCING. The Board of Regents may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to

annual appropriation. If the board intends to enter into an agreement under this subsection, the board shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The board may not enter into an agreement under this section unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 3. AS 18.55.100(a)(15) is amended to read:

(15) acting as the Alaska State Building Authority arrange or contract for the financing or [, DESIGN, CONSTRUCTION AND] acquisition of public buildings designed by, constructed by, or whose acquisition has been approved by the Department of Transportation and Public Facilities for lease to the state in accordance with AS 18.55.-010 - 18.55.290 and AS 37.15.770.

* Sec. 4. AS 18.55.140 is amended to read:

Sec. 18.55.140. ISSUANCE OF BONDS, NOTES, AND REFUNDING BONDS. The authority may issue bonds and notes from time to time in its discretion for any of its corporate purposes and may issue refunding bonds for the purpose of paying or retiring bonds previously issued by it. The authority may not issue bonds for public buildings until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770 and the building has been approved by law. An appropriation for the building does not constitute approval by law for purposes of this section.

* Sec. 5. AS 18.55.140 is amended by adding a new subsection to read:

(b) Bonds issued by the authority for public buildings must be

issued in the name of the Alaska State Building Authority and are subject to AS 18.55.010 - 18.55.290.

* Sec. 6. AS 18.55.288 is amended by adding a new paragraph to read:

(4) "bond" means any bond, note, interim certificate, debenture, or other obligation issued by the authority or the authority acting as the Alaska State Building Authority under AS 18.55.010 - 18.55.290;

* Sec. 7. AS 22.05.025 is amended by adding a new subsection to read:

(c) The supreme court may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the supreme court intends to enter into an agreement under this subsection, the supreme court shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The supreme court may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 8. AS 24.23 is amended by adding new sections to read:

ARTICLE 2. LEASE AGREEMENTS.

Sec. 24.23.100. LEASE OF SPACE. The Legislative Affairs Agency may lease necessary office space, and contract for the lease of space, for the use of the Alaska legislature and its employees.

Sec. 24.23.110. The Legislative Affairs Agency may enter into lease-financing agreements only with the Alaska State Housing

Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the agency intends to enter into an agreement under this subsection, the agency shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The agency may not enter into an agreement under this section unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 9. AS 37.05.280 is amended to read:

Sec. 37.05.280. LEASES. The department shall lease necessary space, and contract for the lease of space, for the use of the state or an agency of the state, wherever it is necessary and feasible, subject to compliance with the requirements of AS 37.05.220 - 37.05.-280. A [NO] lease or contract for a lease may not provide for a period of occupancy greater than 40 years. A lease agreement must provide that lease payments are subject to annual appropriation. An agency of the state requiring office, warehouse, or other space shall lease the space through the department. [NO CONTRACT OR LEASE EXECUTED AFTER JANUARY 1, 1966, WHICH PROVIDES FOR A PAYMENT OR PAYMENTS BY THE STATE IN EXCESS OF $12,000 ANNUALLY IS VALID UNLESS THE USE OF THE SPACE TO BE PROVIDED FOR BY SUCH CONTRACT OR LEASE HAS BEEN EXPRESSLY APPROVED BY THE LEGISLATURE BY CONCURRENT RESOLUTION.]

* Sec. 10. AS 37.05 is amended by adding a new section to read:

Sec. 37.05.285. LEASE FINANCING. The department may enter into

lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the department intends to enter into an agreement under this subsection, the department shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The department may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 11. AS 37.15.040 is amended to read:

Sec. 37.15.040. SALE OF BONDS. Before selling an issue or series of bonds, the state bond committee shall give notice inviting sealed bids in <u>the</u> [SUCH] manner [AS] it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder <u>or bidders</u>. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

* Sec. 12. AS 37.15.110 is amended to read:

Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE. There is created <u>within the Department of Revenue</u> a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, and the commissioner of revenue. If a member of the committee is absent or otherwise unable to act, the member's designee [IN THE

DEPARTMENT] shall act as a member of the committee in the member's place.

* Sec. 13. AS 37.15.130 is amended to read:

Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. The commissioner of commerce and economic development is the chairman of the state bond committee and the commissioner of revenue is the secretary. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent record of its proceedings. All records and correspondence of the committee shall be kept in the office of the commissioner of revenue. For the purpose of this chapter and AS 44.62.310, public notice of 24 hours or more is adequate notice of a meeting of the committee at which the issuance of bonds is authorized.

* Sec. 14. AS 37.15.140 is amended to read:

Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, sale, and delivery of state general obligation bonds.

* Sec. 15. AS 37.15.140 is amended by adding new subsections to read:

(b) The state bond committee shall prepare an annual report to be submitted to the governor and legislature before March 31 of each year. The report must show

(1) all outstanding debt of debt-issuing entities of the state;

(2) the anticipated effect on the finances and credit of the state, including the effect on long-term debt capacity and creditworthiness, resulting from that debt;

(3) which long-term debt is state supported and which is supported only by revenue attributable to the project being financed

by the debt;

(4) all long-term capital lease obligations of the state;

(5) the volume of short-term debt issued and retired during the year by debt-issuing entities of the state;

(6) specific identification of each issue for which the state has pledged some form of indirect support for the debt, including any moral obligation of the state to support the debt;

(7) future bonding and debt capacity implications of legislation enacted in the previous legislative session; and

(8) the recommended debt issuance capacity of the state for the next two years following the year of the report.

(c) The state bond committee may develop written policies concerning debt of the state.

* Sec. 16. AS 37.15.150 is amended to read:

Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SERVICES. The state bond committee may appoint an executive director who may, with approval of the committee, select and employ additional staff as necessary. Employees of the committee are in the partially exempt service under AS 39.25.120. If the [STATE BOND] committee considers it necessary and advisable, it may procure architectural or engineering, fiscal agent or municipal investment, legal, and other expert or specialized services at reasonable and customary fees to assist it in accomplishing the most advantageous sale of the bonds. The fees may be paid from the proceeds of the sale or advanced from the contingency fund in the Office [OFFICE] of the Governor [GOVERNOR] or otherwise.

* Sec. 17. AS 37.15.450(a) is amended to read:

(a) The bonds shall be sold in the manner, price or prices, [SUCH] amounts or series, and at the [SUCH] time or times [AS]

determined by the committee at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds, or each series of them, shall be sold at such a price so that the effective interest rate over the life of the bonds does not exceed 11 percent per year or that rate of interest which is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest shall be payable annually or semiannually.

* Sec. 18. AS 37.15.460 is amended to read:

Sec. 37.15.460. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide where a [WHETHER THE] notice of sale, if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.450].

* Sec. 19. AS 37.15.650(a) is amended to read:

(a) The toll facilities bonds are sold in the manner, price or prices, amounts or series, and at the time as determined by the committee, at either public or private sale. [BEFORE SELLING A SERIES OF

BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.] Bonds, or a series of bonds, may not be sold if the effective interest rate over the life of the bonds exceeds 11 percent per year or that rate of interest that is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest is payable annually or semiannually.

* Sec. 20. AS 37.15.660 is amended to read:

Sec. 37.15.660. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide <u>where a</u> [WHETHER THE] notice of sale<u>, if any,</u> is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.650].

* Sec. 21. AS 37.15 is amended by adding new sections to read:

ARTICLE 5. STATE-SUPPORTED DEBT.

Sec. 37.15.770. STATE AGENCY DEBT. (a) The state bond committee shall review proposals for the issuance of debt by or on behalf of

(1) the Alaska State Housing Authority acting as the Alaska State Building Authority for the purpose of providing public

buildings; and

(2) the University of Alaska.

(b) The committee may review the general p ograms and financing plans of the agency that proposes to issue the debt as well as the specific aspects of the proposed debt issue, including

(1) amounts;

(2) times;

(3) maturities;

(4) debt structure and security features;

(5) credit enhancements;

(6) use of proceeds;

(7) official documents;

(8) planned rating agency presentations; and

(9) selection, retention, or compensation of financial advisors, bond counsel, trustees, underwriters, and other professionals.

(c) The state bond committee shall consider approval of the amount and time of sale of the debt. The committee shall approve the issuance of the debt if, in its judgment, issuance of the debt is in the best interests of the state. The committee may limit approval of the issuance of debt upon compliance with terms established by the committee.

(d) At the time of sale of the debt, the state bond committee shall review the bids or pricing of the debt, including discounts, underwriting spreads, and interest rates. If the committee determines that the bids or prices are not satisfactory or that the bidders are not responsible, the agency may not sell the debt.

Sec. 37.15.790. MUNICIPAL SCHOOL DEBT. If, at any time, the state bond committee, in its judgment, determines that the amount or

retirement of debt issued by municipalities and subject to reimbursement by the state under AS 14.11.100 is not in the best interest of the state, the committee may

(1) establish an amount or amounts, for any or all years before the maturity of all of that municipal debt, that may not be exceeded by the Department of Education in approving requests under AS 14.11.103; or

(2) establish, under AS 14.11.100(j)(3), a term required for the maturities of municipal debt authorized by local voters after March 31, 1986.

* Sec. 22. AS 39.25.120(c) is amended by adding a new paragraph to read:

(19) employees of the state bond committee.

* Sec. 23. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH S
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

February 20, 1986

The Honorable John Sund
Chairman
House Loans Committee
P.O. Box V
Juneau, AK 99811

Dear Chairman Sund:

Lease purchase financing was contemplated by the delegates to the constitutional convention when they incorporated Section 11 in Article IX. Statutory authority to do this type of financing was given to the Alaska State Housing Authority in 1966 where Chapter 60, SLA 1966, was enacted. A copy of that Act is enclosed for your ready reference.

Also enclosed are memoranda of the Attorney General, dated October 14, 1983, Wohlforth & Flint, dated January 17, 1984, and Birch, Horton, Bittner, Pestinger and Anderson, dated April 4, 1984. These memoranda deal with different questions arising out of lease purchase or, as it is frequently termed, lease revenue financing. As is pointed out in footnote 3 of the Birch, Horton et al., memorandum, between 1966 and 1974 ASHA financed 11 projects under the grant of authority contained in Chapter 60, SLA 1966.

In the context of this substantial history of activity in the area of lease revenue financing, I should like to reiterate that the purpose of HB 519 is 1) to establish a single landlord agency for the leasing by the state of buildings financed by lease revenue bonds and, 2) to provide the authority in the State Bond Committee to manage debt so acquired in a logical manner.

The bill merely seeks to order a potentially chaotic situation with regard to this type of financing. It does not mandate lease revenue financing any more than Section 11, Article IX, mandates such financing. Indeed, nothing in either the constitution or in statute compels the usage of such financing or, for that matter, compels the usage of any type of term financing. All public works projects could be financed through construction appropriations. All could be financed through general obligation bonds. Many, but not all, could be financed through revenue bonds. The method of financing should be chosen to accord with the best interests of the State after careful analysis of the short- and long-term implications of the financing.

As pointed out by Governor Sheffield in his transmittal letter, rating agencies have begun to take into account all state supported debt

when measuring the creditworthiness of a state or a particular financing. It is the informed belief of the members of the State Bond Committee that to fail to enact HB 519 as applicable to all branches of government is to fail to bring order and control to the management of the state's debt.

Some concern has been expressed that the State Bond Committee would, under the terms of HB 519, be vested with the ability to thwart the will of the Legislature by refusing to issue debt or allow the issuance of debt on a whim. The State Bond Committee has been in existence since 1960 and has managed the issuance of general obligation and revenue debt sold since that time. This debt has financed a substantial number of public works for the judicial branch and the executive branch. The management of that debt in a sound manner has resulted in the state's present rating of AA by Standard & Poors and a comparable rating from Moody's, the foremost rating agencies in the United States. I know of no instance when the State Bond Committee has made a judgment as to the value of the project itself. The judgments made by the Committee have been those solely relating to the debt, and the project itself has only been of interest for the role it plays in structuring the debt.

One difficulty could be presented and that would be when the dollar value of several projects, all ready for financing, exceeded the calculated capacity for new debt. Obviously, if all projects arose within one branch of government, that branch would have to establish financing priorities. If the projects arose in more than one branch, negotiations or consultations between or among those branches, conducted by the heads of those branches, would be required to establish financing priorities. The State Bond Committee would render to the negotiators what assistance it could, but since it has no authority to make selections of projects, it could not establish the priorities.

I call your attention to Section 12 of HB 519 which would require the State Bond Committee to report to the Legislature before March 31 of each year, not only as to existing debt, but also future debt and debt capacity. This is a new requirement and is sought as an additional element in the ordering and management of state debt. Such a report would enable the Legislature to make the discrete judgments it must make in authorizing or approving the projects presented during the budget process by each agency of government requiring the construction of public works projects.

Such centralization of management and reporting will greatly assist the state in maintaining creditworthiness in the nation's financial markets and, more importantly, fulfill on an orderly basis the needs of the public for sound and balanced development of public facilities.

Sincerely,

Mary A. Nordale
Commissioner of Revenue

MAN:mll
86-49

Enclosures

cc: Members of House Loans Committee

LAWS OF ALASKA

1966

Source:

SB 198 am by Conference Committee

Chapter No

60

AN ACT

To provide public buildings for the use of the state and its political subdivisions.

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

* Section 1. AS 18.55.010 is amended to read:

Sec. 18.55.010. PURPOSE OF SECS. 10 - 290 OF THIS CHAPTER. The purpose of secs. 10 - 290 of this chapter is to remedy the acute housing shortage that exists in certain localities of the state by undertaking slum clearance, low-cost housing projects, housing for persons and their families engaged in national defense activities in the state, and housing projects and housing for veterans of World War II and other citizens of the state and to remedy the short supply of necessary public buildings by providing for the financing, construction and acquisition of public buildings for lease to the state and its political subdivisions.

* Sec. 2. AS 18.55.100(a)(15) is amended to read:

(15) arrange or contract for the financing, design, construction and acquisition of public buildings

for lease to the state or a political subdivision of the state in accordance with secs. 10 - 290 of this chapter.

* Sec. 3. AS 18.55 is amended by adding a new section to read:

Sec. 18.55.105. LEASE OF AUTHORITY'S PUBLIC BUILDINGS TO POLITICAL SUBDIVISIONS. (a) A public building owned by the authority may not be leased to a political subdivision of the state except upon execution of a prior agreement of lease of the premises between the state and the authority. An agreement of lease shall grant an option to the state to apply rental payments made under the lease towards purchase of the premises and receive conveyance of title upon satisfaction of the purchase price. The purchase price shall be a sum equal to all costs of the authority in financing, designing, constructing and acquiring the premises leased and shall include the cost of amortizing indebtedness incurred for those purposes. Total rental payments required under the lease shall equal the purchase price of the premises leased. Upon execution of an agreement of lease between the state and the authority, the state may sublease or assign its interest in the lease to a political subdivision which satisfies the requirements of (b) of this section. A sublease or lease assignment shall include the same option of purchase and right to conveyance of title upon satisfaction of the purchase price as is afforded the state in its agreement of lease with the authority. In case of a sublease to a political subdivision, the state shall covenant with the sublessee that it will not exercise its option to purchase the premises subleased during the term of the sublease.

a political subdivision
secs. 10 - 290 of this chapter.
ed by adding a new section to
OF AUTHORITY'S PUBLIC BUR-
a) A public

(b) A political subdivision may qualify for a sublease or assignment of the state's interest in a lease with the authority as authorized by (a) of this section only if

(1) the premises which are the subject of the sublease or lease assignment are sought as a replacement for a local facility which is condemned, destroyed by fire or other calamity, or is certified by a state official to be inadequate, unsafe, or otherwise unsatisfactory under the laws of the state for its intended use;

(2) the purchase price of the premises does not exceed $2,500,000;

(3) the amount of total indebtedness outstanding on all premises subleased or assigned by the state under this section does not exceed $7,500,000;

(4) the political subdivision agrees to assign to the state, as security for payments required under the proposed sublease or lease assignment, receipts of state taxes shared with the political subdivision, to the extent of the amount of any default in payments required under the proposed sublease or lease assignment;

(5) the Department of Commerce investigates and certifies to the governor the feasibility of a proposed sublease or lease assignment, including but not limited to certification of the fiscal capacity of the political subdivision to meet payments required under the proposed sublease or lease assignment;

(6) the proposed sublease or lease assignment is ratified by referendum vote of a majority of the qualified voters voting in a regular or special local election

provided that the voters are apprised specifically on the ballot of

(A) the term of years of the proposed sublease or lease assignment;

(B) the amount of required payments;

(C) the security required under (4) of this subsection;

(D) the option to purchase and right of conveyance; and

(E) other terms and conditions of the proposed sublease or lease assignment, as determined by the governing body of the political subdivision;

(7) the proposed sublease or lease assignment is ratified by the legislature by concurrent resolution.

(c) If a political subdivision party to a sublease or lease assignment authorized by this section fails to make timely payment of sums due to be paid under the sublease or lease assignment, the state, upon not less than 90 days' notice to the governing body of the political subdivision, may assess, levy and collect taxes within the political subdivision in an amount equal to the payments due and limited to those taxes which the political subdivision is authorized to assess, levy and collect under other provisions of law. Assessment, levy, collection and enforcement of collection shall be at the time and in the manner authorized the political subdivision under other provisions of law.

* Sec. 4. AS 18.55.288(2) is amended to read:

(2) "public buildings" means a publicly owned structure leased to the state or a political subdivision of

[redacted]

ers are apprised specifically on the

e term of years of the proposed

assignment;

the state for governmental, public or educationa

Approved by Governor April 7, 1966
Actual effective date: July 6, 1966

MEMORANDUM State of Alaska

TO: Hon. Daniel A. Casey, Commissioner
Department of Transportation &
Public Facilities
AND
Hon. Lisa Rudd, Commissioner
Department of Administration

DATE: October 14, 1983

FILE NO: 366-101-84

TELEPHONE NO: 465-3600

SUBJECT: Construction financing of a public facility by lease agreement

FROM:
Norman C. Gorsuch
Attorney General

W.F.C.

By: William F. Cummings
Assistant Attorney General
Transportation Section-Juneau

James L. Baldwin
Assistant Attorney General
Governmental Affairs-Juneau

The Department of Administration (DOA) and Department of Transportation and Public Facilities (DOT/PF) have requested our advice whether there is sufficient authority granted by law to permit a state agency to finance the construction of a public facility on state land under a lease agreement with a developer and owner of the facility other than the state. Briefly, the lease agreement consists of a conveyance of a leasehold interest in state land to a developer who constructs a facility on the land which is leased back to the state. Upon expiration of the lease agreement, the facility either reverts to the state or the state has an option to purchase it.

Using this financing technique, DOA proposes to centralize state offices in Anchorage and DOT/PF proposes to construct a legislative hall in Juneau. Under both proposals, facilities owned by others would be located on state land. 1/ The answers to your questions involve consideration of the issues set out below.

1. Does financing a public facility through a lease agreement violate provisions of the Alaska Constitution governing the creation of state debt?

We believe that the financing of construction by lease is valid only if terms and conditions are imposed which provide sufficient evidence that future legislatures are not bound to ap-

1/ We believe that other public facilities are being studied for financing by lease agreement including facilities for the Alaska Vocational Technical Training Center in Seward and a maximum security prison.

propriate money for the rental. 2/ Article IX, section 8 of the Alaska Constitution prohibits the creation of public debt except for capital improvements and then only after authorization by the legislature and a vote of the people. The lease transactions proposed are a means to finance the construction of public facilities without directly appropriating from the general fund for the cost of construction or authorizing the creation of debt by selling general obligation bonds. This makes it imperative that the state's right to possess and use the facility is contingent on annual appropriations from revenue anticipated for the fiscal year in which the lease obligation is incurred. Traditionally, appropriations for lease payments are considered operating appropriations which lapse on June 30 of the fiscal year. A lease agreement which provides for termination of the leasehold if sufficient appropriations to pay rent are not enacted will negate the conclusion that a debt is created. A one-year lease with automatic annual renewal for a maximum number of years upon enactment of an appropriation to finance the annual rent has been approved as a term which negates any possibility that a debt is created. Gude v. City of Lakewood, 636 P.2d 691 (Colo. 1981). See also Glennon Heights, Inc. v. Central Bank and Trust, 658 P.2d 872 (Colo. 1983).

2. Does existing law prevent a state agency from entering into a lease agreement for the construction of a public facility?

The lease of state office space is governed by AS 37.05.220 -- 37.05.280. These statutes require a competitive bidding process with award of the contract by DOA to the lowest responsible bidder for the lease. However, the statutes provide one further requirement for office space leases which is lacking in other state contracts for the purchase of goods or services. AS 37.05.280 provides in relevant part that "no contract or lease executed after January 1, 1966, which provides for a payment or payments by the state in excess of $12,000 annually is valid unless the use of the space to be provided for by such contract or lease has been expressly approved by the legislature by concurrent resolution." This provision requires legislative approval of virtually all leases which the state executes to procure office and other space. However, we believe that this part of the

2/ The advice given in this memorandum is consistent with the majority of state courts which have considered the question. E.g., Bulman v. McCrane, 312 A.2d 857 (N.J. 1973); State ex rel. Thomson v. Gisel, 72 N.W.2d 577 (Wisc. 1958); but see Opinion of the Justices, 79 A.2d 753 (Me. 1951).

statute is invalid for two reasons.

Article II of the Alaska Constitution requires that the legislature exercise the law-making power by the passage of a bill not by the adoption of a concurrent resolution. State v. A.L.I.V.E. Voluntary, 606 P.2d 769 (Alaska 1980). Furthermore, the requirement for legislative approval of a lease is a violation of the doctrine of the separation of powers. Governmental power is allocated among the three branches of government by the Alaska Constitution. Some powers are logically allocated to the executive and others to the legislature. The power to execute the law on behalf of the state is one which falls to the executive. Alaska Const. art. III, § 16. It is the role of the legislature to enact laws which establish the conditions under which the executive may enter into leases. Alaska Const. art. II, § 1. However, it is not appropriate for the legislature to reserve a veto power over the enforcement decisions made by the executive. The legislature may amend or repeal the leasing authority for DOA. However, the legislature may not usurp the executive function to lease facilities without destroying the system of checks and balances inherent in our tripartite system of government. 3/ Bradner v. Hammond, 553 P.2d 1 (Alaska 1976).

DOT/PF has limited authority to dispose of land acquired for public works other than highways. 4/ DOT/PF may "vacate land or part of it, or rights in land acquired for public work purposes" by executing and filing a deed in the appropriate recording district upon vacating. AS 35.20.070. "Title reverts to the persons, heirs, successors, or assigns in whom it was vested at the time of the taking." Id. All other disposals of land acquired for public works are conducted by the Department of Natural Resources (DNR).

Before DNR may lease state land, the public must be informed of the nature and terms of the conveyance. Alaska Const. art. VIII, § 10; AS 38.05.035(a)(14), 38.05.345. DNR, acting in

---

3/ The cited portion of AS 37.05.280 was held invalid on the basis of separation of powers and improper exercise of the law making power by the superior court in Marine View Tenants' Association v. ASHA, No. 1JU-80-1037 CIV (Nov. 1, 1981). That case was not appealed. However, this decision has limited precedential value until a final decision is rendered by the Alaska Supreme Court.

4/ AS 19.05.070 grants broader discretion to dispose of land acquired for highway purposes.

concert with DOA, must prescribe a disposal procedure for state land which provides the safeguards required by law and permits the construction of a facility which the state will lease from the developer. That procedure may include the grant of a lease under AS 38.05.315 to the state agency responsible for the facility. The lease granted by DNR will allow the lessee agency to sublease the land for development of a leased public facility under specified terms which will include prior DNR review and selection of the sublessee according to AS 37.05.230. The sublease of the land will continue in effect long enough to secure financing for the facility. The payment of rent under the lease to the state agency for the facility would be contingent on the enactment of annual appropriations. If the lease is terminated by the failure to appropriate, the lessor would be the successor to the state agency's right to possess the building until reversion or exercise of the option to purchase.

3. Does existing law prevent a state agency from obtaining financing from a municipality to design and construct a state-occupied facility on state-owned property and then enter into an agreement with the municipality for payback without competitive bidding?

DOT/PF is proposing to finance the construction of the legislative hall by lease agreement. The City and Borough of Juneau (city) would sell tax exempt municipal revenue bonds, secured by the lease payments to be paid by the state. The state would then supervise the design and construction of the facilities and be the contracting authority.

As a general proposition, DOT/PF has the authority to make contracts with municipalities for public works. AS 35.05.-040(7). The purpose of this form of contract is further defined by AS 35.15.080(c), which provides in relevant part, "[a] municipality may request joint assumption of responsibilities with the department relating to the planning, design, and construction of a public works project." The term "public works" is very broad and includes public buildings. A public building is one which is "owned or controlled and held by the state for government or public use." AS 35.25.020(5) and (6).

We believe that DOT/PF may contract with the city for the planning, design and construction of the legislative hall. We reach this conclusion because under the provisions of the lease agreement, the state will have control over the building which it will hold for government or public use. Additionally, the state will have significant ownership interests in the facility because it holds fee title to the land upon which the build-

ing will be constructed and at the expiration of the lease agreement, will own the building free of the interest of the city. However, a contract may not alter the city's responsibility for repaying the long term debt established to finance the cost of construction of the facility.

Our memorandum of May 9, 1983 indicated that AS 37.05.-230 generally required competitive bidding to award a lease agreement which provides for the construction of a public facility. However, competitive bidding is not required in all instances of public contracting. McKinnon v. Alpetco, 633 P.2d 281 (Alaska 1981). The lease transaction under consideration may present an instance where it is in the best interests of the state to negotiate directly with a municipality rather than offer the contract to the lowest bidder. See AS 37.05.230(2). A decision to negotiate directly requires a detailed finding of fact in writing by DOA. In the finding of fact, the commissioner must justify the conclusion that negotiation is in the best interests of the state. A municipality enjoys a preferred status when dealing with the state. Intergovernmental contracts are not governed by the same considerations applicable to the state when it is participating in the open market place. It is probable that a facility can be financed cheaper with municipal revenue bonds than by private means. It may be futile to obtain any advantage from the competitive bid process. If DOA sets out ultimate facts in the finding which supports the conclusion that negotiation furthers the public's interest, then competitive bidding is not required. Libby v. City of Dillingham, 612 P.2d 33, 45 (Alaska 1980)(Rabinowitz, J. concurring). However, the award without competitive bidding would be subject to judicial review to determine whether the decision was arbitrary, capricious or an abuse of discretion. McKinnon, 633 P.2d at 287; Hertz Drive-Ur-Self Systems, Inc. v. Tucson Airport Authority, 299 P.2d 1071 (Ariz. 1956); Volume Services Division of Interstate United Corp. v. Canteen Corp., 369 So. 2d 391 (Fla. App. 1979).

4. Does the appropriation to finance the site acquisition and planning for a legislative hall contain defects which prevent DOT/PF from proceeding with the project?

Section 95, ch. 106, SLA 1983 appropriates $4,500,000 to DOT/PF plus other money received for land acquisition and facilities planning in Juneau. The land acquisition, planning, and preliminary design efforts for the legislative hall will be paid from this appropriation.

This section makes an appropriation from two sources: $4,500,000 from the general fund and an unspecified amount from

an unspecified source. 5/ This appropriation is for land acquisition and facility planning in Juneau.

The appropriation contains a unambiguous statement of purpose that DOT/PF is appropriated at least $4,500,000 for land acquisition and facilities planning in Juneau. There is no specification of the public facility upon which the appropriation may be expended. The use of the $4,500,000 appropriated for site acquisition, planning, and preliminary design for the legislative hall is within the purpose set out in the appropriation. However, the appropriation of money which may be received from other sources presents a serious legal issue. Because no amount is stated for the appropriation, sufficient authorization may not exist to expend the money beyond the $4,500,000. 6/ Nonetheless, the unspecified source of the appropriation is presumably severable from the general fund part of the appropriation which is stated with specificity in the amount of $4,500,000. AS 01.10.-030. Consequently, until you begin receiving amounts from "other sources," whatever they may be, the expenditure of general fund money authorized by the appropriation is not a problem.

CONCLUSION

We believe there is sufficient authority under existing law to finance the construction of a public facility by lease. However, because this financing technique is not specifically authorized by law, we cannot with absolute certainty advise you that a court would agree with our opinion. You should make allowance for this risk when you plan further development of each project to be financed by the lease purchase method.

WFC:ebc:prm/JLB:pjg

cc: Hon. Harold J. Raynolds, Jr.
Commissioner
Department of Education

5/ We presume "the other money received" was intended to include money to be provided under a lease agreement with the city as discussed in section 3, supra.

6/ Each appropriation must state an amount. AS 24.30.030. It is not necessary for the appropriation Act to set out the amount in dollars and cents if the appropriation contains provisions which make the amount capable of mathematical calculation. Orbison v. Welsh, 179 N.E.2d 727 (Ind. 1962).

MILT

LAW OFFICES
WOHLFORTH & FLINT
A PROFESSIONAL CORPORATION
900 WEST 5TH AVENUE, SUITE 600
ANCHORAGE, ALASKA 99501-2086

ERIC E. WOHLFORTH
ROBERT B. FLINT
TIMOTHY G. MIDDLETON
PETER ARGETSINGER
ROBERT M. JOHNSON
KENNETH E. VASSAR

TELEPHONE
AREA CODE 907
276-6401

TELECOPIER
AREA CODE 907
276-5093

RECEIVED
ALASKA DEPARTMENT OF REVENUE
JAN 30 1984
OFFICE OF THE COMMISSIONER

January 17, 1984

MEMORANDUM

Constitutional Debt Limitation/State and Municipal Leaseback Transactions

This memorandum reviews cases relating to state and municipal leaseback transactions, focusing on the viability of such transactions under constitutional debt limitations. For purposes of clarity, it may help to begin by defining some of the terms used in this paragraph.

Our concept of "leaseback transaction" generally includes the following basic elements:

(1) one party is a state or local government which cannot or will not directly finance a capital project (with "capital project" here generally limited to those capital projects which do not generate user income other than in the form of rent from the state or local government users);

(2) a second party to the transaction is the financing entity, which may be either a public or private corporation;

(3) the financing mechanism generally involves the issuance of bonds; and

(4) the relationship between the state or local government and the corporation is established by a lease agreement under which the state or local government agrees to lease from the corporation the capital project financed with the corporation's bonds; there may also be a preceding lease or sale of land from the state or local government to the corporation for use as the site of the capital project.

By "consitutional debt limitations" we refer to those provisions in the various state constitutions which inhibit the ability of a state or local government to incur debt. These limitations generally fall into one of two categories: (1) those which prohibit debt absent voter approval except for certain

enumerated purposes; and (2) those which limit permissible debt to a particular amount, usually expressed as a percentage of revenues. Alaska's debt limitation falls into the former category, and, because of their relevance to proposed leaseback transactions in Alaska, we present here in full the four pertinent sections from the Constitution of the State of Alaska, Article IX:

> SECTION 8. STATE DEBT. No state debt shall be contracted unless authorized by law for capital improvements or unless authorized by law for housing loans for veterans, and ratified by a majority of the qualified voters of the State who vote on the question.The State may, as provided by law ratification, contract debt for the purpose of repelling invasion, suppressing insurrection, defending the State in war, meeting natural disasters, or redeeming indebtedness outstanding at the time this constitution becomes effective.
>
> SECTION 9. LOCAL DEBTS. No debt shall be contracted by any political subdivision of the State, unless authorized for capital improvement by its governing body and ratified by a majority vote of those qualified to vote and voting on the question.
>
> SECTION 10. INTERIM BORROWING. The State and its political subdivisions may borrow money to meet appropriations for any fiscal year in anticipation of the collection of the revenues for that year, but all debt so contracted shall be paid before the end of the next fiscal year.
>
> SECTION 11. EXCEPTIONS. The restrictions on contracting debt do not apply to debt incurred through the issuance of revenue bonds by a public enterprise or public corporation of the State or a political subdivision, when the only security is the revenues of the enterprise or corporation. The restrictions do not apply to indebtedness to be paid from special assessments on the benefited property, nor do they apply to refunding indebtedness of the State or its political subdivisions.

We note also the presence of Article IX, Section 16, of the Alaska Constitution, which establishes a ceiling on permissible annual appropriations by the State. While this section is not per se a limitation on debt (the section expressly exempts from its provisions appropriations of bond proceeds), it may have some effect on the feasibility of a proposed leaseback transaction to the extent that it limits the state's ability to make appropriations.

Finally, among our list of defined terms is "lease participation certificate." By this, we refer to the financing instrument used in a lease participation transaction. A "lease participation transaction" has the same basic elements described for a "leaseback transaction" with one exception: instead of or in addition to issuing bonds to finance the capital project, the corporation, as lessor of the project, issues lease participation certificateswhich entitle their holders to a share of the lease revenues generated by the project.

With these preliminary matters established, we proceed now to an overview of the research we have completed with regard to leaseback transactions and constitutional debt limitations.

OVERVIEW

In preparing this memorandum, we have reviewed some 47 cases decided in 26 states. The earliest case was decided in 1939, the most recent in 1982. There are earlier cases which we declined to include in this survey, primarily because of the existence of more recent cases in their jurisdictions. For ease of reference, we will refer to those cases which have invalidated leaseback transactions as invalidating cases and to those cases which have upheld leaseback transactions as validating cases.

While legal research can seldom, if ever, be satisfactorily reduced to figures and statistics, some of the numbers revealed by our research may be of interest. Of the 47 cases we reviewed, 21 were invalidating cases and 26 validating. Among the 26 states in which these 47 cases were decided, 16 states can be considered validating states in the sense that the most recent decisions in those states are validating decisions. The remaining 10 states have only invalidating decisions, but only two of those states -- Ohio and New Mexico -- have considered the question more than once. Of the 16 validating states, 10 have considered the question more than once. Six of the validating states had early invalidating decisions followed later by validating decisions. In no state has an invalidating decision followed a validating decision.

On the following pages of this memorandum, we will generally follow a chronological order in presenting the cases reviewed; however, three states -- New Jersey, Wisconsin, and Missouri -- have had such extensive judicial review of leaseback transactions that their cases are most instructive if viewed apart from the others. Therefore, the following pages will begin with cases decided in New Jersey, Wisconsin, and Missouri and will then proceed with a chronological review of the cases from the other states.

NEW JERSEY

New Jersey's supreme court has decided four leaseback transaction cases. Its first decision, McCutcheon v. State Building Authority, 97 A.2d 663 (N.J. 1953), became the most cited of the leaseback transaction cases of all the states. McCutcheon has been cited approvingly or for support in the invalidating cases of Arizona, Iowa, Massachusetts, Ohio, Oregon, Washington, West Virginia, and Wisconsin. It has also been cited and then ignored, distinguished, or dismissed by many of the validating cases.

In 1968, the New Jersey court expressed some clear misgivings about its McCutcheon decision, though it did not expressly overrule the decision at that time. In 1973, the court fortified the impression created in the 1968 case that it no longer endorsed McCutcheon. Again, however, the court did not expressly overrule the decision at that time. A New Jersey Appellate Court summed up the status of McCutcheon in 1981 with the following comment: "it is apparent that as precedent the case is dead; it simply has not as yet been interred." Enourato v. New Jersey Building Authority, 440 A.2d 42, 48 (N.J. Appel. 1981). Final interment arrived in 1982 when Enourato was appealed to the New Jersey Supreme Court, which expressly overruled McCutcheon.

The effect of McCutcheon on other state courts which have reached invalidating decisions should be noted. We listed above eight states whose courts have reached such invalidating decisions. Three of these states -- Arizona, West Virginia, and Wisconsin -- have since had validating cases decided in their supreme courts. The remaining five states have not had any other post-McCutcheon cases. It will be interesting to note the effect, if any, which the overruling of McCutcheon has on those states as future cases come before their courts.

McCutcheon involved a statutorily created public corporation known as the State Building Authority. The sole business of the Authority was to provide for the construction and acquisition of buildings through the issuance of its bonds. The source of income to the Authority from which the bonds were to be

repaid was the leasing of the buildings to the state and its various departments and agencies. Under the Authority's enabling statutes, the lease contracts would be "valid and binding upon the department, agency, or instrumentality of the State, notwithstanding that no appropriation was made or provided to cover the cost or estimated cost of the contract." 97 A.2d at 665.

Neither the statutory nor the lease provisions set forth by the court in its opinion indicate whether or under what circumstances title to the property would be transferred to the State; however, the statute did authorize the Authority to convey property it acquired. In any event, the most significant concern to the court, as reflected in the following passage from the opinion, was whether the lease contracts were actually purchase contracts:

> While in form a way of providing the State with leasehold interests in building facilities for public use, in reality the design of the act is to enable the State by contracts of purchase to acquire for state use buildings possessed and constructed by the Authority by means of bond issues sustained by the State's promise to supply in the guise of rentals sufficient money to liquidate the bonds, available only through the medium of annual appropriations. And this in disregard of the constitutional debt limitation and the restraints laid by the organic law upon the appropriations process. There is no pretense of conformance with the debt limitation provision; there was no submission of the project to the electorate .... The legislation proceeds upon the hypothesis that the fulfillment of the project will not burden the State with a debt or liability within the constitutional sense. But in this the accent is on the external appearance rather than the substance. The label is unimportant; it is the essence that controls. It is an obvious truism that constitutional limitations may not be set at naught by indirection.

97 A.2d at 668. It was this piercing of the lease contract to unveil an underlying purchase agreement which primarily led the court to conclude that the transaction was governed by, and invalid under, the State's constitutional debt limitations.

Another important factor to the court was the nature of the Authority. Regarding this factor, the court stated:

> There is for the reasons stated, a radical difference in the relationship between the State and the Authority and the State and a private corporate lessor....The Authority is not an independent autonomous public corporation. It may lease its building faciltities only to the State, its departments, agencies, and instrumentalities....And, quite apart from the other considerations heretofore adverted to, the State's taxing power is the sole source of its revenue.

97.A.2d at 671. The court's apparent perception of the Authority as, in essence, the alter ego of the State involved in a transaction which the court viewed as, in essence, a purchase agreement created the situation necessary for the court to reach its conclusion. From the court's perspective, it was reviewing, in essence, a capital construction contract entered into by the State without the required voter approval. The result was inevitable.

As noted above, the statute made the lease payments valid and binding against the state agencies entering into the lease contracts even if the legislature failed to make appropriations for such payments. While the meaning of the statute is not clear, one might have expected the court to use the statute to conclude that any lease entered into under it would be prohibited debt by virtue of its apparent attempt to avoid the appropriation process. Instead, the court virtually ignored the statute. In fact, the following passage, which should most likely be considered as dicta, reflects the opposite situation -- one in which there is no obligation to make payments except to the extent that appropriations so provide:

> The constitutional debt-limitation provision is not limited in quality and scope to debts enforceable by action. It has in view the temptation or inducement and incentive to make appropriations for "debts" beyond the prescribed amount, unless approved by the people in the manner ordained. Moral and ethical compulsions are not to be allowed to override the constitutional safeguard against improvidence and the integrity of the State's economy.

97 A.2d at 671

By the court's own account, McCutcheon stood as a rigid enforcement of the state's debt limitation provisions. Any leaseback transaction plan which reflected any indicia of a purchase -- whether by transfer of title at termination of the lease, or by the holding of title by a public corporation, or by lease payments fashioned to pay for debt service on the bonds -- would likely have failed before that court, at least to the extent that one party to the plan was a public corporation whose only customer was the State.

Fifteen years after McCutcheon, the New Jersey Supreme Court again considered a leaseback transaction case, this time with a markedly different result. The second of the New Jersey cases was Clayton v. Kervick, 244 A.2d 281 (N.J. 1968). The opinion was written by Justice Jacobs, the only remaining member of the McCutcheon court and a dissenter in that case (along with Justice, later to become Mr. Justice, Brennan).

The statute in Clayton established the New Jersey Educational Facilities Authority. The Authority was empowered to borrow money and issue bonds to construct projects to be leased to public and private colleges. The projects were anticipated to be revenue producing projects (such as dormitories), and the revenues they produced were primarily the source from which lease payments were to be derived. To this extent the transaction in Clayton was not a "leaseback transaction" as we have defined the term for purposes of this memorandum, and, indeed, it was the revenue-producing character of the projects upon which the court ultimately distinguished the Clayton situation from the McCutcheon situation.

Nevertheless, before distinguishing McCutcheon, the court referred approvingly for nearly two full pages in its opinion to the dissent in McCutcheon and to cases from other states which had rejected the majority opinion in McCutcheon. As to the McCutcheon dissent and the cases from the other states, the court stated:

> these decisions, along with the dissent in McCutcheon, appear to us to be clearly the more persuasive....

244 A.2d at 281. Although the court was able to find a way to distinguish, rather than expressly overrule, McCutcheon its disenchantment with the earlier case was apparent.

Thus, while Clayton, is not, strictly speaking, a leaseback transaction case under our definition, its use by the court as the vehicle to undercut McCutcheon, to warmly embrace

the McCutcheon dissent, and to cite approvingly the leaseback transaction cases from other states rejecting the McCutcheon thesis makes the case important for our purposes. Fifteen years after writing his dissent in McCutcheon, Justice Jacobs was finally able to incorporate into a majority opinion his thoughts about the McCutcheon case. Taking full advantage of the opportunity, he recorded the following pertinent comments, among others:

> In their separate opinion, the dissenting justices [in McCutcheon] referred to the fact that the generally accepted accounting practice thoughout the country does not encompass future rents as debts or liabilities and that corporate balance sheets would be examined in vain for references to lease rentals payable in future years....
>
> The majority in McCutcheon apparently viewed the rental plan as a purchase rather than a lease and as evasion rather than avoidance of the debt limitation....But, as the dissent pointed out, leases between affiliated governmental bodies are common and unquestioned in our society and there was no plausible basis for dishonoring the carefully formulated leasing arrangement between the independent Building Authority and the non-autonomous agencies of the State.

244 A.2d at 288.

Although the Clayton court chose to distinguish rather than overrule McCutcheon, and though much of what the Clayton opinion had to say about McCutcheon was, therefore, simply dicta, it should have been reasonably clear that Clayton marked the deathknell for the earlier case. Still, five years later, a New Jersey Superior Court apparently had not yet clearly received the message.

Bulman v. McCrane, 302 A.2d 163 (N.J. Super. 1973), involved the following issue as explained by the court:

> Put concisely, the problem presented is whether a lease-purchase arrangement whereby a state agency contracts with a builder to erect a facility on state-owned land and lease the same to the State for a term of

> years at stipulated annual rentals, with an option to purchase at intervals during the term, title to revert to the State at the expiration thereof, violates the debt limitation clause of the State Constitution.

302 A.2d at 164. After reviewing McCutcheon and Clayton, the Superior Court concluded that neither provided guidance for a situation involving a lease to the State of a non-income producing facility by a private corporation. While it avoided using either case as authority for its decision, the court nevertheless reached the McCutcheonesque conclusion that, while the arrangement was cast in the form of a lease, it was, in essence, a purchase agreement. As such, the court determined that the arrangement created prohibited debt. The reason for the court's perception of the arrangement as a purchase agreement basically rested upon the fact that the lease provided for reversion of the building (which was built on state-owned land) to the State at the expiration of the lease.

Nine months later, the New Jersey Supreme Court reversed. Bulman v. McCrane, 312 A.2d 857 (N.J. 1973). The court stated:

> The fact that the State may be advantaged by ultimately acquiring title to a potentially useful building as the residue of a transaction otherwise faithful to the theory of a lease...represents no good reason for judicial assiduity in laying hold of that circumstance to destroy the transaction as an unconstitutional debt. The sole obligation of the State here is for future installments of rent. They will presumably be paid out of current revenues as annually appropriated for the purpose. Under settled principles, there is no present debt in the constitutional sense.

312 A.2d at 863-864 (footnote omitted).

The most recent of the New Jersey leaseback transaction cases is Enourato v. New Jersey Building Authority, 448 A.2d 449 (N.J. 1982). The statute in this case, very much like that in McCutcheon, created a state building authority the sole function of which was to construct buildings for lease to the State. Rental payments, made subject to annual appropriations, were the sole source of repayment of the bonds issued by the Authority to finance the construction of the buildings. The bonds, of course,

expressly stated on their face that they were the obligations of the Authority and not the State. In a relatively brief review of the question, the court rejected the claim that the Authority's bonds would create a state debt. The court noted:

> The Authority's creditors have notice that their only remedy lies against the Authority.
>
> Nor does the liability of the State on its lease agreements with the Authority create any debt of the State. Both the statute and the lease make clear that all rent payments from the State are subject to legislative appropriations....
>
> Since the Building Authority Act does not authorize the creation of any debts by the State, the debt limitations clause...does not apply to the Authority's debts or any obligations of the State on its lease agreements with the Authority. We have already disapproved the contrary result reached by a sharply divided Court in McCutcheon...and now expressly overrule that case.

448 A.2d at 456.

These New Jersey cases, from McCutcheon to Enourato, demonstrate an evolution in judicial thinking with regard to leaseback financing. Several of the early cases took the view expressed in McCutcheon of rigid adherence to debt limitation provisions. Under that view, the enforceability of an obligation claimed to exist against a state was not determinative. Any arrangement which appeared to be or could plausibly be said to be a purchase agreement was equated with debt. If there were any moral obligation to make payments or even if the court surmised that, because of practical considerations, the legislature would most likely make the appropriation for the payments regardless of the existence of any moral or legal compulsion, that, too, could be equated with debt. We believe the modern trend and certainly the majority position is more closely attuned to the Enourato view. As long as the obligation of the state under the lease agreement is clearly subject to annual appropriation by the legislature, as long as the bonds issued to finance the project clearly identify the foregoing and clearly indicate that they are not the obligations of the state, as long as state property is not encumbered (a factor extensively discussed in the Wisconsin cases reviewed below), and as long as the enabling statutes

authorizing the transaction reflect all of the foregoing, the likelihood is that the transaction will be upheld.

WISCONSIN

Like New Jersey, Wisconsin's supreme court has reviewed four cases concerning leaseback transactions. Unlike New Jersey, however, all of Wisconsin's cases were decided in a two-year period (1953 -- 1954), and, in its four decisions, the Wisconsin court has not experienced the dramatic change in attitude reflected in New Jersey's cases.

The first Wisconsin case was State v. Giessel, 65 N.W.2d 529 (Wisc. 1954) (herein "Giessel I"). The plan in Giessel I called for the incorporation of a non-profit corporation by the State Building Commisssion. The Commission would lease state land to the corporation. The corporation would construct a building on the land and lease both land and building back to the Commission for the use of state agencies. As security for its loans, the corporation would have the ability to mortgage its lease of the land and of any buildings on the land. One project of the corporation was to construct an addition to an existing state office building. To secure financing for the project, the corporation intended to mortgage the lease to the corporation of the land and existing building.

The court found no fault with the financing plan except with regard to the mortgaging of an interest in state property. As to such mortgaging, the court declared the plan unconstitutional and void, stating:

> Logically there would seem to be just as much coercion on the part of the state to pay an indebtedness, for the payment of which existing state property, or an interest therein, had been pledged as security but the state had not otherwise agreed to pay the debt, as
>
> the state had made itself directly liable for the payment thereof.

65 N.W.2d at 540.

Three months later, the court decided State ex rel. Rogers v. Milligan, 66 N.W.2d 326 (Wisc. 1954) (herein "Milligan I"). This case involved virtually the same facts as in Giessel I and was decided in accordance with that case.

Early in 1955, the court had before it State ex rel. Rogers v. Milligan, 69 N.W.2d 485 (Wisc. 1955) (herein Milligan II"). Once again, the facts were virtually identical to Giessel I and Milligan I except that here the building company as lessor of the land (which was owned by the city and leased to the building company) and building, instead of mortgaging its leasehold interest in the land, would be able to re-enter and take possession of the land and building if the city failed to pay its rent. The court saw no distinction in this feature of the lease and ruled the plan unconstitutional, noting, however, that if the building company were also the owner of the land "this objection to the lease would be eliminated." 69 N.W.2d at 487.

Finally, toward the end of 1955, the Wisconsin court considered State ex rel. Thomson v. Giessel, 72 N.W.2d 577 (Wisc. 1955) (herein "Giessel II"). Decided only two years after McCutcheon, Giessel II became the second most prominent case on leaseback transactions (after McCutcheon). In a lengthy analysis of the leaseback transaction before it, the court considered McCutcheon and rejected the conclusions of that case, stating:

> That case is distinguishable from the present situation in that it rests on legal premises which this court has not adopted....This court....has heretofore held that no debt is created unless the state itself is under a legally enforceable obligation.

72 N.W.2d at 589. The Wisconsin court indicated various distinguishing factors between the two cases and between the constitutions of the two states. Whether it was a result of those distinguising factors or, more likely, a result of a plain disagreement between the two courts, the Winsconsin court reached conclusions opposite to those of the New Jersey court with respect to two significant legal issues: first, as noted above, the Wisconsin court found no constitutional debt in the absence of a legally enforceable obligation; and second, the Wisconsin court, though it did not find an installment purchase contract to exist in the plan before it, indicated that even if such contract did exist it would not necessarily create state debt (this second conclusion being no more than a corollary to the first in that a purchase contract, to the same extent as a lease, creates no debt in the absence of a legally enforceable obligation).

The plan before the court in Giessel II was a typical leaseback transaction involving a private, nonprofit corporation as the financing entity. The corporation was empowered to either purchase or lease land from the state for the purpose of constructing buildings on the land and either leasing or subleasing,

depending upon the interest initially conveyed to the corporation, the land and building to the state. There were three causes of action presented to the court in Giessel II.

The first cause of action related to a lease and sublease. Rent on the sublease was calculated to enable the corporation to retire the indebtedness to be created in the construction of the building. The sublease provided that "it is mutually agreed by the parties hereto that the corporation, its successors or assigns, hereby waive, relinquish and release any and all rights of re-entry, or to re-take possession of the herein demised premises, and hereby agree not to exercise any such rights, in the event of nonpayment of rent or of other defaults hereunder by the University, its successors or assigns." 72 N.W.2d at 580. The second cause of action involved the same type of arrangement with the same re-entry waiver.

The third cause of action related to a sale of land by the state to the corporation. The corporation was to build an office building on the land and lease it to the state building commission. The loan by the corporation to finance the construction was to be secured by a mortgage on the land. The lease provided that if the legislature failed to appropriate money for rental or for any other breach of the lease, the corporation would be entitled to "enter on, and expel, the commission from said premises forthwith, and without notice, and the corporation may from time to time apply all monies held by the corporation as security for faithful performance by the commission of its covenants and undertakings hereunder, to the payment of all damages sustained by the corporation by reason of any such default, which damages shall include, without limiting the generality of the foregoing thereby, the cost of decorating, altering and improving the premises and brokers' commission incurred in reletting the same, and also the difference between the net income actually received by the corporation from said demised premises upon reletting and the rent limited herein." 72 N.W.2d at 581. The lease further provided that it was made subject to a mortgage made by the corporation to its lender. Under the mortgage, rents to be paid by the commission were pledged to the lender.

With regard to these causes of action it should further be noted that (1) the state consented to a pledge or assignment of the state's obligation to pay rent by the corporation to its lender; (2) the state purchased equity in the building projects described in the first two causes of action in amounts greater than fifty percent of the cost of the projects; and (3) the state was authorized to use income derived from existing state buildings to pay the rent on the building described in the first cause of action.

The court first considered whether the state's consent to the assignment of its rental payments to the corporation's lender created debt. The court ruled that it did not and referred to the principle enunciated in Giessel I that the payment of future rent is not a presently existing debt. 72 N.W.2d at 584. The court noted that the assignment of the rents simply changed the party entitled to receive the rents if paid and did not obligate the state to pay the corporation's obligations.

The court next considered whether the state's investment in the projects led to prohibited debt. The court rejected the contention, stating that the investment did not obligate the state to pay all or any portion of the sums borrowed by the corporation to construct the buildings "even though good judgment may dictate that it do so voluntarily". 72 N.W.2d at 586.

The court next encountered the old McCutcheon argument that the leases and subleases were, in effect, contracts of purchase which created impermissible state debt. As noted above, the court chose not to follow McCutcheon and adhered to its general principle that where there is no obligation against the state to make payments, whether under a lease or under a purchase contract, there can be no debt.

Finally, the court considered whether the state's agreement to use income from existing state buildings to pay the rent on the building leased from the corporation created a state debt. The court noted that the nature of the fund from which the rental payments were to come had no bearing on the nonenforceable and contingent nature of the state's obligation and, therefore, did not affect the court's determination that no debt had been created.

To the degree that McCutcheon was rigid, Giessel II can be said to be flexible in considering its constitution's debt limitation provisions. Giessel II represents the position that as long as the state's obligation is nonenforceable and contingent and as long as there can be no loss of state-owned property there is no state debt.

MISSOURI

The first of the Missouri cases is Board of Public Buildings v. Crowe, 363 S.W.2d 598 (Mo. 1962). The financing entity in that case was a public corporation which had authority, once it constructed a building in a city, to require any state agency which occupied rental quarters in such city to rent space from the corporation's building and to contribute from funds

appropriated for such agency's support a proportion of the rentals of the building. It was argued in the case that the payment of rentals from funds appropriated to the state agencies and taken from revenue raised by taxation would create a "liability" of the state. The court noted that no rents could be paid by any agency unless the legislature appropriated money to that agency. Once such an appropriation was made, the money lost its character as general state revenue. The court rejected the contention and sustained the transaction.

Crowe was followed in 1971 by New Liberty Medical and Hospital Corporation v. E. F. Hutton and Company, 474 S.W.2d 1 (Mo. 1971). In this case the Missouri court did find constitutionally prohibited indebtedness arising from the provisions of the lease agreement used in the leaseback transaction. Under the agreement, the hospital district (which was subject to the state's constitutional debt limitations) was obligated unconditionally to pay rentals "without abatement, deduction, set-off, counterclaim, recoupment or defense or any right of termination or cancellation arising from any circumstances whatsoever." 474 S.W.2d at 6. The court noted that

> This is more than the usual obligation of lessee to pay rent for premises furnished. It is an unconditional undertaking to pay a sum total which will equal the principal and interest on the debentures plus taxes, costs and certain other items over a 30-year period, even if for some reason the premises become unavailable for use of lessee. This is assuming indebtedness which must be paid in all events.

474 S.W.2d at 6. Not surprisingly, the court invalidated this leaseback transaction. A similar lease agreement was used in the third Missouri case, Scroggs v. Kansas City, 499 S.W.2d 500 (Mo. 1973), and it, too, was invalidated by the court.

The last of the Missouri cases was St. Charles City-County Library District v. St. Charles Library Building Corporation, 627 S.W.2d 64 (Mo. 1981). Like the lease agreement in the Colorado Gude decision, discussed later in this memorandum, the district here was able to avail itself of annual options to renew. Because of this feature, the court distinguished Scroggs and held that there were no long-term repayment obligations created on the part of the district and, hence, no violation of the constitutional debt limitations of Missouri.

OTHER STATES

Having reviewed the cases of three of the most active courts in the leaseback transaction area, we proceed in this part to review the remaining cases from the other states. As noted earlier, this review will proceed in chronological order.

The earliest case in our survey is State v. Griffith, 22 N.E.2d 200 (Ohio 1939). The leaseback transaction in this case involved a public corporation which constructed additions to state mental hospitals and subleased the buildings back to the state Department of Public Welfare. Under their contract, the department pledged "all and every part of its available source of income" to pay the rent on and to maintain the buildings. There were a number of elements to the transaction to which the court took exception in invalidating the arrangement.

While the court accepted the concept that pure revenue bonds (that is, those payable solely from the revenues generated from the project financed with the bonds) were acceptable under constitutional debt limitations, the court could not accept a general obligation bond of a public corporation. This was particularly so in a situation, as in this case, where the public corporation was joined in its obligation by the Department of Public Welfare

The court noted that

> the obligation of the Department of Public Welfare of the state of Ohio under its contract with the authority to pay as rental for the state property turned over to the authority the sum of $421,500 per annum for twenty-five years, plus other expenses of the authity is an absolute and outright obligation of the department, an arm of the state, on account of such bonds. In addition the department obligates itself to liquidate the indebtedness to the authority by pledging "all and every part of its available sources of income" and "to fix the amount or amounts to be charged and collected for the support of patients and inmates of the hospitals under [its] control...so as to be sufficient in the aggregate to provide available funds to pay the maintenance costs of said buildings-...and to pay the Public Institutional Building Authority the sums" promised....

22 N.E.2d at 205. The court additionally disapproved of the pledging of income derived from existing buildings in addition to the income to be derived from the buildings financed with the bonds. The court reasoned that "to the extent that the income from the use of these buildings is diverted to the payment of rental to the authority for the purpose of servicing these bonds, the general revenues from taxation to support these institutions must necessarily be increased to the same extent. The income from the institutions ought to be increased, by reason of the new structures, but there will also be greater expense in administration and upkeep." 22 N.E.2d at 205.

Plainly, the most serious problem in the Griffith situation was the outright pledge by a department of the state to pay a sum certain annually under contract with the corporation. Because of the number of concerns expressed by the court, it is difficult to surmise how a provision making all payments subject to annual appropriation by the legislature might have changed the court's conclusion, but such provision could only have helped the situation.

In 1941, New Mexico's supreme court rendered the first of its two leaseback transaction cases, State Office Building Commission v. Trujillo, 120 P.2d 434 (N.M. 1941). Trujillo presented a lengthy and considered analysis of leaseback transactions in the light of constitutional debt limitations and became another oft-cited and significant case in the area.

As much as any other case in the field, Trujillo clearly pointed out the dual considerations inherent in any leaseback transaction involving a public corporation. The court carefully considered the relationship of the public corporation in Trujillo to the state and then considered the nature of the obligation entered into by the state itself.

The statute creating the corporation in Trujillo designated it "a public body corporate as an agency of the State." The court immediately seized upon this language and noted that "it is through such agency that the State is to act, and being an agency, its acts are the acts of the State." 120 P.2d at 440. The conclusion that the bonds of the corporation are then debts of the State itself could hardly be avoided from that point. It may not be likely that the same difficulty would be encountered in Alaska considering the Alaska Consitution's express reference to obligations of public corporations as exceptions to this state's debt limitation provisions. (Constitution of the State of Alaska, Article IX, Section 11); however, it is certainly advisable in any event to give the courts a clearer indication that a separate and independent legal entity is intended to be

created as has generally been done in the statutes creating Alaska's present public corporations.

From the perspective of the obligation created by the other state agencies in entering into the lease contracts, it was urged upon the court that the rental payments should not be considered debt for the reason that they amounted to current administrative expenses. This, of course, was the argument accepted by the Wisconsin court in Giessel II; however, the facts in this case did not permit such a conclusion. There was no provision in the agreement or in the statute making the payment of rent by the state agencies contingent upon appropriation for the purpose; in fact, once the agencies entered into the lease agreement, both the statute and the agreement prevented them from terminating the lease except under narrowly specified circumstances. As the court noted:

> Subject only to the one condition set out in said section, the state would be obligated to continue payment of rentals until the indebtedness of the Commission was satisfied. This would mean, so long as the agencies did not recede from the lease agreements under the one specified condition, that future legislatures would be bound to provide appropriations for payment of rentals.

120 P.2d at 448 (emphasis in original). The lesson from this aspect of the case is the now familiar refrain: the obligation of the state agency to pay rent must be contingent upon the legislature's decision to appropriate for that purpose. Such a provision might not have saved the case before a court such as that in McCutcheon, but it could have made a difference in many of the cases.

The next leaseback transaction case was Opinion of the Justices, 79 A.2d 753 (Maine 1951). In this lone entry into the leaseback transaction arena by the Supreme Court of Maine, the state senate presented to the Justices a proposed leaseback transaction the only significant feature of which was a statutory provision which appeared to make it mandatory upon the state and the public corporation to enter into a lease agreement upon completion of construction of the building by the corporation. The lease agreement was to provide rents sufficient to retire the corporation's bonds. There is no provision indicating that rental payments by the state were subject to appropriations.

The court foreshadowed the McCutcheon analysis by finding the "so-called" lease to be a contract of purchase.

> The so-called rental is not true rent, to wit, payment for the use of property. The total amount of so-called rental is the purchase price the State is to pay for the property....Being a contract of purchase, obligating the State to pay the purchase price, unless the entire amount thereof is to be paid pursuant to appropriation presently made from funds or revenues currently available therefor, such contract of purchase would in the consitutional sense be a liability created by the Legislature on behalf of the State.

79 A.2d at 756 (emphasis in original).

In 1955, two leaseback cases from two states emerged. In McArthur v. Smallwood, 281 S.W.2d 428 (Ark. 1955), the rental payments from the state to the public corporation were to come first from legislative appropriations and, if such appropriations were not forthcoming, then from a special levy to be assessed by various county treasurers. Noting particularly that there was no obligation on the legislature to make the appropriations, the court upheld the transaction. The special levy was upheld on the basis of the "special fund doctrine", which was also a significant consideration in the Trujillo case. The "special fund doctrine" provides, in essence, that the repayment of bonds from a special tax or levy does not violate state debt limitations because the general taxing power of the state is not involved. Any reliance upon such a doctrine in Alaska, of course, would require serious consideration of the dedicated fund prohibition in the Alaska Constitution (Article IX, Section 7).

The other 1955 case was State v. Yelle, 289 P.2d 355 (Wash. 1955). Yelle relied extensively on McCutcheon, employed the same analysis, determined that the lease was actually a purchase, and invalidated the arrangement. The opinion does not clearly indicate whether there was any compunction on the legislature to make the appropriations to pay for the rents, nor is it clear that the rental payments were contingent upon such appropriations. In any event, such considerations probably do not make much difference with regard to the McCutcheon progeny. We have discovered no Washington case subsequent to the crumble or demise of McCutcheon.

Illinois' court considered a municipal leaseback transaction in People v. Public Building Commission of Chicago, 142 N.E.2d 67 (Ill. 1957). Of particular importance to that case was a provision in the statute which required municipalities entering into leases with the public corporation to "enact an ordinance or

resolution providing for the levy or a direct annual tax sufficient to pay the annual rental under the lease when it becomes due and payable." 142 N.E.2d at 72. The Illinois court noted that its definition of "indebtedness" was "not as liberal as that indulged in by a majority of jurisdictions." 142 N.E.2d at 75. Nevertheles, even in the more liberal jurisdictions, a provision such as that embodied in the statute quoted above would have been likely to lead to a finding of debt. The Illinois court had no trouble reaching such conclusion.

In 1958, the Indiana Supreme Court was presented with a leaseback transaction involving a public corporation. In Book v. State Office Building Commission, 149 N.E.2d 273 (Ind. 1958), the lease agreement between the public corporation and its state agency lessees contained a provision, much like that in Trujillo, which permitted the lessees to terminate their agreement only under specified conditions. Nevertheless, the court upheld the agreement.

In Book, the court was presented with a series of assertions reflecting a McCutcheon-like analysis of the situation. The court repudiated each assertion as it was presented. Thus, the court, looking to the statute creating the public corporation and to previous Indiana cases, denied that the public corporation was "in reality" the State of Indiana. It followed that since the corporation was a corporate body separate from the state, the holders of its bonds would have to rely upon the corporation's revenues derived from rental income and would not have any recourse against the state. For these reasons, the court concluded that the bonds of the corporation were not debt of the state. In response to the assertion that the lease agreements were "in reality" contracts to pay the corporation's bonds, the court stated the general rule that

> a municipal corporation may lawfully contract for necessary services over a period of years and agree to pay therefor in periodic installments as the services are furnished. In such cases the aggregate of the amounts to be paid as the services are rendered under such contracts are not considered as an indebtedness of the corporation, and such contracts are not rendered invalid by the fact that the aggregate of the installments exceeds the debt limitation.

149 N.E.2d at 284 - 285. In any event, the fact that the state agencies might obtain title to the buildings they rented at the expiration of their lease would not be sufficient to convert the

lease into a purchase agreement. The court further stated, reminiscent of Giessel II, that the Indiana debt limitation provisions applied only to legally enforceable obligations. Since the court found no language binding any future legislature to make appropriations for the rent under the lease agreement and since the rentals could be paid only by appropriations made by the legislature, the court concluded that the lease agreement created no constitutionally prohibited debt.

Giessel II and Book are located on the more liberal end of the leaseback transaction spectrum, with Book perhaps a bit more liberal because of the court's willingness to overlook the lease provision apparently limiting the state agencies' ability to terminate the lease.

It is worthwhile at this point to temporarily abandon our chronological order to briefly review a later Indiana case -- Teperich v. North Judson-San Pierre High School Building Corporation, 275, N.E.2d 814 (Ind. 1971). We note the case only for its reaffirmation of the Book principle that rent payments "cannot be considered debt until the payments become due." 275 N.E.2d at 817.

In 1960, the Massachusetts court issued its solitary opinion relating to leaseback transactions. Ayer v. Commissioner of Administration, 165 N.E.2d 885 (Mass. 1960), involved, as the financing entity, a nonprofit corporation created by statute. The sole purpose of the corporation was to construct a building to be leased, and ultimately transferred, to the state. Citing McCutcheon, Trujillo, and Yelle, among others, the court embarked upon its analysis by "looking through form to substance". 165 N.E.2d at 892. The court first considered the nature of the corporation and then considered the nature of the lease agreement.

Although the court agreed that the corporation was an entity separate from the state, it nevertheless concluded that the corporation was "nothing more than a mere intermediary to carry out only one purpose." The following factors were pertinent to the court's analysis: (1) the corporation's sole purpose was to construct and lease to the state a building to be used only by the state; (2) the corporation was given powers of eminent domain; (3) the building, at the expiration of the lease, would become the absolute property of the state and the corporation would fade from existence; and (4) the corporation had virtually no power to deal with its property except as provided in the lease agreement. Reflecting upon these factors, the court then considered the statutory provision that the bonds of the corporation would not constitute a debt of the state or a pledge

of its faith and credit. The court's opinion as to this was as follows:

> This disclaimer is ineffective if, contrary to the disclaimer, such be the natural and reasonable effect of the statute.

165 N.E.2d at 889.

With regard to the lease agreement, the court noted:

> Viewing realities, we consider that the so-called "rentals" are not really rentals at all, but in practical effect are installment payments on account of a purchase by the Commonwealth of an office building, with full title to be acquired at an indefinite future date.

165 N.E.2d at 890. One of the important characteristics of the lease agreement leading the court to this conclusion was the requirement in the agreement that the state continue to make rental payments even if the building was not completed on time or was damaged or destroyed.

This 1960 case, which to the best of our knowledge has not been followed by any other Massachusetts leaseback transaction case, employed the McCutcheon-like analysis of piercing through form to arrive at the court's impression of substance. In this regard, the presence of a provision making the state's rental payments contingent upon legislative appropriations may not have changed the result, particularly if the Massachusetts court adopted the McCutcheon view that a mere moral imperative or even a practical likelihood for making the appropriations would suffice to create debt. However, the absence of such a provision allowed the court to reach its conclusion without the necessity of taking that position, and the presence of the affirmative duty of the state to make the rental payments even in the absence of a completed or inhabitable building for the state to occupy doubtless provided a strong incentive to the court to find a prohibited debt.

Another 1960 case, which was also the only decision on the subject we have found for its jurisdiction, was Application of the Oklahoma Capitol Improvement Authority, 355 P.2d 1028 (Ok. 1960). While Ayer emulated McCutcheon and Yelle, the Oklahoma court closely followed the pattern of Giessel II and Book.

There were two significant features of the statute under review in the Oklahoma case. First, a provision of the statute required the state treasurer to purchase the public corporation's bonds issued to provide financing for the building to be leased to the state. Second, the public corporation was authorized to require state agencies and departments to occupy space in the building and pay rent. A third feature also merits consideration, that feature being the intended rental of a portion of the building to federal government agencies.

Despite the first two of the foregoing features of the statute, the court reasoned that housing for state agencies was essential to state government. If the state did not own the housing, a proper method of providing it was through leases.

The court then noted:

> We see no real distinction between a state department entering into a lease agreement and paying rent to a private party and having the same transaction with the Authority. In either event the state department receives a service in the form of housing which the state itself does not own. In addition the state will obtain two office buildings paid for in part from rentals from federal agencies.

355 P.2d at 1032. Given the second of the statutory provisions described above, we must allow that other courts might have seen a difference.

Two lower court California cases were decided in 1962 and 1963. In McClain v. County of Alameda, 25 Ca.R. 660 (Dist.-Ct. of App., First Dist., Calif. 1962), and City of La Habra v. Pellerin, 30 Ca. R. 752 (Dist. Ct. of App., Fourth Dist., Calif. 1963), the California courts upheld leaseback transactions on two bases:

(1) the leases did not create an immediate indebtedness for the aggregate amount of the installment rent due; and

(2) under previous California cases, an obligation imposed by law on a city (such as, in these cases, to provide facilities for city functions) is not an indebtedness or liability within the meaning of the California debt limitation provisions. At least with respect to the first of the foregoing bases, the California courts, without citing Giessel II or Book, reflected a judicial attitude similar to that expressed in those other cases.

The following year, 1964, brought forth Montana's only entry in the leaseback transaction area, State v. City of Missoula, 395 P.2d 249 (Mont. 1964). The transaction there was somewhat unique to the extent that the financing entity involved was an individual -- Theodore Jacobs. In a succinct opinion, the Montana court expressed its belief that

> A debt payable in the future is obviously no less a debt than if payable presently; and a debt payable upon a contingency, as upon the happening of some event, such as the rendering of service or the delivery of property, etc., is some kind of debt, and therefore within the prohibition.

395 P.2d at 251 (quoting from State ex rel. Helena Water Works v. City of Helena, 63 P. 99 (Mont. 1900)). Thus, with virtually no discussion of the elements of the lease from Jacobs to the city, the court reached the opinion that the lease would constitute prohibited debt. It is worth noting another difference in outlook, if not legal analysis, between this case and the California and Oklahoma cases described above: that is, in both California and Oklahoma the need for governmental facilities was viewed as rising to the level of a legal duty, while the Montana court expressed the following opinion as to the need of Missoula for the building in question:

> No one, we believe, would seriously contend that the acquisition of a building valued at approximately $46,000 would be a reasonable and necessary expense requisite to maintain the corporate existence of the City of Missoula.

395 P.2d at 251.

It took the Arizona court five years -- from 1965 through 1969 -- to ultimately conclude its leaseback transaction case. The case began as City of Phoenix v. Phoenix Civic Auditorium & Convention Center Association, Inc., 408 P.2d 818 (Ariz. 1965). Quoting extensively from McCutcheon, Trujillo, and Yelle, the court adopted the principles and reasoning of those cases and invalidated the leaseback transaction because (1) it was, in reality, a purchase agreement; and (2) the source of payment of rents by the city under the lease was to come from the general revenues of the city and not from a special fund derived other than from general taxes.

The next year, the court was asked to clarify its opinion as to whether the debt limitation would be violated if the lease agreement expressly provided that rental payments would come only from excise and ad valorem taxes and not from the city's general taxes and general fund. City of Phoenix v. Phoenix Civic Auditorium & Convention Center Association, Inc., 412 P.2d 43 (Ariz. 1966). Under such circumstances, the court indicated it would find no debt limitation violation.

After fully complying with the clarifications presented in the court's 1966 supplementary opinion, the City of Phoenix found itself once more challenged over the lease agreement. The City sought a peremptory writ of prohibition from the Supreme Court to prevent the City's challengers from proceeding with their case in the superior court. The Supreme Court issued the writ, thus finally concluding the case. City of Phoenix v. Superior Court, 455 P.2d 257 (Ariz. 1969).

In Hall v. Baltimore, 250 A.2d 233 (Md. 1969), the Maryland Supreme Court upheld a leaseback transaction relying on the prevalent common law rule that rent to fall due beyond the current period is not a present debt. The court specifically noted that there was no pledge of municipal assets as the leases involved were subordinate to the city's interest in the property. The court cited with approval Giessel II to the same effect.

Another 1969 case, McFarland v. Barron, 164 N.W.2d 607 (S. Dak. 1969) presented a leaseback transaction which should probably be the model for future endeavors in the area. The court provided the following summary of the plan which reflects a careful and thoughtful preparation for the avoidance of debt limitation problems:

> The leases must contain a provision that rents shall be payable solely from appropriations to be made by the legislature and any revenues derived from the operation of the leased premises. In the event of nonpayment of rents by the State, the building or facility may be leased to others for suitable purposes. A lease may be made for a term of one year from the time a building is completed and ready for occupancy, with an option to the lessee to extend the term for one year from the expiration of the original term and for one year from the expiration of each extended term until the original term of the lease has been extended for a total number of years to be agreed upon at a rental which, if

> paid for the original term and for each of the full number of years for which the term of the lease may be extended, will amortize the total cost of the erection of the building and appurtenances.

164 N.W.2d at 609. Referring to the common law concept that future rents do not create present indebtedness, the court upheld the arrangement. To the suggestion that the state would have a moral obligation to discharge the bonds, the court reponded:

> While the legislature in making appropriations may not be confined to legal obligations, but may recognize moral or equitable obligations...there would exist under the proposed leases no binding legal obligation to authorize expenditures for rent ....In the event of nonpayment of rent or failure of the legislature to appropriate funds the Building Authority is empowered to lease the building or facility to others for suitable purposes to meet accruing payments.

164 N.W.2d at 609 -- 610. And the court finally concluded:

> Since the stipulation of the State to pay rents to the Building Authority will be subject to available appropriations and current revenues, the inhibition of the debt limitation provisions of the Constitution will not apply.

164 N.W.2d at 611.

We temporarily abandon our chronological order once more to note here the subsequent South Dakota case, Millar v. Barnett, 221 N.W.2d 8 (S. Dak. 1974). Citing McFarland, the court again upheld a leaseback transaction similar to the transaction under review in the preceding case.

In 1970, three cases from three states were decided. New Mexico produced its second leaseback transaction case (following the 1941 Trujillo decision) in McKinley v. Alamogordo Municipal School District Authority, 465 P.2d 79 (N.M. 1970). The leaseback arrangement in Alamogordo stands in stark contrast to that crafted in the McFarland case. The financing entity in this arrangement was to be a nonprofit corporation whose membership was identical to the membership of the municipal agency which would be the corporation's lessee. As part of the lease

agreement the municipal corporation was to agree to budget and appropriate sufficient funds to pay the rent under the lease and, moreover, the municipal corporation agreed to the placement of a lien on all of its income from all sources, except ad valorem taxes, to cover the rental payments. There was at least one mitigating factor; that is, the lease was for only one year with successive one year extensions and was terminable at the request of either party. This mitigating factor was insufficient to prevent the court from invalidating the agreement.

In the Trujillo tradition, the court recognized the corporation as "nothing more nor less" than the municipal agency. Thus, the bonds of the corporation would necessarily be debts of the municipal agency. Although the court averred that the pledge of the municipal agency's income and the lien on funds to be received by the municipal agency were not critical factors in its decision (465 P.2d at 81), the court nevertheless referred to these factors in its concluding paragraphs:

> Here the only source of money to pay rent to accrue is state tax proceeds and amounts received from federal sources. As a matter of fact, these moneys are specifically pledged by the terms of the lease. It is quite apparent that the funds to be used are those realized from "general taxation" held unconstitutional in Trujillo.

465 P.2d at 84.

While McFarland reflects careful consideration in the preparation of a leaseback transaction to avoid the constitutional concerns expressed by the various courts, Alamogordo seems to represent a studied indifference to those concerns. The result is that New Mexico has two invalidating cases and none validating. It would be enlightening to see how the New Mexico court would handle a case involving a leaseback transaction which reflects some concern for judicial precedent.

The Nevada case of State v. Hancock, 468 P.2d 333 (Nev. 1970), approaches, but does not achieve, such an effort. The leaseback transaction in that case, invalidated by the Nevada court, provided on the one hand that rentals from the state would derive from biennial appropriations from the legislature; on the other hand, the drafters of the plan curiously chose to also provide that the legislature could choose to pledge itself to make future appropriations as necessary to pay the rents.

The Nevada court followed the McCutcheon, Trujillo, Yelle, and Ayer approach of looking to "the essence" of the plan to reveal the true nature of the public corporation as the alter ego of the state and, thus, concluded that the corporation's debt was the state's debt. The argument was presented to the court that biennial legislative appropriations for the rent would not present a debt problem, with regard to the lease, because the constitutional concern does not extend to expenses payable out of current revenues. The court conceded that the argument carried "some persuasive force" but, in reviewing the transaction as a whole, was convinced that

> successive biennial appropriations for rent until the bonds issued by the Authority are fully retired must be considered in the same light as a legislative pledge to make future appropriations for the same purpose. It is inconceivable that the legislature would default in either instance since the good faith of Nevada would not allow it.

468 P.2d at 338.

The third 1970 case was from West Virginia; it was followed in 1971 by a second West Virginia case. The 1970 case invalidated a leaseback transaction, while the 1971 case upheld such a transaction.

The 1970 case is State ex rel. Hall v. Taylor, 178 S.E.2d 48 (W. Va. 1970). Although the legislation authorizing the transaction in Taylor indicated that the rents to be paid by the state would come from annual appropriations, the court found an obligation, as a practical matter, for the state to make the appropriations. In the court's words:

> It is an exercise in fiction, semantics, sophistry or circumlocution, devoid of substance, to assert that the statute in question does not create a state debt. It is a debt which, in the contemplation of the statute, must necessarily be paid in annual installments over a period of years and by successive legislatures from fiscal year to fiscal year. The state is legally obligated to furnish office space and to pay other expenses incidental to the continued existence and functioning of the various state agencies and departments which rented office space in the building in question. The legislature is le-

> gally obligated to make appropriations from time to time to defray the costs of such essential governmental operations.
>
> It is no answer to the invalidity of this statute and of the action of the Building Commission in issuing these bonds to say that some future legislature is not required to make an appropriation to one of these agencies or departments in order that the agency or department might make its payment of rent. The failure to make such an appropriation could result in the holders of the bonds taking over the buildings involved, and it is incomprehensible that any legislature would permit any such thing to happen. However, the test is not whether a future legislature is required to make such appropriations. The test is the authority to do so. Clearly the only source of income by which the bonds may be liquidated is the rent to be paid by the occupants of the buildings. Therefore, the reason for the invalidity of the statute lies in the authority of the legislature to make such future appropriations. It is not necessary for this Court to wait until some future legislature refuses to make an appropriation to make a determination of the legality of this procedure.

178 S.E.2d at 57 and 58 -- 59 (emphasis in original). The reasoning employed by this court is singular among all the leaseback transaction cases.

In the following year, the West Virginia court reviewed another leaseback transaction which cured the problem apparently perceived by the court in the Taylor case. In State ex rel. State Building Commission v. Moore, 184 S.E.2d 94 (W. VA. 1971), the rental payments from the state were to be made from a special fund into which flowed proceeds from the state's sale of alcohol. Since the state's general revenues would not be considered for payment of the rents, the court was not offended by the plan. Curiously, however, a provision in the lease agreement which required the state agency occupants of the building to provide for the maintenance and operation of the buiding from their general revenue funds appropriated by the legislature survived the court's review notwithstanding Taylor. Without any explanation, the court simply ruled that payments under the provision by

the state agencies would conform with the provisions of the Act under review.

Ohio decided its second leaseback transaction case in 1972. The court's opinion in State ex rel. Kitchen v. Christman, 285 N.E.2d 362 (Ohio 1972), began with the court's recitation that

> At the outset, it should be emphasized that this court examines this transaction, not for what it purports to be, but for what, in essence, it is. In short, the court looks through the form to the substance of the proposed transaction.

285 N.E.2d at 365. The court's conclusion should come as no surprise. True to the McCutcheon, et al., tradition, the court pierced the lease agreement veil to find the hidden purchase agreement. The court concluded that

> the entire contract price is a present indebtedness of the city. The city has presently obligated itself to make future payments, and the Company has a present right to compel each succeeding administration to make those payments. The city's obligation under the contract is a continuing one, and no succeeding city council can refuse to appropriate available funds (generated by its taxing power) for payment.

285 N.E.2d at 367 (footnote omitted).

Of particular interest in the opinion is a footnote in which the court states;

> If such an unconditional obligation of payment [by the city] did not exist, but instead, the city were free to periodically choose whether to continue to appropriate monies for the purpose of acquiring eventual complete ownership of the property in question, an entirely different question might have been presented.

285 N.E.2d at 367, n.6.

Another 1972 case, Bachtell v. City of Waterloo, 200 N.W.2d 548 (Iowa 1972), also followed the "piercing" approach to

conclude that a leasing arrangement was merely a subterfuge for an attempted purchase. The court listed many of the cases both pro and con which had preceded it in the leaseback area. The court considered that those which had upheld such transactions were distinguishable from this case, though the court scarcely attempted to explain either the distinguishing features of the other cases or even the particular objectionable features of the plan under review.

In Opinion to the Governor, 308 A.2d 802 (R.I. 1973), the Rhode Island court responded to questions proposed by the governor of that state regarding a contemplated leaseback transaction. The governor asked whether lease payments under the transaction would involve debt of the state. Viewing the position that such payments would not constitute debt as the majority view and as the "sounder and more reasonable" position, the court answered the governor's question in the negative.

The Oregon Supreme Court, in Martin v. Oregon Building Authority, 554 P.2d 126 (Ore. 1976), reviewed a leaseback transaction which, among other things, provided that the state's obligation to make rental payments was unconditional as long as the premises were available for rental and which also provided that the state's full faith and credit supported such obligation. As the court noted regarding the use of a public corporation in such a scheme to attempt to avoid the constitutional debt limitation:

> It is a scheme which would fool only a lawyer.

554 P.2d at 131. Although the provisions of the leaseback transaction noted above were relatively outlandish, the court's opinion creates the impression that even a more moderate plan would have reached the same result as long as it involved a public corporation whose only purpose for existence was to issue bonds to provide financing for state projects and whose only source of revenues was rental payments from the state. In this regard, Martin should probably be added to the list of McCutcheon-Trujillo-Ayer-Yelle type cases.

In an unusually flexible approach to debt limitations and leaseback transactions, the court in In re Request for Advisory Opinion Enrolled Senate Bill 558 (Being 1976 PA 240), 254 N.W.2d 554 (Mich. 1977), indicated that a leaseback transaction would be upheld even though it acknowledged that, under the plan, future legislatures would be bound to appropriate the necessary public funds to meet the state's rental obligation. The court took the following pragmatic approach to the question:

> However, in that its power to invoke sovereign immunity can particularly or even totally obstruct enforcement, the state differs essentially from non-governmental contractors....Although in granting limited jurisdiction over all contract claims against the state to the Court of Claims...the State of Michigan has waived its sovereign immunity, even that waiver is subject to legislative revocation.

254 N.W.2d at 547. This case probably should not be considered likely precedent for most other states.

In Laramie Citizens for Good Government v. City of Laramie, 617 P.2d 474 (Wyo. 1980), the leaseback transaction was not unusual except to the extent that it involved the purchase of a ranch by a public corporation with the intent that the corporation would lease the ranch to the city so that the city would have the benefit of water rights on the ranch. The public corporation was created solely for that purpose. Nine of the eleven members of the corporation's board of directors were elected city officials. The corporation had no financial base except for the rents it would receive from its lease of the ranch to the city. All of this led the court to the conclusion that the corporation was the alter ego of the city and that the corporation's debt was prohibited.

The court also considered the nature of the lease agreement and concluded that it was a mere subterfuge for a purchase of the ranch. In its opinion, the court listed the following factors which reflect a lease rather than a purchase:

> provision for cancellation of the lease by the lessee at its option at yearly intervals, or the converse provision that the term is for one year with yearly renewal options; provision for payment of a fixed and substantial amount at the end of the term, or the converse that there is no provision for transfer of title at the end of the term without payment at that time of a fixed and substantial amount in addition to rental payments; provision that the lessor pay the cost of upkeep, repair, taxes, etc., the amount of the rental payments being equal to the debt service amount.

617 P.2d at 479.

Eberhart v. Mayor & City Council of Baltimore, 433 A.2d 1118 (Md. 1981), was Maryland's second leaseback transaction case and was by far the most ornate of the plans we have reviewed. The subject of the plan was a parcel of land with improvements owned by the City. The City rented the land and building on a rent free at will basis to a culinary arts institute. The City desired to extract its capital out of the property while still enabling the institute to rent the property at no cost. Under the plan, the City would sell the building to a limited partnership and lease the land to the partnership for thirty-five years. The partnership would lease the land and building back to the City under a thirty year lease. The partnership, in order to obtain financing, would seek the issuance of industrial development bonds by the Industrial Development Authority of the Mayor and City Council of Baltimore, a public corporation. The authority would issue its bonds, and the proceeds of the sale of the bonds would be loaned to the partnership to finance the partnership's purchase of the building from the City. As security for the bonds, the partnership would grant a mortgage on the building and its leasehold interest in the land, which would be assigned to the trustee for the bonds. The mortgage would be subordinate to the City's interests as tenant under the ground and building lease and as fee simple owner of the land.

The partnership would also assign to the trustee the right to receive rent payments from the City.

This plan was challenged on the same grounds enunciated in the McCutcheon line of cases; that is, that the authority was simply the alter ego of the City so that the authority's bonds constituted debt of the City and that the use of the general funds of the City to pay rent under the lease amounted to an obligation on the part of the City to repay the authority's bonds. Although the court noted and the City conceded that the obligation to pay rental under the lease was a full faith and credit obligation of the City, the court rejected the challenge and upheld the arrangement.

With regard to the contention that the authority was the alter ego of the City, the court listed an interesting collection of statutory provisions rebutting the position.

> The provisions of Art. 41, secs. 266A--I indicate that an industrial development authority is not simply the alter ego or instrumentality of the county or municipality which creates it. An authority is a body politic and corporate and "a political subdivision of the State." Section 266A-3 mandates that none

> of the five members of the board of directors that govern an authority and exercise its powers by resolution may be officials or employees of the incorporating county or municipality. A director, although appointed by the incorporating county or municipality, may be removed only for misfeasance, neglect of duty, or other good cause. Sec. 266A-3(b)-(7). Section 266A-3(a) provides that the incorporating county or municipality may exercise its own powers under secs. 266A--I even though it has chosen to incorporate an authority with similar powers. These various statutory provisions suggest that an authority is a distinct entity from its incorporating county or municipality.

433 A.2d at 1127.

With regard to the notion that the City's rental payments will be used to pay the authority's bonds and therefore constitute debt, the court noted that the determinative factor was the payment of bona fide rent by the City. The court stated:

> Uncontradicted evidence was presented to the circuit court that the City's estimated annual rental payments under the Ground and Building Lease would represent the fair rental value of the Property. The correlation of the City's rental payments to Culinary Associates' debt service obligation does not, therefore, destroy the essential character of the Ground and Building Lease as a lease. Because the rent reserved under the Ground and Building Lease represents the fair rental value of the Property, and there are no factors that suggest a contrary result, the Ground and Building Lease is a bona fide lease. Thus, the City's obligation to make rental payments will not create debt even though the obligation to pay rent is an enforceable, full faith and credit obligation of the City.

433 A.2d at 1125.

Another 1981 case, Gude v. City of Lakewood, 636 P.2d 691 (Colo. 1981), also upheld a leaseback transaction against

similar contentions. The transaction took the form of a lease-back to the City of land by a nonprofit corporation, which lease provided for 25 consecutive one-year renewals which were automatic unless the City elected against the renewal. The rental payments from the City under the lease would be used to repay the bonds issued by the corporation, and the security for the bonds would include a lien on the corporation's building and on the corporation's lease of the land. Upon payment of the bonds, the corporation would transfer title to the building to the City.

The court first considered the contention that the corporation was the alter ego of the City, noting that, where the alter ego doctrine applies, the court will disregard a corporate entity, or pierce the corporate veil, and consider the actions ostensibly taken by the corporation to be those of its shareholders. The court noted that "the record fails to establish the essential element that the building authority is to be used to promote injustice or protect fraud." 636 P.2d at 697. The court found no fraud upon the taxpayers of the City, though the taxpayers had earlier voted on and rejected a general obligation bond issue to finance the facility now being financed through the issuance of the corporation's bonds, because it is not the construction of a facility that requires voter approval but rather, the creation of general obligation debt. The plan before the court did not create any general obligation debt. As to any potential fraud on purchasers of the bonds, the court noted:

> The record reflects that the financing plan has been carefully structured to assure that the city has no obligation on the anticipation notes or the revenue bonds and that purchasers of those instruments will be made fully aware of that fact by the terms of the notes and bonds. The purchasers also will be advised that the city's lease and attendant obligations can be terminated at the end of any year and that, should the city elect to terminate its lease, the security for the building authority's obligations is limited to the municipal office building itself and the building authority's 25-year lease on the building site.

636 P.2d at 698.

The court then considered whether the City's rental obligation for future years under the lease agreement constituted proscribed debt and concluded that it did not.

> Of particular importance to our conclusion that the city's rental obligations for future years do not constitute debt in contravention of Colo. Const. Art. XI, Sec. 6 is the lease provision that those obligations are contingent upon exercise of the city's renewal options. We have held that discretionary or
>
> contingent obligations are not constitutional debt. "To constitute a debt in the constitutional sense, one legislature, in effect, must obligate a future legislature to appropriate funds to discharge the debt created by the future legislature."

636 P.2d at 699.

Finally, the plaintiffs in the case urged the court to take the McCutcheon "total picture" approach to determine that the plan as a whole amounted, in essence, to a subterfuge and an evasion of the constitutional debt limitations. Taking such an approach, the court reached the opposite conclusion. Recognizing that the corporation was created solely for the purpose of providing financing for the project after the voter's had disapproved general obligation indebtedness for the project, the court found "no evil in seeking an alternate means of achieving a result so long as the alternate is itself consistent with the law." 636 P.2d at 699 -- 700.

> As noted earlier, there is a real difference between the city's proposed plan and the plan which was rejected by the voters. That difference is the absence of any obligation of the city on the anticipation notes or revenue bonds under the new plan. We are aware of the argument that, although the city's lease is terminable in form, practicalities dictate that the likelihood of termination is remote because the city hall will be specially designed to city specifications and because of the prospect, gaining substance with each rental payment, that the city will become the owner of the building when the bonds have been retired....The ability to terminate its lease gives the city flexibilty which is real, not illusory. We cannot say that the city will never avail itself of its termination rights.

636 P.2d at 700.

The final case in our review is Baliles v. Mazur, 297 S.E.2d 695 (Va. 1982), involving the financing of state capital projects through the issuance of revenue bonds by a public corporation of the state. To the question of whether the revenue bonds constituted debt of the state, the court answered they did not, noting that the enabling legislation specifically denied such assertion. To the assertion that the issuance of the revenue bonds was a transparent attempt to evade the constitutional debt limitations, the court summarily disagreed.

CONCLUSION

The foregoing review of cases demonstrates that the majority of jurisdictions which have considered the issue accept leaseback transactions as consitutionally permissible methods for financing public facilities. It is our opinion that the majority view upholding such transactions would be followed in Alaska. Moreoever, we are also of the opinion that the categorization of the agreement between the state and a financing entity as either a "lease" or an "installment purchase contract" is insignificant as long as the state's obligation to make payents is contingent upon annual appropriations by the legislature for that purpose. Thus, whether the arrangement is for a lease or for an installment sale, we believe the courts in Alaska will uphold it.

We noted in the "Overview" to this memorandum that 16 of the states whose cases we have reviewed can be considered as "validating states" in the sense that the most recent cases in those states are cases which uphold leaseback transactions. Ten of the states can be considered invalidating states. This does not necessarily mean that leaseback transactions are prohibited in the other ten states.

The only significance to the categorization of the 16 states as validating states is that we can be sure that in a clear majority of the states a constitutionally valid leaseback transaction can be created. It may be equally true that constitutionally valid leaseback transactions could be created in some or all of the invalidating states, with some changes in the features of the transactions presented to the courts in those states as a result of recent cases.

The following list describes features of a leaseback transaction which may be considered significant in analyzing the transaction under constitutional debt limitations. We emphasize that these should not be considered as "musts" (with the exception of item "3" below) but are provided only as suggestions. If all other considerations allow and if the concensus is to take

the most conservative approach, the preparation of a leaseback transaction containing all of the suggestions listed below would come as close as possible to satisfying the most conservative of the invalidating state courts. It should be recognized, however, that other considerations are likely to call for different or even conflicting features. We do not mean to imply that those other considerations cannot or should not be accomodated. Again, the following list is intended only to provide suggestions for contemplation in fashioning a leaseback (or installment purchase) agreement.

1. The financing entity, whether a public corporation or a private corporation, should have some business to perform other than and in addition to the financing of the particular project to be leased to the state. One of the common themes of the invalidating cases is the "alter ego" argument. If the financing entity has some other purpose for existence it will help to refute that argument.

2. For the reason stated in "1", the financing entity should have some source of revenue other than rents to be paid by the state.

3. In any lease agreement with the state, the state's obligation to pay rent must be contingent upon annual appropriations by the legislature.

4. The amount of rent to be paid by the state should bear some resemblance to "fair rental value" for the property rather than simply being based on debt service requirements for the bonds.

5. If possible, title to the property should remain in the financing entity (if a public corporation) at the expiration of the lease; alternatively, the state should be required to pay a significant amount to exercise an option to purchase at the term of the lease.

6. The lease should be terminable by the state at any time without any further obligation.

7. The financing entity should have the ability to lease the facility to users other than or in addition to the state during the period of the lease.

8. Should the state terminate the lease, the financing entity should have control over the use or disposition of the facility.

9. No existing state property should be encumbered except for the leaseholder interest granted to the financing entity.

10. If title to the property on which the facility is to be built remains in the state, provision should be made in the lease agreement for the disposition of the facility at the termination or expiration of the lease if the state does not exercise its purchase option.

11. The statute, the bonds, and any other pertinent documents should clearly indicate that the bonds are not obligations of the state and are payable solely from the revenues derived from the project.

12. Should the legislature fail to appropriate money for rental payments or the state fail for any reason to make rental payments, it should be clear that neither the financing entity nor the bondholders have any recourse against the state, though the financing entity may endeavor to enter into other lease agreements, and, if the financing entity holds title to the land and building, it may re-enter and take possession thereof.

13. If a financing entity is to be specially created for the purpose (which we advise against; see "1" above), membership in the entity should not include officers of the state.

14. There should be no possibility of loss by the state of any of its pre-existing property.

15. There should be a provision reducing or eliminating the state's rent to the extent that the facility is not timely completed or, upon completion, becomes unusable.

16. Any long-term lease should be prepared as a one-year lease with the proper number of annual options to renew.

17. Revenues from other state facilities should not be pledged as security for the bonds. This is particularly so in Alaska given our state's dedicated fund prohibition.

18. The statute creating the financing entity, if any, should carefully describe the financing entity as having a separate and independent legal existence.

19. The financing entity, if a public corporation, should not be given powers of eminent domain.

20. The financing entity, as lessor to the state, should agree to pay the cost of upkeep, repairs, taxes, etc. with regard to the facility.

21. If the financing entity is created by statute, its directors should be removable from office only for malfeasance, neglect of duty, or other good cause.

Finally, with respecy to the applicability of this memorandum to lease participation certificates, we perceive no reason why such certificates should be considered differently from revenue bonds or why lease participation transactions should be considered differently from leaseback transactions.

LAW OFFICES
BIRCH, HORTON, BITTNER, PESTINGER AND ANDERSON
A PROFESSIONAL CORPORATION
1127 WEST SEVENTH AVENUE
ANCHORAGE, ALASKA 99501

MAYER, BROWN & PLATT
231 SOUTH LA SALLE STREET
CHICAGO, ILLINOIS 60604

April 4, 1984

State Bond Committee
Department of Revenue
State of Alaska
Pouch SB
Juneau, Alaska 99811

Attention: Mr. Milt Barker

Ladies and Gentlemen:

You have requested that we review various issues raised by the proposed lease-purchase financing by the State of Alaska ("State") of various State facilities.

Under the proposed financing structure, the Alaska State Housing Authority ("ASHA") would issue bonds or notes in order to provide funds to pay the costs of construction of the State facilities. Pursuant to a lease agreement ("Lease") between ASHA, as lessor ("Lessor"), and the State, as lessee, the Lessor would lease the State facilities and lease or sublease1/ the underlying land (collectively, the "Facilities") to the State. The State would be obligated to make rental payments2/ on a fixed basis throughout the term of the Lease in amounts sufficient to pay when due the principal and interest on the Lessor's outstanding bonds or notes. The State's rental payment obligation would be subject to annual appropriations; failure by the State legislature to appropriate sufficient funds to make rental payments would result in the termination of the Lease. Upon the expiration of the term of the Lease, the State would pay a predetermined purchase price in order to acquire title to the Facilities.

1/ If Lessor does not own, but rather leases from the owner thereof, the underlying land, the Lessor would sublease the land to the State.

2/ The interest component of the State's rental payments would be exempt from federal income taxation, assuming compliance with all applicable federal tax law requirements.

The question we have considered is whether this proposed financing of the Facilities would be in violation of the debt limitations set forth in the State Constitution. Analysis of this general issue requires consideration of two component issues: (1) whether debt issued by ASHA would be found to constitute prohibited State debt under the State Constitution and (2) whether the State's rental payment obligation under the Lease would be found to constitute prohibited State debt under the State Constitution.3/

Article IX, § 8 ("Section 8") of the State Constitution provides in pertinent part:

> No state debt shall be contracted unless authorized by law for capital improvements or unless authorized by law for housing loans for veterans, and ratified by a majority of the qualified voters of the State who vote on the question.

Article IX, § 11 ("Section 11") of the State Constitution, however, excepts from the Section 8 debt limitations revenue bonds of a public corporation of the State, as follows:

> The restrictions on contracting debt do not apply to debt incurred through the issuance of revenue bonds by a public enterprise or public corporation of the State or a political subdivision, when the only security is the revenues of the enterprise or corporation.

3/ We note that between 1966 and 1974 ASHA issued eleven separate series of bonds in the aggregate principal amount of $106,150,000 to finance construction of a variety of capital projects for lease to the State. The bonds were secured by lease rentals from the State. Over $60 million of the bonds remain outstanding. 1984 Moody's Municipal & Government Manual 244-246.

Thus, Section 8 restrictions on incurring State debt apply only to obligations against the general credit of the State. 1959 Op. Att'y Gen., No. 39.

If the debt to be issued by ASHA to finance the Facilities will fit within the Section 11 exception, the Section 8 debt limitations will not be applicable. In National Bank of Alaska v. State of Alaska, Department of Revenue, Sup. Ct. Op. No. 2480 (File No. 5482), 642 P.2d 811 (1982), the Supreme Court of Alaska ("Court") found that bonds issued by ASHA do not constitute debt of the State subject to the Section 8 debt limitations.4/ The Court based its conclusion on § 18.55.160 of the Alaska State Housing Authority Act ("Act"), which provides in pertinent part as follows:

> The bonds of the authority are not a debt of the state or a political or municipal corporation or other subdivision of the state and each bond shall so state on its face. Neither the state nor a political or municipal corporation or other subdivision of the state other than the authority is liable on the bonds, nor are the bonds payable out of funds or properties other than those of the authority. The authority may not pledge the faith of the people of the state for a loan or obligation. Bonds of the authority are not a debt, indebtedness or the borrowing of money within the meaning of any limitation or restriction on the issuance of bonds contained in the constitution or laws of the state.

4/ In National Bank of Alaska, the Court held, inter alia, that ASHA bonds (and bonds of the Alaska Housing Finance Corporation) are not "state obligations" for purposes of the Alaska Business License Act. Bonds at issue in the case appear to have included lease revenue bonds referred to in footnote 3/ above.

Without expressly referencing the Section 11 exception the Court found that § 18.55.160 of the Act placed ASHA bonds outside of the scope of the Section 8 debt limitations: "the ASHA . . . bonds in the instant case are not, by the very terms of AS 18.55.160 . . . state debts backed by general treasury funds." Id. at 817.

The Court cited as controlling two of its earlier decisions on the issue of whether bonds of public corporations are subject to the Section 8 debt limitations: DeArmond v. Alaska State Development Corporation, Sup. Ct. Op. No. 116 (File No. 285), 376 P.2d 717 (1962) (enabling act provisions determined finding that bonds of Alaska State Development Corporation are not debts of the State) and Walker v. Alaska State Mortgage Association, Sup. Ct. Op. No. 353 (File No. 669), 416 P.2d 245 (1966) (enabling act provisions determined finding that bonds of Alaska State Mortgage Association are not debts of the State within the scope of Section 8).

Thus, we conclude that ASHA bonds issued in conformance with the Act in order to finance the Facilities on the terms outlined above would not constitute prohibited debt of the State.

Arguably, the provisions of Section 11 as applied to a revenue bond financing secured by rental payments made by ASHA pursuant to the Lease are dispositive of the entire issue and render irrelevant the question of whether the Lease, in itself, constitutes State debt. Nonetheless, the majority of jurisdictions which have considered this issue have upheld the validity of lease financings of public facilities under state constitutional debt limitations. The generally accepted view is that a lease arrangement between a state and an independent state agency constitutes state debt only if the state presently has an unconditional, legally enforceable obligation binding future legislatures to make future annual rental payments under the terms of a multi-year lease. See, e.g., Gude v. City of Lakewood, 636 P.2d 691 (Colo. 1981); State ex rel. Kitchen v. Christman, 285 N.E.2d 362 (Ohio 1972); Book v. State Office Building Commission, 149 N.E.2d 273 (Ind. 1958); State ex rel. Thomson v. Giessel, 72 N.W.2d 577 (Wisc. 1955). If, however, under the terms of a multi-year lease the state has a present obligation to pay current rental payments out of current revenues and only a contingent, legally

nonenforceable obligation at the discretion of future legislatures to make future annual rental payments, no prohibited debt is created. Thus, the essence of the majority rule is that no constitutionally prohibited debt results from a state's obligation to make future annual rental payments under a multi-year lease if the obligation is conditioned upon legislative appropriations. See e.g., Enourato v. New Jersey Building Authority, 448 A.2d 449 (N.J. 1982); Bulman v. McCrane, 312 A.2d 857 (N.J. 1973); McFarland v. Barron, 164 N.W.2d 607 (S. Dak. 1969).5/

We are of the view that a lease-purchase financing of the Facilities on the terms outlined above is valid under Section 8 debt limitations. Support for our view comes from several sources.

In the Walker opinion, supra, at 253 and 254, the Court cited approvingly in footnotes two of the landmark decisions holding that lease-purchase financings do not violate state constitutional debt limitations. Although it cited the Book and Giessel opinions specifically in connection with its resolution of the issue of whether the debt of a public corporation constitutes state debt, it is reasonable to assume that the Court would similarly embrace the holdings in those decisions validating lease-purchase financings.

In the October 14, 1983 Informal Opinion of the Attorney General (File No. 366-101-84),6/ the Alaska

---

5/ In this connection we have also reviewed the following authorities, inter alia: Ayer v. Commissioner of Administration, 165 N.E.2d 885 (Mass. 1960); State v. Yelle, 289 P.2d 355 (Wash. 1955); McCutcheon v. State Building Authority, 97 A.2d 663 (N.J. 1953).

6/ Although opinions of the Attorney General are not controlling on a court, his opinions are entitled to great weight. See Allison v. State, 583 P.2d 813, 817 (Alaska, 1978) in which the Court adopted the following statement from a California appellate court decision:

> While opinions of the attorney general are not controlling as to the meaning of the statute the fact that his opinions

(Cont'd)

Attorney General opined in accordance with the majority position that a lease financing of a public facility by means of a lease agreement between the State and the developer of a public facility would not violate Section 8 if future legislatures of the State are not bound to appropriate funds for rental payments. As the Attorney General explained in interpreting Section 8:

> [It is] imperative that the state's right to possess and use the facility is contingent on annual appropriations from revenue anticipated for the fiscal year in which the lease obligation is incurred. Traditionally, appropriations for lease payments are considered operating appropriations which lapse on June 30 of the fiscal year. A lease agreement which provides for termination of the leasehold if sufficient appropriations to pay rent are not enacted will negate the conclusion that a debt is created. A one-year lease with automatic annual renewal for a maximum number of years upon enactment of an appropriation to finance the annual rent has been approved as a term which negates any possibility that a debt is created. Gude v. City of Lakewood, 636 P.2d 691 (Colo. 1981). See also Glennon Heights, Inc. v. Central Bank and Trust, 658 P.2d 872 (Colo. 1983).

Further support for our conclusion can be found in Proceedings of the Alaska Constitutional Convention, pages

---

> have not been challenged and that he is the officer charged by law with advising the officers charged with the enforcement of the law as to the meaning of it, entitle his opinions to great weight. (citations omitted)

2435 - 2437.7/ Although the delegates to the Convention do not appear to have addressed directly the precise issue of the consitutional validity of lease financings of public facilities by the State, the following excerpts from an exchange between Delegate V. Fischer and Delegate White regarding the committee proposal form of Section 11 8/ suggest that the delegates viewed lease-purchase financings as being within the scope of the Section 11 exception:

V. FISCHER The committee proposal in Section 10 authorizes the floating of bonds by public corporation when the only security from such indebtedness is the revenue of the enterprise or public corporation. The Committee, in putting that in, has specifically told us in the commentary9/ that they're condoning

---

7/ Warren v. Boucher, 543 P. 2d 731, 735 (Alaska 1975) (In interpreting a constitutional provision, the Court "must infer the purposes and intentions of the framers from the language of the constitution itself, with careful regard for the apparent aims which the framers had in mind.")

8/ Referred to therein as Section 10.

9/ As noted in a Memorandum to the Constitutional Convention Committee on Finance and Taxation summarizing the comments of various finance specialists on proposal forms of Sections 8 and 11:

> The prohibition against incurring debt except by referendum in Section 9 [Section 8] and the exceptions in Section 11 as pertains to revenue bonds of public corporations would appear to be an open invitation to create 'authorities,' in the Pennsylvania pattern, for the financing of public improvements.

(Cont'd)

a practice which is used in every state as a means of getting around this kind of bonding restriction as we currently have in Section 8. In other words, we put the provision in Section 8, it is a cumbersome provision. We are telling the state that that of course is of too much bother. Therefore, go ahead and create a separate corporation; if you want to build highways, set up a toll road, set up a separate corporation. If you want to put up public buildings, set up a separate corporation and many states have done that, float bonds and then the state purchases those buildings from that corporation. What happens in those cases? In those cases the credit of the state is not pledged . . .

. . . .

WHITE: Mr. President, just in closing, briefly, in answer to Mr. Fischer I think he has brought a side issue in here by mentioning Section 10. If Mr. Fischer can draft language that would eliminate the necessity for Section 10, I'm sure the Committee would go for it. The reason Section 10 is in there is because it has been found that no matter what you do, as far as the Committee can find, that way can be found to get around debt limitations, and, therefore,

---

See Kelley v. Earle, 190 A. 140 (Pa. 1937), in which the Supreme Court of Pennsylvania upheld the validity under state constitutional debt limitations of lease financings between the State of Pennsylvania and the General State Authority for the construction of public projects.

> if in order to avoid suits in court you might just as well make the authority clear. . . . [I]f the legislature wants to take this end way around of getting at it and going to special authorities they are subject to check by the people, the people will know what's being done and they will react accordingly if they are not in favor of it. . . . Id. (Emphasis added)

In addition to reflecting the liberal, modern approach of the framers of the State Constitution, these comments suggest that the delegates did not consider as prohibited debt an obligation of the State to make payments to acquire a public facility financed with debt of a public corporation. It appears that the delegates contemplated and condoned reading Section 11 as authorizing an outright purchase by the State of a public building from the financing public corporation, a more extreme debt limitation circumvention device than the proposed lease-purchase financing.

Other statements of delegates to the Convention demonstrate that the fundamental impetus behind the Section 8 debt restrictions was the framers' desire to restrict the State's ability to contract debt prospectively. Since the proposed lease-purchase financing of the Facilities would not entail the creation of a rental payment obligation binding future legistlatures of the State, it is not likely that the Court would find that such a financing contravenes the Section 8 debt limitations.

Thus, in view of the apparent aim of the framers of the State Constitution in imposing the Section 8 debt limitations and in granting the Section 11 exception therefrom, and in light of the approach taken by the Court in this general area, we are of the opinion that the Lease would not constitute debt of the State.

After you have had an opportunity to review our views, we would be happy to discuss them, and any related concerns which you may have, with you at your convenience.

Very truly yours,

BIRCH, MORTON, BITTNER,
PESTINGER AND ANDERSON

MAYER, BROWN & PLATT

SHEARSON LEHMAN BROTHERS

An American Express company



Shearson Lehman Brothers Inc.
Foster & Marshall Inc.
The Robinson-Humphrey Company, Inc.

Credit Survey Of State General Obligation Debt

1985

Credit Survey Of
State General Obligation Debt
(1985)

Michael B. Haltman
Assistant Vice President
Municipal Research Department

Susan V. Dushock
Vice President, Manager
Municipal Research Department

INTRODUCTION

In the period which has followed the recent recession, the performance of the states on the whole has markedly improved. This is due to the fact that most states have a high reliance on sales tax revenues and income tax revenues, and that these sources of funds benefit positively from an upturn in the economy. Certain states have also seen improved revenues due to the implementation of increased tax rates. During this period certain states have imposed tougher controls on state expenditures which, when combined with higher revenues, have resulted in stronger general fund balances.

Some areas that continue as question marks in state performance are tax-payer initiatives which would put pressure on revenues, as well as the price levels of specific resources that a state may rely heavily upon for funds. As an example, the weakness in oil prices has severely strained the revenue stream of such states as Louisiana, Texas and Alaska. As an indication of just how big an impact this source can have, consider that for every $1 drop in the price of oil, these states lose approximately $150 million in revenues. Finally, the stream of funds to the state coffers from the Federal government remains a large question mark as it concerns the amount of aid which can be expected from this source.

When considering the rating to place on a state credit, the above factors play a very large role. In addition to these areas, the aspects which are unique to each state are examined. Included in this analysis is an examination of the historical performance of financial policy makers as to whether operations have been run conservatively or if estimations of revenues and expenditures have consistently been beyond reasonable expectations. A history of good operations tends to indicate similar performance in the future. Also examined are the economics of the states, with positive emphasis on those exhibiting well-diversified and growing characteristics, as well as on those striving to diversify. States which possess economies reliant on one or two industries, particularly if cyclical industries, are closely scrutinized for other aspects which can help to overcome this problem. Other pieces in the analytical puzzle include the willingness to raise revenue sources, debt levels, wealth levels and historical employment levels. When combined, all of the above areas give us an idea of just how the state will perform, and helps us to assign a rating on outstanding debt.

Definition of Ratios

Net G.O. Debt Per Capita - This is a measure of the state's debt burden. By dividing net G.O. debt by the state's population, we gain a better perspective of the amount of debt per person that is supported by the general taxing powers of the state.

Net G.O. Debt as a % of Personal Income - This ratio divides the net G.O. debt by the state's total personal income. It provides a tool for standardizing and measuring the burden of a state's debt, and gives an indication of the taxpayer's ability to support the debt.

Net G.O. Debt as a % of Full Market Value - By dividing the net G.O. debt of the state by the full market value of all real property in the state, a perspective can be gained on the relationship between the size of debt and wealth of the state. This percentage also allows insight into the burden and magnitude of a state's debt relative to other states.

General Fund Balance as a % of General Fund Revenues - This ratio gives an indication of a state's financial performance by relating its degree of solvency to its existing revenue capacity.

U.S. Trends and Averages

Unemployment
- 1984: 7.5%
- Five year average: 8.3%

Per capita income (1984): $11,675

Median Debt Ratios
- Per capita: $258
- Debt as % of personal income: 2.3%
- Debt as % of full market value: 1.1%

Trend of State Revenue Sources (as % of total revenues)

	Sales Tax	Income Tax	License Tax	Other	Total
1957	58.1	17.6	15.1	9.2	100.0
1967	58.2	22.4	11.4	8.0	100.0
1977	51.8	34.3	7.1	6.8	100.0
1982	48.4	36.7	6.3	8.6	100.0
1983	48.9	36.7	6.2	8.2	100.0

SHEARSON LEHMAN BROTHERS STATE RATINGS



Key

L - Lower
M - Mid
U - Upper

	SLB Rating	SLB Trend	Moody's/ S&P	Population (000's)	Per Capita Debt	Net GO Debt/ Personal Income	Net GO Debt/ Market Value	General Fund Balance/ General Fund Revenues
Alabama	Lower AA	Stable	Aa/AA	4,110.0	$ 267	2.9%	1.6%	4.2%
Alaska	Mid AA	Stable	Aa/AA-	510.5	2,125	13.1	2.7	54.1
California	Upper AA	Stable	Aa/AA+	25,622.0	110	0.8	0.3	1.4
Connecticut	Mid AA	Upward	Aa1/AA	3,138.0	749	5.4	3.1	3.9
Delaware	Mid AA	Stable	Aa/AA	606.0	929	7.2	4.1	12.7
Florida	Mid AA	Stable	Aa/AA	10,976.0	270	2.3	1.1	8.9
Georgia	Upper AA	Upward	Aaa/AA	5,837.0	286	2.8	0.9	2.6
Hawaii	Lower AA	Stable	Aa/AA	1,038.7	1,608	13.5	4.3	11.9
Illinois	Upper AA	Stable	Aaa/AA+	11,511.0	308	2.2	1.5	2.2
Iowa	Lower MIG-1	Stable	MIG-2/NR	2,894.0	155	1.3	0.6	0.3
Louisiana	Lower AA	Stable	A1/AA-	4,462.0	707	6.9	2.8	0.1
Maine	Upper AA	Stable	Aa1/AAA	1,150.0	256	2.9	1.1	2.2
Maryland	Lower AAA	Stable	Aaa/AAA	4,354.0	682	5.2	2.7	1.2
Massachusetts	Upper A	Stable	A1/AA	5,767.0	777	5.9	3.6	0.3
Michigan	Mid A	Stable	A/A+	9,107.0	144	1.3	0.7	5.1
Minnesota	Mid AA	Stable	Aa/AA+	4,162.0	273	2.3	0.9	1.6
Mississippi	Lower AA	Stable	Aa/AA-	2,598.0	257	3.2	2.2	0.8
Missouri	Mid AAA	Stable	Aaa/AAA	4,985.0	59	0.5	0.5	10.5
Montana	Mid AA	Stable	Aa/AA	824.0	286	2.9	1.4	12.6
Nevada	Mid AA	Stable	Aa/AA	911.0	101	0.8	0.2	15.6
New Hampshire	Mid AA	Stable	Aa/AA	977.0	365	3.1	1.2	0
New Jersey	Mid AAA	Stable	Aaa/AAA	7,515.0	421	3.0	1.5	9.1
New Mexico	Mid AA	Stable	Aa/AA	1,424.0	247	2.6	1.2	4.0
New York	Upper A	Stable	A/A+	17,735.0	613	4.7	4.1	0.2
North Carolina	Mid AAA	Stable	Aaa/AAA	6,164.2	143	1.5	0.7	4.8
North Dakota	Upper AA	Stable	Aa/AA	673.0	94	0.8	0.2	14.6
Ohio	Mid AA	Stable	Aa/AA	10,752.0	294	2.6	1.2	0.9
Oregon	Upper A	Stable	A1/A+	2,674.0	174	1.6	0.6	8.4
Pennsylvania	Mid A	Upward	A/AA-	11,901.0	387	3.4	3.4	0.6
Rhode Island	Mid AA	Downward	Aa/AA-	958.2	372	3.2	1.7	2.5
South Carolina	Lower AAA	Stable	Aaa/AAA	3,300.0	196	2.2	1.0	4.4
Tennessee	Lower AAA	Stable	Aaa/AA+	4,722.0	111	1.0	0.5	5.0
Texas	Mid AAA	Stable	Aaa/AAA	15,221.0	67	0.6	0.2	12.9
Utah	Lower AAA	Stable	Aaa/AAA	1,672.0	177	2.0	0.6	13.9
Vermont	Mid AA	Downward	Aa/NR	530.0	516	4.8	1.6	(10.7)
Virginia	Mid AAA	Stable	Aaa/AAA	5,636.0	84	0.7	0.7	6.1
Washington	Lower AA	Downward	A/AA-	4,349.0	574	4.4	1.6	5.1
West Virginia	Upper A	Stable	A1/AA-	1,953.0	396	4.3	1.6	9.9
Wisconsin	Mid AA	Stable	Aa/AA	4,766.0	324	3.4	1.3	3.4

ALABAMA

Moody's: Aa **SLB:** Lower AA **S & P:** AA
Trend: Stable

In the 1984 fiscal year financial performance within the State improved significantly, with the unencumbered General Fund balance increasing to a level of $21.6 million, from $6.9 million. The major sources of revenues include corporation taxes, gross receipts business taxes and income taxes. The last income tax rate increase was implemented in 1982.

The economy of Alabama is extremely sensitive to business cycles, due to a heavy reliance on the durable goods manufacturing sector. This sector expanded 8.8% between '83 and '84, with the service sector expanding 4.1%. Wealth levels within the State are low, with unemployment rates having been traditionally high. Debt ratios within Alabama are average. As a buffer for State operations, the Heritage Trust Fund is currently at a level of $120 million. Due to the highly cyclical economy and low levels of State wealth, we view the State as a Lower AA with a stable trend.

Population (1984): 4,110,000
% change 1980-1984: +5.7%

Employment Distribution

Manufacturing:	19.9%
Wholesale and Retail Trade:	16.2%
Service Industries:	12.7%
Government:	16.4%

Unemployment (1984): 11.1%
5 year average: 11.07%

Wealth Statistics
Per capita income: $9,242
% change 1980-1984: +13.9%
Families below poverty level: N.A.

General Fund (G.F.) Balance

1981	$ 15,300,000
1982	$ 11,100,000
1983	$ 6,900,000
1984	$ 21,600,000

1984 G.F. Balance as % of G.F. revenues: 4.2%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net G.O. Debt	1098.2	$ 267	2.9%	1.6%

ALASKA

Moody's: Aa **SLB:** Mid AA **S & P:** AA-
Trend: Stable

The State, which relies on oil taxes and royalties for close to 85% of its revenues, was hurt in 1984 as oil prices remained weak. Revenues in the General Fund decreased 2.2%, with expenditures also declining, at a rate of 11.9%. The General Fund balance fell, albeit modestly, to a level of $2.09 billion. Every $1 decrease in the price of a barrel of oil translates into a loss of revenues of approximately $150 million, which has placed the State under a great deal of revenue pressure. Some oil analysts are currently projecting a price for oil below $20 a barrel within the next few years. Oil and gas production taxes, the single largest revenue source, fell 6.8% in 1984.

With an economy dependent on oil and gas, revenue projections have been sharply reduced for the 1985 fiscal year. What the State has in its favor is a huge General Fund balance and the Alaska Permanent Fund, which currently has a principal balance of over $6 billion. The Permanent Fund serves as a constitutionally established "savings account". Fifty percent of the income generated by the Permanent Fund is transferred to the General Fund. Debt ratios are extremely high, with State unemployment also on the high side. Alaska does, however, possess very high wealth levels and a rapidly expanding population base. While the situation in terms of oil related revenues is deteriorating at a fast pace, the ability to control expenses, large fund cushions, and as yet untapped tax sources (i.e. sales and personal income taxes) provide adequate security for the State's debt, although the situation bears watching.

Population (1983): 510,550
% change 1980-1984: +22.9%

Employment Distribution

Manufacturing:	6.7%
Wholesale and Retail Trade:	17.9%
Service Industries:	17.2%
Government:	32.2%

Unemployment (1984): 10.6%
5 year average: 9.96%

Wealth Statistics
Per capita income: $17,194
% change 1980-1984: +32.2%
Families below poverty level: 8.6%

General Fund (G.F.) Balance

1981	$ 2,187,100,000
1982	$ 2,334,300,000
1983	$ 2,154,700,000
1984	$ 2,091,285,000

1984 G.F. Balance as % of G.F. revenues: 54.1%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
G.O. + Special Oblig.	1085.1	$ 2,125	13.1%	2.7%

CALIFORNIA

Moody's: Aa **SLB:** Upper AA **S&P:** AA+
Trend: Stable

California, one of the wealthiest states, possesses an economy marked by its diversified character. While still sensitive to a downturn in the economy, the low level of California's debt burden ($110 net G.O. debt) provides excellent security for outstanding bonds.

The 1983-84 fiscal year was a turnaround year for the State. Major revenue sources, helped in part by the upsurge of the national economy, rebounded strongly. Sales and personal income tax grew at an annual rate of 12.9% and 20.6% respectively in 1984. The General Fund moved from a deficit of over $608 million in 1983, to a surplus of $328 million in '84, helped in part by expenditure controls (3.6% over 1983 levels). Future initiatives, such as the defeated Jarvis IV, could affect the revenue raising capabilities of the State. Any such initiatives will have to be examined as they are presented in order to determine their potential impact on California. Moves by the State to reduce its unfunded pension liability should be a priority in the future. The population of the State is growing at a fast pace, and the State possesses very high wealth levels. Unemployment levels approximate the national average.

Population (1984): 25,622,000
% change 1980-1984: +7.8%

Employment Distribution (1984)

Manufacturing:	19.4%
Wholesale and Retail Trade:	23.8%
Service Industries:	23.7%
Government:	16.3%

Unemployment (1984): 7.8%
5 year average: 8.32%

Wealth Statistics
Per capita income: $14,482
% change 1980-1984: +31.4%
Families below poverty level: 10.7%

General Fund (G.F.) Balance

1981	$ 349,793,000
1982	$ (154,204,000)
1983	$ (608,400,000)
1984	$ 327,600,000

1984 G.F. Balance as % of G.F. revenues: 1.4%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net G.O. Debt	2821.085	$110.10	.8%	.3%
G.O. and Enterprise	7949.432	$298.53	2.1%	.9%

CONNECTICUT

Moody's: Aa I **SLB:** Mid AA **S & P:** AA
Trend: Upward

1984 was a banner year for Connecticut, with total General Fund revenues increasing 17.1%, and an unappropriated deficit of $47.9 million in 1983 being completely drawn down (with $165 million placed in a Budget Reserve Fund). Sales tax revenues, which account for approximately one third of revenues, increased at a 21.4% clip, with corporate profits taxes rising 20.2%. The State finds itself in the enviable position of looking for areas in which to slash taxes, in order to stem the flow of surplus funds. To this point in fiscal '85, Connecticut has already registered a projected surplus of approximately $50 million.

The economic base of the State is relatively narrow in scope, but it has shown movement towards diversification. Similarly, the tax base is also narrow in scope. The debt ratios are very high, and are expected to move even higher with the planned infrastructure borrowing. Overall, the wealth of the State and continuing strong financial performance help to mitigate high debt and the narrow economic base, justifying an upward trend.

Population (1984): 3,138,000
% change 1980-1984: +1.0%

Employment Distribution (1984)

Manufacturing:	27.9%
Wholesale and Retail Trade:	21.4%
Service Industries:	21.9%
Government:	12.4%

Unemployment (1984): 4.7%
5 year average: 6.1%

Wealth Statistics
Per capita income: $14,948
% change 1980-1984: +27.8%
Families below poverty level: 8.0%

General Fund (G.F.) Balance

1981	$ (65,687,000)
1982	$ (39,838,000)
1983	$ (47,950,000)
1984	$ 0 ($165.2 million transferred to Budget Reserve Fund)

1984 G.F. Balance as % of G.F. revenues: 3.9%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	2327.1	$749	5.4%	3.1%

DELAWARE

Moody's: Aa

SLB: Mid AA
Trend: Stable

S & P: AA

After three years of operating at or near a deficit in the General Fund, the 1984 fiscal year ended with an operating surplus of $48.1 million. The following revenue areas all showed strong gains: personal income taxes (+9.9%), franchise taxes (+8.6%) and corporate income taxes (+46.2%), with total revenues increasing 12%. Disbursements increased at a rate of only 2.9%. Overall, the General Fund balance improved to finish at a total of $97.4 million.

Manufacturing, particularly in chemicals and automobiles dominates the State's economy. DuPont accounts for 38% of manufacturing employment and 9% of total State employment. Growth in the trade sector helps to offset the cyclicality of the manufacturing sector. Wealth levels in the State are high with unemployment recently falling below the national averages. Debt ratios in the State are extremely high. Revenues are reliant on income tax revenues, with no sales tax currently being levied. Well-controlled finances, a diversifying economy, consistent balances and untapped revenue sources provide adequate security for the outstanding debt, placing Delaware as a Mid AA with a stable trend.

Population (1984): 606,000
% change 1980-1984: +2.0%

Employment Distribution (1984)

Manufacturing:	26.1%
Wholesale and Retail Trade:	22.7%
Service Industries:	19.7%
Government:	16.7%

Unemployment (1984): 6.7%
5 year average: 7.7%

Wealth Statistics
Per capita income: $12,665
% change 1980-1984: +25.9%
Families below poverty level: 11.8%

General Fund (G.F.) Balance

1981	$ 50,900,000
1982	$ 51,300,000
1983	$ 49,400,000
1984	$ 97,450,000

1984 G.F. Balance as % of G.F. revenues: 12.7%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net G.O. Debt	563.5	$929.87	7.2%	4.1%

FLORIDA

Moody's: Aa **SLB:** Mid AA **S&P:** AA
Trend: Stable

In fiscal 1984, Florida revenues were slightly below projections and expenditures were also slightly below projected levels. Total operating expenses fell by approximately $750,000,000, with taxes, licenses and fee revenues increasing by approximately $1.5 billion. The State ended the year with an operating surplus in the General Fund of $131 million. The General Fund balance has firmed its position since substantial declines in the 1982 fiscal year.

Florida has an economy which has moved away from a reliance on tourism and citrus agriculture to more of a diversified make-up. Manufacturing has been increasing at an average annual rate during the past 10 years of 3.6%, with Florida ranked #1 in its attractiveness as a business climate for manufacturers. Unemployment has traditionally been below the national average, with wealth levels at the national average. Debt ratios are moderate, with a majority of debt being double barrelled. The quick pace of growth, a diversifying economy and the double barrelled nature of debt provide good security for the bonds, and cause us to view Florida as a Mid AA with a stable trend.

Population (1984): 10,976,000
% change 1980-1984: +12.6%

Employment Distribution (1984)

Manufacturing:	11.9%
Wholesale and Retail Trade:	26.8%
Service Industries:	24.7%
Government:	16.3%

Unemployment (1984): 5.40%
5 year average: 6.98%

Wealth Statistics
Per capita income: $11,689
% change 1980-1984: +27.1%
Families below poverty level: 13.4%

General Fund (G.F.) Balance

1981	$ 651,970,000
1982	$ 404,400,000
1983	$ 456,500,000
1984	$ 459,700,000

1984 G.F. Balance as % of G.F. revenues: 8.9%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	2867.3	$270	2.3%	1.1%

GEORGIA

Moody's: Aaa **SLB:** Upper AA **S&P:** AA
Trend: Upward

In the 1984 fiscal year, Georgia saw strong gains in its revenue stream, and as a result, was able to replenish the monies in the Revenue Shortfall Reserve Fund (funded with 3% of revenues) and Mid-year Adjustment Reserve Fund (funded with 1% of revenues) which had been depleted during the 1982 and 1983 fiscal years. To date in 1985, revenue receipts are running ahead of State estimates by a rather substantial margin. The two largest sources of revenue for Georgia, sales and income taxes, each saw sizable increases from '83 to '84, increasing 10.7% and 12.8% respectively.

The State possesses a sound economic foundation, with agriculture becoming less important, as other sectors have taken over. The growing services sector (increasing 3.6% in '82 and 5.7% in '83) has helped to insulate Georgia from recessionary periods. The most recent recession, as evidenced by a revenue stream only somewhat affected, points to this fact. The population of the State has been increasing at a fast pace, with unemployment holding at very low levels. Per capita income, while below the national average, is on par with that of the region. Debt ratios of the State are moderate, and when combined with an improved economic make-up, improved financials and a growing population base cause us to view the State as an Upper AA with an upward trend.

Population (1984): 5,837,000
% change 1980-1984: +6.9%

Employment Distribution (1984)

Manufacturing:	22.4%
Wholesale and Retail Trade:	24.0%
Service Industries:	17.4%
Government:	19.2%

Unemployment (1984): 6.0%
5 year average: 6.84%

Wealth Statistics
Per capita income: $10,379
% change 1980-1984: +29.4%
Families below poverty level: 16.6%

General Fund (G.F.) Balance

1981	$ 70,600,000	($93,000,000 Mid-year Adjustment Revenue Reserve)
1982	$ 0	($50,000,000 Mid-year Adjustment Revenue Reserve)
1983	$ 0	($22,000,000 Mid-year Adjustment Revenue Reserve)
1984	$ 0	($105,000,000 Mid-year Adjustment Revenue Reserve)

1984 G.F. Balance as % of G.F. revenues: 2.6% (includes monies in revenue shortfall and mid-year adjustment reserve)

Debt Ratios	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	1670.5	$286	2.8%	.9%

HAWAII

Moody's: Aa **SLB:** Lower AA **S & P:** AA
Trend: Stable

The budgetary gap which the State has been experiencing was substantially narrowed in the 1984 fiscal year to a level of $20 million, from a level of $92 million in 1983. However, as a result of this gap, the General Fund balance declined once again in '84, to a level of $105 million. Revenues were lessened in 1984 due in part to a cessation of the gross receipts tax on airlines.

Overall, the already high debt burden of Hawaii has increased since the last survey, although this is consistent with the growth mode the State is in. The economy is reasonably diversified, with a strong reliance on tourism, federal defense and agriculture. Tourism trade in Hawaii has been consistently strong even during economic downturns, with a 1984 increase in visitors of 10.6% over 1983. Even with the strength of the dollar against the yen, the ever important Japanese tourist segment increased 15.7% over 1983 levels. The dollar has recently shown signs of weakening which should bode well for the State's Japanese tourist trade. Given the State's debt burden and limited economic diversification in conjunction with relatively low unemployment, good resident wealth and a thriving tourism industry, we place Hawaii in the range of a Lower AA credit with a stable trend.

Population (1984): 1,038,700
% change 1980-1984: +7.7%

Employment Distribution (1984)

Manufacturing:	5.5%
Wholesale and Retail Trade:	26.3%
Service Industries:	25.8%
Government:	22.6%

Unemployment (1984): 5.6%
5 year average: 5.8%

Wealth Statistics
Per capita income: $12,750
% change 1980-1984: +25.9%
Families below poverty level: 9.9%

General Fund Balance

1981	$ 231,700,000
1982	$ 210,000,000
1983	$ 129,500,000
1984	$ 105,063,000

1984 G.F. Balance as % of G.F. Revenues: 11.9%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net total tax supported debt	1670.7	$1,608	13.5%	4.3%

ILLINOIS

Moody's: Aaa **SLB:** Upper AA **S & P:** AA+
Trend: Stable

Illinois, one of the wealthier states, also possesses an economy marked by its diversified nature. Durable goods manufacturing, however, comprises a large percentage of the economy, which will be problematical if the State goes into another recessionary period. The trend of budgetary deficits has been reversed (due in part to an improved economy and temporary tax hikes), as has the downward trend of the State's General Fund balance.

Overall, the 1983-84 fiscal year was one of great improvement for Illinois. Temporary tax increases, coupled with a strong economy, helped revenues of the State rebound sharply. Income tax revenues increased at a 33% rate, with sales tax revenues growing 10.7%. On the expenditure side, increases were kept at a level below the increases in revenues. The General Fund balance, which had decreased in the four previous years, rebounded sharply to finish at a level of $217 million in 1984 and $479 million in 1985. Due to an increase in 1986 projected expenditures and a decrease in projected revenues, the 1986 balance could be drawn down to $177 million unless certain measures are taken. As evidenced by temporarily increased tax rates, the State is willing to take measures necessary to improve its operating performance. Sensitivity to a possible economic downturn, high levels of wealth, a diversified economy and an adequate fund balance cause us to view the State as an Upper AA credit with a stable trend.

Population (1984): 11,511,000
% change 1980-1984: +.7%

Employment Distribution (1984)

Manufacturing:	21.2%
Wholesale and Retail Trade:	24.6%
Service Industries:	22.6%
Government:	14.9%

Unemployment (1984): 9.1%
5 year average: 9.72%

Wealth Statistics
Per capita income: $12,405
% change 1980-1984: +18.38%
Families below poverty level: 11%

General Fund (G.F.) Balance

1981	$ 197,000,000
1982	$ 187,000,000
1983	$ 110,000,000
1984	$ 217,000,000

1984 G.F. Balance as % of G.F. revenues: 2.2%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net G.O. Debt	3551.0	$308	2.16%	1.5%

IOWA

Moody's: MIG-2 **SLB:** Lower MIG-1 **S & P:** N.R.
Trend: Stable

With its foray into the capital marketplace, the State of Iowa has debt currently outstanding (consisting of tax and revenue anticipation notes) of $452,000,000. The need for the notes was to offset the timing difference between revenues and scheduled disbursements, particularly in the area of school aid.

The 1984 fiscal year saw Iowa maintain its General Fund at a balance of $8.3 million, which was transferred to the Economic Emergency Fund (money used to alleviate General Fund deficits in any future year). Revenues were hurt by a weakness in corporate income taxes. Constitutionally, the State cannot end a fiscal year with a General Fund Deficit; so that, expenditures will be slashed if new revenue sources are not located. Certain tax rates are moderate and can potentially be raised (e.g. sales tax). Wealth levels in Iowa are slightly below the national average, with unemployment well below the national average. The economy is fairly diversified with only 19.6% of employment accounted for by the manufacturing sector, and as a source of personal income only 2% is accounted for by the agricultural sector. Currently 123 of the Fortune 500 companies have manufacturing plants in Iowa. The State's low debt ratios, and the fact that constitutionally it cannot sustain a General Fund Deficit help to overshadow the slim State surplus and difficulty in timing revenues and expenditures, causing us to view Iowa as a Lower MIG-1 credit.

Population (1984): 2,894,000
% change 1980-1984: -0.7%

Employment Distribution (1984)

Manufacturing:	19.6%
Wholesale and Retail Trade:	25.5%
Service Industries:	20.5%
Government:	20.0%

Unemployment (1984): 4.8%
5 year average: 5.32%

Wealth Statistics
Per capita income: $11,048
% change 1980-1984: +18.4%
Families below poverty level: 10.1%

General Fund (G.F.) Balance

1982	$ 21,800,000	
1983	$ 8,300,000	
1984	$ 8,300,000	(Transferred to Economic Emergency Fund)
1985	$ 0	

1984 G.F. Balance as % of G.F. revenues: .3%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Total Unfunded Debt	452	$155.32	1.3%	.6%

LOUISIANA

Moody's: A1 **SLB:** Lower AA **S&P:** AA-
Trend: Stable

Louisiana, like the State of Texas, has a high reliance on oil and gas for revenues in the General Fund. Unlike Texas, they do not have the cushion of a substantial General Fund balance to help carry them through their current and potential future lean times. The balance declined from a 1983 level of $180 million to an 1984 level of $7 million. For the current year the State expects to maintain a token fund balance, although large expenditure cuts are required. Oil and gas severence taxes fell by 7.2% last year, and are projected to fall 6.1% this year. Should oil prices drop more than projected, any positive balance would not be a probable occurrence.

The 1985 fiscal year was one of heavy borrowing for Louisiana, making already poor debt ratios even worse. Debt as a percentage of personal income rose to 6.9%, while the median for all states has dropped to 2.4%. Revenues for the year should increase approximately $500 million, due in large part to tax increases, particularly in the corporate income tax rate, gasoline tax and sales tax; but as mentioned before, expenditures need to be cut. The wealth statistics of the State are well below national averages, with unemployment well above. While high levels of debt, an economy highly reliant on an industry in a downward trend and an extremely large unfunded pension liability ($4 billion) are very negative factors, the constitutional pledge of monies first to bond debt service enhances the quality of Louisiana debt.

Population (1984): 4,462,000
% change 1980-1984: +6.1%

Employment Distribution (1984)

Manufacturing:	11.4%
Wholesale and Retail Trade:	23.5%
Service Industries:	19.4%
Government:	20.2%

Unemployment (1984): 10.4%
5 year average: 9.52%

Wealth Statistics
Per capita income: $10,406
% change 1980-1984: +22.8%
Families below poverty level: 18.6%

General Fund (G.F.) Balance

1981	$ 556,000,000
1982	$ 544,000,000
1983	$ 180,000,000
1984	$ 7,055,000

1984 G.F. Balance as % of G.F. revenues: .1%

Debt Ratios	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	3156.4	$707.39	6.9%	2.8%

MAINE

Moody's: Aa1 **SLB:** Upper AA **S & P:** AAA
Trend: Stable

Revenues of the State, after increasing only 1.8% in the 1983 fiscal year (led by a 2.1% decline in tax revenues), rose 13.8% in 1984. Adjustment to the total loss of unemployment compensation taxes and a substantial increase in corporate income tax revenues were prime contributors to the improvement. The undesignated General Fund balance, which until 1983 had been at very consistent levels rebounded in 1984 to end at an amount of $16.7 million. Operating results which in 1983 saw a deficit of $15.5 million, in 1984 ended with a surplus of $44.5 million. Estimation of receipts tend to be very accurate.

The economy of the State tends to be somewhat problematical, with a concentration in forest products, fishing and textiles. The planned expansion of national defense spending within the State is a positive factor. Wealth statistics, while below the national average, have risen at a rate above the national average. Additionally, population and resident employment have increased faster than the national average. New jobs are expected to be concentrated in the trade and service sectors. The debt ratios of Maine are at moderate levels. Conservative operations, moderate debt, and consistent performance over the past 10 years justify an Upper AA rating for the State of Maine.

Population (1984): 1,150,000
% change 1980-1984: +2.3%

Employment Distribution

Manufacturing:	25.7%
Wholesale and Retail Trade:	21.7%
Service Industries:	19.1%
Government:	20.5%

Unemployment (1984): 6.1%
5 year average: 8.04%

Wealth Statistics
Per capita income: $9,847
% change 1980-1984: +23.7%
Families below poverty level: 13.0%

General Fund (G.F.) Balance

1981	$ 24,900,000
1982	$ 18,800,000
1983	$ 2,150,000
1984	$ 16,705,000

1984 G.F. Balance as % of G.F. revenues: 2.2%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net G.O. Debt	294.6	$256.16	2.87%	1.13%

MARYLAND

Moody's: Aaa **SLB:** Lower AAA **S&P:** AAA
Trend: Stable

In the 1984 fiscal year, revenues and expenditures were extremely close to projected levels on a budgetary basis, with a favorable balance in General Fund receipts of 1% and an unfavorable balance in expenditures of .1%. Overall, revenues increased 12.5%, led by income taxes (+15.7%) and sales taxes (+14.2%), while expenditures increased only 4.7%. The General Fund, which reports according to GAAP (Generally Accepted Accounting Principles), widened its deficit to $65 million and on a budgetary basis, ended at $41.3 million, down from $54.9 million. The drop is due mainly to planned use of the surplus.

The State of Maryland currently enjoys a balanced economy featuring tourism, services, agriculture and a strong government sector benefiting from its proximity to the nation's capital. Wealth levels are well above average and unemployment well below the national average. The G.F. balance on a GAAP basis is expected to be on the positive side in the 1985 fiscal year. An area for concern includes very high debt levels, with per capita debt at a level of $682. The current S & L crisis is being responsibly handled and should not affect the States' prime rating. Deficits and high debt levels are partially offset by the traditionally responsible performance of State government (e.g. no short-term borrowing) and the typically short maturity of outstanding debt, placing the bonds as a Lower AAA with a stable trend.

Population (1984): 4,354,000
% change 1980-1984: +3.8%

Employment Distribution (1984)

Manufacturing:	12.3%
Wholesale and Retail Trade:	24.5%
Service Industries:	23.8%
Government:	23.3%

Unemployment (1984): 5.8%
5 year average: 7.2%

Wealth Statistics
Per capita income: $13,100
% change 1980-1984: +26.2%
Families below poverty level: 9.8%

General Fund (G.F.) Balance

1981	$ 197,200,000	
1982	$ 143,300,000	
1983	$ (51,600,000)	GAAP
1984	$ (65,000,000)	GAAP

1984 G.F. Balance as % of G.F. revenues: 1.2%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	2922.3	$682	5.2%	2.7%

MASSACHUSETTS

Moody's: A1 **SLB:** Upper A **S&P:** AA
Trend: Stable

Massachusetts ended the 1984 fiscal year with an operating deficit in the General Fund, due in part to a substantial increase in State aid to cities and towns. This was caused partially by the passage of Proposition 2 1/2, which limited local revenue raising capabilities. The General Fund balance moved from a $64.4 million surplus in 1983 to a $19.3 million surplus in 1984. For the 1985 fiscal year, the State expects to widen its balance to $37.2 million, but large increases in fund transfers, aid to cities and basic State expenditures will put a strain on the balance, particularly in the event of an economic slowdown.

The State exhibits very high per capita wealth, low levels of unemployment, a stable population and an economy marked by a shift towards the service, trade and high technology industries. This shift away from the more traditional manufacturing industries has helped to insulate the State from some of the effects of a recession. Debt ratios are on the high side, with the State spending more and more on aid to local entities. Wealth levels and improving economic make-up help to provide adequate security when all aspects of State operations are taken into consideration, and cause us to view Massachusetts as an Upper A with a stable trend.

Population (1984): 5,767,000
% change 1980-1984: +.5%

Employment Distribution (1984)

Manufacturing:	23.7%
Wholesale and Retail Trade:	23.1%
Service Industries:	26.3%
Government:	13.0%

Unemployment (1984): 4.8%
5 year average: 6.3%

Wealth Statistics
Per capita income: $14,463
% change 1980-1984: +42.8%
Families below poverty level: 9.6%

General Fund (G.F.) Balance

1981	$ 21,400,000
1982	$ 4,400,000
1983	$ 64,400,000
1984	$ 19,200,000

1984 G.F. Balance as % of G.F. revenues: .3%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	4481.9	$777.19	5.9%	3.6%

MICHIGAN

Moody's: A **SLB:** Mid A **S&P:** A+
Trend: Stable

Tax revenues in 1984 rose sharply, up 23.5% from 1983, due in part to an improved economy and temporary income tax increases. Overall, State revenues increased 12.1%. Due mainly to lower than expected receipts from Federal agencies, actual General Fund revenues were below target. Expenditures were kept at an increase of 5.5%, compared to an increase of 5.7% the year before. The undesignated General Fund balance, at a level of $19.7 million in 1983, ballooned to $283.2 million in 1984. In the 1985 fiscal year, it is expected that approximately $386.7 million will be deposited in the Budget Stabilization Fund.

The Michigan economy, traditionally concentrated in durable goods manufacturing, has been extremely sensitive to hard economic times. While diversification is being encouraged, at this point in time the vulnerability remains. The State possesses a high unemployment rate, a certain amount of migration to other States, and only average per capita wealth. State government has made a concerted effort to improve operations with budget cuts, work force reductions and tax increases. The debt ratios of the State are low, and when looking at G.O. debt, they are very low. Given the commitment to improved operations, low debt ratios and an improved economy, Michigan can support a Mid A rating, although the State economy continues to leave it vulnerable to the downswing in the business cycle.

Population (1984): 9,107,000
% change 1980-1984: -1.5%

Employment Distribution (1984)

Manufacturing:	28.6%
Wholesale and Retail Trade:	21.6%
Service Industries:	20.2%
Government:	17.4%

Unemployment (10/84): 10.1%
5 year average: 12.9%

Wealth Statistics
Per capita income: $11,574
% change 1980-1984: +16.1%
Families below poverty level: 10.4%

General Fund (G.F.) Balance

1981	$ 0
1982	$ 6,200,000
1983	$ 19,600,000
1984	$ 283,200,000

1984 G.F. Balance as % of G.F. revenues: 5.1%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	1304.7	$144	1.3%	.7%

MINNESOTA

Moody's: Aa **SLB:** Mid AA **S&P:** AA+
Trend: Stable

The 1984 fiscal year was one of marked improvement for the State, as evidenced by its General Fund balance moving from a $5.3 million surplus to a $344.3 million surplus. Expenditures, which had been slashed 22% in the 1983 fiscal year increased in 1984 to slightly above 1982 levels, with revenues increasing 16.2% in 1984. The revenue base increased in part because of tax increases and also because of an improved economy. The economic pause in the beginning of 1985 combined with major tax cuts has caused a reduction in forecasted revenues. A cushion against revenue shortfalls will be provided by a $450 million Reserve Fund expected to be funded in the upcoming biennium.

Wealth levels in Minnesota are above the national average, with unemployment consistently well below the average. Agriculture, comprises 6.1% of employment; and the service sector, which is less sensitive to a downturn in the economy, has been gaining in importance. Debt ratios in the State are moderate, and short-term borrowing needs will be greatly reduced in the future. A stronger economy, a commitment to balanced financial operations and moderate debt levels indicate an improved position, although the tax cuts put through are an area of concern in light of weakening revenues. We view Minnesota as a Mid AA with a stable trend.

Population (1984): 4,162,000
% change 1980-1984: +2.1%

Employment Distribution (1984)

Manufacturing:	20.5%
Wholesale and Retail Trade:	25.2%
Service Industries:	22.9%
Government:	16.0%

Unemployment (1984): 6.3%
5 year average: 6.74%

Wealth Statistics
Per capita income: $13,218
% change 1980-1984: +36.8%
Families below poverty level: 9.5%

General Fund (G.F.) Balance

1981	$ (60,047,000)
1982	$ (624,500,000)
1983	$ 5,344,000
1984	$ 344,300,000

1984 G.F. Balance as % of G.F. revenues: 1.6%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	1135.5	$273	2.3%	.9%

MISSISSIPPI

Moody's: Aa **SLB:** Lower AA **S & P:** AA-
Trend: Stable

In fiscal 1984, General Fund receipts and expenditures were about equal, with receipts increasing 9.3%, and expenditures 7.7%. Tax rate increases (sales, personal income and corporate income) were made permanent, with sharp increases in sales tax revenues (+13%) and income tax revenues (+19.1%) over fiscal 1983. The General Fund balance dropped to a level of $10.6 million from $15.2 million the year before. To this point in 1985, operations have shown improvement with the General Fund operating at a surplus, due in part to strict controls on expenditures. The Working Cash Balance Fund, to be funded with approximately $31 million, is intended to ease cash flow imbalances.

The State currently has an economy based in manufacturing, although the trade sector has increased by 7% since 1980. The main components of manufacturing are textiles and lumber which have been weak in the recent past. Mississippi is the poorest state in the nation, with per capita income only 69% of the national average, unemployment well over the national average, and 23.9% of its families below the poverty level. Overall, the State has had responsible fiscal operations, moderate levels of debt, has planned for the future and displayed a willingness to raise taxes, all of which combine to place the State as a Lower AA with a stable trend.

Population (1984): 2,598,000
% change 1980-1984: +3.1%

Employment Distribution (1984)

Manufacturing:	26.6%
Wholesale and Retail Trade:	21.3%
Service Industries:	15.2%
Government:	22.3%

Unemployment (1984): 10.8%
5 year average: 10.04%

Wealth Statistics
Per capita income: $8,098
% change 1980-1984: +23.5%
Families below poverty level: 23.9%

General Fund (G.F.) Balance

1981	$ 76,975,000
1982	$ 39,294,000
1983	$ 15,190,000
1984	$ 10,614,000

1984 G.F. Balance as % of G.F. revenues: .8%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	666.7	$257	3.2%	2.2%

MISSOURI

Moody's: Aaa **SLB:** Mid AAA **S & P:** AAA
Trend: Stable

1984 was a year of substantial improvement over the 1983 fiscal year. After three years of an operating deficit (after operating transfers out), 1984 resulted in a surplus. General Fund revenues increased approximately 4.4%, while expenditures rose 10.5%, but operating transfers out increased only 3.9%. Preliminary results for 1985 indicate that revenues are running approximately 6% over original estimates. The major tax sources consist of general sales taxes and personal income taxes. Undesignated General Fund monies increased in 1984, ending at a level of $242 million.

The Missouri economy exhibits a diverse nature, with durable goods manufacturing a major component (automobiles and aircraft). This left State finances vulnerable to the recent recessionary period. The economy has seen more growth in the other sectors, helping to lower the impact of economic downturns. Personal income is average, with unemployment traditionally above the national average. Given the low amount of debt which the State has outstanding and the improved economic environment, Missouri's prime credit rating is upheld.

Population (1984): 4,985,000
% change 1980-1984: +1.4%

Employment Distribution (1984)

Manufacturing:	21.4%
Wholesale and Retail Trade:	23.8%
Service Industries:	21.2%
Government:	17.2%

Unemployment (1984): 7.4%
5 year average: 8.3%

Wealth Statistics
Per capita income: $10,969
% change 1980-1984: +24.5%
Families below poverty level: 12.2%

General Fund (G.F.) Balance

1981	$ 151,100,000
1982	$ 123,500,000
1983	$ 98,900,000
1984	$ 242,000,000

1984 G.F. Balance as % of G.F. revenues: 10.5%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net G.O. Debt	295.59	$59.50	.5%	.5%

MONTANA

Moody's: Aa **SLB:** Mid AA **S&P:** AA
Trend: Stable

The 1984 fiscal year saw General Fund revenues for the State of Montana decrease 6.1%, due in large part to a 19% drop in gas, oil and coal production taxes. Strong increases in its revenue stream were provided by personal income taxes, which rose 12.4%. Expenditures were pared, however, with general government spending being slashed 33.9%, and overall spending decreasing approximately 1%. The undesignated General Fund balance of the State has consistently shown a surplus, and has ended the 1984 fiscal year at a level of $36 million, down from $57 million.

The economy of Montana is concentrated in the agricultural, mining and forest product sectors, areas which have not performed well in the recent past. Due to this economic makeup, the growth of the State will not be as powerful as had been expected. Oil and coal related industries have been weak, combined with a drought that has hurt agriculture. Wealth levels of the State are below average, with per capita income only 80% of the national average. Debt ratios, which as recently as 1981 had been low, are now moderate, due to large borrowing for a variety of capital projects. The State has, however, exhibited not only a stable financial past, but a conservatism in its financial operations which provide good security for outstanding debt, and cause us to view Montana as a Mid AA with a stable trend.

Population (1984): 824,000
% change 1980-1984: +4.7%

Employment Distribution (1984)

Manufacturing:	7.8%
Wholesale and Retail Trade:	27.0%
Service Industries:	21.4%
Government:	24.2%

Unemployment (1984): 7.4%
5 year average: 7.56%

Wealth Statistics
Per capita income: $9,994
% change 1980-1984: +15.5%
Families below poverty level: 12.3%

General Fund (G.F.) Balance

1981	$ 58,106,000
1982	$ 14,132,000
1983	$ 56,895,000
1984	$ 35,097,000

1984 G.F. Balance as % of G.F. revenues: 12.6%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	235.9	$286	2.9%	1.4%

NEVADA

Moody's: Aa **SLB:** Mid AA **S&P:** AA
Trend: Stable

In 1984, total revenues increased at a 6.9% rate, led by sales tax revenues which showed a gain of 10.2%. This tax was raised in 1981 from 3.5% to 5.75%. Gaming taxes declined 4%, due in part to new timing of payments and to an employee strike late in the year. Expenditures were kept at constant levels, predominantly because of a 10.7% decline in educational contributions caused by excessive payments in 1983. The end result of 1984 was the replenishment of the General Fund balance, up to a level of $81.5 million.

The economy of Nevada, not surprisingly, is dominated by the hotel and gaming industries, which comprise 28.1% of non-agricultural employment. Although under pressure from competition such as Atlantic City and other legalized gambling alternatives (e.g. lotteries), 1984 saw an increase in visitors (4%), conventions (10.2%) and casino winnings (11.36%). Although in an uptrend, this reliance on an industry facing a difficult competitive environment is an area of concern. More optimistic components of the State of Nevada include above average wealth, low debt ratios, and a population base which has been increasing much faster than the national average. These factors, combined with consistent and strong General Fund balances provide good security, and place the State as a Mid AA with a stable trend.

Population (1984): 911,000
% change 1980-1984: +13.9%

Employment Distribution (1984)

Manufacturing:	4.7%
Wholesale and Retail Trade:	19.9%
Service Industries:	44.2%
Government:	14.3%

Unemployment (1984): 7.8%
5 year average: 8.2%

Wealth Statistics
Per capita income: $12,451
% change 1980-1984: +16.1%
Families below poverty level: 8.7%

General Fund (G.F.) Balance

1981	$ 44,100,000
1982	$ 45,800,000
1983	$ 48,600,000
1984	$ 81,500,000

1984 G.F. Balance as % of G.F. revenues: 15.6%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	91.7	$101	.8%	.2%

NEW HAMPSHIRE

Moody's: Aa **SLB:** Mid AA **S&P:** AA
Trend: Stable

The 1984 fiscal year was a solid turnaround year for the State of New Hampshire. This can be evidenced by a General Fund surplus of $1,300,000 in 1984, after the State posted a G.F. deficit of over $40,000,000 in 1983. The State has recently been rewarded by Moody's for the substantially improved results by having its rating raised to Aa from A1.

The improved financial results can be attributed to both the revenue and expenditure sides of the State's operations. On the revenue side, the State was aided by tax rate increases on business profits (largest revenue source) and real estate transfers. Coupled with the increased revenues, the State dedicated itself to expenditure controls, keeping the increase to 10.8% above 1983 levels. Preliminary '85 results show the State 8.5% ahead of revenue projections and in line with expenditure projections. General Fund balance expectations are for a level of approximately $40 million. Combining the State's diversified economy, low unemployment, moderate debt levels and strong population growth with both its willingness to adjust tax rates and control expenditures, New Hampshire has in a very short time turned itself around. The outlook for the future is that this trend should continue, with Shearson Lehman Brothers viewing New Hampshire as a Mid AA with a stable trend.

Population (1984): 977,000
% change 1980-1983: +6.1%

Employment Distribution (1984)

Manufacturing:	28.0%
Wholesale and Retail Trade:	23.7%
Service Industries:	20.5%
Government:	13.1%

Unemployment (1984): 4.3%
5 year average: 5.36%

Wealth Statistics
Per capita income: $12,021
% change 1980-1984: +31.4%
Families below poverty level: 8.5%

General Fund Balance

1981	$ (30,600,000)
1982	$ (33,200,000)
1983	$ (40,100,000)
1984	$ 1,300,000

1984 G.F. Balance as % of G.F. Revenues: 0

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net Total Tax Supported Debt	356.6	$365	3.1%	1.2%

NEW JERSEY

Moody's: Aaa **SLB:** Mid AAA **S & P:** AAA
Trend: Stable

The State of New Jersey performed well in fiscal 1984, with revenues in the General Fund increasing at a rate of 12.6%, and expenditures at a rate of 6.6%. Sales tax revenues rose 24.8% for the year and corporate tax revenues, after an 11.9% decrease in 1983, rebounded sharply to show a 24.8% gain. The General Fund balance, which had slipped to $98.4 million, ballooned to $485.3 million. Due to an expected 10% increase in expenditures in 1985, and a slowing of revenues, the fund balance should remain at about the same level this year.

New Jersey has an economy marked by its diversification, and by the fact that the manufacturing sector has contracted 18.3% over the past 13 years, with the service sector expanding 61.5%. The State possesses very high personal wealth levels, low unemployment and a stable population base. Per capita debt is moderate, with specific revenue sources also pledged to payment. The overall picture of New Jersey, which includes diversity, wealth, a prime location and responsible financial operations supports a Mid AAA rating with a stable trend.

Population (1984): 7,515,000
% change 1980-1984: +2.0%

Employment Distribution

Manufacturing:	22.6%
Wholesale and Retail Trade:	23.1%
Service Industries:	22.0%
Government:	16.8%

Unemployment (1984): 6.2%
5 year average: 7.5%

Wealth Statistics
Per capita income: $14,122
% change 1980-1984: +28.8%
Families below poverty level: 9.5%

General Fund (G.F.) Balance

1981	$ 188,100,000
1982	$ 78,700,00
1983	$ 98,400,000
1984	$ 485,300,000

1984 G.F. Balance as % of G.F. revenues: 9.1%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	3160.1	$421	3%	1.5%

NEW MEXICO

Moody's: Aa **SLB:** Mid AA **S&P:** AA
Trend: Stable

In 1984, revenues of the State declined, due in large part to the fact that 1983 revenues included $260 million from a gross receipts tax settlement and 1984 Federal revenue sharing dollars were almost completely slashed. Recurring receipts in 1984 improved in all areas, with certain rate increases and tax implementations a partial reason. Income tax revenues increased 51.2% (30% rate increase), severance tax revenues were up 14.6% and sales tax revenues increased 19.9%. Expenditures for the year rose only 4.8%. The General Fund balance stabilized, ending the year at a level of $57 million.

The economy of New Mexico is reliant on a few specific areas, namely mining, tourism and government research. Gas and oil account for 89% of severance tax revenues, with both areas showing weakness since 1982. Severance tax bonds, the majority of New Mexico debt outstanding, are secured by a pledge of these revenues, and have had historical coverage figures of 2.32x. Debt ratios are moderate when severance tax bonds are included, but G.O. ratios are very low. The State has low wealth levels, but a population base which has been growing at double the U.S. average. Stabilized financial performance with conservative spending patterns, combined with the uncertainty surrounding the mining industry which leaves the State vulnerable to demand, places New Mexico as a Mid AA with a stable trend.

Population (1984): 1,424,000
% change 1980-1984: +9.5%

Employment Distribution (1984)

Manufacturing:	7.3%
Wholesale and Retail Trade:	23.4%
Service Industries:	21.3%
Government:	25.8%

Unemployment (1984): 7.5%
5 year average: 8.32%

Wealth Statistics
Per capita income: $9,640
% change 1980-1984: +21.4%
Families below poverty level: 17.6%

General Fund (G.F.) Balance

1981	$ 100,645,000
1982	$ 118,252,000
1983	$ 53,682,000
1984	$ 57,413,000

1984 G.F. Balance as % of G.F. revenues: 4.0%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	351.3	$247	2.6%	1.2%

NEW YORK

Moody's: A **SLB:** Upper A **S&P:** A+
Trend: Stable

In the 1984 fiscal year, New York State improved its fund balance from a level of $0 to $51 million. Revenues increased 7.8%, led by personal income taxes (+14.5%) and sales taxes (+12.1%). Expenditures increased 7.1% over 1983 levels. Capital construction costs, which had jumped 29.8% in 1983, declined 14.2% in 1984. State operations were close to projections, with a favorable variance in receipts of $16 million and a favorable balance of $6.5 million in expenditures.

The economy of the State is well-spread out among all of the sectors, with a good portion in the service and other non-manufacturing industries, insulating the State somewhat from a recessionary period. Wealth levels are well above average, with unemployment rates below the national figures and a population base which has stabilized after a period of loss. The State possesses moderate debt levels (G.O. debt per capita of $215), although the amount of agency debt to which some commitment has been made is very large. The diversity of the economy and basic financial wealth of the State helps to offset agency responsibilities and inaction concerning the reduction of its deficit based on GAAP accounting. These factors place New York in our Upper A category with stable trend.

Population (1984): 17,735,000
% change 1980-1984: +1.0%

Employment Distribution (1984)

Manufacturing:	17.8%
Wholesale and Retail Trade:	20.5%
Service Industries:	25.7%
Government:	17.8%

Unemployment (1984): 7.2%
5 year average: 8.1%

Wealth Statistics
Per capita income: $12,990
% change 1980-1984: +26.3%
Families below poverty level: 13.4%

General Fund (G.F.) Balance

1981	$ 200,000
1982	$ 308,000
1983	$ 0
1984	$ 50,800,000

1984 G.F. Balance as % of G.F. revenues: .2%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt (excludes agency and state guaranteed debt)	10868.9	$613	4.7%	4.1%

NORTH CAROLINA

Moody's: Aaa **SLB:** Mid AAA **S & P:** AAA
Trend: Stable

In the 1984 fiscal year, North Carolina accurately forecasted its revenues and expenditures, winding up with an overall favorable variance of $254 million. Receipts were right on target, with disbursements 4.4% below expected levels. Major sources of funds rose sharply, with income tax revenues up 15.9% and sales tax revenues up 21.4%. Total revenues rose 13.7%, with total disbursements up 9.4%. General government spending was slashed 6.9% as part of the plan to balance the budget. Overall, the General Fund balance increased to a level of $253 million.

The economy of the State is based primarily in manufacturing (textiles, furniture and electrical) and agriculture (tobacco), although gains in the service sector are expected. Currently, however, the State remains vulnerable to the ups and downs of the economy. Wealth levels are well below the national average, with unemployment near the average. Debt ratios are on the low side, and retirement of principal is fairly rapid. Given the State's long record of stable financial operations, low debt and an exhibited willingness to control expenditures, a Mid AAA rating is warranted.

Population (1984): 6,164,200
% change 1980-1984: +4.5%

Employment Distribution (1984)

Manufacturing:	31.2%
Wholesale and Retail Trade:	22.0%
Service Industries:	15.8%
Government:	16.0%

Unemployment (1984): 7.2%
5 year average: 8.6%

Wealth Statistics
Per capita income: $9,787
% change 1980-1984: +13.2%
Families below poverty level: N.A.

General Fund (G.F.) Balance

1981	$ 154,600,000
1982	$ 163,100,000
1983	$ 72,000,000
1984	$ 253,000,000

1984 G.F. Balance as % of G.F. revenues: 4.8%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net G.O. Debt	879.2	$142.63	1.5%	.7%

NORTH DAKOTA

Moody's: Aa **SLB:** Upper AA **S & P:** AA
Trend: Stable

In the current biennium revenues are running slightly ahead of estimates, with major contributions being made by sales tax revenues and income tax revenues. An extension of the recent income tax rate increase has been approved. Expenditure levels are running slightly behind forecasted levels, with the largest differentials in general government spending and higher education. This performance has enabled the State to bring the cash balance back up to a level of $161 million, after dropping to $56 million at the end of the '81 biennium.

The economy of North Dakota is currently concentrated in the agriculture and mining sectors, making the State vulnerable to the cyclical swings of the economy. The service and government sectors have been expanding, with the manufacturing sector still approximately 1/4 the size of the national average. Due to the makeup of the economy, wealth levels have lagged behind the national average. Overall, the composition of outstanding debt (predominantly self-supporting), low debt levels, conservative financial operations and a willingness to raise tax rates in light of economic problems all combine to enable the State to maintain an Upper AA rating with a stable trend.

Population (1984): 673,000
% change 1980-1984: +3.1%

Employment Distribution

Manufacturing:	6.1%
Wholesale and Retail Trade:	25.8%
Service Industries:	21.8%
Government:	24.6%

Unemployment (3/84): 6.6%
5 year average: 5.6%

Wealth Statistics
Per capita income: $11,666
% change 1980-1984: +35.2%
Families below poverty level: 12.6%

General Fund (G.F.) Balance

1981	$ 160,200,000
1982	174,500,000
1983	$ 56,100,000
1984	$ 161,000,000

1984 G.F. Balance as % of G.F. revenues: 14.6%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	61.175	$ 94	.8%	.2%

OHIO

Moody's: Aa **SLB:** Mid AA **S&P:** AA
Trend: Stable

Ohio ended the 1984 fiscal year with an improved financial position, showing a fund balance of $93 million. This is a substantial gain over past years ending balances, particularly 1981 when the final tally was $200,000. The gains can be attributed to two major factors, the first being an improved economy nationwide; and the second tax rate increases for personal income, corporate franchise and public utilities taxes. Between 1983 and 1984, income tax revenues increased at a 24.6% rate and corporate franchise revenues increased 36.9%.

The performance of the State, which has a large portion of its economy concentrated in durable goods manufacturing, was particularly hard hit by the 1980-1982 recession. The economic mix of Ohio has shifted somewhat in recent years, moving more towards non-manufacturing sectors. Wealth levels of the State are moderate, with unemployment, due to the large durable goods sector, above the U.S. average. Debt ratios are slightly above average, with over half the debt representing moral obligations of Ohio. The well developed economy of the State, and its willingness to take measures necessary to increase the revenue stream and control expenditures, places Ohio in the Mid AA category with a stable trend.

Population (1984): 10,752,000
% change 1980-1984: -.4%

Employment Distribution (1984)

Manufacturing:	26.1%
Wholesale and Retail Trade:	22.6%
Service Industries:	21.4%
Government:	16.1%

Unemployment (1984): 9.1%
5 year average: 10.36%

Wealth Statistics
Per capita income: $11,216
% change 1980-1984: +18.6%
Families below poverty level: 10.3%

General Fund (G.F.) Balance

1981	$ 200,000
1982	$ 50,200,000
1983	$ 43,600,000
1984	$ 93,300,000

1984 G.F. Balance as % of G.F. revenues: .9%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	3163.4	$294	2.6%	1.2%

OREGON

Moody's: A1 **SLB:** Upper A **S&P:** A+
Trend: Stable

After returning to surplus operations in the 1983 fiscal year, Oregon continued the trend in 1984, widening the General Fund balance to $134.7 million. Revenues decreased slightly in 1984, although the major revenue sources showed gains. The jump in income and cigarette tax revenues can be traced to rate increases. Expenditures were kept at an increase of 8.1%. In fiscal 1985, preliminary projections call for an increase in the General Fund balance to approximately $171 million.

The Oregon economy is based predominantly in the wood products industries, exposing the State to the cyclical swings of the economy. Recently, however, some diversification has been evidenced, particularly in high technology. Wealth levels are average, with unemployment rates above average. Debt ratios are very high when the self-supporting Veterans Loan program is considered. Prospective cash flow problems have been addressed, and remedial actions have hopefully corrected the problem although a lawsuit initiated on behalf of the veterans has clouded the issue. While we do not believe the suit will be successful, its progress will be closely monitored. Overall, the State faces frequent initiative action, possesses a weak economy and uncertainty surrounding the Veterans bonds. Implementation of a 5% sales tax has recently been rejected (9/85). All of the above factors cause us to view the State as an Upper A with a stable trend.

Population (1984): 2,674,000
% change 1980-1984: +1.6

Employment Distribution (1984)

Manufacturing:	19.8%
Wholesale and Retail Trade:	25.1%
Service Industries:	20.4%
Government:	19.4%

Unemployment (1984): 9.4%
5 year average: 9.98%

Wealth Statistics
Per capita income: $11,582
% change 1980-1984: +24.3%
Families below poverty level: 10.7%

General Fund (G.F.) Balance

1981	$ 15,157,000
1982	$ (181,391,000)
1983	$ 45,600,000
1984	$ 134,705,000

1984 G.F. Balance as % of G.F. revenues: 8.4%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	465.5	$174	1.6%	.6%
Total Debt (including Veteran Bonds)	6420.1	$2400	20.7%	7.5%

PENNSYLVANIA

Moody's: A **SLB:** Mid A **S&P:** AA-
Trend: Upward

Aided by a temporary personal income tax increase, an improved overall national economy and tax accelerations, Pennsylvania moved from a large 1983 General Fund deficit to a surplus of $76.4 million. Income tax revenues increased at a 23.9% clip, sales tax revenues increased 14.6% and overall revenues were up 6.3%. At the same time, disbursements were kept at a low increase of 3.3%. These numbers compare favorably to the previous fiscal year when revenues were up only 3.3% and disbursements rose 5.6%.

The economy of the State is extremely reliant on manufacturing and mining (steel and coal), making it extremely sensitive to downturns in the economy. Employment in the service sector, up 55% since 1970, has helped to diversify the economy somewhat. Population has remained virtually the same since 1970, wealth levels are close to national averages, and unemployment has been well above the national average. The debt ratios of the State are moderate and have decreased in recent years, along with the level of short-term borrowing. The willingness of the State to control expenditures, and its attempt to diversify the economy and take measures to raise revenues, help to overshadow the heavy reliance on cyclical industries, and place Pennsylvania as a Mid A with an upward trend.

Population (1984): 11,901,000
% change 1980-1984: +.3%

Employment Distribution (1984)

Manufacturing:	24.2%
Wholesale and Retail Trade:	22.0%
Service Industries:	23.7%
Government:	14.9%

Unemployment (1984): 9.1%
5 year average: 9.6%

Wealth Statistics
Per capita income: $11,629
% change 1980-1984: +23.4%
Families below poverty level: 10.5%

General Fund (G.F.) Balance

1981	$ 71,800,000
1982	$ 7,500,000
1983	$ (234,700,000)
1984	$ 76,400,000

1984 G.F. Balance as % of G.F. revenues: .6%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	4602.5	$387	3.4%	3.4%

RHODE ISLAND

Moody's: Aa **SLB:** Mid AA **S & P:** AA-
Trend: Downward

Aided by an improved economy, the 1984 fiscal year saw Rhode Island improve its bottom line, with the General Fund balance increasing to a level of $32 million. Revenues were led by sales taxes (+15%), income taxes (+7.6%) and corporate taxes (+39%), with Federal revenues accounting for 24.4% of receipts. Tax revenues were strong in part because of rate increases. Overall, revenues rose 9.6% from the 1983 fiscal year. Expenditures were kept at a reasonable increase of 6.1%, with spending for mental health and hospitals rising 10%.

The economy of the State is extremely reliant on manufacturing in areas which are sensitive to the cyclical swings of the economy (e.g. textiles, rubber and plastic). This sector currently accounts for 32% of total employment. Unemployment rates have historically been above the national average, with the population base holding steady. On the negative side, the State has a heavy reliance on the Federal Government for revenues, a highly cyclical economy, and an income tax base which could be affected by any Federal tax changes. Positive factors, including moderate debt, conservative fiscal management and a willingness to increase taxes, combine with the negatives to place the State as a Mid AA with a downward trend.

Population (1984): 958,000
% change 1980-1984: +1.2%

Employment Distribution

Manufacturing:	32.2%
Wholesale and Retail Trade:	20.3%
Service Industries:	21.0%
Government:	14.9%

Unemployment (1984): 6%
5 year average: 7.9%

Wealth Statistics
Per capita income: $11,670
% change 1980-1984: +26.5%
Families below poverty level: 10.3%

General Fund (G.F.) Balance

1981	$ 31,000,000
1982	$ 3,200,000
1983	$ 3,900,000
1984	$ 32,000,000

1984 G.F. Balance as % of G.F. revenues: 2.5%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	356.8	$ 372.44	3.2%	1.7%

SOUTH CAROLINA

Moody's: Aaa **SLB:** Lower AAA **S & P:** AAA
Trend: Stable

The financial bottom line improved substantially in 1984, with revenues increasing at a rate of 13.1% and expenditures increasing 9%. The General Fund reserve balance increased to a level of $98.5 million in the 1984 fiscal year. The major sources of revenue for South Carolina include income taxes (+12.7%) and sales taxes (+15.5%). The largest expenditure, education, increased 9.1%. The General Reserve Fund, which must be maintained at between 3% and 5% (level subject to general assembly vote), provides a measure of stability for operations.

The South Carolina economy, which had previously been anchored by the agricultural sector has become more diversified, although textile manufacturing dominates. In the event of a recession, the State is somewhat vulnerable. Per capita income in the State is well below the national average, while unemployment has been slightly above. The debt ratios are below average, and short-term borrowing to cover cash flow shortages has not been used for the past 50 years. Overall, consistent financial performance, a constitutional limitation on debt issuance and a comfortable General Fund balance overshadow the current economic make-up, and cause us to view the State as a Lower AAA with a stable trend.

Population (1984): 3,300,000
% change 1980-1984: +5.7%

Employment Distribution

Manufacturing:	30.6%
Wholesale and Retail Trade:	20.1%
Service Industries:	15.0%
Government:	19.5%

Unemployment (10/84): 7.0%
5 year average: 8.6%

Wealth Statistics
Per capita income: $9,187
% change 1980-1984: +26.5%
Families below poverty level: 16.6%

General Fund (G.F.) Balance

1981	$ 76,500,000
1982	$ 21,100,000
1983	$ 40,000,000
1984	$ 98,500,000

1984 G.F. Balance as % of G.F. revenues: 4.4%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	645.7	$196	2.2%	1.0%

TENNESSEE

Moody's: Aaa **SLB:** Lower AAA **S & P:** AA+
Trend: Stable

In 1984, total revenues increased at a rate of 15.1% over 1983, compared to a 3.3% increase the year before. Sales and use taxes led the way increasing 15.6%, due in part to a temporary 1% increase in the rate. This source of income accounts for 55.6% of all tax revenues. Expenditures increased 10.1% over 1983 levels, led by increases in health, social services, and transportation. The fund balance of Tennessee expanded from 1983 levels, ending fiscal '84 at $163.7 million.

The economic picture of Tennessee is dominated by the manufacturing sector, which makes the State sensitive to the ups and downs of the business cycle. Wealth levels are below average, with the unemployment rate above average. Debt ratios are low and have declined in the past year with no new debt issued in 1984. Issuance of new debt is tied to the growth in personal income. Despite the sensitivity of the economy, low levels of debt, consistent operational surplus and stable General Fund balances help to support the prime rating.

Population (1984): 4,722,000
% change 1980-1984: +2.6%

Employment Distribution (as % of G.N.P.)

Manufacturing:	33.2%
Wholesale and Retail Trade:	16.1%
Service Industries:	12.4%
Government:	11.1%

Unemployment (1984): 8.7%
5 year average: 9.5%

Wealth Statistics
Per capita income: $10,231
% change 1980-1984: +34.4%
Families below poverty level: N.A.

General Fund (G.F.) Balance

1981	$ 23,100,000
1982	$ 31,800,00
1983	$ 40,500,000
1984	$ 163,700,000

1984 G.F. Balance as % of G.F. revenues: 5.0%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net G.O. Debt	524.3	$111	1.0%	.5%

TEXAS

Moody's: Aaa **SLB:** Mid AAA **S&P:** AAA
Trend: Stable

To summarize the past performance and future outlook for the State of Texas, it can be largely broken down to the areas of oil and gas. These two industries directly or indirectly account for approximately 20% of tax revenues in the State. Texas has been moving towards a more diversified economy. General Fund cash balance moved from a surplus of over a billion dollars in 1983 to an ending balance of $743 million in 1984, and has declined further in 1985 to a level of $232.5 million. Oil is currently priced at approximately $27 per barrel and is forecasted to drop to $24.15 by 1987. Every $1 drop in the price translates into a loss of tax revenue in the area of $100 million. Projections of many economists see a price for oil of under $20 per barrel within the next few years.

The 1984-1985 biennium should show a growth in revenues over the previous biennium, oil price weakness not withstanding, due in part to an increase in the State sales tax. Other tax legislation will effect an increase in motor fuels tax and motor vehicle sales tax. However, given a continued weakness in the price of oil, the future revenue stream remains cloudy. Even with the State cutting expenditures, the key is to find a replacement for lost oil and gas revenues. While implementation of an income tax is probably not a likely occurrence, other tax sources, such as a value added tax, could raise significant funds. The State has many positive areas, among them a high amount of self supporting general obligation debt, low debt ratios, low unemployment, high personal income, a diversifying economy and conservative financial operations. Although negative factors such as the continued and expected declines in the General Fund Cash balance, continued weakness in oil prices and lack of any strong revenue increasing legislation indicate a negative performance trend, the positive aspects indicate that the rating of Texas will remain stable.

Population (1984): 15,221,000
% change 1980-1984: +6.9%

Employment Distribution (1984)

Manufacturing:	15.6%
Wholesale and Retail Trade:	25.1%
Service Industries:	19.4%
Government:	16.9%

Unemployment (1984): 5.9%
5 year average: 6.3%

Wealth Statistics
Per capita income: $11,419
% change 1980-1984: +40.4%
Families below poverty level: 14.7%

General Fund (G.F.) Balance

1981	$ 676,291,000
1982	$ 1,331,215,000
1983	$ 1,007,085,000
1984	$ 668,154,000

1984 G.F. Balance as % of G.F. revenues: 12.9%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	1065.3	$67	.6%	.2%

UTAH

Moody's: Aaa **SLB:** Lower AAA **S & P:** AAA
Trend: Stable

1984 was an excellent year for Utah, with the General Fund balance expanding to a level of $159.6 million. Revenues, which were right on budgeted levels, were aided by increases in the State sales tax and the corporate income tax. Sales tax revenues increased 34.9%, with corporate tax revenues up 40.6%. Expenditures were approximately $40 million below budgeted levels.

The economy of Utah is concentrated outside of the manufacturing sector, with employment gains having been particularly strong in government and services. This helps to insulate the State somewhat from cyclical swings in the economy, and has helped to keep unemployment levels below the national average. Per capita income is below the national average, but population growth has been very strong. Debt levels, which had been on the rise have declined, and are below average. Overall the diversified economy, growing population base, low debt with rapid retirement, consistent General Fund balances and a willingness to raise the tax base help to support Utah's rating.

Population (1984): 1,672,000
% change 1980-1984: +13.6%

Employment Distribution

Manufacturing:	15.7%
Wholesale and Retail Trade:	23.4%
Service Industries:	20.2%
Government:	21.8%

Unemployment (1984): 8.0%
5 year average: 7.6%

Wealth Statistics
Per capita income: $9,100
% change 1980-1984: +18.8%
Families below poverty level: 10.3%

General Fund (G.F.) Balance

1981	$ 42,600,000
1982	$ 109,300,000
1983	$ 64,800,000
1984	$ 159,623,000

1984 G.F. Balance as % of G.F. revenues: 13.9%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	292.2	$ 177	2.0%	.6%

VERMONT

Moody's: Aa **SLB:** Mid AA **S & P:** NR
Trend: Downward

In fiscal 1984, total General Fund revenues for the State finished $8.7 million behind projected levels, with $5 million being added to the accumulated General Fund deficit. This weakness in receipts comes amid a series of tax rate increases, with personal income tax revenues and corporate income tax revenues hurt by Federal tax law changes. Expenditure limitations and tax rate increases were implemented in order to eliminate the deficit, which ended 1984 at $35 million.

The economy of Vermont is concentrated in the areas of manufacturing, tourism and agriculture, and has become less sensitive to the cyclical swings of the economy. Wealth levels are low compared to the national average, and very low compared to New England states. Population has shown some growth, with unemployment at low levels. The debt ratios of the State are high, but are expected to decrease at a fairly steady rate. While the implementation of a plan to erase the State deficit is a very positive step, Vermont remains extremely vulnerable to Federal tax law changes and economic slowdown. The uncertainty created by this situation causes us to view the State as a Mid AA with a downward trend.

Population (1984): 530,000
% change 1980-1984: +3.7%

Employment Distribution

Manufacturing:	23.2%
Wholesale and Retail Trade:	20.9%
Service Industries:	24.7%
Government:	18.2%

Unemployment (1984): 5.2%
5 year average: 6.22%

Wealth Statistics
Per capita income: $10,692
% change 1980-1984: +36.9%
Families below poverty level: 12.1%

General Fund (G.F.) Balance

1981	$ (1,200,000)
1982	$ (100,000)
1983	$ (30,800,000)
1984	$ (35,800,000)

1984 G.F. Balance as % of G.F. revenues: (10.7%)

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	273.9	$ 515.79	4.8%	1.6%

VIRGINIA

Moody's: Aaa **SLB:** Mid AAA **S&P:** AAA
Trend: Stable

In fiscal 1984, Virginia achieved substantial gains in its General Fund balance, moving from a 1983 ending balance of $101.9 million to an '84 ending balance of $208 million. The improvement was due to the strong performance of the corporate income tax (+33%), sales tax (+15.3%) and personal income tax revenues (+14.1%), while expenditure increases were kept at a reasonable level (+7.9%).

The State possesses a triple A by both rating services, putting it into an elite group of eight states. Virginia is generally considered one of the best G.O. credits around. The State has not funded cash-flow deficiencies with short-term borrowing since 1969, debt ratios have been stable and low, no major tax increases have been implemented, and fiscal management has been strong. All of these factors combine with above average wealth levels, low unemployment, a growing population base and a diversified economy which has seen some shift away from the manufacturing sector, and includes mineral production, agriculture and tourism. We view the State as a Mid AAA with a stable trend.

Population (1984): 5,636,000
% change 1980-1984: +5.4%

Employment Distribution (1984)

Manufacturing:	18.7%
Wholesale and Retail Trade:	21.4%
Service Industries:	20.1%
Government:	23.5%

Unemployment (1984): 5.0%
5 year average: 5.98%

Wealth Statistics
Per capita income: $12,116
% change 1980-1984: +28.8%
Families below poverty level: 11.8%

General Fund (G.F.) Balance

1981	$ 300,200,000
1982	$ 213,200,000
1983	$ 101,900,000
1984	$ 208,000,000

1984 G.F. Balance as % of G.F. revenues: 6.1%
Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	475.2	$84	.7%	.7%

WASHINGTON

Moody's: A **SLB:** Lower AA **S & P:** AA-
Trend: Downward

The 1984 fiscal year was marked by the austerity budget instituted by Washington, with total expenditures declining 1.7%. Combined with the increase in revenues of 6.1%, the General Fund balance moved from a level of $79.8 million to $66.5 million. One problem with the revenue stream of the State is the heavy reliance on sales tax revenues in the absence of any personal income taxes. In 1983 the sales tax rate was increased from 5.4% to 6.5%, along with increases in motor vehicle, tobacco and liquor sales taxes. Tax revenue projections for the current year have been sharply revised downward, with a General Fund balance of $0 expected by the end of the biennium. Passage of Initiative 464 (sales tax based on the value of an item minus trade-in value) should not have a large impact on State operations, but its effect will be monitored.

An economy reliant on cyclical and interest sensitive industries is the basis of the State's problems, with concentration primarily in forest products and aerospace. Wealth levels are above the national average but unemployment is consistently high, debt ratios are high, and short-term borrowing to cover cash flow deficits has become the norm. Talks are currently underway concerning potential tax increases. The negatives of Washington greatly outweigh the positive aspect of fiscal responsibility, and cause us to view the State as a Lower AA with a downward trend.

Population (1984): 4,349,000
% change 1980-1984: +5.2%

Employment Distribution

Manufacturing:	17.5%
Wholesale and Retail Trade:	24.8%
Service Industries:	20.8%
Government:	20.6%

Unemployment (1984): 9.5%
5 year average: 9.78%

Wealth Statistics
Per capita income: $12,728
% change 1980-1984: +22.9%
Families below poverty level: 9.8%

General Fund (G.F.) Balance

1981	$ 10,500,000
1982	$ (149,500,000)
1983	$ 79,800,000
1984	$ 66,520,000

1984 G.F. Balance as % of G.F. revenues: 5.1%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	2510.3	$574	4.4%	1.6%

WEST VIRGINIA

Moody's: A1 **SLB:** Upper A **S&P:** AA-
Trend: Stable

During the 1984 fiscal year, General Fund receipts expanded over expenditures, allowing the General Fund balance to increase to a level of $142 million. The largest components of revenues are business and occupation taxes, sales taxes and income taxes. The major expenditure of the State is in the area of education. The method of taxing business has been redefined.

The West Virginia economy is extremely reliant on the coal industry, which has contributed to the above average unemployment levels as well as to the low levels of per capita wealth. There have recently been major job losses in the areas of construction, mining and manufacturing, which played a role in the S & P rating downgrade to AA-. Per capita debt, which is above average, has remained stable since the last report. Overall, the economic reliance on an industry which is vulnerable to the business cycle together with the presence of adequate fund balances cause us to view the State as an Upper A credit with a stable trend.

Population (1984): 1,953,000
% change 1980-1984: +2.8

Employment Distribution (1984)

Manufacturing:	16.2%
Wholesale and Retail Trade:	21.1%
Service Industries:	17.0%
Government:	20.9%

Unemployment (1984): 11.0%
5 year average: 10.2%

Wealth Statistics
Per capita income: $8,997
% change 1980-1984: +30.4%
Families below poverty level: N.A.

General Fund (G.F.) Balance

1981	$ 42,200,000
1982	$ 78,200,000
1983	$ 62,000,000
1984	$ 142,000,000

1984 G.F. Balance as % of G.F. revenues: 9.9%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	773.3	$396	4.3%	1.6%

WISCONSIN

Moody's: Aa **SLB:** Mid AA **S&P:** AA
Trend: Stable

The State of Wisconsin performed well above expectations in the '83-'84 fiscal year, moving from a General Fund deficit balance of close to $200 million, to a surplus of $360 million. The economic recovery hit the State in a big way, with income and sales taxes showing good gains, increasing 25.8% and 13.7% respectively. With total revenues increasing 6.4%, expenditures were kept at a 3.5% rise.

The manufacturing sector of the State, particularly durable goods has made it sensitive to economic downturns. The economy has been diversifying with manufacturing, still dominant, losing some ground while the service sector has been gaining. Wisconsin has been having trouble with its Veterans Bond program, but a restructuring has hopefully alleviated the problem. Per capita income figures are good, with unemployment very close to the national average. The debt ratios of the State are moderate, with a demonstrated willingness having been shown to increase the revenue stream while controlling expenses. All of the factors combine to place Wisconsin as a Mid AA with a stable trend.

Population (1984): 4,766,000
% change 1980-1984: +1.3%

Employment Distribution (1984)

Manufacturing:	26.1%
Wholesale and Retail Trade:	23.1%
Service Industries:	20.9%
Government:	17.0%

Unemployment (1984): 7.7%
5 year average: 8.76%

Wealth Statistics
Per capita income: $11,352
% change 1980-1984: +20.6%
Families below poverty level: 8.7%

General Fund (G.F.) Balance

1981	$ 14,065,000
1982	$ 26,485,000
1983	$ (182,100,000)
1984	$ 360,000,000

1984 G.F. Balance as % of G.F. revenues: 3.4%

Debt Ratios

	Outstanding (000,000)	Per Capita	% of Personal Income	% of Full Market Value
Net tax supported debt	1543.9	$324	3.4%	1.3%

Additional information available upon request.

The information herein has been obtained from sources which we believe to be reliable, but we do not guarantee its accuracy or completeness. Shearson Lehman Brothers Inc., its affiliated companies, or its shareholders may have a position in the securities discussed herein. ©1986 Shearson Lehman Brothers Inc.

STATE OF ALASKA

A Discussion of Lease Purchase Financing

SHEARSON LEHMAN BROTHERS

February 13, 1986

TABLE OF CONTENTS

Lease Purchase Financing

- What is lease purchase financing?
- How is the credit of the bond issue determined?
- How can municipal bond insurance or a letter of credit improve the security and lower interest costs?
- What other types of bonds can be issued besides traditional fixed-rate, long-term bonds?
- How can arbitrage on unexpended construction funds and on reserve funds lower the net cost?
- Can an issuer sell bonds before a project has been finalized or make lease payments before the project is completed?
- What services are provided by a senior managing investment banker?
- How quickly can lease purchase bonds be issued and what is the procedure?

Appendices

- Impact of the Tax Reform Proposal
- Recent case studies

1. What is tax-exempt lease purchase financing?

Lease purchase financing is an attractive alternative to general obligation financing and is being used extensively by state and local government across the country. Lease purchase revenue bonds differ most from general obligation bonds in their security features. General obligation bonds are secured by the full faith and credit of the government which issues them. The government's taxing powers are thus called upon to make the debt service payments on the bonds. Lease purchase revenue bonds, however, are secured by lease rental payments which flow from the government which uses the facility to the entity which issues the bonds. This entity acts as nominal owner and lessor of the facility, and the lease payments flow through the lessor to the bondholders. Thus, the lease payments, which result from annual or bi-annual appropriations by the government which uses the facility, are the security for lease purchase revenue bonds.

Although called a lease, the lease purchase agreement actually represents an installment sale arrangement which provides for the financing of a capital facility such as a state office building, prisons, courthouses or municipal parking facilities. Payments are made to the lessor over a period of time by the lessee or buyer (any government body, including a state, county or agency), while investors in the lease purchase revenue bonds provide the funds for construction. Lease payments must be divided into principal and interest components for the interest portion to be considered tax-exempt income by the parties providing the financing. To be eligible for tax-exempt financing, a lease purchase contract must meet requirements for tax exemption under Section 103 of the Internal Revenue Code. In brief, the lessee and final owner must be a public entity financing facilities in order to further the public interest.

The Lessee and the Lessor -- The government body, as lessee, enters into a lease purchase agreement with another municipal entity (either another government or a duly empowered body such as a public building authority or the Division of Bond Finance) or with a non-profit, IRS Ruling 63-20 corporation* acting as lessor. For this purpose the lessor is often simply an entity created by the government body for the purpose of issuing bonds on its behalf. In some cases the issuing entity is also empowered to operate and maintain the facilities under agreements with government departments. The financing can also be structured through a municipal leasing corporation or bank trustee which would act as nominal lessor and hold title to the facility, while tax exempt certificates of participation evidencing proportional interests in the lease payments are sold by an investment bank in the same manner as municipal bonds are sold.

---

* Corporation organized under the general non-profit corporation ("NPC") law of a state of county are deemed to be issuing bonds on behalf of a political subdivision when following the rules set forth in Revenue Ruling 63-20 of the IRS. Such entities can be created quickly by a state or local government or an existing NPC's charter could be changed for this purpose.

Procedure for Lease Purchase Financing -- Before construction of the facility began, the state or local government would enter into a lease purchase agreement with a lessor providing for a lease payments by the government body. An investment bank, acting as underwriter, would purchase the bonds from the issuer and sell them to investors whose investments would be secured by the lease payments due from the state or local government under the lease. The lease payments would be assigned to a trustee bank and would be paid to bondholders; the interest portion would be exempt from federal and state income taxes.

The same trustee would hold and disburse the proceeds from the sale of the bonds according to a construction schedule. Prior to drawdown, balances in the construction fund would be invested in taxable securities in order to produce interest earnings to help minimize the net cost of constructing the facility. At the end of the term of the lease, title to the facility would pass to the lessee (i.e., the state or local government). This contrasts with financings involving the private ownership of the facility and the capture of depreciation benefits, which would require a payment at the fair market value of the facility if the government wished to acquire the building.

Construction Risk -- Pursuant to the lease, lease payments from the government body could commence upon issuance of the bonds and not be contingent upon completion of the facility. In this scenario, construction risk is borne by the lessee as would be the case for general obligation financing. Such an arrangement accomodates bondholders who would expect timely and full payment of interest and principal due on the bonds. In general, investors in tax-exempt instruments are risk averse and are not willing to invest in a project when repayment of their investment is conditioned upon successful completion of construction and the resulting commencement of lease payments. Similarly, the lessor is typically not able to bear construction or completion risk in the financing, especially when it is an entity simply created to issue debt securities on behalf of the government body.

Successful lease purchase financing therefore requires the government body either to make lease payments before project completion or to obtain insurance against construction and completion risk by a third party, so that neither the government body, the bondholders nor the lessor bears this risk. A contractor, perhaps with the assistance of a financial institution, could cover any construction cost overruns and could also provide financing in the event of a delay (i.e., contracting for a guaranteed maximum price and a guaranteed completion date with per diem liquidated damages equal to the financing cost). Some extraordinary events are difficult to insure, for example, problems caused by natural disasters, war, breakdowns in the transportation system and strikes. However, adequate insurance of construction and completion risk can be obtained, if desired, especially in light of the straightforward nature of public building construction and the lack of technological complexity. The cost of insurance coverage (construction bonding) is usually passed on in a fixed price construction contract. Alternatively, the issuer might self-insure against the risks or the underwriter can sometimes assist the issuer in obtaining a bank letter of credit or municipal bond insurance.

Ownership of the Facility -- If the state or local government were to use lease purchase financing, title to the facility would usually be held in trust by a trustee bank for the benefit of the bondholders throughout the term of the lease in order to protect their investment. Together with call provisions on the bonds, the government body could have the option to purchase the facility prior to the termination of the lease for a payment equal to the outstanding principal component of the lease payments plus a premium. In the event that such an option were not exercised, title would pass to the lessee and the lessee would own the facility free and clear at the end of the term of the lease. For federal and state income tax purposes, a lease purchase transaction would be considered a conditional sale implying ownership by the government body. For this reason, no tax benefits such as depreciation or investment tax credit would be available to any private tax-paying entities involved in the financing. Conversely, the property would not be subject to real estate taxes, as the government body is the user.

Non-Appropriation Clause -- The lease and the subsequent financing provided by the lessor in most cases is not considered a debt obligation of the government body because the lease would be subject to annual appropriation (in some states such as Michigan and New Jersey, it is not considered to be debt even if there is a contractual obligation to make payments for the entire lease period). For this reason, lease purchase financing is often used in situations where governments are constrained by debt limitations or referendum requirements regarding the issuance of debt. Typical non-appropriation language, which would be included in the lease, would be similar to the following:

> Lessee reasonably believes that funds can be obtained sufficient to make all Lease Payments due during the term of the lease. Lessee hereby convenants that it will do all things lawfully within its power to obtain and maintain funds from which Lease Payments may be made, including making provisions for such payments to the extent necessary in each bi-annual or annual budget submitted for the purpose of obtaining funding, using its bona fide best efforts to have such portion of the budget approved, and exhausting all available review and appeals in the event such portion of the budget is not approved.
>
> In the event that the Lessee is unable to obtain funding for any renewal term, Lessee shall have the right to terminate this Lease at the conclusion of the then current term of the Lease and shall neither be obligated to make any Lease Payments due beyond the current term, nor to make any concluding payment whatsoever, and this lease shall terminate as to that leased facility. Provided, however, that in the event Lessee does not appropriate such funds, Lessee will use its good faith best efforts to acquire the necessary funding from other agencies or sources. Upon termination as provided for above, Lessor or its agents or assigns should have the right to take possession of the leased facility and Lessee shall be liable to return the leased facility to Lessor in full operational and good working order.

Accounting Treatment of the Lease Obligation -- Because the non-appropriation clause could permit the government body to stop making lease payments without defaulting under the lease, the obligation has often been treated as a current expense and has only been listed in the footnotes to the balance sheet. The National Council on Governmental Accounting's recent Statement 5 on accounting for leases recommends additional accounting disclosure of such obligations, including calculation of the present value of the lease obligation on the municipality's balance sheet. Accounting treatment of governmental lease obligations is expected to be clarified in the near future by the newly Government Accounting Standards Board.

Preservation of General Obligation Debt Capacity -- In most cases the government body's commitment under the lease would be conditioned upon appropriation. In contrast, financing through general obligation bond offerings requires the "full faith and credit" or tax-supported pledge of the government body. For this reason, lease purchase financing can be less of a strain on a state or local government's financial condition because it is, in effect, subordinated as a result of the non-appropriation clause and can preserve general obligation debt capacity for other needed projects. Lease purchase financing can be an attractive way to avoid excessive general obligation borrowing and to allow administrative flexibility under tax-supported debt restrictions.

Essential Use Facility/Bondholder's Security --- In assessing the security of investing in instruments backed by a lease purchase agreement, investors and rating agencies evaluate the possibility of an event of non-appropriation by the lessee. The nature of the facility which is being financed and its importance to the lessee's efforts to discharge its responsibility of providing essential services are pivotal. Lease purchase financing of non-essential public facilities, such as convention centers, is not as well received by investors as bonds backed by lease purchase agreements associated with the financing of more essential facilities. Correctional facilities, for example, represent an extreme in essential use because governments obviously must avoid closing down a correctional facility and releasing prisoners. Investors, for this reason, regard lease purchase financing involving such facilities as representing a strong and attractive credit. To formalize this situation, investors sometimes request the state or local government lessee to provide a letter setting forth the essential nature of the leased property.

Non-Substitution Clause -- Investors traditionally have been comforted by the inclusion of a non-substitution clause in the lease purchase agreement which would preclude the government body from acquiring the same or a similar facility for a period of time in the event of non-appropriation. This can reduce the risk of early termination of the lease for other than the legitimate absence of sufficient funds. Typical non-substitution language would read as follows:

> The Lessee agrees that in the event the Lessee exercise its right to terminate this Lease in accordance with the non-appropriation provisions contained herein, the Lessee will not purchase, lease, or rent other property for the purpose of performing the functions and projects which were to be performed by the leased facility for a period of one year from the date of termination of this lease.

Credit Ratings -- The rating agencies generally rate lease purchase one full grade below the general obligation rating of the lessee. For example, if a state or local government is rated AA, the lease purchase issue would generally be rated A. This rating policy stems from the risk of non-appropriation. Factors which could improve such a rating are: (i) extremely strong security features on the lease including a lengthy lease term, automatic lease renewals, a contractual requirement to make lease payments or a non-substitution clause; (ii) additional security backing (such as insurance or a bank letter of credit) or specific additional revenues pledged toward payment on the bonds; (iii) powerful evidence of the essentiality of the facility; and (iv) clear statutory authority for leasing and historical experience by the lessee in making appropriations for tax-exempt municipal leasing. As described below, the lower rating will usually cost between 1/4 and 3/4 of one percentage point in additional interest compared to the lessee's general obligation bonds. However, this increased coupon rate can be at least partially offset by the earnings on the debt service reserve fund which is only allowed with the lease purchase issue. If the state or local government has the choice for a given project of using either general obligation or lease purchase financing with equal annual payments, the impact of either on the government body's overall credit rating would be the same. When the lease purchase financing can be structured to cost less than general obligation financing, the lease purchase issue would have less of an impact on the government body's debt capacity and thus help to preserve the credit rating.

Cost Comparison -- The nominal interest cost on bonds backed by a "full faith and credit", or general obligation pledge is lower (generally 1/4 to 3/4 of one percentage point) than the interest rate charged for bonds backed by a lease purchase agreement. This differential reflects the added risk which the possibility of non-appropriation introduces into a lease purchase structure. In effect, the state or local government will have created subordinated debt with a slightly higher interest cost in contrast to the senior debt represented by its general obligation bonds. However, by employing a lease purchase structure, the government body can fund out of the bond proceeds a debt service reserve fund and a contingency reserve fund in order to provide reasonably required added security to the bondholders. The debt service reserve fund would cover a full year's lease payments on the facility while the contingency reserve fund could permit the government body to cover the cost of damage to the facility without having to turn to the legislative body for emergency funding. Furthermore, these funds together can be as large as 15% of the total size of the bond issue and can be invested in U.S. Government securities bearing higher, taxable long-term interest rates, thereby producing significant earnings during the life of the issue. The resulting arbitrage earnings generally bring the net cost of lease purchase financing near the cost of general obligation financing. General obligation bonds do not benefit from the arbitrage earnings which debt service reserve and contingency reserve funds provide because, according to tax law, their increased security eliminates the need for such reserve funds.

In addition, if a lease purchase transaction allows a faster receipt of funds and a quicker construction start, a government can avoid significant construction inflation costs and earn additional funds on invested proceeds during the construction period. Similar savings might be obtained if the transaction allows the government to avoid cumbersome construction contracting requirements that add major costs or delays to a project. The comparative costs will thus depend on the respective interest rates, timing, size of reserve funds, reserve fund investment rates and costs of issuance of the general obligation or lease purchase bonds. These will, of course, vary on a case-by-case basis.

Time Required for Implementation -- Legal documents for lease purchase financing are straight-forward and the basic structure is well established. As a result, funds for a facility can generally be obtained within 60 to 90 days of the decision to use lease purchase financing. In many cases, a government can save substantial amounts of money by avoiding construction cost increases during lengthy delays for referendum requirements of administrative procedures often associated with general obligation financing.

2. How is the credit of the bond issue determined?

The credit rating of the bond issue is determined by Moody's Investors Service and Standard & Poor's Corporation, the two major rating agencies upon which investors rely when they purchase bonds in the primary and secondary markets. A more secure credit will receive a higher rating, will be more favorably received in the marketplace, and result in substantially lower interest payments over the life of the bond issue. If the credit of the transaction is weak, it may be advisable to seek credit enhancement in the form of municipal bond insurance or a letter of credit. (Both are discussed at length in the next section.)

In working with the rating agencies and municipal bond insurers, we have been able to assemble the following list of general criteria they seek in municipal leasing transactions:

General Tax-Exempt Municipal Leasing Credit Criteria

- The lease debt should be evaluated with all the other outstanding debt of the issuer on an aggregate basis and on an annual debt service basis.
- The debt should be no longer than the useful life of the asset.
- As a proportion of the operating budget, the lease debt service, along with other debt service, should not exceed 15%.
- The essential nature of the project will be an important determinant of the rating and insurability because it affects the likelihood of the government to budget, appropriate and pay for the lease rentals.
- In certain cases, a feasibility study may be required.
- The documents must provide for legal validity and full insurance protection.
- With new construction projects, interest should be capitalized until the lease is initiated.
- An automatic renewal provision should be included in the lease. Any non-renewal would have to be accompanied by a 60-day notice before the commencement of the new fiscal year.
- A reserve fund is preferred as well as business interruption insurance to serve as additional protection in a period of insufficient funds or during abatement.
- The extent of representation with respect to non-appropriation will be scrutinized to the extent it may or may not be a prelude to an actual or technical event of default.

- The rating agency or bond insurer should have evidence that the trustee's leasehold interest in the property is perfected as security for the bondholder. Insurance levels will have to be judged adequate to cover the operations in the event of damage and destruction, public liability disturbances, and acts of god.

- Self insurance will be acceptable where the issuer has some claims-paying ability in the form of additional back-up blanket or umbrella policies.

- If the project is in a defined earthquake zone, the lease must provide for earthquake insurance, if commercially available, with deductibles that are the accepted standard.

- If the technology of the project is relatively new and innovative there should be some evidence of where this application has been used successfully in other empirical examples.

These criteria are those ideally expected in a tax-exempt purchase transaction. Those items that cannot be present in a given transaction are likely to result in a somewhat lower rating or higher insurance cost.

The following page from the October 22, 1984 edition of Standard & Poor's Creditweek discusses in greater detail the "essentiality" factor in credit analysis of lease purchase debt.

3. How can municipal bond insurance or a letter of credit improve the security and lower interest costs?

Municipal bond insurance provides a third party guarantee of timely payment of principal and interest on a tax-exempt bond issue. The insurance policy is given in exchange for a one time premium paid upon issuance and calculated as a percentage of total principal and interest payments over the life of the bonds. The insurance provides a AAA rating from one or both of the major credit rating agencies which can result in substantial savings after the cost of the insurance is taken into account.

Until a few years ago, tax-exempt leases which depended upon annual appropriations were not considered to be insurable. More recently, because of new entrants into the municipal bond insurance industry and more experience with annual appropriation risk, certain lease purchase transactions with strong security features have been eligible for such insurance. For example, a recent $32 million transaction Shearson Lehman underwrote for a Kentucky Authority achieved nearly $2 million in present value savings by raising the rating from a likely BBB to AAA. A number of past transactions of the Michigan State Building Authority have been insured, largely on the basis of a court-enforceable contractual obligation of the state to make annual appropriations to pay debt service.

Similarly, a letter of credit from a commercial bank provides a guarantee that substitutes the bank's credit for that of the issuer. The letter of credit, however, is provided in exchange for an annual fee expressed as a percentage of the principal amount of the bonds. The letter of credit is usually available for less than the life of a long-term bond issue and would have to be renewed (usually every five years) to remain in affect.

An issuer and its investment banker would first evaluate the potential costs and economic benefits of using either an insurance policy or a letter of credit for a given bond issue. This would be determined based on the interest cost savings of enhancing the credit rating after taking into account the price of the enhancement. The savings would be calculated on a present value basis. In general, a bond issue which would otherwise be rated A or lower will benefit from the use of insurance, while ratings lower than BBB- are not insurable. Next, the availability of such credit enhancement would have to be determined in the marketplace. This will often depend on the legal constraints on the issuer and the degree to which the issuer is willing to comply with the restrictive covenants the insuror or bank may require as prerequisites to an agreement. The investment banker would then negotiate with one or more firms providing credit enhancement to find the most advantageous terms.

4. What other types of bonds can be issued besides traditional long-term, fixed-rate bonds?

Today's financial markets provide issuers of tax-exempt securities many choices in terms of maturity, call provisions, interest rate and payment schedules for the securities they issue. Issuers are no longer limited to the "vanilla", 30-year, fixed-rate transaction, and many have utilized more sophisticated structures. The result is hundreds of thousands of dollars in savings to the issuer, and bond structures which meet the unique needs of each individual issuer. Two of the more popular structures being utilized today are put bonds which pay low, short-term interest rates and capital appreciation bonds, which may pay no interest until their final maturity. Both can be adapted for use with lease purchase revenue bonds.

Put Bonds

Put bonds usually have a variable interest rate which is tied to a short-term interest rate index. They derive their name from the feature that allows investors to put (sell) the bonds back to the issuer at a given time period's notice. The issuer usually has to maintain a line of credit with a major bank to buy any bonds which have been put and cannot be remarketed (resold). There are many types of put bonds, but all are meant to achieve the same result--a lower interest rate for the issuer. The risk associated with these bonds is that short term interest rates many increase to a point where the issuer would have been better off issuing fixed rate debt initially. Furthermore, some issuers are uncomfortable with the uncertainty of periodic fluctuations in the interest rate. However, as this market has matured, many devices have been developed to reduce the risk and uncertainty. These include municipal bond insurance, interest rate caps and interest rate swaps. Variable rate debt used to be considered unavailable for lease purchase transactions because of the difficulties of structuring how to appropriate a lease payment that varies over time. Shearson Lehman pioneered in the structuring of one of the first such floating rate lease transactions for an issue last year for the County of Los Angeles. This transaction is described on the following page. The Appendix section contains an article entitled "Risks and Rewards of Short Term Financing Techniques" which discusses variable rate debt issuance in greater detail.

Capital Appreciation Bonds

Capital appreciation bonds (CABs) are similar to zero coupon bonds which are bought at a deep discount and do not have any current interest payments. The interest payments are instead compounded at the yield to maturity on the bonds and are all paid on the retirement date of the bonds. As an example, an investor might pay $185 for a thirty-year CAB and receive $5,000 at the end of the thirty-year period. The par amount of CABs is considered to be the amount of the original proceeds ($185 in this example), as opposed to zero coupon bonds. Thus CABs actually describe the amount of money the issuer can expect to receive. This avoids the "sticker shock" an issuer experiences from issuing a par amount of bonds far greater than the proceeds he requires. Because CABs accelerate the payment of principal and have experienced a great deal of demand in the marketplace, their use can reduce overall debt service for many different types of issues.

The Bond Buyer

The Authority on Municipal Bonds Since 1891

Vol. 268 No. 26905 New York, N.Y. Friday, June 22, 1984

Jail Issue Uses Lease-Purchase Backing To Take Advantage of a Floating Rate

By Leslie Eaton

Los Angeles County has awarded an $18.4 million issue that the underwriter says may be the first to allow a municipality using lease-purchase backing to take advantage of a daily floating rate.

Shearson Lehman/American Express Inc., which developed the technique, expects it to become popular among the many issuers that use lease-purchase projects, including convention centers and parking garages, according to John W. Gillespie Jr., a correctional facilities finance specialist at the firm. Shearson Lehman has started a new program to provide financing for jails and prisons.

The award, which was made Tuesday, was for one of the first innovative financings for jail and prison projects, for which $4 billion to $6 billion in financing is now being planned by municipalities around the country, Mr. Gillespie said. The bonds have a put feature that allows holders to sell them back daily to Shearson Lehman.

Jails and prisons are generally financed through general obligation debt, although Mr. Gillespie said that in the last few years a number of counties have used lease-purchase financing.

In a lease-purchase financing, a special municipal authority sells bonds that are backed by set rental payments from a local government. The structure is similar to that of industrial development bonds, except that the beneficiary is a municipality, which usually receives title to the project it has been renting when the bonds mature.

One of the difficulties in structuring a lease-purchase-backed issue with a floating rate, Mr. Gillespie said, is that since the rate on the bonds is to be adjusted, the municipality does not know how high to set the rental payment, which covers the interest payments on the bonds. The firm developed two ways to solve that problem, he said.

One method would be to put some of the bond proceeds into a special interest-bearing fund that would be used to cover additional payments if the rate on the bonds rises above the level anticipated by the municipality.

The other method, which was chosen by Los Angeles County, requires the municipality to set the rental payments assuming a high interest rate, and using any excess rental payments to prepay some of the bonds. The county will make rental payments to the authority assuming an interest rate of 12%, although the interest rate it is paying is currently about 5⅞%, said Richard Dixon, Los Angeles County treasurer. The excess should allow the county to retire the debt in about 15 years, although the bonds do not mature until 2014.

"We got two advantages from this structure that are related to each other: a very good rate and, associated with that, the economic savings from being able to retire our debt relatively early [and] lower our total debt service," Mr. Dixon said. The county's alternative, he added, would have been to sell 20-year fixed-rate lease-purchase bonds with a net interest cost of about 10%.

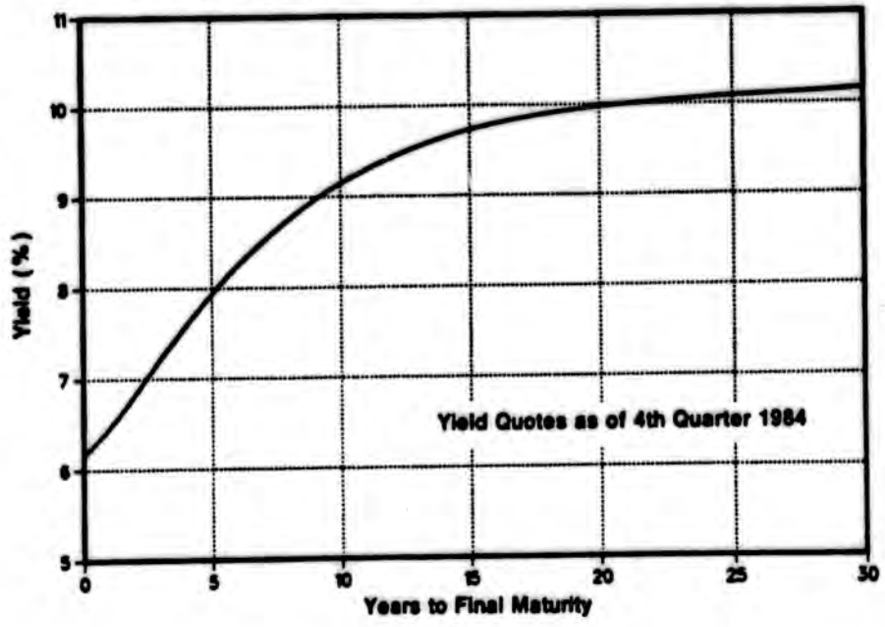
Other municipalities are likely to follow the county's lead in using that new structure, Mr. Dixon said, adding, "I know of one other city that almost stood at the end of the Xerox machine to get copies of our documents."

Reprinted by permission of The Bond Buyer, 1984.

5. How can arbitrage on unexpended construction funds and on reserve funds lower the net cost?

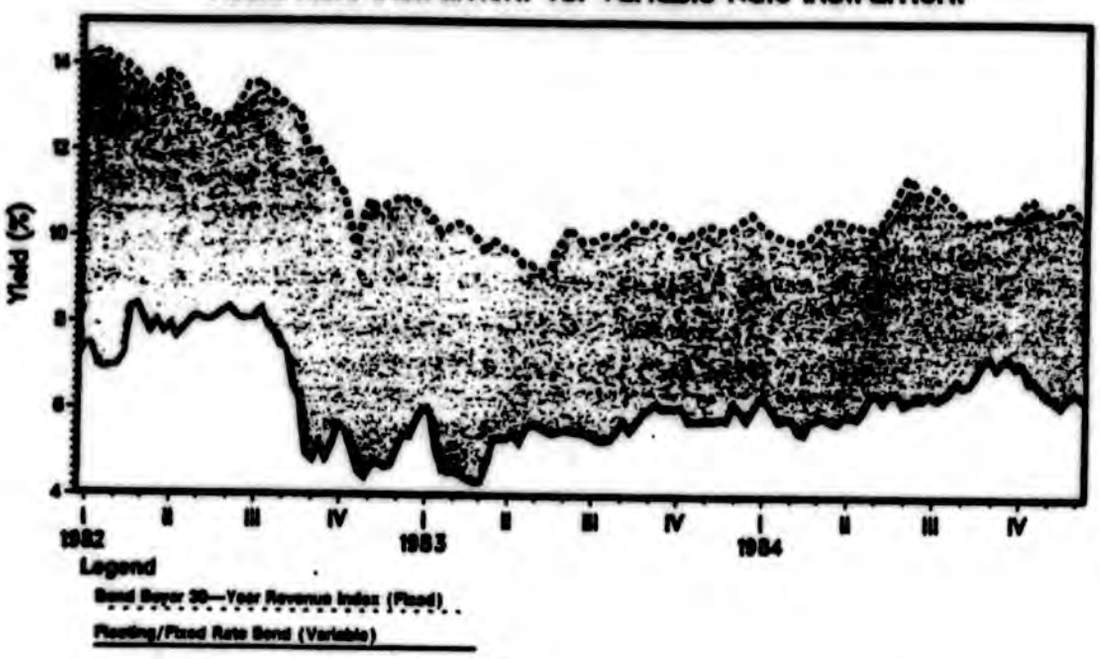
State and local governments can achieve further cost savings by capital facilities with short-term debt during the construction period or with the use of variable rate securities. Because investors are more certain about inflation in the short-term than in the long-term, they are prepared to charge less interest for use of their money over a shorter period of time. The following chart shows how interest rates demanded by investors change depending on the term of the bond issue:

Interest Rate Yield Curve for Typical AA
Criminal Justice Facility Lease Purchase Revenue Issue



Investors are also willing to charge less interest for the use of their money in the short-term if the issuing governmental body is prepared to cover some of the risk associated with interest rate volatility. For state or local governments with good revenue-raising ability, a variable rate bond can be structured to provide investors with variable interest rates based on fluctuations in the market for similar bonds. Shearson Lehman recently sold an $18.4 million variable rate issue as the first portion of the County of Los Angeles' Jail Expansion Program. This lease purchase transaction involves bonds that offer a variable interest rate priced on a daily basis and entitle the County to convert the outstanding debt to a fixed long-term rate whenever there is a cost advantage to doing so. This issue obtained an initial interest cost of 5 7/8%. The following graph shows the difference in recent interest costs between variable rate and fixed rate debt:

Comparative Interest Rates
Fixed Rate Instrument vs. Variable Rate Instrument



Shearson Lehman is a major player in the short-term and variable rate tax-exempt markets and can tailor a program for your specific needs once the decision to finance has been made. Below is a brief description of the more popular financing instruments.

Variable Rate Demand Instruments

- short- or long-term maturity: from several months to 30 years
- optional put for redemption by investor
- may be callable by issuer
- low, short-term interest rate: fluctuates weekly, monthly or at some other set period in a band around a tax-exempt commercial paper index
- requires a bank or other committed source of stand-by liquidity support in the event investors demand principal and interest payments on a repricing date.

Floating/Fixed Rate Instruments

- long-term maturity: up to 30-40 years
- issuer has option to fix the rate: interest rate floats at a low, short-term rate until (optional) conversion to a fixed interest rate
- optional put for redemption by investor during variable rate period
- may be callable by issuer during variable rate period and beyond
- requires committed bank or other source of liquidity during variable rate period

Fixed-Rate Construction Notes

- o short-term maturity matches the construction period
- o ability to lock in low, short-term interest rate
- o permits much higher reinvestment earnings on unexpended portion of the Consrtruction Fund, therefore reducing the required bond size
- o may be secured by Construction Fund
- o allows long-term issuance after project completion

6. Can an issuer sell bonds before a project has been finalized or make lease payments before the project is completed?

In general, an issuer is able to wait until a construction project has been bid before it is necessary to obtain funds through a lease purchase bond issue. In some cases, in fact, it is a legal requirement that such bids and all construction costs be finalized to a bond issue so that the fair market rental value of the facility can be determined by an appraiser.

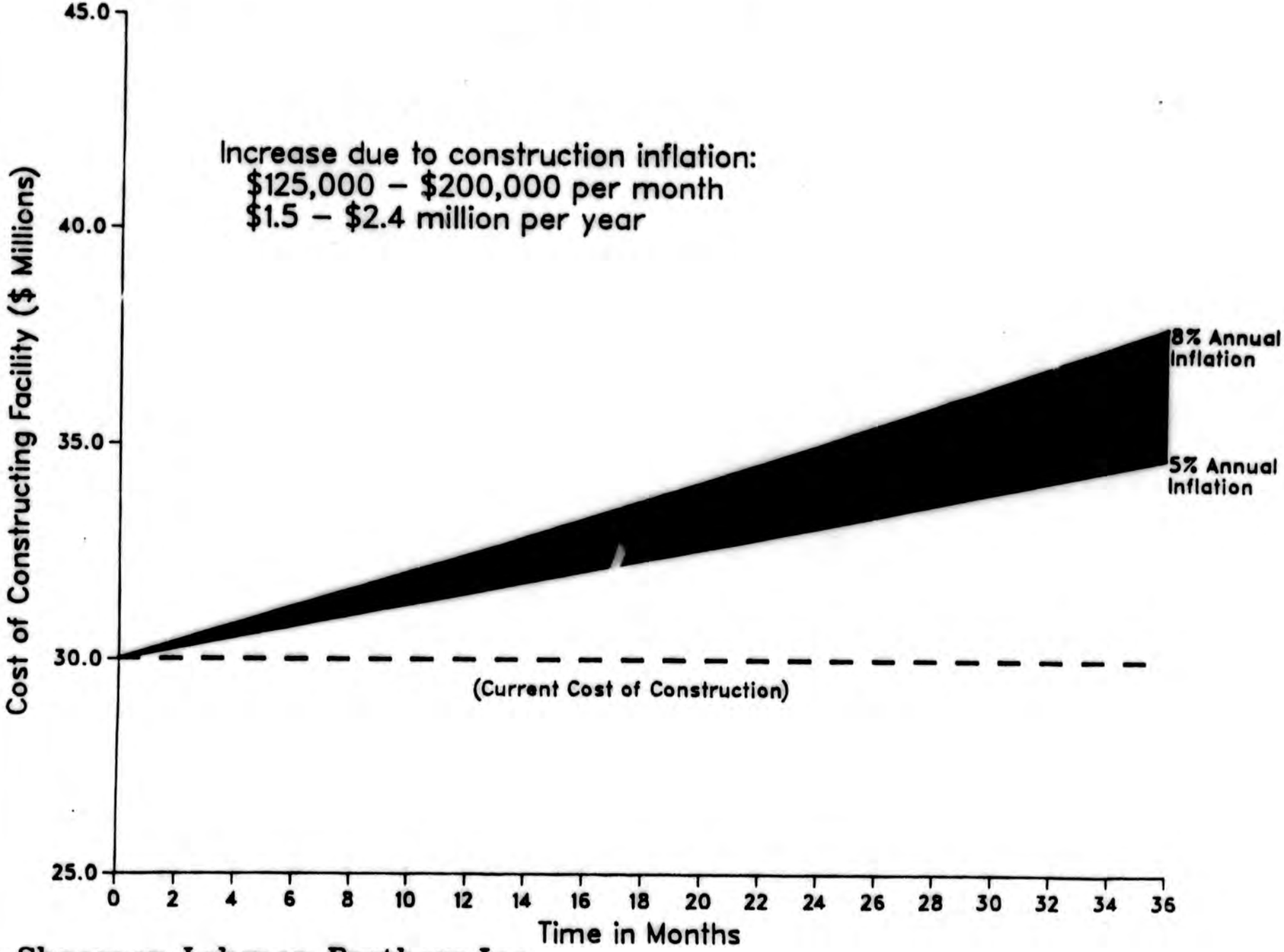
It is often prudent for the issuer to lock in lease purchase costs in advance with so-called Guaranteed Maximum Price and Guaranteed Date of Completion construction contracts. In such cases, the contractor is responsible for any cost overruns not resulting from change orders by the issuer and must make penalty payments ("liquidated damages") for any period of construction running beyond the agreed date of delivery. In such cases, the issuer knows in advance the amount of financing required.

In a few cases, however, it is economically advantageous to complete the financing before a project's full costs are finalized. For example, it can often help to increase interest earnings on unexpended construction funds by issuing earlier. By this means, the average maturity of the U.S. government securities in the construction fund can be longer and, in most instances, will bear higher rates of interest. Occasionally, an issuer will need substantial funds for such expenses as land acquisition, site preparation, architectural or engineering services or other development costs before it is possible to obtain final construction cost figures. Finally, a project may be able to be included as part of a larger package of projects in a bond issue even though it is not yet finalized. The issuer thus achieves cost of issuance savings by not waiting for a later separate issue.

Unless the authorizing statute or bond indenture specifically forbids the practice, it is usually possible to allow for completion bonds should the original bond issue not provide sufficient funds to finish the project. In projects involving extremely lengthy construction periods, uncertain final costs or a very large expense, it is often better to issue in two or more series of bond issues.

A similar issue arises in the question of whether the lessee can begin to make payments for the facility prior to the completion of construction. On the one hand, it makes excellent economic sense to do so -- the cost of capitalizing interest payments (issuing additional bonds to cover interest during construction) can add millions of dollars to the cost of even a small project. On the other hand, the practice would seem to violate the structure of the lease transaction if a government were, in effect, paying for the use of a building it was not yet able to occupy. As a result, the general practice has been to capitalize interest during the construction period and not to make payments from appropriations until the facility has been accepted and occupied by the lessee. The concept extends to periods in which the facility is rendered unoccupiable for whatever reason and the lessee stops making lease payments until the facility is re-occupied. Protection for the bondholders against this contingency usually requires rental interruption insurance. In cases where lease payments have been made prior to occupancy, they have sometimes been characterized as installment payments toward acquisition of the building or a lease payments on the portion of the facility that has been completed. Savings resulting from avoiding the need to capitalize interest can be significant and thus the legal situation regarding such avoidance should be explored.

COST OF DELAYING A $30 MILLION PROJECT



Shearson Lehman Brothers Inc

7. How can arbitrage on unexpended construction funds and on reserve funds lower the net cost to the state?

Arbitrage is simply the difference between the investment rate on the issuer's unexpended funds and the interest cost on the issuer's bonds. The issuer, of course, hopes to be able to invest unexpended funds at a rate higher than what he must pay the bondholders for the use of their money. In this case, the issuer benefits from "positive arbitrage". When the interest rate on the bonds is higher than the rate available on unexpended funds, the issuer loses, suffering from "negative arbitrage".

The two basic sources of potential arbitrage are the construction fund and the debt service reserve fund. If there is a capitalized interest fund, arbitrage may be earned on it in the same manner as on the construction fund.

In a project financing most of the proceeds of the bond issue are deposited with a trustee bank into the construction fund. Because draws are from the fund over time, the unexpended portion of the fund should be invested, usually in short-term government securities such as Treasury bills. This means that the original par amount of bonds issued can be reduced by the amount of projected investment earnings on the construction fund. This technique is commonly referred to as "net-funding" the construction fund. When the interest rates on short-term Treasury securities is high, it may be advantageous for the issuer to issue bonds before a project has been finalized in order to maximize the arbitrage on the construction fund. IRS regulations require that some monies be drawn from the construction fund within six months of the bond issue for "public-purpose" projects.

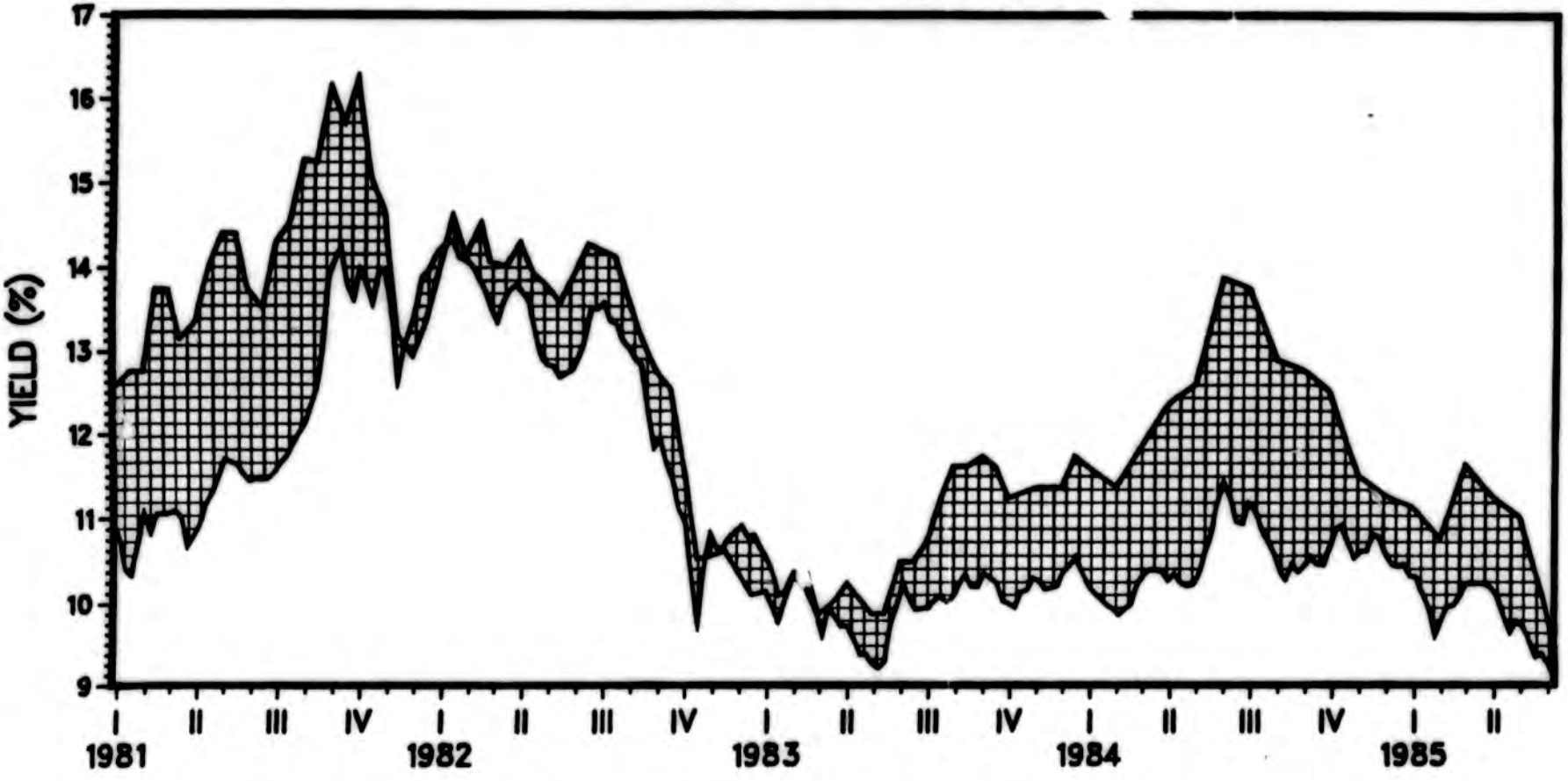
In contrast to the construction fund, which will be totally expended in the first few years of a bond program, the debt service reserve fund must be in place for the life of the bond issue to provide additional security to the bondholders. This fund is usually invested in longer-term government securities, which tend to bear a higher interest rate. Because the debt service reserve fund is outstanding for the life of the bond issue, the investment earnings on it are used to reduce the annual debt service payments. This reduction can be passed through in the form of lower annual rental payments.

The chart on the following page models arbitrage on a debt service reserve fund over the past five years. The Bond Buyer Revenue Index proxies for the interest rate on the bonds, and the five-year Treasury-note yield is the assumed investment rate on the debt service reserve fund. A variable rate issue could substantially increase this spread between the interest rates on the bonds and the invested funds.

Such arbitrage earnings may not be available after this year if the Reagan Administration's tax proposals are enacted into law. The material in the Appendix on the proposals affecting municipal bonds should be examined in this regard. Issuers may want to accelerate the financing of any projects that it can which would be harmed by such a provision and thus preserve the benefits of arbitrage profits this year.

HISTORICAL ARBITRAGE ON DEBT SERVICE RESERVE FUND

Spread Between Cost of Funds and
Investment Rate on Reserve Fund



Legend

5 Year Treasury Note

Bond Buyer Revenue Index (Cost of Funds)

Shearson Lehman Brothers Inc

8. What services are provided by a senior managing investment banker?

The key to a successful marketing program is the effective coordination of the successive stages of the financing from the earliest phases of planning through the management of the syndicate which markets the bonds. The following list of services has been compiled to show what Shearson Lehman typically provides in its role as senior managing investment banker for its lease purchase issuers and how these services relate to each other. Despite the sequential appearance of the list, the tasks will invariably overlap as a result of the need to accommodate the varying time schedules of the parties to the financing. The extent of the services we provide is limited only by the needs of the financing.

Services performed during the development of the program:

- Work with the issuer to develop a master facilities plan which is consistent with the issuer's anticipated needs;
- Assist the issuer in evaluating its plan for the projects by facilitating communications with Shearson Lehman clients and consultants who have dealt with similar projects;
- Assist the issuer in the analysis of financing alternatives through the use of cash flow projections based on various interest rate scenarios and other assumptions regarding size, timing and reinvestment of funds for the program;
- Review documentation regarding the issuer's outstanding and existing programs to prepare legal and quantitative analyses to assess the merits of various financing scenarios and the refunding of any previous debt; and
- Assist the issuer in establishing its role as the lessor for the proposed lease purchase financings.

Services performed during the development of the financing plan:

- Establish a list of duties of all parties in each financing with a projected schedule of events and dates leading up to the issuance of the securities;
- Provide the issuer with recommendations regarding the timing, pricing and sizing of the issue in view of prevailing market conditions;
- Develop and recommend specific elements of the structure of the financing, including bond amortization schedules, redemption prices, reserve and contingency funds, covenants and additional provisions as necessary;
- Review financing options with issuer staff based on defined objectives and constraints. Select most appropriate overall financing structure;

- In conjunction with issuer staff, select Trustee; and

- Negotiate with commercial banks to obtain services such as Issuing and Paying Agent and liquidity or credit support as appropriate.

Services performed during the preparation of legal documents:

- Work with the issuer's administrative staff, Counsel, Bond Counsel, Auditors and other advisors in the preparation of all legal instruments, resolutions and other documents required for the completion of each financing;

- Prepare preliminary and final Official Statements describing each financing and incorporating financial data, feasibility studies, descriptions of lending institutions, and legal opinions as required; and

- Coordinate the printing and distribution of the preliminary and final Official Statements, as required for each bond issue, to prospective underwriters and institutional investors.

Services performed during the stage of market development:

- Submit the bond issues to the appropriate rating agencies and work actively in the interest of the issuer to obtain the best possible credit rating;

- Work with Bond Counsel and other advisors and counsel to the issuer on arrangements for the sale of the debt;

- Monitor the condition of the bond market to detect changes which could influence the timing of the sales; and

- Arrange informational meetings at appropriate locations to provide marketing support for the bonds among institutional and retail investors.

Services performed while the bonds are being marketed:

- Continuously monitor market climate to determine the best marketing strategy for the securities and the most advantageous timing for placing them into the market;

- Determine the preliminary pricing of the securities by reviewing the current secondary market yields of bonds which are similar in rating, security, geographic location of issuer, type and other key factors; and

- Commence selling activity and adjust pricing as necessary while maintaining close communication between the issuer and the underwriter to prevent the bonds from becoming unattractive to either the issuer or the investor.

Services performed after the bond sale:

- Prepare a debt service payment schedule as appropriate;

- Prepare a schedule of recommended investment securities for the investment of funds required by the bond indenture and assist with the placement of such funds;
- Serve as Remarketing Agent for the bonds if variable rate securities are used;
- Act as underwriter for bonds if and when a decision is made to convert any variable rate securities to a fixed rate;
- Provide secondary market support for future trading of the securities;
- Continue to advise the issuer's staff of changes which may affect future capital formation and provide consultation and advice as requested, and
- Remain available to assist the issuer with any issues which affect the existing indebtedness or remaining debt capacity.

9. How quickly can the issuer issue bonds and what is the procedure?

A typical lease purchase transaction generally takes 60 to 90 days to complete once operating and administrative decisions have been made and the plans for the new facilities have been finalized. In addition, the rating agencies and bond insurers will need to be educated not only about the specific features of the initial bond issue, but also about the issuer's credit, its structure and the authorizing legislation. The timetable below shows the schedule of activities necessary to complete the financing on a tight time schedule once all relevant facilities-related and administrative decisions have been made.

Activity	Timing
Distribute time schedule and outline of process	Week One
Mail bank solicitation letters, if necessary (Including draft of bank agreements to be used)	Week One
Distribute first draft of: Authorization Resolution Bond Purchase Agreement Issuing and Paying Agent Agreement Trust Indenture Bank Agreement Lease Agreement	Week Two
Selection of Bank Trustee, Issuing and Paying Agent	Week Three
Receive comments on first draft of documents	Week Three
Distribute revised drafts of documents and first draft of Official Statement or Offering Memorandum	Week Four
Submit preliminary documents to the rating agencies	Week Four
Comments on revised drafts	Week Five
Meet with ratings agencies	Week Six
Distribute final drafts of documents and submit package to rating agencies	Week Six
Receive final approval by issuer	Week Six
Receive ratings	Week Seven
Document closing Pricing of Issue Sale of Bonds	Week Eight
Pre-closing Closing	Week Eleven

The following shows how the proceeds of the bond issue are used:

The underwriter takes his fee in the form of a discount -- he buys the bonds at an amount less than the par amount of the bonds. The discount is usually quoted as a percentage of par, e.g. 2.5% or as a dollar price per bond, e.g. $25 (per $1,000 bond).

The monies remaining after the underwriter takes his fee are the proceeds which are generally given to a trustee bank to hold and invest on behalf of the issuer. As specified in the trust indenture, the proceeds are deposited into various funds.

Construction Fund

The construction fund is invested in short-term securities which are scheduled to mature when the construction funds are needed. Both the interest income on this fund and the original fund balance are used to make construction expenditures.

Debt Service Reserve Fund

Most project financings require a reserve fund to provide security to the bondholders in the event that projected revenues are not available to make a debt service payment. In a leasing transaction, the reserve fund provides security against the risk of non-appropriation. The reserve fund is generally equal to the maximum annual debt service payment, although it can be as large as 15% of the bond issue size.

The debt service reserve fund is generally invested by the trustee bank for the life of the bond issue, and the earnings derived from it can be used to reduce debt service payments, and ultimately lease rental payments.

Capitalized Interest Fund

Most project financings do not generate any revenues until construction of the project is complete. In a leasing transaction, often times the lessee is prohibited from making lease payments until the facility is ready for occupancy. In either case, no funds are available to pay interest or principal on the bonds during the construction period. Principal payments can be delayed, but interest payments must be made. Therefore, it is necessary to issue additional bonds, the proceeds of which will make interest payments to the bondholders during the construction period. This fund can also be invested until the monies are needed.

Costs of Issuance Fund

Most often an issuer would like to finance the costs associated with the bond issue along with the project. Thus, additional bonds must be issued to pay costs of issuance, which include bond counsel fees and other expenses.

IMPACT OF TAX REFORM PROPOSAL ON

GENERAL OBLIGATION AND TRADITIONAL REVENUE BONDS

1. "Qualified governmental units" may issue tax-exempt bonds. This is intended to continue existing law. Thus States, political subdivisions and their constituted authorities under existing law are qualified governmental units under the bill. Also possessions of the United States and the District of Columbia.

2. Bill distinguishes between bonds for "essential governmental functions", which are not subject to volume restriction, the alternative minimum tax on individuals and corporations, and many other restrictions, and "non-essential function bonds", which are. The distinction actually is not on the basis of the function financed, but on the involvement of non-governmental persons in the use of proceeds of the bonds. The test: bonds are "non-essential function bonds" if (a) lesser of 10 percent or $10 million of proceeds is used in a trade or business of a person or persons other than a qualified governmental unit or (b) lesser of 5 percent or $5 million of bond proceeds is loaned to such a person or persons.

   A. Use in a trade or business is derived from the trade or business test for industrial development bonds under present law. Security interest test is dropped. Trade or business requirement is in effect dropped: any activity by any entity other than a natural person is a trade or business. Uses by two or more persons are aggregated. Use means use on a basis other than use by general public. Examples discussed in Committee Report, pp. 522-25.

   B. Loans to non-governmental persons is concept derived from consumer loan bonds provision of existing law. Includes substantive loans, despite form (may be finance lease or installment sale) and "deemed" loans: e.g., Committee Report excludes tax-assessment bonds.

3. Non-essential function bonds may nonetheless be tax-exempt as "exempt-facility bonds", "qualified veterans' mortgage bonds", "qualified mortgage bonds", "small-issue bonds", "section 501(c) (3) organization bonds", "qualified student loan bonds" or "qualified redevelopment bonds". "Exempt-facility bonds" may be used to finance airports, docks and wharves, mass commuting facilities, water facilities, solid waste disposal facilities, and qualified multi-family residential rental projects. All must meet public use test. All but multi-family residential rental projects and sewage and solid waste disposal facilities must be governmentally owned under federal income tax concepts (no waiver of tax benefits permitted). "Bad money" rule eliminated: "net proceeds" must go to exempt facility.

   "Functionally related and subordinate property" concept eliminated. Except for airports (excluding cargo storage facilities) and docks and wharves (excluding immediate storage facilities), exempt-facility bonds are subject to the volume cap.

4. "Non-governmental portion" of essential function bonds is also subject to the volume cap to the extent that it exceeds $1 million dollars in any issue. This means a trade or business use by or a loan to a non-governmental person of more than $1 million can render taxable an essential function bond issue.

5. Existing "general" arbitrage restrictions, tightened by the bill, apply to essential function bonds. Minor portion rule eliminated. "Acquired obligations" expanded to include any investment other than bonds exempt under section 103 or real or tangible personal property: e.g., deferred payment (annuity) contract. Rev. Ruls. 80-91, 80-92 codified re "reasonable expectations". Election to forego temporary period eliminated. Temporary periods restricted: Proceeds to be used for acquisition have 30 days. Proceeds to be used for construction have until earliest of (1) 90-percent completion date, (2) date when amount equal to amount of bonds has been spent on the property, and (3) three years after earlier of issuance of bonds or commencement of construction. State of Washington v. Commissioner reversed, so that issuance expenses will not be taken into account in determining yield on bonds.

6. "Additional" (IDB) arbitrage restrictions extended to all bonds (including essential function bonds).

   A. Rebate rules. Essentially, all arbitrage (including temporary period and reserve fund arbitrage) from investment of "gross proceeds" broadly defined), plus all investment income on such arbitrage, must be computed at least annually and at least 90 percent of the "rebate amount" must be paid to the Treasury at least every five years. Thirty days after maturity of last obligation of the issue, 100 percent of cumulative rebate amount must be paid. Exceptions: (1) If gross proceeds are expended within 6 months; (2) Bona fide debt service fund income of less than $100,000 per bond year, subject to election by issuer. Special rules for mortgage subsidy bonds.

   B. Investments in higher-yielding non-purpose investments restricted to 150 percent of bond debt service for the year. Does not apply to temporary period investments.

7. Only essential function bonds may be advance refunded. Unless refunded bonds are retired within 30 days of issuance, refunding bonds are advance refunding bonds.

   For advance refunding purposes, essential function bonds includes bonds issued before effective date of the bill which were not, when issued, IDBs, qualified mortgage bonds, qualified veterans' mortgage bonds, student loan bonds, private loan bonds, bonds to benefit section 501(c)(3) organizations, or comparable non-Code bonds. Advance refundings for essential function bonds are restricted as follows: (1) Original issue may be advance refunded only two times; (2) Unless present value of interest saving exceeds costs of issuance, aggregate amount of refunding bonds may not exceed 250 percent of amount of refunded (i.e., original) bonds; (3) Refunded bonds must be redeemed at earliest date at par or premium of 3 percent or less; (4) Any temporary period for refunding bond proceeds expires 30 days after issuance, and for refunded bonds, upon issuance of refunding bonds; and (5) To extent that non-governmental use of refunded bonds exceeds $1 million, refunding bonds are subject to volume cap.

8. Current refundings are governed by transition rules. With designated exceptions, set forth below, the new rules do not apply to current refundings of "qualified obligations", which means any obligation (other than a refunding obligation) issued before January 1, 1985 if the interest thereon is exempt under section 103 but would be taxable if the obligation were issued after December 31, 1985. The new rules that do apply to such a refunding are:

   A. Unified State volume cap. But see section 145(k) re refundings outside of cap.

   B. Public approval requirement.

   C. Arbitrage.

   D. Early issuance.

   E. Advance refunding.

9. Early issuance rule applies to all bonds, including essential function bonds. Bonds become taxable unless 5 percent of proceeds are spent within 30 days of issuance and all proceeds (other than reasonably required reserve or replacement fund) are spent within 3 years of issuance. IRS ruling can extend these periods.

10. Information reporting requirement is extended to all tax-exempt bonds, including essential function bonds. Secretary can vary information required from that on present forms for IDBs, qualified mortgage bonds, qualified veterans' mortgage bonds and bonds for section 501(c) (3) organizations.

CORRECTIONAL FACILITIES AND PUBLIC BUILDING LEASE FINANCE

Recent Case Studies

Shearson Lehman Brothers truly is a leader and innovator in the lease financing of correctional facilities and other public buildings. Within the Infrastructure Department, two bankers devote nearly 100% of their time to working with state and local governments to find innovative solutions to financing the construction and renovation of prisons, jails and other public buildings.

These two specialists, John W. Gillespie, Jr. and Valerie K. Spitler, are currently assisting the National Institute of Justice with a study of alternative methods of financing correctional facilities. In November and December of 1985 alone Shearson Lehman managed over one-quarter billion dollars in major lease purchase transactions for new state prison facilities in California, Louisiana and Rhode Island. Previously, Mr. Gillespie led the Firm's efforts in structuring the first variable rate, lease purchase certificate of participation transaction for a correctional facility. Miss Spitler and Mr. Gillespie co-structured a transaction for the Commonwealth of Kentucky which utilized not only lease purchase pooled jail financing but also a dedicated revenue stream. This bond issue will finance the construction and renovation of 23 county jails in Kentucky. Last fall Miss Spitler and Mr. Gillespie and other members of the Infrastructure Group successfully completed a $13.5 million private placement financing for the renovation of a school building in Baltimore. The certificates were placed with two institutional investors and all documentation was completed within two weeks. These and other recent transactions are summarized below.

Louisiana Prisons: $155.8 Million Lease Revenue Bonds

Shearson Lehman Brothers served as co-senior managing underwriter for $155,775,000 in lease purchase correctional facilities bonds for the State of Louisiana in December 1985. The bonds were issued through the Louisiana Correctional Facilities Corporation, a new entity created by the legislature in 1985, and will be used to construct three new state prisons and plan two additional facilities. The 20 year bonds carry a multi-mode, variable rate which can be set at a fixed rate at any time selected by the state. Because of threatened restrictions included in the federal tax reform act with an effective date of January 1, 1986, the bonds were sold within six weeks of the underwriter's selection. The state is estimated to save over $15 million in interest costs over the life of the bonds as a result of the variable rate structure and the issuance before year-end.

Rhode Island Prison: $30 Million Lease Purchase Bonds

In November 1985 the State of Rhode Island issued a $71,670,000 lease purchase bond issue, $30 million of which is to construct and equip a new medium security adult correctional facility in the city of Cranston, Rhode Island. A public ballot issue to allow issuance of a general obligation bond for the prison had previously failed. Shearson Lehman Brothers bankers worked with the State Department of Correction and Department of Administration staff for over 10 months on various analyses of the most practical and economical means of financing the facility. Following Shearson Lehman's recommendation, the state issued the bonds through the Rhode Island Public Buildings Authority. Initially, the bonds were going to be issued with a variable rate of interest. However, as result of the improvements in the long term, fixed rate markets during late October and early November, the State and its investment bankers decided to lock in an attractive fixed rate. Shearson Lehman co-managed this financing which was issued on a accelerated schedule to avoid restrictions included in the federal tax reform proposal.

California Prison: $104.4 Million Lease Purchase

The State of California issued $104,400,000 in lease purchase revenue bonds in December 1985 to finance two 500 bed maximum security facilities at the Southern Maximum Security Complex in Tehachapi, California. The project is part of California's $1.4 billion prison construction program and the first to use the lease purchase financing technique authorized by the legislature in its 1984 session. Shearson Lehman Brothers public finance bankers had worked with the California Department of Correction throughout 1984 while they studied financing alternatives and guided the authorizing bill through the State Legislature. Shearson Lehman Corrections Finance Specialist John Gillespie testified on behalf of the legislation and provided assistance in structuring the resulting transaction. The 15-year bonds, for which Shearson Lehman served as co-managing underwriter, were issued through the State Public Works Board and achieved a fixed interest rate of 8.45% in the longest maturity. The State plans to issue at least an additional $195 million in lease purchase bonds already authorized for the prison construction program and may seek legislation for additional lease purchase bonds.

Kentucky Jails: $32.3 Million Revenue Bonds

Shearson Lehman Brothers is proud of the pioneering work it did to structure a unique transaction for the Kentucky Local Correctional Facilities Construction Authority. The Authority was established to aid Kentucky counties with the funding of the construction or renovation of their local jails. At the same time the Authority was established, court costs were raised by $5 (and, by the time of the bond issue, by a total of $10); the earmarked funds are to be used by the Authority. This revenue source, as well as lease payments by some of the counties which needed to borrow from the Authority their share of the capital cost of their facilities, was pledged to paying principal and interest on the bonds.

The bonds were 30-year, fixed rate obligations, rated Aaa/AAA because they were insured by a major bond insurer. The bond insurer required the projected revenue stream to cover debt service on the bonds 1.3 times. Shearson Lehman Brothers structured a "super sinker" term bond which the Authority could redeem early with the revenues remaining after debt service had been paid. Early retirement of this bond will enable the Authority to issue traditional bonds sooner. Shearson Lehman Brothers' exceptional marketing capabilities to both institutional and retail obtained a very favorable interest rate on the "super sinker" for the Authority.

Trustees of the Loan and Guarantee Program: $26 Million Certificates of Participation

Shearson Lehman Brothers recently senior-managed a $26 million certificate of participation lease purchase transaction to finance the Rivoli Office Building Project in Baltimore. The City wished to complete the transaction by the end of 1985 to insure obtaining unrestricted yields on construction and reserve fund investments. The issue was the first lease purchase transaction involving the simultaneous defeasance of outstanding conditional purchase agreements for the property on which the new facility will be located. The issue was insured by FGIC and issued as fixed rate COP's in late December 1985.

The list beginning on the next page provides a selective sampling of Shearson Lehman Brothers' experience with lease purchase appropriation financings which are similar to that to be issued by the Texas Department of Correction.

MEMORANDUM

03/03/1986

TO: Rep. John Sund

FROM: J. Hartle, AA JH

RE: Today's Loans Committee Meeting

CSHB 579(Loans):
- Adds, per the Administration request (Gregg Baker, DCED), Timber processors and harvestors to the exemption from the Alaskan-only provision in CFAB statutes.

- Adds timber harvestors and processors to the findings.

- Removes the constitutionally doubtful language on Alaska hire in the original bill; replaces it with language from SB 410 by Zharoff.

JH rec: Pass it out to Resources (chaired by the sponsor...).

CSHB 519 (Loans):
- Adds amendments by the Administration (Revenue and Law) drafted in response to Loans Committee concerns

- Adds language stating that all lease-purchases must be approved by law.

-See handout by Revenue explaining changes and copy of amendment incorporated into bill.

JH rec: Hand out copies and briefing materials from the Administration, plan to pass out of Committee tomorrow.

CSHB 477(Loans)

- Adopts language from Senate Rescources CS for SB 338.

- Changes "Susitna project" to "Railbelt energy development"

JH rec: Hearings and amend HB 501 to create "Railbelt Energy Development Fund" in the General Fund, amend HB 477 to appropriate it to this new fund.

James
3/3/86

Original sponsor: Rules/governor

IN THE HOUSE BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 519 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to public finance; and providing for an effective date."

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

* Section 1. AS 14.40.040 is amended to read:

Sec. 14.40.040. GENERAL POWERS OF THE UNIVERSITY. There is created and established a corporation to be called the University of Alaska. It may in that name

(1) sue and be sued;

(2) receive and hold real and personal property;

(3) contract and be contracted with;

(4) adopt, use and alter a corporate seal;

(5) borrow money, issue debt, or enter into long-term obligations for the purchase of facilities, goods, or services, which obligations secure, in whole or in part, debt issued by another party, as approved by the state bond committee under AS 37.15.770;

(6) do and have done all matters necessary for the purpose of any function set out [FORTH] in this chapter.

* Sec. 2. AS 14.40 is amended by adding a new section to read:

Sec. 14.40.255. LEASE-FINANCING. The Board of Regents may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the board intends to enter into an agreement under this subsection, the board shall provide notice to the

legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The board may not enter into an agreement under this section unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 3. AS 18.55.100(a)(15) is amended to read:

(15) acting as the Alaska State Building Authority arrange or contract for the financing or [, DESIGN, CONSTRUCTION AND] acquisition of public buildings designed by, constructed by, or whose acquisition has been approved by the Department of Transportation and Public Facilities for lease to the state in accordance with AS 18.55.010 - 18.55.290 and AS 37.15.770.

* Sec. 4. AS 18.55.140 is amended to read:

Sec. 18.55.140. ISSUANCE OF BONDS, NOTES, AND REFUNDING BONDS. The authority may issue bonds and notes from time to time in its discretion for any of its corporate purposes and may issue refunding bonds for the purpose of paying or retiring bonds previously issued by it. The authority may not issue bonds for public buildings until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770. Refinance? Add and by Law?

* Sec. 5. AS 18.55.140 is amended by adding a new subsection to read:

(b) Bonds issued by the authority for public buildings must be issued in the name of the Alaska State Building Authority and are subject to AS 18.55.010 - 18.55.290.

* Sec. 6. AS 18.55.288 is amended by adding a new paragraph to read:

(4) "bond" means any bond, note, interim certificate, debenture, or other obligation issued by the authority or the authority acting as the Alaska State Building Authority under AS 18.55.010 - 18.55.290;

* Sec. 7. AS 22.05.025 is amended by adding a new subsection to read:

(c) The supreme court may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the supreme court intends to enter into an agreement under this subsection, the supreme court shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The supreme court may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 8. AS 24.23 is amended by adding new sections to read:

ARTICLE 2. LEASE AGREEMENTS.

Sec. 24.23.100. LEASE OF SPACE. The Legislative Affairs Agency may lease necessary office space, and contract for the lease of space, for the use of the Alaska legislature and its employees.

Sec. 24.23.110. The Legislative Affairs Agency may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the agency intends to enter into an agreement under

this subsection, the agency shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The agency may not enter into an agreement under this section unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 9. AS 37.05.280 is amended to read:

Sec. 37.05.280. LEASES. The department shall lease necessary space, and contract for the lease of space, for the use of the state or an agency of the state, wherever it is necessary and feasible, subject to compliance with the requirements of AS 37.05.220 - 37.05.280. A [NO] lease or contract for a lease may not provide for a period of occupancy greater than 40 years. An agency of the state requiring office, warehouse, or other space shall lease the space through the department. [NO CONTRACT OR LEASE EXECUTED AFTER JANUARY 1, 1966, WHICH PROVIDES FOR A PAYMENT OR PAYMENTS BY THE STATE IN EXCESS OF $12,000 ANNUALLY IS VALID UNLESS THE USE OF THE SPACE TO BE PROVIDED FOR BY SUCH CONTRACT OR LEASE HAS BEEN EXPRESSLY APPROVED BY THE LEGISLATURE BY CONCURRENT RESOLUTION.]

* Sec. 10. AS 37.05 is amended by adding a new section to read:

Sec. 37.05.285. LEASE FINANCING. The department may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the department intends to enter into an agreement

under this subsection, the department shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The department may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section.

* Sec. 11. AS 37.15.040 is amended to read:

Sec. 37.15.040. SALE OF BONDS. Before selling an issue or series of bonds, the state bond committee shall give notice inviting sealed bids in the [SUCH] manner [AS] it may prescribe. If satisfactory bids are received, the bonds offered for sale shall be awarded to the highest responsible bidder or bidders. If the state bond committee determines that the bids received are not satisfactory as to price or responsibility of the bidders, it may reject all bids received.

* Sec. 12. AS 37.15.110 is amended to read:

Sec. 37.15.110. CREATION AND MEMBERSHIP OF STATE BOND COMMITTEE. There is created within the Department of Revenue a committee known as the "state bond committee," the members of which are the commissioner of commerce and economic development, the commissioner of administration, and the commissioner of revenue. If a member of the committee is absent or otherwise unable to act, the member's designee [IN THE DEPARTMENT] shall act as a member of the committee in the member's place.

* Sec. 13. AS 37.15.130 is amended to read:

Sec. 37.15.130. OFFICERS, RECORDS AND PROCEEDINGS. The commissioner of commerce and economic development is the chairman of the state bond committee and the commissioner of revenue is the secretary. A majority of the members of the committee constitute a quorum. The committee shall keep a full, complete, and permanent record of its proceedings. All records and correspondence of the committee shall be kept in the office of the commissioner of revenue. For the purpose of this chapter and AS 44.62.310, public notice of 24 hours or more is adequate notice of a meeting of the committee at which the issuance of bonds is authorized.

* Sec. 14. AS 37.15.140 is amended to read:

Sec. 37.15.140. DUTIES OF STATE BOND COMMITTEE. The state bond committee shall adopt the resolution and prepare the documents necessary for the issuance, sale, and delivery of state general obligation bonds.

* Sec. 15. AS 37.15.140 is amended by adding new subsections to read:

(b) The state bond committee shall prepare an annual report to be submitted to the governor and legislature before March 31 of each year. The report must show

(1) all outstanding debt of debt-issuing entities of the state;

(2) the anticipated effect on the finances and credit of the state, including the effect on long-term debt capacity and creditworthiness, resulting from that debt;

(3) which long-term debt is state supported and which is supported only by revenue attributable to the project being financed by the debt;

(4) all long-term capital lease obligations of the state;

(5) the volume of short-term debt issued and retired during

the year by debt-issuing entities of the state;

(6) specific identification of each issue for which the state has pledged some form of indirect support for the debt, including any moral obligation of the state to support the debt;

(7) future bonding and debt capacity implications of legislation enacted in the previous legislative session; and

(8) the recommended debt issuance capacity of the state for the next two years following the year of the report.

(c) The state bond committee may develop written policies concerning debt of the state.

* Sec. 16. AS 37.15.150 is amended to read:

Sec. 37.15.150. STAFF AND [COMMITTEE MAY EMPLOY] SPECIAL SERVICES. The state bond committee may appoint an executive director who may, with approval of the committee, select and employ additional staff as necessary. Employees of the committee are in the partially exempt service under AS 39.25.120. If the [STATE BOND] committee considers it necessary and advisable, it may procure architectural or engineering, fiscal agent or municipal investment, legal, and other expert or specialized services at reasonable and customary fees to assist it in accomplishing the most advantageous sale of the bonds. The fees may be paid from the proceeds of the sale or advanced from the contingency fund in the Office [OFFICE] of the Governor [GOVERNOR] or otherwise.

* Sec. 17. AS 37.15.450(a) is amended to read:

(a) The bonds shall be sold in the manner, price or prices, [SUCH] amounts or series, and at the [SUCH] time or times [AS] determined by the committee at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS

ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds, or each series of them, shall be sold at such a price so that the effective interest rate over the life of the bonds does not exceed 11 percent per year or that rate of interest which is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest shall be payable annually or semiannually.

* Sec. 18. AS 37.15.460 is amended to read:

Sec. 37.15.460. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide <u>where a</u> [WHETHER THE] notice of sale<u>, if any,</u> is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.450].

* Sec. 19. AS 37.15.650(a) is amended to read:

(a) The toll facilities bonds are sold in the <u>manner, price or prices,</u> amounts or series<u>,</u> and at the time as determined by the committee<u>, at either public or private sale</u>. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A

BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.] Bonds, or a series of bonds, may not be sold if the effective interest rate over the life of the bonds exceeds 11 percent per year or that rate of interest that is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest is payable annually or semiannually.

* Sec. 20. AS 37.15.660 is amended to read:

Sec. 37.15.660. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide <u>where a</u> [WHETHER THE] notice of sale<u>, if any,</u> is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.650].

* Sec. 21. AS 37.15 is amended by <u>adding new sections to read:</u>

ARTICLE 5. STATE-SUPPORTED DEBT.

Sec. 37.15.770. STATE AGENCY DEBT. (a) The state bond committee shall review proposals for the issuance of debt by or on behalf of

(1) the Alaska State Housing Authority acting as the Alaska State Building Authority for the purpose of providing public buildings; and

(2) the University of Alaska.

(b) The committee may review the general programs and financing

plans of the agency that proposes to issue the debt as well as the specific aspects of the proposed debt issue, including

(1) amounts;

(2) times;

(3) maturities;

(4) debt structure and security features;

(5) credit enhancements;

(6) use of proceeds;

(7) official documents;

(8) planned rating agency presentations; and

(9) selection, retention, or compensation of financial advisors, bond counsel, trustees, underwriters, and other professionals.

(c) The state bond committee shall consider approval of the amount and time of sale of the debt. The committee shall approve the issuance of the debt if, in its judgment, issuance of the debt is in the best interests of the state. The committee may limit approval of the issuance of debt upon compliance with terms established by the committee.

(d) At the time of sale of the debt, the state bond committee shall review the bids or pricing of the debt, including discounts, underwriting spreads, and interest rates. If the committee determines that the bids or prices are not satisfactory or that the bidders are not responsible, the agency may not sell the debt.

Sec. 37.15.790. MUNICIPAL SCHOOL DEBT. If, at any time, the state bond committee, in its judgment, determines that the amount or retirement of debt issued by municipalities and subject to reimbursement by the state under AS 14.11.100 is not in the best interest of the state, the committee may

(1) establish an amount or amounts, for any or all years before the maturity of all of that municipal debt, that may not be exceeded by the Department of Education in approving requests under AS 14.11.103; or

(2) establish, under AS 14.11.100(j)(3), a term required for the maturities of municipal debt authorized by local voters after March 31, 1986.

* Sec. 22. AS 39.25.120(c) is amended by adding a new paragraph to read:

(19) employees of the state bond committee.

* Sec. 23. This Act takes effect immediately in accordance with AS 01.-10.070(c).

James

AMENDMENT

Offered in the House Special Committee on State Loans By Sund

TO: HB 519

Page 2, line 2, after "payment":

Delete "and" and insert ","

Page 2, line 4, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 2, lines 5 - 7:

Delete "until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770."

Insert "unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section"

Page 3, line 24, following "payment":

Delete "and" and insert ","

Page 3, line 26, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 3, lines 27 - 28:

James

AMENDMENT

Offered in the House Special Committee on State Loans By Sund

TO: HB 519

Page 2, line 2, after "payment":

Delete "and" and insert ","

Page 2, line 4, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 2, lines 5 - 7:

Delete "until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770."

Insert "unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section"

Page 3, line 24, following "payment":

Delete "and" and insert ","

Page 3, line 26, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 3, lines 27 - 28:

Delete "until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770."

Insert "unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section."

Page 4, line 19, following "payment":

Delete "and" and insert ","

Page 4, line 21, following "Authority":

Insert ", and the anticipated total construction or acquisition cost of the project"

Page 4, lines 22 - 23:

Delete "until the state bond committee has approved the proposal for the issuance of debt under AS 37.15.770."

Insert "unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section."

Page 4, line 25, delete "(a)"

Page 5, lines 8 - 19, delete all material

Page 5, line 8, insert a new bill section to read:

"* Sec. 9. AS 37.05 is amended by adding a new section to read:

Sec. 37.05.285. LEASE FINANCING. The department may enter into lease-financing agreements only with the Alaska State Housing Authority acting as the Alaska State Building Authority. A lease-financing agreement must provide that lease payments are subject to annual appropriation. If the department intends to enter into an agreement under this subsection, the department shall provide notice to the legislature and to the state bond committee. The notice must include the anticipated annual lease payment, the anticipated principal amount of the debt to be issued by the Alaska State Housing Authority acting as the Alaska State Building Authority, and the anticipated total construction or acquisition cost of the project. The department may not enter into an agreement under this subsection unless the public building to be provided has been approved by law. An appropriation for the project does not constitute approval by law for purposes of this section."

Renumber remaining bill sections accordingly.

Page 7, line 28, through page 8, line 6, delete all material and insert:

"(a) The bonds shall be sold in the manner, price or prices, [SUCH] amounts or series, and at the [SUCH] time or times [AS] determined by the committee, at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS IN SUCH MANNER AS IT MAY PRESCRIBE. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE SHALL BE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT THE BIDS

RECEIVED ARE NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDERS, IT MAY REJECT ALL BIDS RECEIVED.] The bonds,"

Page 8, following line 12, insert new bill sections to read:

"* Sec. 16. AS 37.15.460 is amended to read:

Sec. 37.15.460. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide where a [WHETHER THE] notice of sale, if any, is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.450].

* Sec. 17. AS 37.15.650(a) is amended to read:

(a) The toll facilities bonds are sold in the manner, price or prices, amounts or series, and at the time as determined by the committee, at either public or private sale. [BEFORE SELLING A SERIES OF BONDS, THE COMMITTEE SHALL GIVE NOTICE INVITING SEALED BIDS. IF SATISFACTORY BIDS ARE RECEIVED, THE BONDS OFFERED FOR SALE ARE AWARDED TO THE HIGHEST RESPONSIBLE BIDDER. IF THE COMMITTEE DETERMINES THAT A BID RECEIVED IS NOT SATISFACTORY AS TO PRICE OR RESPONSIBILITY OF THE BIDDER, THE COMMITTEE MAY REJECT THE BID RECEIVED.] Bonds, or a series of bonds, may not be sold if the effective interest rate over

the life of the bonds exceeds 11 percent per year or that rate of interest that is 125 percent of the rate of the Bond Buyer Index of 20 Municipal Bond Average Yields for the week previous to the date of sale of the bonds, whichever is higher. Interest is payable annually or semiannually.

* Sec. 18. AS 37.15.660 is amended to read:

Sec. 37.15.660. BOND RESOLUTION. The committee is authorized and directed to adopt the bond resolution and prepare all other documents and proceedings necessary for the issuance, sale, and delivery of the bonds or any part or series of them. The bond resolution shall fix the principal amount, denomination, date, maturities, place or places of payment, rights of redemption, if any, terms, form, conditions, and covenants of the bonds or each series of them. The committee shall also determine and provide for the date and manner of sale of the bonds, and shall provide <u>where a</u> [WHETHER THE] notice of sale<u>, if any,</u> is to be published [ELSEWHERE IN ADDITION TO THE PUBLICATION REQUIRED BY AS 37.15.650]."

Renumber remaining bill sections accordingly.

NOTE H--LONG-TERM DEBT--Continued

Revenue Bonds--Continued:

The Water Utility issues of 1967 and 1968 require that water rates be maintained at a level which will produce revenue equal to at least 1.25 times the average amount annually required for debt service after payment of current expenses of such system.

Revenue requirements of '967 and 1968 Water Utility issues are computed as follows:

	1985	1984
Net earnings (loss)	$(28,818)	$ 37,595
Less operating transfers from other funds		(57,323)
Add back:		
Depreciation	58,245	35,349
Interest on bonded debt	12,555	13,161
AVAILABLE FOR DEBT SERVICE	41,982	28,782
Requirement	29,193	29,193
EXCESS OF REVENUE OVER (UNDER) REQUIREMENT	$ 12,789	$ (411)

Debt Service Requirements: The annual debt service requirements of the general obligation bonds outstanding at June 30, 1985 are as follows:

Fiscal Year	Principal	Interest	Total Requirements
June 30, 1986	$ 220,000	$ 991,716	$ 1,211,716
1987	240,000	968,377	1,208,377
1988	265,000	943,091	1,208,091
1989	285,000	915,617	1,200,617
1990	305,000	886,046	1,191,046
1991 - 1995	2,005,000	3,930,747	5,935,747
1996 - 2000	2,955,000	2,797,430	5,752,430
2001 - 2005	3,715,000	1,133,975	4,848,975
2006 - 2010	130,000	91,250	221,250
2011 - 2015	165,000	55,500	220,500
2016 - 2020	120,000	12,000	132,000
	$10,405,000	$12,725,749	$23,130,749



The Rating Agencies: The Importance of Economic Development to a Rating

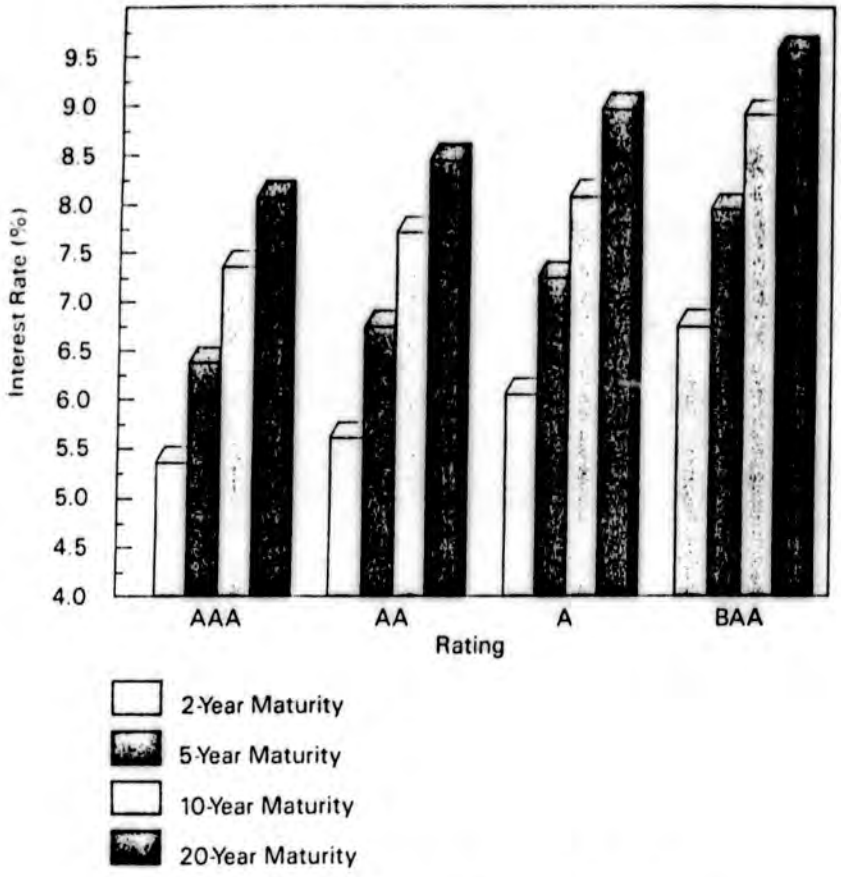
DANIEL HEIMOWITZ
Associate Director—Municipal Ratings
Moody's Investors Service

Moderator: **ALBERT F. HAIBACK**
Managing Officer
Infrastructure Finance Group
Kidder, Peabody & Co., Inc.

ALBERT F. HAIBACK:

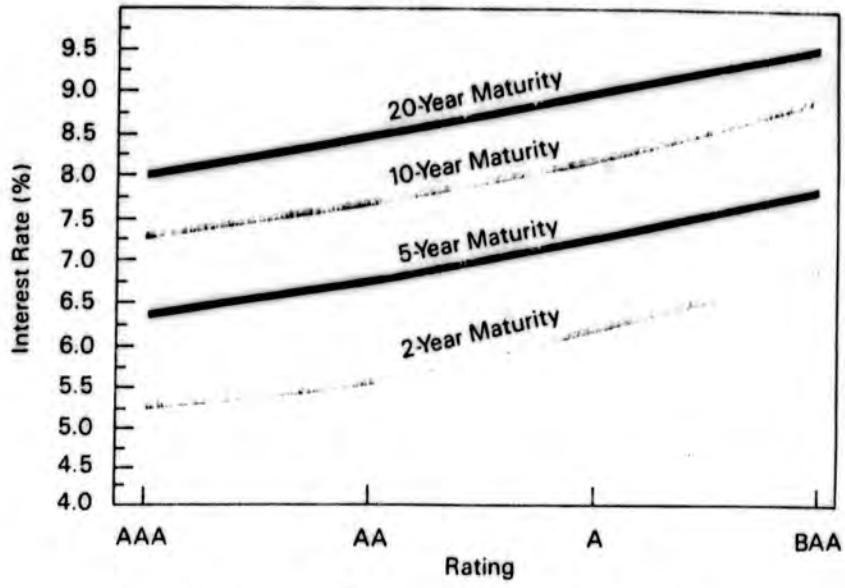
"The Importance of Economic Development to a Rating" is a subject of critical importance to practically every prospective issuer of bonds. This is because the rating that is assigned to a bond issue significantly affects both the eligibility of the bonds for purchase by certain investors, particularly institutional investors, and the interest rates and net interest costs which the bonds will derive at sale.

EXHIBIT 1-1
Correlation of Credit Rating and Interest Rate for Various Maturities



Source: Delphis Hanover Corporation, November 12, 1985

EXHIBIT 1-2
Correlation of Credit Rating and Interest Rate for Various Maturities



Source: Delphis Hanover Corporation, November 12, 1985

Case Study: The Town of Brookhaven, New York

I would like to discuss two case studies which I believe demonstrate how important the economic base of a state or town is to ratings and bond sale results. The first case study involves the town of Brookhaven, New York. As Financial Advisor to the town, Kidder, Peabody had a primary objective of aggressively seeking a AAA credit enhancement vehicle to support the town's bond issue. This was necessary because the community's bonds had recently been downgraded, and its credit was very complex.

By way of background, 28 percent of the town's total tax revenues were derived from the Long Island Lighting Company. Given this percentage, town officials were seriously concerned that the difficulties being experienced by the Lilco Shoreham Nuclear Plant, as well

as Lilco's refusal to pay its taxes, would reflect adversely on the town's credit. This would jeopardize the town's ability to successfully refinance $16 million in notes that were coming due within 60 days. The town also wished to increase its bond issue by approximately $20 million to undertake other capital improvements.

The legitimacy of the town officials' concerns was confirmed when Moody's downgraded the town of Brookhaven from an A rating to a Baa rating. At this point, Kidder, Peabody was retained as Financial Advisor to guide the town through its financing difficulties. After extensive quantitative study, Kidder, Peabody provided the town with the following findings:

1) the town's financial condition was quite favorable;

2) the town's economy was stable and experiencing growth, and there were substantial areas still available for development;

3) the town had a balanced budget, had experienced no revenue shortfalls, and had never defaulted on any debt;

4) unemployment was relatively low;

5) the median family income was relatively high;

6) the town's debt ratios, both on a per capita basis and as a percentage of property value, were well below the national median for municipalities of similar population size. Even when the resident share of county, school district, and special district taxes and debt were included, the overall debt ratios were close to the national median.

Kidder, Peabody's legal studies, done in cooperation with bond counsel, focused on another problem. Lilco had just previously announced that it would not pay the town $52 million in 1984 property taxes levied against the Shoreham plant. Based upon the legal study, we determined that under the legally-imposed mechanism for distributing tax revenues under the County Tax Act, the receiver of taxes was required to distribute tax revenues on a priority basis—first to the town, then to school districts, then to special taxing districts, and any balance remaining would be distributed to the county. Since the county's share of the town's tax revenues was less than the $52 million levied against the Shoreham plant, the town would receive its full tax revenues, and the county would incur a shortfall. We also determined that even if the Shoreham plant were abandoned, property

taxes for the average Brookhaven resident would rise only approximately eight percent. Based upon the average assessed value, this would translate into an annual property tax increase of only $170. Thus, by analytically demonstrating that the town's economic base could withstand the most adverse impact—the abandonment of the Shoreham plant—and that its other financial conditions were sound, we were able to secure bond insurance from AMBAC. This enabled us to gain a AAA bond rating despite the recent rating downgrade. As a result, the town received a very attractive interest cost for its bonds.

Case Study: The State of New Hampshire

The second case study involves the State of New Hampshire, which selected Kidder, Peabody as senior manager of a $52 million general obligation bond issue. In the case of New Hampshire, the objective was to pursue vigorously a rating upgrade on the state's outstanding and future debt.

By way of background, the state had received two downgrades from Moody's within an 18-month period, bringing its rating from AAA to A1. At that point, it had one of the lowest ratings of any state in the country. In 1983, the state chose Kidder, Peabody to assist it in promoting its strong credit features to rating agencies, underwriters, and prospective investors. In this way, it hoped to realize a successful negotiated sale of its $52 million in G.O. bonds.

To begin with, Kidder, Peabody's Municipal Research and Public Finance Departments, along with representatives of the state and the state's Financial Advisor, prepared a comprehensive study of the state's economy and finances. The results of the study indicated that New Hampshire's economic outlook was bright. Its economic growth was expected to exceed regional and national growth in terms of population, employment, personal income, and manufacturing income, and the gross state product and unemployment rates indicated a firm base for economic growth and state revenue growth. Manufacturing was New Hampshire's primary economic activity, especially durable goods. Many new electronic firms had moved into the state because of its favorable business climate. In 1982, the state's business climate was ranked number 5 nationally and number 1 in the

Northeast by *Inc.* magazine. One reason for this high ranking was that New Hampshire has no personal income tax and no general sales tax. Another key factor, which was sponsored and aggressively pursued by the Governor, was the implementation of strict controls over state revenues and expenditures.

Although the State of New Hampshire did not receive an improved rating from Moody's for the 1983 issue, it did achieve a AA- rating from Standard and Poor's. Through wide distribution of the study's favorable economic and financial findings, the state was able to obtain a highly successful sales result with lower rates than were achieved from comparably rated bonds sold on a competitive basis during that same time period. In addition, this work set the stage for future rating upgrades. We pursued this with the state and its Financial Advisor during 1984, in anticipation of a bond issue during 1985. By aggressively pursuing improved economic and financial results, the state has achieved the following:

1) an anticipated $45 million surplus in 1985;
2) an economic performance by the state that has surpassed that of the New England region and the U.S. in recent years;
3) an unemployment rate that was the lowest in the nation in 1983 and 1984;
4) a continuation of the state's low tax environment;
5) the demonstrated success of the Governor's fiscal management plan, which has resulted in reduced state spending, a cap on the number of state employees, and a return to on-line budgeting.

In January, 1985, New Hampshire general obligation bonds were upgraded by Moody's and Standard and Poor's to a AA rating. Kidder, Peabody was appointed again as senior manager for the state and successfully marketed a $54 million general obligation bond issue.

DANIEL HEIMOWITZ:

Key Trends that Have Affected the Rating Agencies' Analysis of Municipal Credit

To a great extent, credit quality evaluations are based on trends of long-term performance. There are eight distinct themes that have

guided the way that Moody's has looked at credits. These themes have expanded one upon the other, and their succession represents a growing sophistication among analysts, municipal issuers, and investors.

1) The Default by New York City

The overriding factor leading to the expansion of the municipal analytical function on Wall Street and to the expansion of Moody's own Municipal Department was the default by New York City. That default, followed on a somewhat less grand scale by Cleveland three years later, led to a startling realization that municipal credit is not bottomless and that real municipal risk does in fact exist. Until this time, defaults had been virtually unheard of in the post-Depression period. As a result of the New York experience, municipal bonds backed by the powers of taxation were no longer viewed as inherently gilt-edged.

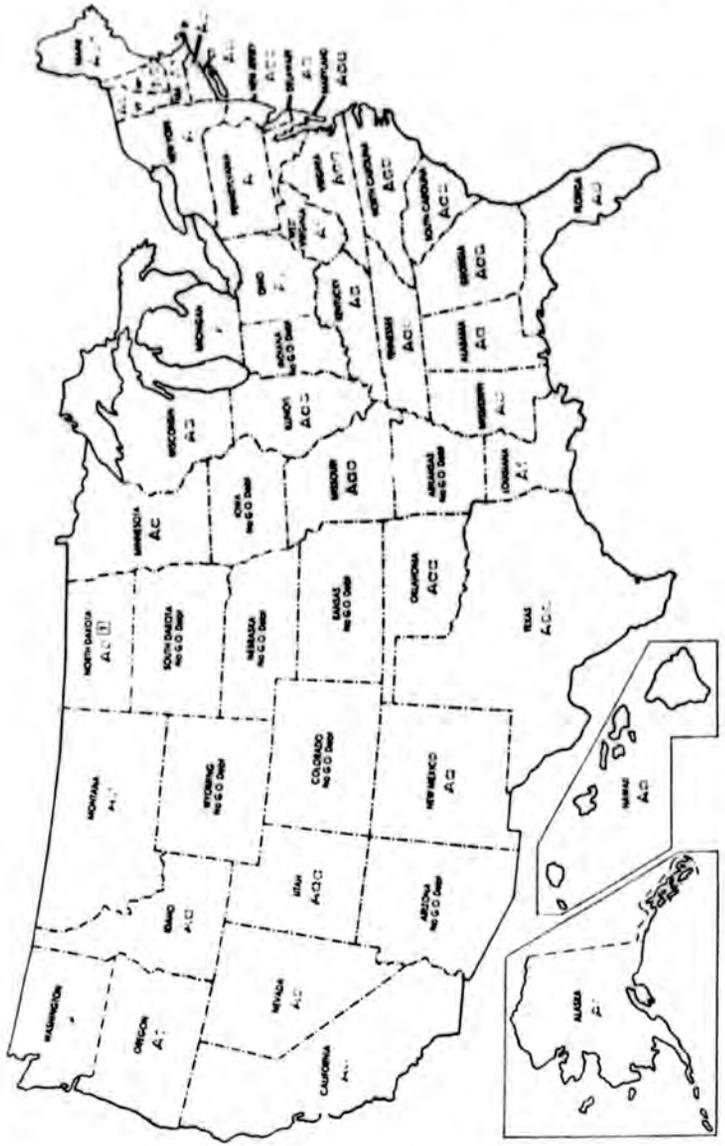
2) The Migration to the Sun Belt

Following the default by New York City, analysts began a reexamination of credit, beginning with the major cities. This reexamination was undertaken within the context of a second theme as well—the shifting of population and economic activity away from the nation's older urban centers and toward the Sun Belt. These shifts left many communities with expanding budget commitments and dwindling resources. Even more burdensome was the fact that the local budgetary and tax policies that were adopted to compensate for this loss of activity were in fact accelerating the migration to the Sun Belt. The ratings of nine of the 13 largest Northeast and Midwest cities were downgraded by Moody's between 1975 and 1980, and by contrast the ratings of 11 of the 17 Southern, Western, and Southwestern cities were upgraded between 1970 and 1980.

3) New Burdens of Proof on Issuers

A third theme stemming from the examination of credit in the aftermath of the New York crisis was the requirement for more current financial information, for disclosure, and for more direct contacts among governments, analysts, and investors. Analysts and investors seeking to differentiate among credits and to avoid another

EXHIBIT 1-3
Moody's State General Obligation Bond Ratings



[1] General obligation bonds Series 1971 and 1973, which are collateralized, are rated Aaa.

Source: Moody's Investors Service, June, 1985

New York placed the burden of proof on the communities that were issuing debt. Communities had to establish confidence that they were not in a declining position, and had to provide information on which rating analysts could rely. Renewed analytical focus on factors that had long been ignored, such as pension liabilities, substantially changed the scope of credit analysis.

4) The Shift to Revenue Bonding

The questioning of the unconditional strength of the general obligation bond led to a fourth dominant theme of credit analysis in the 1970s—the shift from the general obligation bond to the limited liability revenue bond. Between 1974 and 1984, the market reversed itself, shifting from one-third revenue bonds and two-thirds general obligation bonds to two-thirds revenue bonds and one-third G.O. bonding.

5) The Impact of Tax Revolts

One advantage of revenue bonding was that it enabled the issuer to ration more effectively the revenues derived from increasingly limited taxing powers. Tax revolts, highlighted by Proposition 13 in California and Proposition 2½ in Massachusetts, have played a dominant role in credit evaluation. There have been tax and expenditure limitations of various kinds on the ballot in more than 25 states, and in 15 of those states substantive measures have been approved. There were also numerous limitations, rollbacks, and defeated budgets in many localities throughout the country between 1978 and 1980. Whereas in the past we were most concerned about the issuer's economic capacity and ability to pay, suddenly we also had to focus on the issuer's political capacity to tax and the taxpayer's willingness to pay. These issues now shared an equal position in the rating analysis.

6) Double-Digit Inflation and the Recession

The next factors to influence credit ratings were double-digit inflation, stagflation, and the recession. Inflation drove up economically sensitive revenues, particularly sales tax revenues, but it also increased costs, including wages and the costs of certain social programs. High interest rates benefited those few communities with the

luxury of having cash balances to invest. Yet, for developing communities, the cost of borrowing needed funds was rising while the level of economic activity—particularly construction—was declining. Many Sun Belt communities unexpectedly experienced their first setbacks during this period. Many older communities, particularly those in the industrial Midwest, experienced permanent economic losses and in some cases became chronically depressed.

7) Innovative Financing Techniques

Rating downgrades in 1982, 1983, and 1984 outnumbered upgrades by more than 3-to-1. Faced with budget limitations and a high interest rate environment, borrowers increasingly have turned to innovative financing techniques in the last few years. The use of credit substitution, including bond insurance and letters of credit, and the development of instruments such as tax-exempt commercial paper and variable rate demand obligations are important elements of this trend. Generally, they promote better credit ratings by improving credit quality. For instance, long-term projects can be funded through short-term variable rate obligations which the market accepts as short-term credit and short-term risk. These vehicles enable an issuer to utilize its limited resources more effectively by obtaining the lowest possible interest rates in today's market.

8) Changes at the Federal Level

Recently, the dominant influence on the municipal finance industry has been the potential impact of federal budget cutbacks and tax reform proposals. Analysts are assuming that these proposals will eventually be passed in an amended form and that they will have a significant effect on municipal credit. The Treasury has pointed to the sound financial condition of state and local governments, particularly the large surpluses that many of them have accumulated, as sound justification to shift much of the burden of the federal budget deficit to the state and local levels. There are two components of the Administration's present tax reform plan that would have a significant effect on state and local governments: 1) the often repeated attempt, although this time possibly with more force and vigor, to eliminate the tax exemption for certain types of municipal bonds, and 2) an assault on the creditworthiness of state and municipal governments through the proposed elimination of the deductibility of state and local taxes. These two components must also be viewed in combination with direct cutbacks in the federal budget, including the proposed elimination of federal revenue sharing.

The Treasury's proposal to eliminate certain types of municipal bonds, namely industrial development revenue bonds and pollution control revenue bonds, would also eliminate certain types of revenue bonds issued for higher education, hospitals, airports, and housing. The Treasury claims these are "private purpose" bonds. Most of us in this room probably disagree.

There would be several immediate effects of these proposals, if implemented. The cost of borrowing by state and local government units would rise, and there would be enormous pressure placed on general obligation debt ceilings and on the revenues—namely property taxes—used to pay G.O. bonds. With fewer types of tax-exempt bonds at their disposal, issuers would have to compete more directly with the taxable market to attract investors. This would most definitely result in higher interest payments by municipalities. These higher rates could make many projects now financed by state and local governments economically unfeasible. Some of these projects could go by the boards entirely. This would mean a reduction in the scope of governmental services, as well as serious financial pressure either to raise current taxes to pay for these projects or to utilize G.O. bonding capacity further. This would place additional strain on both the interest rate paid and the debt ceiling. In any case, the restrictions on the types of debt considered to be tax-exempt are likely to have negative financial implications in at least the short run, and they may well lead to credit problems and rating downgradings in the long run.

The proposal to eliminate the deductibility of state and local taxes could have an even greater effect on state and local governments. This provision has the implication of penalizing those states with currently high tax burdens. Its adoption would most likely have serious consequences for the state and local credits that Moody's analyzes. At a time of increasing costs and decreasing assistance from the federal government, local governments would be penalized if they decided to make a greater local effort. This would directly lead to even higher tax burdens in many states that already have had high

taxes, and would seriously affect future economic growth and future funding of important social programs. Without sounding too pessimistic, I return to the earlier theme that taxpayers nationally have demonstrated their sensitivity to high taxes, and that we might expect the elimination of state and local tax deductibility to lead to future tax revolts.

Factors Examined by the Rating Agencies

Given the recent history of shifting economic fortunes and tax revolts, and given the scope of the Administration's tax reform proposals, it is important for communities to maintain their basic credit standings and to improve on these standings whenever possible. Strong underlying credit quality can support traditional infrastructure borrowing through general obligation bonding, and it enables the borrower to take advantage of new financing techniques. Strong credit quality allows government to leverage its resources as much as possible, and the stability that it provides can bring new economic growth to a community.

Management Record

To assess a community's basic credit position, Moody's first measures its ability to control and manage resources so that obligations are met in full and on time. Determining relative degrees of control is what the rating process is all about. The ideal level of control is that of a community with a prospering economy, unlimited power to raise funds, a great deal of discretion in determining service levels, and a proven track record of careful management which has enabled it to accumulate a surplus sufficient to deal with any unforeseen contingencies. Obviously, this is a difficult level to achieve. At the other end of the scale is the borrower whose finances are completely out of control and who lacks sufficient funds to meet an obligation that is due and payable immediately.

Economic Trends

Economic trends represent one of the most uncontrollable and unpredictable factors in our analysis. The recent recession has emphasized how little any individual community can do to buck the

EXHIBIT 1-4
General Obligation Bond Analysis

In general obligation bond analysis a great number of variables are present. Generally they may be classified under four headings: debt, finance, government, and economy.

Debt Analysis

1. Debt policy: the uses, purposes, and planning of debt issuance • the types of instruments used • debt limits.
2. Debt structure: adequacy of plans for debt retirement • the relation between rate of retirement and purpose of debt, resources of the community, existing and future debt needs.
3. Debt burden: gross and net debt related to resources and a comparison with other communities • overlapping debt and pyramiding.
4. Debt history and trend: the record as to defaults, refunding of maturing bonds and funding of operating deficits • rapidity of debt growth relative to purposes for which it has been incurred.
5. Prospective borrowing: authorized and unissued bonds • adequacy of capital programming • obsolescence or inadequacy of capital plant • existing debt structure.

Financial Analysis

6. The current account: the year-end relation of current liabilities to available cash • promptness of disposing of casual deficits • devices to keep deficits from accumulating • if accounting is revenue accrual, the adequacy of reserves for uncollectible accounts • the liquidity of current account cash and uncollected taxes should equal demand liabilities outstanding.
7. Revenue system: adequacy of property tax base • trend of assessed value, equalization ratio, levy, and collections • other components of revenue system—source, base, rates, yields • diversity, cyclical stability and adequacy of aid from other governments • limitations on revenue raising ability.
8. Expenditure analysis: vulnerability to mandated expenditures • relation of debt service to total expenditures.

EXHIBIT 1-4 *(continued)*

9. Budget analysis: adequacy of planning • appraisal of past performance on revenue and expenditure estimates • current trend of financial operations.
10. Financial administration: assessment practices • tax collection procedures • enforcement procedures • financial planning as evidenced by budgeting and reporting methods.
11. History of financial operations: long-term trend of revenues and expenditures • secular and cyclical patterns.

Governmental Analysis

12. Organization: diffusion of responsibility • degree of professionalism • sufficiency of powers to discharge functions.
13. Services: provision for essential services to perpetuate economic base.
14. Intergovernmental factors: the pyramid of governmental units, conflicts and duplications • cooperative efforts • other units which drain off resources or impede planning.
15. Administrative performance: conscientious administrators who promote confidence through standing and experience • availability of audits, budgets, annual reports, capital planning documents, land-use plans.

Economic Analysis

16. Identity and natural resources: geographic advantages • natural resources • size and land-use characteristics.
17. Population, wealth and labor factors: population characteristics • wealth level (family income and per capita full value) • housing characteristics • new construction values.
18. Economic structure and capital: types of employment, industry and occupations • major employers • relation to SMSA • evidence of industrial decline or demographic shifts • transportation and its relation to the economic structure.
19. Economic performance and prospects: the secular trend of the economy • the cyclical trend • seasonal and random variation.

Source: Moody's Investors Service

national economy. Recent economic volatility has taught us that even the most sophisticated econometric models are not very accurate in projecting the impact of a national economic depression on particular communities. Nevertheless, measures of relative economic control are very important to a rating analysis. In small communities especially, we examine the overall tax base, keeping an eye out for any overdependence on a single industry or the dominance of a single employer or taxpayer whose actions would have a major effect on the entire community. We also measure economic control in terms of how sensitive a community's financial condition is to the performance of its local economy. Sensitivity to the economy is often evidenced by declining sales tax revenues, greater property tax delinquency, and higher social costs, particularly those that rise in times of high unemployment.

Municipal Services and Revenue Potential

Once the analysts have looked at a community's economic base, they then determine what services the community should be expected to provide and what revenue-raising abilities they have to pay for those services. The growing complexity of municipal government requires analysts to take a number of factors into account. Among these are a municipality's organization and responsibilities, the degree of professionalism among its senior administrators, and the sufficiency of its power to perform necessary functions. Are powers vested in the chief executive or are they spread over many boards and different decision-making offices? What services does the government entity provide? Municipal governments vary widely across the United States. Even within states there is no uniform way of providing municipal services. At one extreme is New York City, which provides all of the services that are traditionally provided by a city, a county, and a school district, as well as additional services such as public transit, higher education, and the operation of 17 municipal hospitals. At the other extreme are municipalities in which even such basic services as police and fire protection are provided through separate service districts. Each of these districts has its own board and its own taxing powers, and there is little coordination among the districts. The tax burden and debt burden that arise are a conglomeration of those of the separate units, and there is little overall management.

In addition to understanding the scope of municipal services, it is important to understand the degree of flexibility that a community has in spending money on those services. Some proportion of expenditures is likely to be fixed, including debt service and other contracted obligations, such as employee pensions. Many communities are also affected by legally-mandated expenditure levels. The minimum length of a school year and the maximum ratio of students to teachers are two examples of mandates that can bind school districts to specific spending levels. Conversely, since communities also have programs that are desirable but not essential, it is important that they delineate in their budgets what items cannot be touched and what items are expendable if financial pressures come to bear.

An evaluation of revenue raising powers is also an essential element of our assessment of a community's financial control. Are there alternative ways of raising money locally, or are revenue options legally limited? Many governments do have broad powers to impose taxes and other fees, and this can provide a strong means of controlling their future financial condition.

Debt Control

Having examined a community's economic context, its administrative functions, and the powers it has, the analyst turns to actual municipal performance. Control of debt position is obviously a critical element in debt analysis. There are key indicators of debt performance that are commonly used. These include the relative level of indebtedness, which is the overall tax-supported debt relative to the value of the taxable base, and debt per capita, which is the amount of debt outstanding relative to the community's population. Moody's collects these indicators annually for the state and local governments that it rates. However, it does not rate a community simply by looking at debt burdens. Moody's also assesses the controllability of debt by measuring debt service as a percentage of the budget and the rate of debt retirement relative to tax base projections.

Short-term borrowing has been a major item in the market in recent years. These borrowings are generally for fixed maturities in anticipation of future receipts, and often they level out a problem in revenue flows. Typically, municipalities borrow for operating pur-

poses and in anticipation of taxes or other revenues or in anticipation of bond or grant proceeds. Moody's rates municipal notes through a separate rating system. The ratings are MIG 1, MIG 2, MIG 3, and MIG 4. Moody's also has a new system for variable rate demand obligations, with "V" placed in front of those ratings—VMIG 1, VMIG 2, VMIG 3, and so on.

In Moody's analysis of municipal notes, it reviews basic credit, paying particular attention to the timing of receipts and disbursements. This assures that the funds that are needed to pay short-term obligations will be available when they are needed. Questions of capital market access are asked to ensure that bond anticipation notes can be refinanced. The relative quality of short-term debt cannot readily be inferred from the long-term bond rating, and so Moody's urges investors and issuers to seek short-term credit ratings.

An overreliance on short-term debt can indicate reduced control of financial position. Most of the major problems that we have seen—New York City, Cleveland, the Chicago schools, and others—directly relate to an overreliance on short-term indebtedness. Future market acceptance of a debt issue is always associated with some vulnerability. Given possible shifts in the market as the result of tax law changes, analysts must look at least a bit skeptically on any pressing need to go to market 15 or 20 months from now. Our concern also extends to a heavy reliance on bond anticipation notes or the use of so-called blue maturities.

Through debt management and capital planning, a community can indicate to us exactly what its debt position is going to be. Another useful tool is the preparation of multi-year plans which outline project priorities, expected costs and benefits, and the probable means of financing. They have become a standard in the industry and are now expected of all sophisticated issuing communities.

Overall Financial Performance

Overall financial performance is the key to determining whether a government is operating on a sound basis. Using our assessment of a community's economic condition, its mandated spending levels, and its debt and other fixed costs, we can develop projections of future financial performance. Financial analysis for municipalities involves far more than a review of financial statements, however. Al-

though operation results and year-end positions are certainly important, they are not nearly as meaningful for a city or town as they are for a private corporation. Unlike corporations, municipalities are not profit-oriented. The key variable in determining actual financial condition is, of course, management. Budgetary planning and day-to-day spending controls are crucial ingredients. The actual level of financial resources is not nearly as important as the established trend of financial performance. Long-term financial trends demonstrate how administrators utilize their powers and adjust to changing conditions. The ability to consistently achieve budget targets, successfully implement cost control programs, increase productivity, and enhance revenues is what we look for in assessing a community's control over its financial operations. Large financial surpluses are not terribly impressive if they result from the community's inability to get planned new programs underway. Conversely, a planned drawdown of a surplus might not be viewed as a negative. In fact, sometimes building up too much of a surplus can be a negative factor. This was the case in California prior to Proposition 13, when the state's surplus fueled people's claims that the government was taxing its residents too heavily.

The goal of our financial analysis is to determine whether annually recurring resources are in fact available to meet ongoing spending requirements. Our analysts often find that under conditions of rising costs, high interest rates, and limited revenue-raising capabilities, projections of large deficits in the future are inevitable. In situations such as these, analysts gauge a community's alternative strategies and shortfall contingency plans. In this way, they can determine a community's commitment to maintaining fiscal integrity.

In this process, the adequate flow of information is vital. Financial statements should be understandable, and information should be presented on a timely basis. As an issuer, the point at which you can make the greatest impact on the entire rating process is in the provision of information, especially economic information. We use information from the U.S. Census Bureau and other federal and state sources, and we read newspapers, but we look to local officials to give us a flavor of what is happening in their community. For instance, we want to know about current downtown development and what is happening to major employers in your area.

Direct Contact with the Issuer

Our analytical process always includes direct contact with the issuer, often through meetings in our offices in New York. The contacts frequently occur prior to a debt offering, but we urge people to contact us regularly, as new information becomes available. The heated process of a bond offering is often not the best time to try to seek an upgrading. It is better to see us well in advance of a sale and discuss your plans and position at that time. We review our ratings regularly, not just at the time of the sale, and we issue revisions whenever it is appropriate.

Following the gathering of information, an analyst will speak with the issuer, obtain information from a number of other sources, and prepare a credit write-up. That credit write-up is reviewed by a senior analyst who is the supervising analyst for that particular area of the country. Together, the analyst and the senior analyst make a rating recommendation. The analysis and the rating recommendation are presented to a rating committee comprised of senior members of our department. We discuss, at times at great length and very heatedly, the pros and cons of a particular credit, and ultimately we come to a rating decision. New ratings are then communicated to the issuer. If the issuer has difficulty with the decision, we explain how we arrived at it. If the issuer feels it is unjust, particularly if the issuer feels that all of the facts did not come to light during the course of the analysis, we welcome additional information and a rehearing is possible. The day after the rating is released, our analysis and the rating are published in a municipal credit report which is issued to our subscribers. Among our subscribers are institutional investors, including major commercial and investment banks throughout the country.

In summary, in terms of economic development financing, we must be mindful of the context of budget cutbacks, tax reform, the past recession, and the like. We cannot overemphasize in our discussions with issuers the importance of maintaining a sound credit position now and in the future.

SCOMM

#50:35

Alaska State Legislature

ANCHORAGE
DOWNTOWN
DISTRICT TWELVE

AIRPORT HEIGHTS
CITY VIEW
DOWNTOWN
FAIRVIEW
GOVERNMENT HILL
INLET VIEW
SOUTH ADDITION

House of Representatives

Representative
RICK UEHLING

MEMBER
HOUSE FINANCE COMMITTEE
HOUSE SPECIAL COMMITTEE
ON STATE LOANS
HOUSE FINANCE SUBCOMMITTEE ON
ADMINISTRATION, REVENUE
AND THE GOVERNOR'S OFFICE

To: Rep. John Sund
Chair, House Special Committee on State Loans
From: Rep. Rick Uehling
Subject: " HB 553, An Act making special appropriations to the Department of Community and Regional Affairs for senior citizen housing development grants; and for low cost and low income housing development; and providing for an effective date. "
Date: April 9, 1986

I have asked staff to prepare the following background and information regarding HB 553.

HB553 as written, appropriates $21,963,000 to the Department of Community and Regional Affairs for the development of senior housing projects throughout the State and $3,000,000 for the development of low cost and low income housing.

In developing the list of projects to be included in the legislation for Senior Housing, all projects for which applications were received by CR&A were included. The intent was to try to show that there was a need for Senior Housing throughout the State and not just in Anchorage.

In developing the amount for Low Income and Low cost Housing the amount of $3,000,000 was simply chosen. This program has never received a great deal of funding since its inception and is out of money.

It is obvious under the current revenue situation the outlook for funding of these two programs at the level proposed in the legislation is not probable. There are two ways that the Loans committee could attempt to reduce the amount of the appropriation.

First, with regard to Senior Housing, the committee could chose which projects to fund and include them in the bill or second, the Loans committee could take a dollar amount and appropriate it, letting the Department of Community and Regional Affairs decide who should receive funding. There is a draft committee substitute which takes the second approach. In the draft committee substitute, $7,000,000 is the amount appropriated to the Department for Senior Housing and 1,500,000 is the amount appropriated for Low income, Low cost Housing. The Department has a grant review committee which reviews the grant applications and awards the grants. The department is familar with the applicants and would be in the best situation to decide who should recieve funding. This would be the preferable approach.

1526 K STREET • ANCHORAGE, ALASKA 99501 • (907) 274-4256
P.O. BOX V • JUNEAU, ALASKA 99811 • (907) 465-4821

Sec. 44.47.610. Declaration of purpose. There exists in the state a serious shortage of decent, safe and sanitary residential housing available at low or moderate prices or rentals to persons 60 years of age or older. There also exists in the state organizations whose purposes are to provide the kinds of housing needed to alleviate this shortage. Development work to provide such housing involves substantial expense that is often beyond the resources of the organizations. (§ 51 ch 113 SLA 1982)

Sec. 44.47.620. Senior citizens housing development. (a) There is created in the department a senior citizens housing development fund. Subject to direct appropriation or through proceeds of a bond issue the department shall make grants to municipalities or public or private nonprofit corporations designated as tax exempt under 26 U.S.C. 501(c)(3) and (4) (Internal Revenue Code of 1954) for the purpose of developing senior citizen housing. A grant from the proceeds of a bond issue may be made only to municipalities.

(b) Application for a grant under (a) of this section shall be in the form prescribed by the department. The application shall demonstrate the need for senior citizen housing in the area to be served, the feasibility of the proposed project, and an adequate management plan that shall demonstrate the ability of the eligible recipient to sustain the proposed project.

(c) All projects under this section shall be in accordance with facility procurement policies developed under AS 35.10.160 — 35.10.200 and are public facilities under those sections.

(d) The department shall adopt regulations to carry out the purposes of this section. The provisions of the Administrative Procedure Act (AS 44.62) apply to regulations adopted under this section.

(e) In this section "senior citizen housing" means a specific work or improvement undertaken primarily to provide dwelling accommodations for persons 60 years of age or older, including but not limited to conventional housing, housing for the frail elderly, group homes, congregate housing, and other housing that meets special needs of the elderly; senior citizen housing includes the acquisition, construction, or rehabilitation of land, buildings, improvements, and other nonhousing facilities that are incidental or appurtenant to the housing. (§ 51 ch 113 SLA 1982)

Article 11. Low Cost and Low Income Multiple Family Housing Development Fund.

Section

630. Declaration of purpose
635. Low cost and low income multiple family housing development

Sec. 44.47.630. Declaration of purpose. There exists in the state a serious shortage of low cost multiple family residential rental housing, and owner-occupied housing, in the case of property acquired or to be acquired by the Municipality of Anchorage that was formerly the site of the S&S Apartments. There also exist in the state organizations whose purpose is to provide the housing needed to alleviate this shortage. Development work to provide this housing involves substantial expense that is often beyond the resources of the organizations. (§ 21 ch 102 SLA 1983; am § 8 ch 128 SLA 1984)

Effect of amendments. — The 1984 amendment substituted "rental housing, and owner-occupied housing, in the case of property acquired or to be acquired by the Municipality of Anchorage that was formerly the site of the S&S Apartments" for "housing available at low rentals" in the first sentence and "exist" for "exists" and "purpose is" for "purposes are" in the second sentence.

Sec. 44.47.635. Low cost and low income multiple family housing development. (a) There is created in the department a low cost and low income multiple family housing development fund. Subject to appropriation the department shall make grants to municipalities or public or private nonprofit corporations designated as tax exempt under 26 U.S.C. 501(c)(3) and (4) (Internal Revenue Code of 1954) for the purpose of developing low cost, low income multiple family housing.

(b) Application for a grant under (a) of this section shall be in the form prescribed by the department. The application shall demonstrate the need for low cost, low income multiple family housing in the area to be served, the feasibility of the proposed project, and an adequate management plan that shall demonstrate the ability of the eligible recipient to sustain the proposed project.

(c) All projects under this section shall be in accordance with facility procurement policies developed under AS 35.10.160 — 35.10.200 and are public facilities under those sections.

(d) The department shall adopt regulations to carry out the purposes of this section. The provisions of the Administrative Procedure Act (AS 44.62) apply to regulations adopted under this section.

(e) In this section "low cost and low income multiple family housing" means a specific work or improvement undertaken primarily to provide multiple family dwelling accommodations for low income persons. Low cost and low income multiple family housing includes the acquisition, construction, or rehabilitation of land, buildings, improvements, and other nonhousing facilities that are incidental or appurtenant to the housing. (§ 21 ch 102 SLA 1983)

Introduced: 2/[illegible]5
Referred: House Special Committee on State Loans, Community & Regional Affairs and Finance

Funding Information
General Fund $24,963,000
Other Funds --0-
$24,963,000

BY UEHLING, GOLL AND BOUCHER

IN THE HOUSE

HOUSE BILL NO. 553

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making special appropriations to the Department of Community and Regional Affairs for senior citizen housing development grants and for low-cost and low-income housing development; and providing for an effective date."

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

* Section 1. The sum of $21,963,000 is appropriated from the general fund to the senior citizens housing development fund in the Department of Community and Regional Affairs for the purpose of making grants under AS 44.47.620 for senior citizen housing development as follows:

APPROPRIATION ITEMS	AMOUNT OF APPROPRIATION
Cook Inlet Housing Authority	
Anchorage Residential II	$4,500,000
Meridian Living, Inc.	
Anchorage	3,500,000
City of Fairbanks	
Fairbanks II	2,500,000
City of Haines	
Haines	1,500,000
Homer Senior Citizens, Inc.	
Homer Phase II	2,063,000
Tlingit Haida Housing Authority	
Kake	1,200,000
Alaska State Housing Authority	

BILL SHEFFIELD, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

☐ POUCH B
JUNEAU, ALASKA 99811
PHONE: (907) 465-4700

☐ 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508
PHONE: (907) 563-1073

February 3, 1986

The Honorable Rick Uehling
Alaska State House
of Representatives
P.O. Box V
Juneau, AK 99811

Dear Representative Uehling:

Following a request from David Cobb of your staff, we are sending you the status of the Senior Citizen Housing Development Program and the State Assisted Rental Housing Program.

Senior Citizen Housing Development

FY 82, 83, 84 and 85

Total Appropriated	$44,000,000
Total Committed	43,803,651
Total Disbursed	29,202,757
Remaining balance to be paid	14,600,894
Held for Contingency	196,349
Total pending applications	$21,662,345

State Assisted Rental Housing Program

FY 84 and 85

Total Appropriated	8,580,000
Total Committed	8,580,000
Total Disbursed	7,415,000
Remaining balance to be paid	1,165,000
Available to Commit	-0-

We have attached a summary of the committed agencies for both programs and applicant request for Senior Citizen funding. Additionally, our Housing office telecommunicated the applicant request to you on January 30.

As you know, there was no funding appropriated for either of these programs in FY 86, and there is no funding in the budget for these two programs for FY 87.

21-P1LH

I hope this information will assist you at this time, but should you have any questions or desire additional information, please contact Clark Boston of the Housing Assistance Division.

Thank you.

Sincerely,

Emil Notti
Commissioner

Enclosure

cc: Clark D. Boston

REPORT # 0010-SC
DATE: 01/31/86

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
HOUSING ASSISTANCE DIVISION

MASTER LIST - SENIOR CITIZEN HOUSING PROGRAM

FY'82-FY'85 FUNDING

PROJECT LOCATION	# OF UNITS	SPONSOR	AMOUNT COMMITTED
ANCHORAGE		COOK INLET HOUSING AUTHORITY	90,000
ANCHORAGE	120	COOK INLET HOUSING AUTHORITY	7,486,000
ANCHORAGE INTERMEDIATE CARE	60	COOK INLET HOUSING AUTHORITY	65,000
ANCHORAGE	0	COOK INLET HOUSING AUTHORITY	250,000
ANCHORAGE RESIDENTIAL II		COOK INLET HOUSING AUTHORITY	50,000
ANCHORAGE CHUGACH VIEW		ASHA	75,000
ANCHORAGE CHUGACH VIEW	120	ASHA	9,925,000
ANCHORAGE		MERIDIAN LIVING	50,000
ANGOON		TLINGIT/HAIDA HSG. AUTH.	30,000
ANGOON	12	TLINGIT/HAIDA HSG. AUTH.	1,150,655
CHUGIAK/EAGLE RIVER PHASE II	20	MUNICIPALITY OF ANCHORAGE	2,500,000
DILLINGHAM	15	CITY OF DILLINGHAM	30,000
DILLINGHAM	15	BBHA	1,335,000
FAIRBANKS		CITY OF FAIRBANKS	49,693

FAIRBANKS	40	ASHA	4,300,000
FAIRBANKS II		CITY OF FAIRBANKS	50,000
HAINES		CITY OF HAINES	30,000
HOMER	24	HOMER SENIOR CITIZENS, INC.	2,400,000
HOMER PHASE II		HOMER SENIOR CITIZENS, INC.	50,000
HOMER PHASE II		HOMER SENIOR CITIZENS, INC.	337,655
KAKE		TLINGIT/HAIDA HSG. AUTH.	30,000
KENAI	24	COOK INLET HOUSING AUTHORITY	1,066,000
KLAWOCK		TLINGIT/HAIDA HSG. AUTH.	30,000
KLAWOCK	10	TLINGIT/HAIDA HSG. AUTH.	846,284
KODIAK		KODIAK SENIOR CITIZENS, INC.	48,425
METLAKATLA	25	CITY OF METLAKATLA	1,383,000
NINILCHIK	10	COOK INLET HOUSING AUTHORITY	500,000
PALMER		ASHA	50,000
PETERSBURG		CITY OF PETERSBURG	30,731
SITKA		CITY & BOROUGH OF SITKA	50,000
SITKA	20	ASHA	1,800,000
ST. MICHAEL	8	CITY OF ST. MICHAEL	12,000
ST. PAUL		CITY OF ST. PAUL	30,000
ST. PAUL	14	CITY OF ST. PAUL	1,275,000
STEBBINS		CITY OF STEBBINS	25,000

TANANA	3	CITY OF TANANA	328,507
VALDEZ		CITY OF VALDEZ	30,000
VALDEZ	15	CITY OF VALDEZ	1,470,000
WASILLA	18	ASHA	1,650,000
WASILLA, PHASE II		ASHA	30,000
WASILLA, PHASE II	14	ASHA	1,260,000
WRANGELL	24	WRANGELL/SENIOR CITIZENS, INC.	1,574,700
YAKUTAT		TLINGIT/HAIDA HSG. AUTH.	30,000
TOTALS	611		43,803,701

BILL SHEFFIELD, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

☐ POUCH B
JUNEAU, ALASKA 99811
PHONE: (907) 465-4700

☐ 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508
PHONE: (907) 563-1073

March 6, 1986

POSITION PAPER

RE: House Bill 553

SPONSOR: Representatives Uehling, Goll and Boucher

Program Effects of the Bill:

HB-553 is an appropriations bill that provides funds for projects for which the Housing Assistance Division is responsible. The itemized projects are those which have planning completed but have not had construction funds awarded by the Division. This has been due to lack of appropriation for this purpose.

Comments:

This bill would cover all the pending project applications, however, all of the specified projects have not been approved as viable and necessary. Normally a development grant is awarded following a rigorous review by a selection committee. The committee makes recommendations based on 1) a demonstration of need for senior citizen housing in a community 2) a determination of the feasibility of any proposed project and 3) the establishment of a plan which shows the ability of the grant recipient to manage and sustain the project from construction or renovation through operation.

If this bill were to pass, all the listed projects would then become directly funded by a legislative appropriation and the Division would automatically fund these projects whether or not they met the above criteria.

If all the above projects were funded, they would eventually provide 241 units of Senior Citizen housing.

It would be preferred that funding be appropriated on the basis that funds be allocated only for projects that prove to be feasible following a review. The Department would prefer that normal safeguards be mandatory through the use of established guidelines.

Emil Notti

Emil Notti, Commissioner

21-P1LH

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : HB 553
Title : Approp: Senior and Low cost Housing.

Sponsor : Uehling
Requestor : _____
Date of Request : _____

FISCAL DETAIL

Agency Affected : DCRA
BRU : _____

Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Clark Boston CB
Division : Housing Assistance Division
Phone : 561-0900
Date : 3/7/86

Approved by Commissioner : Emil Notti
Agency : Community and Regional Affairs
Date : 3/7/86

Distribution (by Agency preparing fiscal note) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85



ALASKA CHAPTER

NATIONAL ASSOCIATION OF SOCIAL WORKERS

March 11, 1986

Representative John Sund, Chair
House Special Committee on Loans
Pouch V
Juneau, Alaska 99811

MAR 14 1986

Dear Representative Sund,

The Alaska Chapter, National Association of Social Workers is writing to advise you of the strong support of our members for the provisions of Section 2 of HB553. The three million dollars proposed for appropriation to the low-income multiple family housing development fund would provide for badly needed low-income housing units in Alaska.

Since 1983, when AS44.47.635 was enacted, social workers around the State have endorsed the Program because our members must daily confront people's desperate needs for affordable housing. We are acutely aware of the housing shortages for people with moderate and low incomes.

As of February 28, 1986, the Alaska State Housing Authority office reported a waiting list of four-hundred ninety-seven families for the available low-income units which ASHA manages in Anchorage alone!! The need for additional affordable housing is obvious.

As oil revenues decline, the Legislature must prioritize spending for the State. Decent housing for all Alaskans should, we believe, be considered as one of the "basics" and identified as a priority for funding. We urge your support for the low-income, multiple family housing development fund appropriation contained in HB553.

Sincerely,

Cecilia Kleinkauf

Cecilia Kleinkauf, Chair
Social Policy & Action Committee
Alaska Chapter, NASW

cc. Representatives Cotten
Fuller
Duncan
Uehling

P.O. Box 101394 • Anchorage, Alaska 99510 • (907) 274-4479

P.O. Box 10430 • Fairbanks, Alaska 99710 • (907) 457-5914

Rep. Peter Goll
Rep. F. Kay Wallis
Rep. Walter Furnace
Rep. Max Gruenberg
Rep. Niilo Koponen
Rep. Albert Adams
Rep. John Ringstad
Rep. Johne Binkley
Rep. Sam Cotten
Rep. Jim Duncan

Rep. Pat Pourchot
Rep. Steve Rieger
Rep. Mike Szymanski
✓Rep. Rick Uehling
Rep. Ronald Larson
Rep. Steve Frank
Rep. Andre Marrou
Rep. Randy Phillips

Alaska State Legislature
P.O. Box V, MS 3100
Juneau, Ak 99811

Regarding House Bill No. 553

Please give your full support to Bill #553. There is a great need for Senior housing in Palmer.

Many Seniors live in up stair apartments. It gets more & more difficult for them to climb stairs.

Single Seniors find it very difficult to maintain a yard and would feel more secure in a housing project.

Sincerely

Mary & George McClure

****

* DELIVER TO: JPOM

*

*

* ORIGINAL

* SENT: 03/19/86 TIME: 15:49

* FROM: BARBARA NORRELL

* SUBJECT: POM

* PRINT DATE: 03/19/86 TIME: 15:50

*

****

6

TO: REPS. BOUCHER, GOLL, UEHLING, LARSON, HURLEY

FROM: DAVE HERNDON, 325 E. 3, ANCHORAGE, AK 99501,

SUBJECT: HB 553, SENIOR AND LOW COST HOUSING

OLDER PERSONS ACTION GROUP URGES APPROPRIATION FOR PROJECTS AT PALMER, HAINES AND HOMER. THESE HAVE COMPLETED PLANNING GRANTS AND ARE READY FOR BID AND CONSTRUCTION NOW. OPAG SUPPORTS OTHER PROJECTS BUT URGES PRIORITY FOR THESE NOW AREADY IN ORDER TO MINIMIZE COST INCREASES.

Rep. Peter Goll
Rep. F. Kay Wallis
Rep. Walter Furnace
Rep. Max Gruenberg
Rep. Niilo Koponen
Rep. Albert Adams
Rep. John Ringstad
Rep. Johne Binkley
Rep. Sam Cotten
Rep. Jim Duncan

Rep. Pat Pourchot
Rep. Steve Rieger
Rep. Mike Szymanski
✓Rep. Rick Uehling
Rep. Ronald Larson
Rep. Steve Frank
Rep. Andre Marrou
Rep. Randy Phillips

Alaska State Legislature
P.O. Box V, MS 3100
Juneau, Ak 99811

MAR 3 1 1986

Regarding House Bill No. 553

Dear Legislator

Iam concerned that 553 might be Cut. In Palmer we started on houses two or three years ago but could not get the Real estate until last fall. The survey at that time was a need for about thirty but it is now about Fourty.

Thank You

Floyd Davis
211 ANNA st.
Palmer.

P.S.
I would not qualify.
F.D.

ALASKA HOUSING FINANCE CORPORATION

Veterans Mortgage Program

Information as of December 31, 1985

	Veterans Bonds Authorized	Issued	Balance Remaining
1982	$400.0 million	$400.0 million	
1983	$500.0 million	$405.0 million	$ 95.0 million
1984	$700.0 million	$452.5 million	$247.5 million

Loans Made:

FY 83	2,484	$ 54,376,200
FY 84	4,016	467,310,100
FY 85	2,507	289,507,600
FY 86	840	101,838,150
	9,847	$913,032,050

FY 86 through December 31, 1985

Total AHFC Loans	2,718	100%
AHFC Loans to Qualified Veterans	840	31%

Summary of Projected Veterans Mortgage Bond Issues

Calendar Year	Total Bond Issuance	1984 Authorization	1986 Authorization
1986	$302.5	$247.5	$ 55.0
1987	302.5		302.5
1988	242.5		242.5
	$847.5	$247.5	$600.0

Eligibility under the Veterans Mortgage Program is restricted by Federal requirements to those veterans who entered the service prior to January 1, 1977 and who have not been out of the service for more than 30 years.

In addition to the requirement for State authorization, Veterans Mortgage Bonds are subject to a Federally imposed calendar year cap of $302.5 million.

The tax proposal recently passed by the House and currently under review by the Senate places the Veterans Mortgage Bonds under a State ceiling of $200 million. The new ceiling would apply to Industrial Development Bonds, Qualified Mortgage (First Time Homebuyer) Bonds, Multifamily Housing Bonds, Qualified Non-Profit Agency Bonds, and Veterans Mortgage Bonds. Thus, housing bonds, including those for veterans, would be required to compete for their share of the $200 million State cap.

The uncertainties associated with the recent tax bill currently preclude the issuance of Veterans Mortgage Bonds.

DATE 12/31/85

ALASKA HOUSING FINANCE CORPORATION
STATE GUARANTEED BONDS - VETERANS MORT.
LOAN SUMMARY MORTGAGES PURCHASED

		FY 1984	%	FY 1985	%	FY 1986 THRU(12/31/85)	%
SALES PRICE		129,877		130,774		135,381	
APPRAISED VALUE		132,673		133,336		138,956	
NOTE AMOUNT		116,362		115,480		121,236	
MONTHLY INCOME		5,009		4,874		5,025	
AGE OF BORROWER		38.4		38.7		39.0	
SIZE OF HOUSEHOLD		3.1		3.1		3.3	
LOAN TO SALES PRICE RATIO		89.59%		88.31%		89.55%	
WEIGHTED AVG INT. RATE		9.51%		10.49%		9.72%	
MONTHLY P&I		982.01		1,055.88		1,038.20	
DWELLING TYPE..	SFR	3,433	85.48	2,179	86.92	753	89.64
	CONDO	362	9.01	193	7.70	28	3.33
	DUPLX	91	2.27	22	.88	7	.83
	PUD	128	3.19	92	3.67	39	4.64
	MOHM	2	.05	17	.68	13	1.55
	TRI-PLEX			4	.16	0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	2,046	50.95	1,210	48.26	342	40.71
	EXISTING	1,970	49.05	1,297	51.74	498	59.29
1ST TIME HOMEOWNER..	YES	1,385	34.49	921	36.74	288	34.29
	NO	2,631	65.51	1,586	63.26	552	65.71
INSURANCE TYPE.....	FHA					0	.00
	VA	1,596	39.74	1,122	44.75	365	43.45
	CONVA	2,420	60.26	1,385	55.25	475	56.55
ELIGIBILITY.....	STVA	4,016	100.00	2,507	100.00	840	100.00
	NON-STVA					0	.00
ORIG. PRINCIPAL BALANCE		487,310,100.00		289,507,600.00		101,838,150.00	
ORIG. NUMBER OF LOANS		4,016		2,507		840	

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 14, 1986

The Honorable Ted Stevens
United States Senate
522 Hart Building
Washington, DC 20510

Dear Senator Stevens:

The U.S. House of Representatives recently approved H.R. 3838, the Tax Reform Act of 1985, which has been sent to the U.S. Senate for consideration. The purpose of this letter is to inform you of how the provisions on tax-exempt bonding would affect the state of Alaska and to request your continued assistance to preserve the benefits of tax-exempt bond financing as an essential component of capital financing in Alaska.

Presently, the state has a federal bond ceiling of $702.5 million for three types of tax exempt bonds: industrial development bonds ($200 million), qualified mortgage bonds ($200 million), and veterans mortgage bonds ($302.5 million), plus an unlimited volume for other major types, such as multifamily housing bonds and qualified nonprofit agency bonds (e.g., hospitals). Under the House tax bill, the volume limit for all of these purposes (and certain others) would be $200 million. This is a decrease of over 70 percent. No other state is so severely impacted.

Without belaboring the point, it is clear that the House tax bill unfairly impacts Alaska in the tax-exempt bond provisions. However, we also realize that in the current fiscal environment, some sacrifices must be made, and our requests for assistance are made in that light.

With respect to the volume cap, we have two recommendations. First, we recommend that efforts be made to remove veterans mortgage bonds from the cap. This change would affect five states and a relatively small amount of bonds, as is shown on the attachment. While bond issues may primarily be a tax matter for the federal government, we believe that on a state-by-state basis this is a programmatic issue concerning men and women who have served their nation well. We have already received an indication that the other four affected states are willing to assist in a coordinated effort to remove veterans mortgage bonds from the volume cap. Please let us know if we can assist your office in this effort.

Second, we request your assistance in getting the volume floor for states with small populations raised from $200 million to $300 million. This change would affect 17 states and amounts to a total possible increase of about $1.5 billion in bonds. We believe this change would go a long way in minimizing the negative impacts of this tax bill on low-population states. Please note that even with such a modification, a low-population state would have a reduction in its maximum tax-exempt bond ceiling of over 25 percent.

We also ask your help in obtaining a transitional exemption from the bill for the Alaska Industrial Development Authority (AIDA) Red Dog project. AIDA applied last summer for a ruling from the Internal Revenue Service on the project and expects to receive shortly a favorable ruling treating the port portion of the project as qualifying for tax-exempt financing under existing law. The bill would not change the basic rule that ports of this type qualify for tax-exempt financing. The bill does, however, narrow the actual elements of the port that qualify. We would like to be able to carry out this financing under the law as now in effect and as dealt with in the ruling. A draft of language that would grant the exemption is attached for your consideration.

Finally, there is the matter of "sunset" provisions. In this case, the tax bill has one very positive provision in that it eliminates the December 31, 1986, sunset on "small issue" industrial development bonds. This specific provision is particularly helpful to Alaska, and we strongly urge you to see that it is retained. The other sunset date is for qualified mortgage bonds which are now due to sunset on December 31, 1987. This date is not changed by the tax bill. If total bond issuance is going to be as restricted as the tax bill mandates, then at least extension or elimination of this sunset should be granted to provide some relief.

If you would like any additional information, such as the number of homes financed, new investments generated, and so forth, please contact us. Thank you again for your past assistance and future efforts.

Sincerely,

Bill Sheffield
Governor

cc: John W. Katz, Special Counsel
State/Federal Relations

PROPOSED TRANSITIONAL EXEMPTION FROM H.R. 3838

The amendments made by section 701 shall not apply to obligations substantially all of the proceeds of which are to be used to provide financing for a dock and directly related storage facilities which are part of a transportation project to which a State legislature appropriated, effective July 1, 1985, (1) $12,000,000 in money or marketable securities and (2) notes (or other evidence of debt) representing prior loans from the State or its instrumentalities to persons or business in the State with an aggregate unpaid principal balance in excess of $130,000,000. The aggregate face amount of obligations (exclusive of refunding obligations) to which this paragraph applies shall not exceed $175,00,000.

ATTACHMENT

ALASKA HOUSING FINANCE CORPORATION

VETERANS BONDS VOLUME CAPS

State	Volume Cap (millions)
Alaska	$302.5
California	340.0
Oregon	584.0
Texas	250.0
Wisconsin	93.0
TOTAL	$1,569.5

EFFECT OF $200 MILLION VERSUS $300 MILLION VOLUME FLOOR
(amounts in millions of dollars)

Affected State	Volume Under $200 Million Floor *	Volume Under $300 Million Floor
Alaska	$ 200	$ 300
Delaware	200	300
Dist. of Columbia	200	300
Hawaii	200	300
Idaho	200	300
Maine	203	300
Montana	200	300
Nebraska	284	300
Nevada	200	300
New Hampshire	200	300
New Mexico	243	300
North Dakota	200	300
Rhode Island	200	300
South Dakota	200	300
Utah	278	300
Vermont	200	300
Wyoming	200	300
TOTAL	$3,608	$5,100

* Volume cap is the greater of $175 per capica or the floor amount

ed.1

HB 533

BILL SHEFFIELD
GOVERNOR

1/31

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

1/30/86

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that would place before the voters a bond proposition for the sale of up to $600,000,000 in state-guaranteed veterans' mortgage bonds. Federal law allows the sale of tax-exempt state-guaranteed mortgage revenue bonds for the purchase of residential mortgages made to qualified veterans. The use of tax-exempt bonds enables the Alaska Housing Finance Corporation to purchase qualified veterans' mortgages at a substantial savings to the state.

Similar bond propositions were presented to the voters in 1982, 1983, and 1984, and on each occasion the propositions were approved by substantial margins.

I recommend your prompt consideration and approval of this bill.

Sincerely,

Bill Sheffield
Governor

1/31/86 79

page 172

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : _____

REQUEST HB 533 #1

Bill/Resolution No. : _____

Title : An Act relating to issuance of tax exempt, state-guaranteed revenue Bonds - AHFC/veterans

Sponsor : Rules/Rqst of Governor

Requestor : AHFC/Department of Revenue

Date of Request : 9-13-85

FISCAL DETAIL

Agency Affected : Office of the Governor

BRU : Elections

Components : I

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE		3.3 *				

FUNDING : (Thousands of Dollars)

GENERAL FUND		3.3 *				
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

* Costs included cover 2 to 3 additional pages in each Official Election Pamphlet, for printing and typesetting, and estimated costs of computer programming requirements for vote counting purposes. However, these cost are based on the assumption that all candidates and issues will fit CONT.

Prepared by : Linda Edgeworth Phone : x 4611

Division : Division of Elections Date : 12-18-85

Approved by Commissioner : Sandra Stout Date : 12/19/85

Agency : Office of Lt. Governor

Distribution (by Agency preparing fiscal note) :

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

10/25/85

An Act relating to issuance of tax exempt, state-guaranteed revenue bonds - AHFC/veterans

on three ballot cards which is the norm. It should be noted that should the inclusion of this issue require a 4th ballot to be printed, the cost increase at 16¢ each x 320,000 ballots, for a total of $51.2.

Under these circumstances the fiscal note would be:

STATE OF ALASKA 1986 LEGISLATIVE SESSION
Page 1 of 2
FISCAL NOTE

Revision Date : _____

REQUEST HB 533 #2

Bill/Resolution No. : _____
Title : Act relating to issuance of tax-exempt state guaranteed bonds by AHFC for Veterans housing
Sponsor : _____
Requestor : Governor
Date of Request : _____

FISCAL DETAIL

Agency Affected : Revenue
BRU : Alaska Housing Finance Corporation
Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

SEE ATTACHED

Prepared by : Mark Cameron | Phone : 276-5599
Division : Alaska Housing Finance Corporation | Date : December 29, 1985
Approved by Commissioner : Stan Stephens | Date : 1/2/86
Agency : _____

Distribution (by Agency preparing fiscal note)
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

The attached bond proposition authorized the issuance of $600 million state-guaranteed revenue bonds by AHFC to purchase resdidential loans made to veterans. This proposition will enable the continuation of the Corporation's Veterans Mortgage Program implemented in 1983. A total of $1,257,000,000 State Guaranteed Veterans bonds have been issued by AHFC through calendar year 1985. The guarantee by the state of Alaska permitted by the favorable passage of bond proposition is necessary under federal law to sell the bonds in the tax-exempt market. Funding of the Veterans Mortgage Program in the tax-exempt market results in a reduction of the state subsidy related to the purchase of the veteran's mortgages by approximately 2/3rds.

It is assumed that the veteran's mortgage loans will be purchased by the Corporation irrespective of the receipt of the tax-exempt bond authorization. Accordingly, there is no fiscal impact on the operating budget.

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST HB 533 #3

Revision Date : _____

Bill/Resolution No. : Law Log 377-055-86
Title : _____

Sponsor : _____
Requestor : _____
Date of Request : _____

FISCAL DETAIL

Agency Affected : _____
BRU : _____

Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

No fiscal impact

Prepared by : Charles T. Borg Phone : 243-0656
Division : Office of the Adjutant General Date : 12-30-85

Approved by Commissioner : [signature] Deputy Comm Date : 12-30-85
Agency : Department of Military & Veterans Affairs

Distribution (by Agency preparing fiscal note) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

WORK DRAFT WORK DRAFT WORK DRAFT

Ford
4/9/86

Original sponsors: Uehling, Goll,
Boucher, et al

Funding Information
General Fund $8,500,000
Other Funds -0-
$8,500,000

IN THE HOUSE BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 553 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making special appropriations to the Department of Community and Regional Affairs for senior citizen housing development grants and for low-cost and low-income housing development; and providing for an effective date."

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

* Section 1. The sum of $7,000,000 is appropriated from the general fund to the senior citizens housing development fund in the Department of Community and Regional Affairs for the purpose of making grants under AS 44.47.620 for senior citizen housing development.

* Sec. 2. The sum of $1,500,000 is appropriated from the general fund to the low-cost and low-income multiple family housing development fund (AS 44.47.635) in the Department of Community and Regional Affairs for the purpose of developing low-cost, low-income multiple family housing.

* Sec. 3. The appropriations made by this Act are for capital projects and are subject to AS 37.25.020.

* Sec. 4. This Act takes effect July 1, 1986.

SCOMM
#50:36

SECTIONAL ANALYSIS OF THE ALASKA STUDENT LOAN CORPORATION

*Section 1.

Sec. 14.42.100. ALASKA STUDENT LOAN CORPORATION. This paragraph creates the Alaska Student Loan Corporation. The corporation cannot be terminated while debt obligations are outstanding.

Sec. 14.42.110 PURPOSE OF CORPORATION. This paragraph establishes the purpose of the corporation to provide higher education opportunities for residents of Alaska.

Sec. 14.42.120. CORPORATION GOVERNING BODY. The Corporation shall be governed by an executive committee of five members made up from the thirteen members of the Alaska Commission on Postsecondary Education Board. The board members are made up of one member of the State Board of Education and four members are from the rest of the board excluding the two legislative members. Board members shall receive travel and per diem.

Sec. 14. 42.130. MEETING OF THE BOARD. A majority of the board constitutes a quorum for the organization. The board meetings may be conducted by electronic media. Any board meeting where bonds are authorized shall have a twenty-four hour notice.

Sec. 14.42.140. MINUTES OF MEETINGS. The board shall keep minutes of every meeting and shall send copies to the governor and legislative audit committee.

Sec. 14.42.150. ADMINISTRATION OF AFFAIRS. The board may pass by-laws and manage the affairs of the coporation and delegate supervision of the executive director.

Sec. 14.42.160. EXECUTIVE DIRECTOR. The coporation shall employ an executive director who is the executive director of the Commission on Postsecondary Education.

Sec. 14.42.170. EMPLOYMENT OF PERSONNEL. The executive director may hire employees in the exempt service. The board may appoint other officers and engage professionals.

Sec. 14.41.190. EXECUTIVE BUDGET ACT. The operating budget of the corporation is subject to the Executive Budget Act.

Sec. 14.41.200. EXECUTIVE POWERS. The coporation has the powers to sue and be sued, adopt an official seal, adopt bylaws, employ consultants, enter into contracts, receive and administer gifts or grants according to the terms and conditions of gift or grant, acquire an interest in real property, borrow money, pay finance charges and interest, invest money, collect from borrowers, gather information on loans, require an elegible institution to file

reports, service student loans, obtain information about students applying for loans, make or participate in making student loans, contract for purchase of student loans for sale, sell student loans, collect and pay reasonable fees as well as charges in connection with student loans, enter into agreements on student loans concerning federal student loans, enter into contracts with lenders about contracts on student loans, enter into contracts with institutions on student loans, administer federal money, consent to the modification of terms of the student loans, procure insurance against losses, provide advisory services to borrowers, do all acts necessary to carry out the powers implied in this chapter.

Sec. 14.42.210. STUDENT LOAN FUND. Creates a student loan fund inside the corporation to make student loans and secure bond issues the proceeds of which are used to make student loans.

Sec. 14.42.220. BONDS OF THE CORPORATION. The Corporation may borrow money and issue bonds secured by the income and receipts from student loans and other assets. The bonds are issued by resolutions. Each bond issue shall have a maturity of twenty years or less and be subject to the Uniform Commercial Code. The corporation cannot issue an amount of bonds more than $45 million a year. The corporation may enter into trust agreements to secure bond issues and create covenants as to investments, collections of loan payments, assignment of corporation interest, in terms and conditions under which additional bonds may be issued. The trustee shall be given the right to enforce these rights on behalf of the bond holders.

Sec. 14.42.240. CAPITAL RESERVE FUNDS AND CAPITAL RESERVE FUND REQUIREMENTS. This section creates the Capital Reserve Fund. These paragraphs create what is commonly know as the moral obligation of the State to repay these bonds.

Sec. 14.42.250. VALIDITY OF PLEDGE. Bonds issued under this chapter shall be valid and binding against all parties having claim of any kind from the corporation.

Sec. 14.42.260. NONLIABILITY OF BONDS. Members of the corporation are not subject to personal liability for issuance of the bonds. The bonds issued do not constitute liability for the State but are payable solely from the income and receipts of the corporation.

Sec. 14.42.270. PLEDGE OF STATE. The State pledges not to alter or limit the rights of bond holders interst when the bonds are outstanding.

Sec. 14.42.280. EXEMPTION FROM TAXATION. The real and personal property of the corporation are not subject to state or local tax.

Sec. 14.42.290. BONDS LEGAL INVESTMENTS FOR FIDUCIARIES. Bonds are legal investments for all fiduciaries and municipalities in the State.

Sec. 14.42.310. OPERATION OF CERTAIN STATUTES EXCEPTED. The corporation may not be considered or constitute a political subdivision for the purpose of lending it's credit. The corporation is not considered a municipal corporation under Title 29. The funds and real estate of the corporation are not considered property of the State.

Sec. 14.42.320. ANNUAL AUDIT. The coporation shall have an annual audit.

*Section 2.

Scholarship loans may not be made to students who attend an institution where the default rate on loans made to students to attend the institution exceeds the program default rate by more than 150%.

*Section 3.

This Act has an immediate effect date.

IN THE _____ BY_____

_____BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA
FOURTEENTH LEGISLATURE - SECOND SESSION
A BILL

For an Act entitled: "An Act relating to student loans; creating the Alaska Student Loan Corporation; and providing for an effective date."

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

* Section 1. AS 14.42 is amended by adding new sections to read:

ARTICLE 2. ALASKA STUDENT LOAN CORPORATION

Sec. 14.42.100. CREATION OF ALASKA STUDENT LOAN CORPORATION. There is created the Alaska Student Loan Corporation. The corporation is a public corporation and government instrumentality within the Department of Education but having a legal existence independent of and separate from the state. The corporation may not be terminated as long as it has bonds, notes or other obligations outstanding. Upon termination of the corporation, its rights and property pass to the state.

Sec. 14.42.110. PURPOSE OF CORPORATION. The purpose of the corporation is to improve higher educational opportunities of residents of Alaska in accordance with the provisions of this chapter.

Sec. 14.42.120. CORPORATION GOVERNING BODY. (a) The corporation shall be governed by a board of directors, selected by the governor, consisting of four individuals serving on the Commission of Postsecondary Education pursuant to AS 14.42.015(a)(1) - (2), (4)-(6) and (8), and one member appointed under AS 14.42.015(a)(3). Members of the board serve without compensation but are entitled to per diem and travel expenses as may be authorized by law for boards and commissions.

Sec. 14.42.130. MEETING OF THE BOARD. (a) The board shall elect a chairman from among the membership at its annual meeting each year. A majority of the members constitute a quorum for organizing the board, conducting its business and exercising the powers of the corporation. The board shall meet at the call of its chairman and at such other times as the board may determine in accordance with its regulations.

(b) The board may meet and transact business by electronic media if

(1) public notice of the time and locations where the meeting will be held by electronic media has been given in the same manner as if the meeting were held in a single location;

(2) participants and members of the public in attendance can hear and have the same right to participate in the meeting as if the meeting were conducted in person; and

(3) copies of pertinent reference materials, statutes, regulations, and audiovisual materials are reasonably available to participants and the public.

(c) A meeting by electronic media as provided in this

section has the same legal effect as a meeting in person.

(d) For purposes of AS 14.42.100 - 114.42.310, public notice of 24 hours or more is adequate notice of a meeting of the board at which the issuance of corporation bonds is authorized.

Sec. 14.42.140. MINUTES OF MEETINGS. The board shall keep minutes of each meeting and send a certified copy to the governor and to the Legislative Budget and Audit Committee.

Sec. 14.42.150. ADMINISTRATION OF AFFAIRS. The board shall manage the assets and business of the corporation and may prescribe, amend and repeal bylaws and regulations governing the manner in which the business of the corporation is conducted and the manner in which its powers are exercised in accordance with the administrative procedures act AS 44-160. The board shall delegate supervision of the administration of the corporation to the executive director of the corporation.

Sec. 14.42.160. EXECUTIVE DIRECTOR. The corporation shall employ an executive director, who may not be a member of the board. The executive director shall be the executive director of the Commission on Postsecondary Education appointed under AS 4:42.040a.

Sec. 14.42.170. EMPLOYMENT OF PERSONNEL. The board may appoint other officers and engage professional and technical advisors as independent contractors. The executive director may hire employees of the corporation and, subject to the approval of the board, engage professional and technical advisors under contract with the corporation. The board shall prescribe the duties and compensation of corporation personnel, including the executive director.

Sec. 14.42.190. EXECUTIVE BUDGET ACT. The operating budget of the corporation is subject to the Executive Budget Act (AS 37.07).

Sec. 14.42.200. EXECUTIVE POWERS. In addition to other powers granted in this chapter, the corporation may

(1) sue and be sued in its own name;

(2) adopt an official seal;

(3) adopt bylaws for the regulation of its affairs and the conduct of its business;

(4) employ fiscal consultants, attorneys, and such other consultants and employees as may be required in the judgment of the corporation, and fix and pay their compensation from money available to the corporation;

(5) make and execute agreements, contracts and other instruments necessary or convenient in the exercise of the powers and functions of the corporation under this chapter, including contracts with any person, firm, corporation, governmental agency or other entity;

(6) receive, administer, and comply with the conditions and requirements respecting any appropriation or gift, grant or donation of property or money;

(7) acquire real property, or any interest in real property, in its own name, by purchase, transfer or foreclosure, when the acquisition is necessary or appropriate to protect any loan in which the corporation has an interest; sell, transfer and convey any such property to a buyer; and, if the sale, transfer or

conveyance cannot be effected with reasonable promptness or at a reasonable price, rent or lease the property to a tenant pending the sale, transfer or conveyance;

(8) borrow money as provided in this chapter to carry out and effectuate its corporate purposes and issue its obligations as evidence of any such borrowing;

(9) include in any borrowing the amounts necessary to pay financing charges, interest on the obligations for a period not exceeding one year after the date on which the corporation estimates funds will otherwise be available to pay the interest, consultant, advisory and legal fees and such other expenses as are necessary or incident to this borrowing;

(10) invest or reinvest, subject to its contracts with noteholders and bondholders, any money or funds held by the corporation in any obligations or other securities authorized under AS 37:10:070.

(11) collect from a borrower amounts owed with respect to a student loan the corporation has purchased or made;

(12) gather information on loans available to residents of Alaska attending or planning to attend an eligible institution and disseminate the information to reasonably assure that qualified students are aware of financial resources available to those attending or desiring to attend an eligible institution;

(13) require an eligible institution or eligible lender to file reports with the corporation as the corporation considers necessary for the effective performance of its duties and publish the information form the reports or other sources as the corporation considers necessary;

(14) service student loans held by the corporation;

(15) except as specifically prohibited by law, obtain information from a state agency or instrumentality or other source to verify information submitted by or on behalf of a student applying for or receiving assistance from the corporation;

(16) make or participate in the making of and purchase or participate in the purchase of student loans;

(17) contract in advance for the purchase or sale of student loans;

(18) sell or participate in the sale, either public or private and on terms authorized by the board, or student loans to the Student Loan Marketing Association or to other purchasers;

(19) collect and pay resonable fees and charges in connection with the purchase, sale, and servicing of student loans,

(20) enter into agreements with the federal government (including guaranty agreements and supplemental guaranty agreements as described in the United States Higher Educaiton Act of 1965) as necessary to provide for the recipt by the corporation of administrative allowances and other benefits available under the United States Higher Education Act of 1965;

(21) enter into contracts with lenders upon terms and conditions agreed upon between the corporation and the lenders, which terms and conditions may reflect the requirements of the United States Higher Education Act of 1965;

(22) enter into contracts with institutions upon the terms and conditions agreed upon between the corporation and the

institutions, which terms and conditions may reflect the requirements of the United States Higher Education Act of 1965;

(23) administer federal money allotted to the state with respect to insured student loans and related administrative costs and other matters;

(24) consent to the modification of the rate of interest, time of payment of an installment of principal or interest, or other terms of a student loan made or purchased by the corporation;

(25) procure insurance against any loss in connection with the operation of its programs under this chapter;

(26) provide advisory services to borrowers and other participants in the corporation's programs under this chapter;

(27) do all acts and things necessary, convenient or desirable to carry out the powers expressly granted or necessarily implied in this chapter.

(28) Sec. 14.42.210. STUDENT LOAN FUND. (a) The student loan fund is established in the corporation. The student loan fund is a trust fund for the uses and purposes of AS 14.42.010-310. The student loan fund consists of money or assets appropriated or transfered to the corporation and other money or assets deposited in it by the corporation.

(b) Money and other assets of the student loan fund may be used to secure bonds of the corporation in the types of investments under AS 37.100.070 A or shall be used to make or purchase loans approved under AS.14.43.090-160.

Sec. 14.42.220. BONDS OF THE CORPORATION. (a) Subject to (g) of this section, the corporation may borrow money and may issue bonds, including but not limited to bonds on which the principal and interest are payable, (1) exclusively from the income and receipts or other money derived from the loans financed with the proceeds of the bonds, (2) exclusively from the income and receipts or other money derived from designated loans whether or not they are financed in whole or in part with the proceeds of the bonds, or (3) from its income and receipts or other assets generally, or a designated part or parts of them.

(b) Bonds shall be authorized by resolution of the authority, and be dated and shall mature more than 20 years from the date of its issue. Bonds shall bear interest at the rate or rates, be in the denominations, be in the form, either coupon or registered, carry the registration privileges, be executed in the manner, be payable in the medium of payment, at the place or places, and be subject to the terms of redemption which the resolution or a subsequent resolution may provide.

(c) All bonds, regardless of form or character, shall be negotiable instruments for all the purposes of the Uniform Commercial Code.

(d) All bonds may be sold at public or private sale in the manner, for the price or prices, and at the time or times which the corporation may determine.

(e) Before the issuance of any bonds, the corporation shall make provision by agreement or otherwise at least sufficient in the judgment of the corporation to pay the principal of and interest on the bonds as they become due and to create and maintain the reserves therefor as the corporation considers necessary or

desirable and to meet all obligations in connection with the agreement and all costs necessary to service the bonds unless the agreement provides that the obligations are to be met or costs are to be paid by a party other than the corporation.

(f) The superior court shall have jurisdiction to hear and determine suits, actions or proceedings relating to the corporation, including suits, actions or proceedings brought to foreclose or otherwise enforce a mortgage or other security interest or brought by or for the benefit of a holder of its bonds or by a trustee for or other representative of the holders.

(g) The corporation may not issue bonds during any fiscal year in an amount greater than $100,000,000 unless the legislature, by law, approves issuance of a greater amount..

Sec. 14.42.230. TRUST INDENTURES AND TRUST AGREEMENTS. In the discretion of the corporation, an issue of bonds may be secured by a trust indenture or trust agreement between the corporation and a corporate trustee (which may be a trust company, bank, or national banking association, with corporate trust powers, located inside or outside the state) or by a secured loan agreement or other instrument or under a resolution giving powers to a corporate trustee (hereinafter in this section referred to as "trust agreement") by means of which the corporation may:

(1) make and enter into any and all the covenants and agreements with the trustee or the holders of the bonds which the corporation may determine to be necessary or desirable, including, without limitation, covenants, provisions, limitations and agreements as to

(A) the application, investment, deposit, use and disposition of the proceeds of bonds of the corporation or of money or other property of the corporation or in which it has an interest;

(B) the fixing and collection of loan payments and other consideration for, and the other terms to be incorporated in, a student loan;

(C) the assignment by the corporation of its rights in a student loan or in a mortgage or other security interest created with respect to a student loan to a trustee for the benefit of bondholders;

(D) the terms and conditions upon which additional bonds of the corporation may be issued

(E) the vesting in a trustee of rights, powers, duties, funds or property in trust for the benefit of bondholders, including, without limitation, the right to enforce payment, performance and all other rights of the corporation or of the bondholders, under a student loan or a security interest created with respect to a student loan;

(2) pledge, mortgage or assign money, agreements, property, or other assets of the corporation either presently in hand or to be received in the future, or both; and

(3) provide for any other matters of like or different character which in any way affect the security or protection of the bonds.

SEC. 14.42.240. CAPITAL RESERVE FUNDS AND CAPITAL RESERVE FUND REQUIREMENTS. (a) For the purpose of securing one or more issues of its bonds, the corporation may establish one or more

special funds, called "capital reserve funds", and shall pay into those capital reserve funds the proceeds of the sale of its bonds and other moneys which may be made available to the corporation from other sources for the purposes of the capital reserve funds. A capital reserve fund may be established only if the corporation determines that the establishment of the fund would enhance the marketability of the bonds. Money in a capital reserve fund, except as provided in this section, may be used as required only for (1) the payment of the principal of, and interest on, bonds or of the sinking fund payments with respect to those bonds; (2) the purchase or redemption of the bonds, or (3) the payment or a redemption premium required to be paid when the bonds are redeemed before maturity. However, money in a capital reserve fund may not be withdrawn if the withdrawal would reduce the amount in the capital reserve fund to les than the capital reserve fund requrement, except for the purpose of making payment, when due, of principal, interest redemption premiums on the bonds, and sinking fund payments when other money of the corporation is not available for the payments. Income or interest earned by, or increment to, a capital reserve fund, from the investment of all or part of the fund, may be transferred by the corporation to other funds or accounts of the corporation if the transfer does not reduce the amount of the capital reserve fund below the capital reserve fund requirement.

(b) If the corporation decides to issue bonds secured by a capital reserve fund, the bonds may not be issued if the amount in the capital reserve fund is less than the capital reserve fund requirement, unless the corporation, at the time of issuance of the bonds, deposits in the capital reserve fund from the proceeds of the bonds to be issued or from other sources, an amount which, together with the amount then in the fund, is not less than the capital reserve fund requirement.

(c) In computing the amount of a capital reserve fund for the purpose of this section, securities in which all or a portion of the fund is invested shall be valued by a reasonable method established by the corporation by resolution. Valuation shall include the amount of interest earned or accrued as of the date of valuation.

(d) The chairman of the corporation shall annually, no later than January 2, certify in writing to the governor and the legislature the amount, of any, required to restore a capital reserve fund to the capital reserve fund requirement. The legislature may appropriate to the corporation the amount certified by the chairman of the corporation. The corporation shall deposit the amounts appropriated under this subsection during a fiscal year in the proper capital reserve fund. Nothing in this section created a debt or liability of the state.

(e) In this section, "capital reserve fund requirement" means the amount required to be on deposit in the capital reserve fund as of the date of computation as determined by resolution of the corporation.

(f) The corporation may establish reserve funds, other than capital reserve funds, to secure one or more issues of its bonds. The corporation may deposit in a reserve fund established under this subsection the proceeds of sale of its bonds and other

money which may be made available from any other source. A reserve fund established under this subsection must comply with (a) - 9c) of this section. The corporation may allow a reserve fund established under this subsection to be depleted without complying with (d) of this section.

Sec. 14.42.250. VALIDITY OF PLEDGE. It is the intention of the legislature that a pledge made in respect of bonds shall be valid and binding from the time the pledge is made; that the money or property so pledged and thereafter received by the corporation shall immediately be subject to the lien of the pledge without physical delivery or further act; and that the lien of the pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the corporation irrespective of whether the parties have notice. Neither the resolution, trust agreement nor any other instrument by which a pledge is created need be recorded or filed under the provisions of the Uniform Commercial Code to be valid, binding or effective against the parties.

Sec. 14.42.260. NONLIABILITY ON BONDS. (a) Neither the members of the corporation nor a person executing the bonds are liable personally on the bonds or are subject to personnel liability or accountability by reason of the issuance of the bonds.

(b) The bonds issued by the corporation do not constitute an indebtedness or other liability of the state or of a political subdivision of the state, except the corporation, but shall be payable solely from the income and receipts or other funds or property of the corporation. The corporation may not pledge the faith or credit of the state or of a political subdivision of the state (except the corporation) to the payment of a bond and the issuance of a bond by the corporation does not directly or indirectly or contingently obligate the state or a political subdivision of the state to applyh money from, or levy or pledge any form of taxation whatever to the payment of the bond.

Sec. 14.42.270. PLEDGE OF STATE. The state pledges to and agrees with holders of bonds issued under this chapter that the state will not limit or alter the rights and powers vested in the corporation by this chapter to fulfill the terms of a contract made by the corporation with the holders or in any way impair the rights and remedies of the holders until the bonds, together with the interest on them with interest on unpaid installments of interest, and all costs and expenses in connection with an action or proceeding by or on behalf of the holders, are fully met and discharged. The corporation is authorized to include this pledge and agreement of the state in a contract with the holders.

Sec. 14.42.280. EXEMPTION FROM TAXATION. The real and personal property of this corporation and its assets, income and receipts are declared to be the property of a political subdivision of the state and devoted to an essential public and governmental function and purpose, and the property, assets income, receipts, and other interests of the corporation shall be exempt from all taxes and special assessments of the state or a political subdivision of the state, including, without limitation, all boroughs, cities, municipalities, school districts, public utility districts and other

taxing units. All bonds of the corporation are declared to be issued by a political subdivision of the state and for an essential public and governmental purpose and to be a public instrumentality, and the bonds, and the interest on them, the income from them and the transfer of the bonds, and all assets, income and receipts pledged to pay or secure the payment of the bonds, or interest on them, shall at all times be exempt from taxation by or under the authority of the state, except for inheritance and estate taxes and taxes on transfers by or in contemplation of death. Nothing in this section affects or limits an exemption from license fees, property taxes, or excise, income or any other taxes provided under any other law, nor does it create a tax exemption with respect to the interest of any business enterprise or other person, other than the corporation, in any property, assets, income, receipts, or other interests.

SEC. 14.42.290. BONDS LEGAL INVESTMENTS FOR FIDUCIARIES. The bonds of the corporation are securities in which all public officers and bodies of the state and all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks, savings associations, including savings and loans associations anmd building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or other obligations of the state, may properly and legally invest funds including any other provisions of law, the bonds of the corporation are also securities which may be deposited with and may be received by all public officers and bodies of this state and all municipalities and municipal subdivisions for any purpose for which the deposit of bonds or other obligations of the state is now or may hereafter be authorized.

Sec. 14.42.310. OPERATION OF CERTAIN STATUES EXCEPTED.

(a) The corporation shall not be considered or constitute (1) a political subdivision of the state as the term is used in AS 37.10.085, (2) a municipal corporation or political subdivision of the state as the terms are used in AS 29, or (3) except as provided in AS 14.42.330, a state agency as the term is used in AS 37, but for all other purposes the corporation constitutes a political subdivision and an instrumentality of the state as provided in this chapter.

(b) The funds, income or receipts of the corporation shall not be considered or constitute money of the state, nor shall real property in which the corporation has an interest be considered land owned in fee by the state or to which the state may become entitled or in any way lands belonging to the state, or state lands referred to in Art. VIII of the Alaska Constitution.

Sec. 14.42.320. ANNUAL AUDIT. The corporation shall have its financial records audited annually by the legislative auditor or by a certified public accountant approved by the legislative auditor. The legislative auditor may prescribe the form and content of the financial records of the corporation and shall have access to

these records at any time.

Sec. 14.42.330. OPERATING BUDGET. The operating budget of the corporation is subject to the Executive Budget Act (AS 37.07).

Sec. 2. 14.43.120(d) is amended to read:

(d) scholarship loans may not be made to a student

(1)for more than five years of undergraduate study;

(2)for more than five years of graduate study;

(3)for more than a total of eight years of undergraduate and graduate study;

(4)<u>to attend an institution for which the default rate on loans made to students to attend the institution exceeds the program default rate by more then 150%</u>.

Sec. 3. This Act takes effect immediately in accordance with AS 01.10.070(c).

NUVEEN

John Nuveen & Co. Incorporated
Investment Bankers

240 Main Street, Suite 601
Juneau, Alaska 99801

Telephone 907.5
907.586.1708

April 24, 1986

Senator Frank Ferguson
State of Alaska
P.O. Box V
Juneau, Alaska 99811

Dear Senator Ferguson:

We have run several different scenarios as to the level of bonds that can be financed on a sustained basis versus the terms on the loans and have found the following results:

Leaving the Student Loan Program exactly like it is with a 5% interest rate and forgiveness clause allows us to sell $40 million worth of bonds per year on a sustained basis assuming there are $80 milllion in loans to be funded each year.

If the interst rate is raised from 5% to 8%, $45 million of bonds can be sold with a $35 million equity contribution to the general fund.

If the state abolishes forgiveness on the student loans, the ratio is $48 million of bonds and $32 million of appropriation.

If the state abolishes both the forgiveness clause and charge 8%, $55 million in bonds could be financed with a $25 million general fund contribution.

Yours Truly,

JOHN NUVEEN & CO. INCORPORATED

Sterling Gallagher
Vice President

ALASKA COMMISSION ON POSTSECONDARY EDUCATION
ALASKA STUDENT LOAN PROGRAM
ANALYSIS OF LOAN REPAYMENT

YEAR ENDING 6/30	VOLUME OF STUDENT LOANS MADE	LOANS BEGINNING REPAYMENT	CUMULATIVE LOANS IN REPAYMENT	UNADJUSTED REPAYMENT CASH FLOW	REPAYMENT ADJUSTED FOR DEFAULTS	LESS: LOANS FORGIVEN	NET LOAN COLLECTIONS
1972	1,603,158	0	0	0	0	0	0
1973	2,870,384	0	0	0	0	0	0
1974	2,986,176	240,474	240,474	31,142	26,471	4,632	21,839
1975	2,659,807	783,252	1,023,726	132,577	112,691	19,721	92,970
1976	3,382,997	1,640,516	2,664,242	345,032	293,277	51,323	241,953
1977	3,850,507	2,397,227	5,061,470	655,483	557,161	97,503	459,658
1978	4,604,167	2,820,707	7,882,177	1,020,778	867,661	151,841	715,821
1979	6,416,402	3,055,447	10,937,624	1,416,472	1,204,001	210,700	993,301
1980	9,373,949	3,487,061	14,424,685	1,868,063	1,587,853	277,874	1,309,979
1981	15,957,717	4,226,198	18,650,883	2,415,375	2,053,068	359,287	1,693,782
1982	40,559,499	5,460,112	24,110,995	3,122,484	2,654,112	464,470	2,189,642
1983	55,007,395	7,928,727	32,039,722	4,149,291	3,526,897	617,207	2,909,690
1984	62,912,316	14,530,168	46,329,416	5,999,871	5,099,891	892,481	4,207,410
1985	75,075,883	25,140,833	70,686,997	9,154,289	7,781,146	1,361,701	6,419,445
1986	80,675,498	39,682,445	108,728,925	14,080,893	11,968,759	2,094,533	9,874,226
1987	0	53,857,540	160,189,238	20,745,239	17,633,453	3,085,834	14,547,599
1988	0	64,536,012	221,904,542	28,737,653	24,427,005	4,274,726	20,152,279
1989	0	60,798,315	279,647,410	36,215,619	30,783,276	5,387,073	25,396,203
1990	0	48,248,123	324,408,472	42,012,381	35,710,524	6,249,342	29,461,182
1991	0	21,953,895	342,136,169	44,308,199	37,661,969	6,590,845	31,071,125
1992	0	5,535,293	342,211,350	44,317,935	37,670,245	6,592,293	31,077,952
1993	0	1,613,510	335,896,133	43,500,086	36,975,073	6,470,638	30,504,435
1994	0	0	321,365,965	41,618,363	35,375,608	6,190,731	29,184,877
1995	0	0	296,225,132	38,362,510	32,608,133	5,706,423	26,901,710
1996	0	0	256,542,687	33,223,452	28,239,934	4,941,988	23,297,945
1997	0	0	202,685,148	26,248,654	22,311,356	3,904,487	18,406,869
1998	0	0	138,149,136	17,890,945	15,207,303	2,661,278	12,546,025
1999	0	0	77,350,821	10,017,285	8,514,692	1,490,071	7,024,621
2000	0	0	29,102,698	3,768,932	3,203,593	560,629	2,642,964
2001	0	0	7,148,803	925,803	786,932	137,713	649,219
2002	0	0	1,613,510	208,957	177,613	31,082	146,531
2003	0	0	0	0	0	0	0
	367,935,855	367,935,855	3,679,358,550	476,493,765	405,019,700	70,878,448	334,141,253

TIMING OF FIRST LOAN REPAYMENT:

1 YEAR AFTER LOAN IS MADE	0 %
2 YEARS AFTER LOAN IS MADE	15 %
3 YEARS AFTER LOAN IS MADE	22 %
4 YEARS AFTER LOAN IS MADE	35 %
5 YEARS AFTER LOAN IS MADE	21 %
6 YEARS AFTER LOAN IS MADE	5 %
7 YEARS AFTER LOAN IS MADE	2 %

ALASKA COMMISSION ON POSTSECONDARY EDUCATION
ALASKA STUDENT LOAN PROGRAM
SERIES 1986 VARIABLE RATE DEMAND BONDS
ANALYSIS OF AMORTIZATION (FUTURE LOANS AT 0%)

YEAR ENDING 6/30	NEW BOND LOANS MADE	EQUITY & RECYCLED LOANS MADE	COLLECTIONS ON PRIOR LOANS +	COLLECTIONS ON NEW BOND LOANS ++	COLLECTIONS ON EQUITY LOANS ++	OUTSTANDING PRINCIPAL	INTEREST	PRINCIPAL RETIREMENT	ENDING PRINCIPAL BALANCE
1987	45,000,000	37,912,599	14,547,599	0	0	45,000,000	4,500,000	7,135,000	37,865,0
1988	45,000,000	39,030,779	20,152,279	0	0	82,865,000	8,286,500	7,835,000	75,030,0
1989	45,000,000	40,342,944	25,396,203	705,422	594,319	120,030,000	12,003,000	9,350,000	110,680,0
1990	45,000,000	41,801,480	29,461,182	2,445,462	2,077,836	155,680,000	15,568,000	11,615,000	144,065,0
1991	45,000,000	43,900,487	31,071,125	5,831,487	4,994,376	189,065,000	18,906,500	14,610,000	174,455,0
1992	45,000,000	45,024,450	31,077,952	10,205,102	8,836,896	219,455,000	21,945,500	18,150,000	201,305,0
1993	45,000,000	46,646,137	30,504,435	14,813,857	13,008,345	246,305,000	24,630,500	22,030,000	224,275,0
1994	45,000,000	48,223,146	29,184,877	19,516,669	17,409,100	269,275,000	26,927,500	25,960,000	243,315,0
1995	45,000,000	49,622,038	26,901,710	24,219,481	21,972,348	288,315,000	28,831,500	29,640,000	258,675,0
1996	45,000,000	50,705,635	23,297,945	28,922,293	26,702,897	303,675,000	30,367,500	32,770,000	270,905,0
1997	45,000,000	51,790,074	18,406,849	33,625,104	31,598,601	315,905,000	31,590,500	35,310,000	280,595,0
1998	45,000,000	52,509,021	12,546,025	38,327,916	36,649,579	325,595,000	32,559,500	37,455,000	288,140,0
1999	45,000,000	53,121,077	7,024,621	42,325,306	41,245,149	333,140,000	33,314,000	39,160,000	293,980,0
2000	45,000,000	53,603,318	2,642,964	45,288,078	45,070,276	338,980,000	33,898,000	40,500,000	298,480,0
2001	45,000,000	53,966,614	649,219	46,604,865	47,560,530	343,480,000	34,348,000	41,500,000	301,980,0
2002	45,000,000	54,257,251	146,531	46,934,062	49,204,658	346,980,000	34,698,000	42,350,000	304,630,0
2003	45,000,000	54,526,608	0	47,028,118	50,583,490	349,630,000	34,963,000	43,120,000	306,510,0
2004	45,000,000	54,763,157	0	47,028,118	51,783,039	351,510,000	35,153,000	43,895,000	307,615,0
2005	45,000,000	54,979,318	0	47,028,118	52,859,700	352,615,000	35,263,500	44,645,000	307,970,0
2006	45,000,000	55,170,480	0	47,028,118	53,801,362	352,970,000	35,299,000	45,340,000	307,630,0
2007	45,000,000	55,330,953	0	47,028,118	54,605,835	352,630,000	35,263,000	46,040,000	306,590,0
2008	45,000,000	55,463,959	0	47,028,118	55,279,841	351,590,000	35,159,000	46,685,000	304,905,0
2009	45,000,000	55,574,578	0	47,028,118	55,836,960	349,905,000	34,990,500	47,300,000	302,605,0
2010	45,000,000	55,667,252	0	47,028,118	56,294,634	347,605,000	34,760,500	47,895,000	299,710,0

CASH FLOW COVERAGE FACTOR: 1.25
VARIABLE RATE DEMAND BOND INTEREST RATE: 10.00%
DEFAULT RATE ON NEW LOANS: 15.00%

\+ Collections on Prior Loans are based on 4/17/86 projections.
++ Collections on New Loans reflects Forgiveness on 15% of expected repayments.

ALASKA COMMISSION ON POSTSECONDARY EDUCATION
ALASKA STUDENT LOAN PROGRAM
SERIES 1986 VARIABLE RATE DEMAND BONDS
ANALYSIS OF AMORTIZATION

YEAR ENDING 6/30	NEW BOND LOANS MADE	EQUITY & RECYCLED LOANS MADE	COLLECTIONS ON PRIOR LOANS *	COLLECTIONS ON NEW BOND LOANS **	COLLECTIONS ON EQUITY LOANS **	OUTSTANDING PRINCIPAL	INTEREST	PRINCIPAL RETIREMENT	ENDING PRINCIPAL BALANCE
1987	40,000,000	42,912,599	14,547,599	0	0	40,000,000	4,000,000	7,635,000	32,365,000
1988	40,000,000	44,030,779	20,152,279	0	0	72,365,000	7,236,500	8,885,000	63,480,000
1989	40,000,000	45,307,660	25,396,203	544,890	584,567	103,480,000	10,348,000	10,870,000	92,610,000
1990	40,000,000	46,680,866	29,461,182	1,888,954	2,041,730	132,610,000	13,261,000	13,450,000	119,160,000
1991	40,000,000	48,097,170	31,071,125	4,504,428	4,902,617	159,160,000	15,916,000	16,465,000	142,695,000
1992	40,000,000	49,527,857	31,077,952	7,882,749	8,661,656	182,695,000	18,269,500	19,825,000	162,870,000
1993	40,000,000	50,934,326	30,504,435	11,442,700	12,724,191	202,870,000	20,287,000	23,450,000	179,420,000
1994	40,000,000	52,253,711	29,184,877	15,075,304	16,985,530	219,420,000	21,942,000	27,050,000	192,370,000
1995	40,000,000	53,401,266	26,901,710	18,707,907	21,373,648	232,370,000	23,237,000	30,345,000	202,025,000
1996	40,000,000	54,309,836	23,297,945	22,340,510	25,888,880	242,025,000	24,202,500	33,015,000	209,010,000
1997	40,000,000	54,986,002	18,406,869	25,973,114	30,527,019	249,010,000	24,901,000	35,020,000	213,990,000
1998	40,000,000	55,486,034	12,546,025	29,605,717	35,278,292	253,990,000	25,399,000	36,545,000	217,445,000
1999	40,000,000	55,856,535	7,024,621	32,693,430	39,542,984	257,445,000	25,744,500	37,660,000	219,785,000
2000	40,000,000	56,131,143	2,642,964	34,981,970	43,014,710	259,785,000	25,978,500	38,530,000	221,255,000
2001	40,000,000	56,361,994	649,219	35,999,099	45,144,176	261,255,000	26,125,500	39,305,000	221,950,000
2002	40,000,000	56,566,545	146,531	36,253,381	46,421,632	261,950,000	26,195,000	40,060,000	221,890,000
2003	40,000,000	56,752,291	0	36,326,033	47,430,258	261,890,000	26,189,000	40,815,000	221,075,000
2004	40,000,000	56,920,303	0	36,326,033	48,266,769	261,075,000	26,107,500	41,565,000	219,510,000
2005	40,000,000	57,068,318	0	36,326,033	48,998,285	259,510,000	25,951,000	42,305,000	217,205,000
2006	40,000,000	57,192,045	0	36,326,033	49,621,511	257,205,000	25,720,500	43,035,000	214,170,000
2007	40,000,000	57,297,588	0	36,326,033	50,138,555	254,170,000	25,417,000	43,750,000	210,420,000
2008	40,000,000	57,381,372	0	36,326,033	50,557,339	250,420,000	25,042,000	44,460,000	205,960,000
2009	40,000,000	57,446,204	0	36,326,033	50,891,171	245,960,000	24,596,000	45,175,000	200,785,000
2010	40,000,000	57,499,011	0	36,326,033	51,156,477	240,785,000	24,078,500	45,905,000	194,880,000

CASH FLOW COVERAGE FACTOR:	1.25
VARIABLE RATE DEMAND BOND INTEREST RATE:	10.00%
DEFAULT RATE ON NEW LOANS:	15.00%

* Collections on Prior Loans are based on 4/17/86 projections.
** Collections on New Loans reflects Forgiveness on 15% of expected repayments.

SCOMM
#50:37

EFFECTS OF CSSB 65
ON RURAL/URBAN
DESIGNATIONS

The following lists communities affected by CSSB 65. This list assumes that the Department considers rural those communities with only parttime road maintenance.

Communities currently URBAN which will be RURAL under CSSB 65:

Alexander	Eyak	Skwentna
Beluga	Halibut Cove	Sunset
Chelatna Lodge	Kustatan	Susitna
China Poot Bay	Ladd	Tabona
Cordova	McDougall	Tatitlek
Ellamar	Port Crawford	Tyonek

Communities currently RURAL which will be URBAN under CSSB 65:

Anderson	Dempsey	Mentasta
Big Delta	Dot Lake	Nabesna
Black Rapids	Ferry	Nenana
Border City	Gakona	North Nenana
Broad Pass	Gardner Creek Camp	Northway Junction
Browne	George Lake Lodge	Paxson
Cantwell	Gulkana	Rex
Cathedral Rapids	Healy	Slana
Chena Hot Springs	Hufmans	Sourdough
Chitina	Julius	Sportsman Lodge
Christochina	Kenny Lake	Suslota
Clear	Lignite	Tetlin Junction
Colorago	Lower Tonzina	Tok
Delta Junction	McKinley Park	Usibelli

These changes take effect immediately upon enactment of CSSB 65.

SECTIONAL ANALYSIS CS SB 65(FIN)

SECTION ~~1~~ 2. TRANSFERS THE URBAN NONCONFORMING HOUSING LOAN PROGRAM FROM THE DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS TO THE ALASKA HOUSING FINANCE CORPORATION AND GIVES THE COROPORATION THE AUTHORITY TO DEVELOP REGULATIONS TO IMPLEMENT THE PROGRAM.

SECTION ~~2~~ 1. CLEAN UP LANGUAGE TO CHANGE THE NAME OF THE NORTHWEST INUPIAT HOUSING AUTHORITY BACK TO ORIGINAL NAME OF "NORTHWEST ALASKA NATIVE ASSOCIATION."

SECTION 3. PROVIDES FOR THE DEPOSIT OF INTEREST PAYMENTS BACK INTO THE DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS HOUSING ASSISTANCE LOAN FUND.

SECTION 4. CHANGES THE DEFINITION OF THE WORD "RURAL" BACK TO THE 1982 DEFINITION THEREBY ALLOWING THE NEW NONCONFORMING HOUSING LOAN PROGRAM UNDER AHFC TO SERVE ALL OTHER AREAS OF THE STATE.

SECTION 5. REPEALS AS 44.47.385 THAT PROVIDES FOR 20% ALLOCATION OF THE CURRENT HOUSING LOAN PROGRAM IN DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS TO URBAN AREAS OF THE STATE. THIS IS REPEALED IN LIEU OF THE NEW PROGRAM BEING CREATED UNDER AHFC.

REPEALS AS 44.47.460(D) THAT PROVIDES FOR THE DEPARTMENT TO ENTER INTO AGREEMENTS TO PAY FINANCIAL INSTITUTIONS HIGHER THAN A ONE PERCENT LOAN SERVICE AND ORIGINATION FEES IN RURAL COMMUNITIES.

SECTION 6. PROVIDES FOR AN IMMEDIATE EFFECTIVE DATE.

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

☐ POUCH B
JUNEAU, ALASKA 99811
PHONE: (907) 465-4700

☐ 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508
PHONE: (907) 563-1073

May 6, 1985

POSITION PAPER

RE: CSSB 65 (Finance)

SPONSORS: Senator Kerttula

The Department strongly supports the Committee Substitute for Senate Bill 65 (Finance), an Act relating to housing loan programs. The following provides a section-by-section analysis to substantiate our support.

Section 1

Section 1 brings the State statute back into accordance with the Federal government's formal recognition of Regional Native Housing Authorities for the purposes of funding. A 1984 amendment to AS 18.55.996, which was effective July 1, 1984, substituted "Inupiat Housing Authority" for "Alaska Native Association." During implementation of this amendment, the housing authority found that the federal agency, Housing and Urban Development (HUD), would not recognize the new name, as they had formally recognized NANA as the Regional Native Housing Authority. This provision in CSSB 65 (Finance) returns AS 18.55.996 to its form prior to 1984, and again allows conformity to the Federal regulations.

Section 2

Section 2 enables the transfer of the urban Nonconforming Housing Loan Program from the Housing Assistance Division of the Department of Community and Regional Affairs to the Alaska Housing Finance Corporation. Through the transfer, this provision would bring all urban housing loan programs under the jurisdiction and administration of the AHFC. The Department considers this consolidation of programs important for more efficient administration of housing loan programs, for both the Department and the AHFC.

Section 3

Section 3 anticipates declining State revenues by including interest in the calculation for repayment on loans. We believe this provision will reduce the need for large general fund appropriations to the Housing Assistance Loan Fund in the future.

Section 4

Section 4 repeals the existing definitions for the purposes of rural housing loans, bringing the definitions back to their original form as enacted by the legislature in 1982. This section bases the criteria for "rural" on population figures and on inaccessibility by road or rail to Anchorage or Fairbanks. This definition does not differentiate between incorporated or unincorporated communities. It would also enable "suburbs" of non-rural communities to be included in the program, if there are population figures for the "suburb" alone, ie., Saxman, outside of Ketchikan, has a separate population of 343 people. Further, under Section 4, the term "community" could include as many people as 4,500 and as few as one. In this instance, isolated rural homes would be able to participate in the rural housing loan program.

Section 5

This section repeals AS 44.47.385 and AS 44.47.460(d). With the transfer of the nonconforming program to the AHFC, there is no longer a need for the regional allocations provided by AS 44.47.385 for the nonconforming program.

Under AS 44.47.460(d), the Housing Assistance Division of the Department of Community and Regional Affairs is obligated to pay a portion of the higher service fees for loans made for nonconforming housing. To date, the Division has never allowed homes to have the higher service fees, simply because money was never appropriated to HAD to supplement the fees. The Division has negotiated agreements with seller/servicers that provide for 1/2 percent service fees versus the AHFC 3/8 percent service fees.

Jeff Smith
Acting Commissioner

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date:

REQUEST
Bill/Resolution No.: CSSB 65 (Fin)
Title: An Act relating to rural housing loans
Sponsor: Kerttula
Requestor: Senate C&RA Devries
Date of Request: 2/7/85

FISCAL DETAIL
Agency Affected: Dept. CRA
Program Category Affected: Division of Housing Assistance
BRU, Program or Subprogram(s) Affected: Housing Assistance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS	Ø	Ø	Ø	Ø	Ø	Ø
800 MISCELLANEOUS						
TOTAL OPERATING	Ø	Ø	Ø	Ø	Ø	Ø
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	Ø	Ø	Ø	Ø	Ø	Ø
FEDERAL FUNDS						
OTHER						
TOTAL	Ø	Ø	Ø	Ø	Ø	Ø

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: Clark D. Boston Phone: 561-0900
Division: Housing Assistance Date: 2/11/85

Approved by Commissioner: Emil Notti Date: 2/12/85
Agency: Community & Regional Affairs

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

12/1/83

COMMITTEE REPORT

HOUSE

5/10

(5)

FURTHER: FINANCE

5/4/85

Date: _____

The Committee on HOUSE SPECIAL COMMITTEE ON STATE LOANS has had CSSB 65(Fin)

"An Act relating to housing programs; and providing for an effective date."

under consideration and recommends:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

[✓] replace with CS for H(S [illegible]) [✓] same title [ ] new title

and recommends do PASS

[✓] AND attaches a "Letter of Intent" [ ] New Fiscal Note

[ ] Zero Fiscal Note Attached

[ ] reports it back without recommendation

[ ] referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

CHAIRMAN

LETTER OF INTENT

HOUSE SPECIAL COMMITTEE ON STATE LOANS

HCS CS SB 65 (Loans)

It is the intent of the Legislature that the Department of Community and Regional Affairs, Housing Assistance Division, and the Alaska Housing Finance Corporation work together to provide housing loans under the Nonconforming Housing program. It is further the intent of the Legislature that the agencies work together to make a recommendation for the second session of the Fourteenth Legislature, concerning which communities in the state should be classified as "rural" and served by DC&RA and which communities should be classified as "urban" and served by AHFC. In making this recommendation, the agencies shall consider the programmatic effects of such classifications as well as the practical problems of access to urban banks. In defining "rural" for the purposes of this legislation, it is not the intent of the legislature to make this specific definition apply to or set a precedent for other programs.

Rep. John Sund, Chairman
House Special Committee on State Loans

Offered: 4/12/85
Referred: Rules

Original sponsor: Kerttula

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 65 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to housing programs; and providing for an effective date."

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

* Section 1. AS 18.55.996(a) is amended to read:

(a) The following associations are given the authority specified in (b) of this section:

(1) Arctic Slope Native Association (Barrow and Point Hope)

(2) Bering Straits Association (Seward Peninsula, Unalakleet, St. Lawrence Island)

(3) Northwest Alaska Native Association [INUPIAT HOUSING AUTHORITY] (Kotzebue)

(4) Association of Village Council Presidents (southwest coast of Alaska including all villages in the Bethel area and all villages on the Lower Yukon River and Lower Kuskokwim River)

(5) Tanana Chiefs Conference (Koyukuk, the middle and upper Yukon River villages and the upper Kuskokwim and Tanana River villages)

(6) Cook Inlet Tribal Council (Kenai, Tyonek, Eklutna and Seldovia)

(7) Bristol Bay Native Association (Dillingham, Upper Alaska Peninsula)

(8) Aleut League (Aleutian Islands, Pribilof Islands and that part of the Alaska Peninsula which is in the Aleut League)

(9) North Pacific Rim Native Corp. (Cordova, Tatitlek, Port

COMMITTEE COPY

Graham, English Bay, Valdez, Seward, Eyak and Chenega)

(10) Tlingit-Haida Central Council or Alaska Native Brotherhood (Southeastern Alaska including Metlakatla)

(11) Kodiak Area Native Association (all villages on and around Kodiak Island)

(12) Copper River Native Association (Copper Center, Glennallen, Chitina and Mentasta)

(13) Alaska Federation of Natives, Inc.

(14) Sitka Community Association (Baranof and Japonski Island).

* Sec. 2. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.106. NONCONFORMING HOUSING LOAN PROGRAM. (a) There is established in the corporation the nonconforming housing loan program to assist persons to purchase housing that does not conform to minimum building standards under any state or federal program that provides for housing purchases.

(b) The corporation shall adopt regulations under this section that establish conditions and terms for nonconforming housing loans including terms and conditions relating to owner and nonowner occupancy, the number of loans that may be made to a single borrower, and borrower eligibility requirements.

* Sec. 3. AS 44.47.380 is amended to read:

Sec. 44.47.380. HOUSING ASSISTANCE LOAN FUND. There is created in the department, as a revolving loan fund, the housing assistance loan fund consisting of money appropriated to it by the legislature and repayments of principal <u>and interest</u> on loans made or purchased from the assets of the fund. The director shall administer the housing assistance loan fund in accordance with AS 44.47.360 - 44.47.560 and shall use the money in the housing assistance loan fund to

originate, purchase, or participate in the purchase, or

(1) nonconforming and rural housing mortgage loans;

(2) loans made for building materials for nonconforming and rural housing;

(3) loans made for renovations or improvements to nonconforming and rural housing;

(4) loans made for the construction of owner-occupied nonconforming and rural housing other than loans to builders or contractors or loans that compensate an owner for the owner's labor or services in constructing the owner's own housing.

* Sec. 4. AS 44.47.560 is repealed and reenacted to read:

Sec. 44.47.560. DEFINITIONS. In AS 44.47.360 - 44.47.560,

(1) "director" means the director of the division of housing assistance;

(2) "division" means the division of housing assistance;

(3) "housing" means owner-occupied, single-family housing and owner-occupied duplexes;

(4) "nonconforming housing" means housing that does not conform to minimum building standards under any state or federal program that provides loans for housing purchases;

(5) "rural" means

(A) a community in the second, third, or fourth judicial district of the state with a population of 4,500 or less that is not connected by road or rail to Anchorage or Fairbanks; or

(B) a community in the first judicial district of the state with a population of 4,500 or less;

(6) "rural housing" means housing whether or not it is nonconforming housing that is located in a rural area of the state.

* Sec. 5. AS 44.47.385 and 44.47.460(d) are repealed.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Official Business

Alaska State Legislature

Senate

Pouch V
State Capitol
Juneau, Alaska 99811

May 3, 1985

SENATE

LETTER OF INTENT

ON

CS FOR SENATE BILL NO. 65(Fin)

IT IS THE INTENT OF THE LEGISLATURE THAT WHEN THE URBAN NON-CONFORMING LOAN PROGRAM IS TRANSFERRED FROM THE DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS TO THE ALASKA HOUSING FINANCE CORPORATION THAT THE ALASKA HOUSING FINANCE CORPORATION ADOPT EMERGENCY REGULATIONS TO INCORPORATE THOSE DCRA LOAN CONDITIONS IN FORCE FOR RURAL PROGRAMS.

LOAN APPLICATION WHICH WERE IN PROGRESS PRIOR TO THE 4:30 P.M., JANUARY 22, 1985, DEADLINE ARE TO BE CONSIDERED UNDER THE SAME CRITERIA IN EFFECT BEFORE THAT DATE.

ADOPTED BY THE SENATE, MAY 3, 1985.

SCOMM
#50:38

Section 1. It amends AS 45.94.020 to restate the purpose of the loan guarantee program as described above. The amendment drops out the provisions in the existing law dealing with the purchase of stock which were designed to deal specifically with the KPC situation.

AS 45.94.030 and .040 are left unchanged by the bill. Section .030 outlines the powers and duties of the department and the commissioner. Section .040 states income from investment of the fund is to go to the general fund.

Section 2. This section amends AS 45.94.050(a) to include the requirement in paragraph (2) of subsection (a) that the loan be commercially reasonable. It also requires that a con rolling interest in the business be held by Alaska residents. The Commissioner of Revenue is given discretion to waive this requirement. Section 2 also requires that the business maintain its offices and operating facilities exclusively in the state unless engages in the export of forest products in which case offices and facilities overseas would be permitted. It also requires that a majority of employees of the business be residents of the state. The section further requires that the business be organized for profit. A subsection (5) is added requiring that the loan further the maintaining or increasing of production and employment in the forest products business in the state. A new subsection (6) requires that the portion of the loan not guaranteed by the state be held by a financial institution which meets the approval of the Commissioner.

Section 3. AS 45.94.050(b) is amended by this section to increase the guarantee from 50% to 80% but to limit that guarantee to $6 million per borrower. The current law sets a $30 million limit. As with the existing statute, the Department of Revenue would not be permitted to guarantee the payment of annual interest on the guaranteed portion of the loan. This conforms with other loan programs in the state.

Section 4. This section amends AS 45.94.050 by adding a new subsection (a) to require the charging of a user fee by the Department of Revenue not to exceed 1/4 of 1% for loans guaranteed under this chapter.

Section 5. Section 5 makes a small change in AS 45.94-.060 which is the definitions section. The change is to add to the definition of forest products business that it be organized under the laws of the state.

Section 6. This section provides for an effective date immediately in accordance with AS 01.10.070(c). This is the standard effective date provision.

jdd:1.5

TESTIMONY OF JAMES F. CLARK
ON THE FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM
SET FORTH IN THE HOUSE SPECIAL LOANS COMMITTEE WORK DRAFT
OF THE HOUSE CS FOR SENATE BILL NO. 78

My name is Jim Clark. I represent the Alaska Loggers Association (ALA), which very strongly supports Sections 30-34 of the House Special Loans Committee Work Draft of the House CS for Senate Bill No. 78 (hereinafter "the proposed legislation"). The ALA is made up of loggers, mill owners and their suppliers throughout Alaska and has more than 100 members.

It should be emphasized that the guarantee program proposed by the legislation does not constitute a call on new funds. It would continue to segregate funds in the rainy day account which had been segregated by the Legislature last year for the Forest Products Business Loan Guarantee Program. That program was enacted to provide employees of the Ketchikan Pulp Corporation a loan guarantee fund as part of a proposed employee stock-ownership plan (ESOP) to purchase the Ketchikan Pulp Company. Those funds will lapse on June 30, 1985 if the employees do not exercise their option to purchase the mill. The employees decided months ago not to purchase the mill, and thus this fund has not been, and will not be, utilized.

Last year's loan program was the first ever proposed for the forest industry. While other industries have received financial assistance, there has been no State program for the timber industry. In summary on this point, the proposed

legislation does not create a new fund. It uses the existing fund to make a loan guarantee program available to all firms within the industry.

Please understand that this is not a low interest loan program or subsidy program. Under the proposed legislation, the Department of Revenue would guarantee loans made by the banking community to Alaska owned forest products business for up to 80% of a given loan, and not more than $6 million per borrower. There would be a 1% user fee for the loan guarantee to compensate the State for taking the risk. The loan must be fully collateralized and must be commercially reasonable. The 20% for which the banks will be liable will provide a strong incentive on each bank's part to make certain that those loans which are guaranteed are good loans.

The 50% guarantee of the existing legislation has been increased to 80%. In the ESOP situation, the concept was that the employees were to purchase the mill from Louisiana Pacific Corporation. Louisiana Pacific Corporation had no guarantee prior to the legislation and thus was happy with any guarantee. Banks, on the other hand, require a guarantee in the range described in the proposed legislation before they are interested in making the loan. The 80% figure has been discussed with Alaska banks and Administration officials who agree that it is reasonable for the purposes intended here. Please also note that the Small Business Administration (SBA) loan guarantee program

provides for a 90% guarantee and the Alaska Industrial Development Authority (AIDA) program provides for an 80% guarantee.

In the event of a default, as under the existing law, payments received to satisfy the debt are allocated between the lender and the guarantee fund according to the guaranteed percentage of the loan. The lender does not get a first position.

The question arises why, if these loans are good loans to begin with, is a State loan guarantee program necessary? The short answer is that we are trying to improve the quality and diversity of our products to penetrate the Alaska markets and expand our export markets. In most cases, the sawmills we are trying to help do this are constrained by State budgetary constraints in putting up long term timber sales and the limited line of credit of Alaska banks. The loggers we are trying to help are faced with large up front expenditures as a result of the failure of the Federal government to build roads and State and Federal bonding policies.

There are two main groups that will benefit from this bill: (1) sawmills, and (2) loggers. It is our objective to penetrate the existing State forest products market of 110 million board feet per year (which is primarily located along the railbelt area) and to enhance our products for export. We want to create a more diverse product line, which has better quality

control. To do these things, existing sawmills need to make major capital expenditures in planers, kiln driers and creosote or pressure plants in order to produce the full array of products used in the Alaska market and needed to enhance our products for export. We have never been able to take advantage of the preference for State timber products set forth in AS 36.15.010 and 36.15.020 because our products are rough cut, not moisture stabilized and often not precision cut. By purchasing planers and kilns to reduce the moisture of the wood, Alaska sawmill owners could produce timber products which would qualify for use in State contracts and State financed projects as well as private construction in Alaska. In addition, if our sawmills are able to install creosote or pressure plants, we would be able to supply the State railroad tie and the piling market. The Timber Task Force estimates that all of the above will increase our share of this market from its 5-10% to 60%.

It is difficult to obtain commercial funds for such loans at the present time. In Southcentral, Kodiak and the Interior, most mills are having difficulty obtaining a long term wood supply. Thus, the mills are unable to assure a bank that they have sufficient timber committed to their mill for the period over which the loan is made. In large part this is because the Department of Natural Resources does not have the funds available to lay out a long term plan of intermediate term timber sales to local mills. This does not mean that the mills

have been unable to obtain the wood on a year by year basis. Rather, the problem is that the mills are unable to show a banker a long term supply of wood. Without this guarantee, the bankers are reluctant to make loans. We are trying to resolve this problem by substituting the guarantee of a long term supply with the proposed State loan guarantee.

Mr. Chairman, these mill owners have been long term providers of jobs in Alaska. They are good businesses with a good commercial record. The loans will be repaid. It is our estimate that none of them will default.

The loggers will also benefit from this program. Bonds are required of them by State and Federal timber sale contracts. The bonds must cover the timber to be logged, and the roads to be built. These bonds are very expensive and difficult to obtain. A loan guarantee program would supply the funds necessary to obtain the bonds.

Road building requires a large up-front capital investment upon which there will be no return for at least one to two years following the construction of the road. The loan guarantee program would provide loggers the ability to secure loans to purchase timber sale contracts requiring road building. Many of the existing mills in Southcentral, Kodiak and the Interior would be able to purchase larger timber sales.

The "cost of road building" problem is particularly acute in Southeast Alaska where the Forest Service has made

available in 1984 only 56% of the preroading money promised by the Government under the Alaska Natural Interest Lands Conservation Act (ANILCA). Attached to this testimony is a letter that the Congressional Delegation has recently sent to the Forest Service on this subject which documents this point. If the ANILCA funds for preroading were available, this loan guarantee program would not be so badly needed for the timber sale contracts in Southeast which require road building.

In addition, those who log on the National Forests in Alaska are unable to take advantage of a privilege enjoyed by loggers in every other state. That is the opportunity to have a timber sale purchaser elect to have the Forest Service build roads. (See Section 14(i) of the National Forest Management Act.) There is a proviso in Section 14(i) which excludes Alaskans from participating in this program. While the Timber Task Force has asked the assistance of the Governor and the Congressional delegation to get this changed, it has not been changed yet, and will take some time. Thus, the loan guarantee program proposed here would be of great assistance during the interim during which we are attempting to increase ANILCA funding and get the 14(i) proviso changed.

In conclusion Mr. Chairman, what the proposed legislation would provide is the means by which existing funds earmarked for the Ketchikan ESOP program would be used by the entire industry with special emphasis on upgrading and diversifying the

products produced by Alaska sawmills, so that Alaska timber could be used in the Alaska market and provide Alaskan jobs, and to assist loggers throughout the State.

We would certainly appreciate your support for the proposed legislation.

Levy
5/2/85

Original sponsor: Rules/Governor

IN THE SENATE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

HOUSE CS FOR CS FOR SENATE BILL NO. 78 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making miscellaneous amendments to state loan programs; and providing for an effective date."

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

* Section 1. AS 16.10.310(a) is amended to read:

(a) The department may

(1) make loans to

(A) individual commercial fishermen who have been state residents for a continuous period of two years immediately preceding the date of application for a loan under AS 16.10.300 - 16.10.370 and have had a crewmember or commercial fishing license under AS 16.05.480 or a permit under AS 16.43 for the year immediately preceding the date of application and any other two of the past five years, and who actively participated in the fishery during those periods, for the purchase of entry permits;

(B) an individual for the repair, restoration, or upgrading of existing vessels and gear, for the purchase of entry permits and gear, and for the construction and purchase of vessels, if the individual [AN INDIVIDUAL WHO] has been a state resident for a continuous period of two years immediately preceding the date of application for a loan under AS 16.10.300 - 16.10.370, and either [WHO]

(i) because of lack of training or lack of employment opportunities in the area of residence does not have occupational opportunities available other than

commercial fishing; or

(ii) is economically dependent on commercial fishing for a livelihood and for whom commercial fishing has been a traditional way of life [FOR THE INDIVIDUAL] in Alaska [, FOR THE REPAIR, RESTORATION OR UPGRADING OF EXISTING VESSELS AND GEAR, FOR THE PURCHASE OF ENTRY PERMITS AND GEAR, AND FOR THE CONSTRUCTION AND PURCHASE OF VESSELS;

(C) CORPORATIONS, PARTNERSHIPS, OR JOINT VENTURES, 100 PERCENT OF WHICH ARE OWNED BY INDIVIDUAL COMMERCIAL FISHERMEN WHO HAVE BEEN STATE RESIDENTS FOR A CONTINUOUS PERIOD OF TWO YEARS IMMEDIATELY PRECEDING THE DATE OF APPLICATION FOR A LOAN UNDER AS 16.10.310(a)(1)(B) AND HAVE HAD A CREWMEMBER OR COMMERCIAL FISHING LICENSE UNDER AS 16.05.480 OR A PERMIT UNDER AS 16.43 FOR THE YEAR IMMEDIATELY PRECEDING THE DATE OF APPLICATION AND ANY OTHER TWO OF THE PAST FIVE YEARS, AND WHO ACTIVELY PARTICIPATED IN THE FISHERY DURING THAT PERIOD, FOR THE REPAIR, RESTORATION OR UPGRADING OF EXISTING VESSELS AND GEAR, FOR THE PURCHASE OF GEAR, AND FOR THE CONSTRUCTION AND PURCHASE OF VESSELS];

(2) designate agents and delegate its powers to them as necessary;

(3) adopt regulations necessary to carry out its functions;

(4) establish amortization plans for repayment of loans, which may include extensions for poor fishing seasons or for adverse market conditions for Alaskan products;

(5) enter into agreements with private lending intuitions, other state agencies, or agencies of the federal government, to carry out the purposes of AS 16.10.300 - 16.10.370;

(6) enter into agreements with other agencies or organizations to create an outreach program to make loans under AS 16.10.300 -

16.10.370 in rural areas of the state;

(7) allow an assumption of a loan if

(A) the applicant has been a state resident for a continuous period of two years immediately preceding the date of the request for an assumption; and

(B) approval of the assumption would be consistent with the purposes of AS 16.10.300; an applicant for a loan assumption may not be disqualified because the applicant does not meet the loan eligibility requirements of (1) of this subsection;

(8) prequalify loan applicants for a limited entry permit loan and charge a fee not to exceed $200 for prequalification.

* Sec. 2. AS 16.10.310 is amended by adding a new subsection to read:

(c) In determining whether an individual commercial fisherman is reasonably likely to be able to repay a loan made under AS 16.10.300 - 16.10.370, the commissioner shall consider the individual commercial fisherman's income from commercial fishing and from all other sources.

* Sec. 3. AS 16.10.315 is amended to read:

Sec. 16.10.315. ALLOCATION OF LOANS. The department shall allocate at least 10 percent of the money that is appropriated for a state fiscal year to make loans under AS 16.10.310 for loans of $35,000 or less made under AS 16.10.310(a)(1)(B) [AND (C)]. An allocation made under this section terminates on April 15 of the state fiscal year for which the allocation is made.

* Sec. 4. AS 16.10.320(a) is amended to read:

(a) Except as permitted in (h) of this section, a [A] loan under AS 16.10.300 - 16.10.370 [16.10.310 - 16.10.370]

(1) may not exceed a term of 15 years, except for extensions under AS 16.10.310(a)(4);

(2) may not bear interest exceeding 10-1/2 percent;

(3) must [SHALL] be secured by a first priority lien and appropriate security agreement; and

(4) may not exceed 90 percent of the appraised value of the collateral used to secure the loan[, EXCEPT THAT A LOAN GRANTED UNDER AS 16.10.333 FOR THE PURCHASE OF AN ALASKA LIMITED ENTRY PERMIT MAY NOT EXCEED AN AMOUNT DETERMINED IN ACCORDANCE WITH (f) OR (h) OF THIS SECTION].

* Sec. 5. AS 16.10.320(d) is amended to read:

(d) The total of balances outstanding on loans [LOANS] made to a borrower under AS 16.10.310(a)(1)(A) may not exceed [A TOTAL OF] $300,000. The total of balances outstanding on loans [LOANS] made to a borrower under AS 16.10.310(a)(1)(B) [OR (C)] may not exceed [A TOTAL OF] $100,000. [A LOAN TO AN ASSOCIATE OF THE BORROWER IS CONSIDERED TO BE A LOAN TO THE BORROWER. FOR THE PURPOSES OF THIS SECTION, "ASSOCIATE OF THE BORROWER" MEANS

(1) A CORPORATION OR OTHER ORGANIZATION OF WHICH THE BORROWER IS AN OFFICER, DIRECTOR OR PARTNER, OR IS, DIRECTLY OR INDIRECTLY, THE BENEFICIAL OWNER OF 10 PERCENT OR MORE ON ANY CLASS OF EQUITY SECURITIES;

(2) A PERSON WHO IS, DIRECTLY OR INDIRECTLY, THE BENEFICIAL OWNER OF 10 PERCENT OR MORE OF ANY CLASS OF EQUITY SECURITIES OF THE BORROWER;

(3) A TRUST OR OTHER ESTATE IN WHICH THE BORROWER HAS A SUBSTANTIAL BENEFICIAL INTEREST OR AS TO WHICH THE BORROWER SERVES AS TRUSTEE OR IN A SIMILAR FIDUCIARY CAPACITY.]

* Sec. 6. AS 16.10.320(e) is amended to read:

(e) Two or more individual commercial fishermen who each satisfy the requirements specified in AS 16.10.310(a)(1)(B) may jointly, whether operating as a corporation, partnership, joint venture, or

otherwise, obtain a commercial fishing loan for the repair, restoration, or upgrading of an existing vessel and gear, for the purchase of gear, and for the construction [OF A FISHING VESSEL] or the purchase of a [AN EXISTING] fishing vessel. Loans granted under this subsection

[(1)] may not exceed the amount specified in (d) of this section multiplied by the number of qualified commercial fishermen applying for the loan [;

(2) MAY NOT EXCEED A TERM OF 15 YEARS;

(3) SHALL BE SECURED BY A FIRST PRIORITY LIEN AND APPROPRIATE SECURITY AGREEMENT;

(4) MAY NOT BEAR INTEREST EXCEEDING 10-1/2 PERCENT; AND

(5) MAY NOT EXCEED 90 PERCENT OF THE APPRAISED VALUE OF THE COLLATERAL USED TO SECURE THE LOAN].

* Sec. 7. AS 16.10.320(i) is amended to read:

(i) If a loan is made to a borrower under AS 16.10.310(a)(1)(A), a subsequent loan may not be made to the borrower [OR AN ASSOCIATE OF THE BORROWER] under AS 16.10.310(a)(1)(B) [OR (C)]. If a loan is made to a borrower under AS 16.10.310(a)(1)(B) [OR (C)], a subsequent loan may be made to the borrower [OR AN ASSOCIATE OF THE BORROWER] under AS 16.10.310(a)(1)(A) if the total of the balances outstanding on loans received by the borrower [OR THE ASSOCIATE] under AS 16.10.310 does not exceed $300,000.

* Sec. 8. AS 16.10.333(a) is amended to read:

(a) Loans under AS 16.10.310(a) [AS 16.10.320(a)] may be made to an individual commercial fisherman for the purchase of a limited entry permit upon certification by the commission that the fisherman is a person who qualifies as a transferee for the permit under AS 16.43 and

the regulations adopted by the commission.

* Sec. 9. AS 16.10.335 is amended to read:

Sec. 16.10.335. DEFAULT AND FORECLOSURE. (a) If the debtor defaults upon a note for which a limited entry permit has been pledged as security under AS 16.10.333 or [UNDER AS] 16.10.338, the commissioner shall provide the debtor, by both [REGISTERED OR] certified and first class mail sent to the debtor's last known address on file with the commissioner, with a notice of default that [WHICH] includes

(1) a description of the security given for the note including the number assigned to the pledged permit by the commission;

(2) the date upon which the default occurred;

(3) the amount of arrearages as of the date of the notice, the total amount remaining on the note less unearned interest, and the amount of daily interest;

(4) a statement that the debtor may, within 15 days after [OF] the postmark date of the notice, request a hearing to submit evidence showing the debtor has not defaulted;

(5) a statement that the note may be reinstated if brought current within 60 days after [FROM] the postmark date of the notice;

(6) a statement that the note may be paid in full less unearned interest within 120 days after [FROM] the postmark date of the notice;

(7) the place where reinstatement or payment in full may be made; and

(8) a notice in at least 10-point bold type stating: "IMPORTANT: YOUR FAILURE TO REINSTATE OR PAY THIS NOTE IN FULL BY THE DATE SPECIFIED WILL RESULT IN A FORFEITURE OF ALL RIGHTS TO THE PERMIT AND THE POSSIBILITY OF LEGAL ACTION BEING INSTITUTED AGAINST YOU."

(b) In each case of a limited entry permit being pledged as

security under AS 16.10.333 or 16.10.338, the debtor shall maintain on file with the department an address where notice of default is to be sent, if necessary, and where that notice will be timely received by the debtor.

(c) Upon presentation of evidence of mailing in accordance with (a) of this section, the receipt of the notice of default by the debtor will be presumed for all purposes. This presumption is rebuttable by presentation of evidence sufficient to demonstrate lack of receipt of notice through no fault of the debtor. Upon presentation of evidence sufficient to prove lack of receipt of notice through no fault of the debtor, the notice is a nullity.

(d) Upon good cause shown, the commissioner may waive any of the time limits in (a) of this section, if the department receives from the debtor or the debtor's representative a request for the waiver before the expiration of the time limit for which the waiver is sought.

(e) Except as otherwise provided in (c) and (d) of this section, upon [UPON] the debtor's failure to satisfy the note within the time specified in (a)(6) of this section, the debtor's interest in the permit is terminated by operation of law without further notice. Any entry permit cards issued to the debtor under the permit must [SHALL] be cancelled immediately upon receipt by the commission of a certificate of termination containing a copy of the notice required by (a) of this section issued by the commissioner.

* Sec. 10. AS 16.10.339 is amended to read:

Sec. 16.10.339. REGULATIONS. The [COMMISSION, WITH THE APPROVAL OF THE] department [,] shall adopt regulations to implement AS 16.10.-333 - 16.10.337.

* Sec. 11. AS 16.10 is amended by adding a new section to read:

Sec. 16.10.355. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under AS 16.10.300 - 16.10.370 or former AS 16.10.650 - 16.10.720. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years, but may not be by lease.

* Sec. 12. AS 16.10 is amended by adding a new section to read:

Sec. 16.10.507. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the fisheries enhancement revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 16.10.520 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 13. AS 16.10 is amended by adding a new section to read:

Sec. 16.10.555. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under AS 16.10.500 - 16.10.620. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 14. AS 26.15 is amended by adding a new section to read:

Sec. 26.15.085. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that

serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 15. AS 26.15 is amended by adding a new section to read:

Sec. 26.15.095. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the Alaska World War II veterans' revolving fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 26.15.040 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 16. AS 27.09 is amended by adding a new section to read:

Sec. 27.09.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the mining loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 27.09.010 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 17. AS 27.09 is amended by adding a new section to read:

Sec. 27.09.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 18. AS 41.35.180 is amended to read:

Sec. 41.35.180. DUTIES OF COMMITTEE. The committee shall

(1) develop criteria for the evaluation of state monuments and historic sites and all real and personal property which may be considered to be of historic, prehistoric or archeological significance as would justify their acquisition and ownership by the state;

(2) cooperate with the department in formulating and administering a statewide historic sites survey under 16 U.S.C. 470-470n (P.L. 89-665, National Historic Preservation Act of 1966);

(3) review those surveys and historic preservation plans that may be required, and approve properties for nomination to the National Register as provided for in 16 U.S.C. 470-470n (P.L. 89-665, National Historic Preservation Act of 1966);

(4) provide necessary assistance to the governor and the legislature for achieving balanced and coordinated state policies and programs for the preservation of the state's historic, prehistoric and archeological resources;

(5) consult with local historical district commissions regarding the establishment of historical districts under AS 29.48.108 and 29.48.110 and the approval of project alterations under AS 45.98.-040; recommend, if appropriate, the formulation of additional criteria for the designation of historical districts under AS 29.48.110(b); approve plans for and evaluate the suitability of specific structures for purposes of loan eligibility and continuance under the historical <u>property</u> [DISTRICT] revolving loan fund (AS 45.98); and consult with the Department of Commerce and Economic Development relative to the adoption of regulations for historical <u>property</u> [DISTRICT] loans under AS 45.98.

* Sec. 19. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.242. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the child care facility revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 44.33.245 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 20. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.272. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under AS 44.33.240 - 44.33.275. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 21. AS 44.81.210(a) is amended by adding a new paragraph to read:

(23) make a loan to a person, regardless of residency, if the board of directors of the bank determines that the loan is necessary to preserve the value of property held by the bank as security for a loan that was made under (a)(1) of this section and that is in default.

* Sec. 22. AS 45.87 is amended by adding a new section to read:

Sec. 45.87.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the bulk fuel revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may

expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under this chapter or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 23. AS 45.87 is amended by adding new sections to read:

Sec. 45.87.040. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

Sec. 45.87.060. REGULATIONS. The department shall adopt regulations to implement this chapter.

* Sec. 24. AS 45.88 is amended by adding a new section to read:

Sec. 45.88.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established, as a special account within the revolving loan fund established under AS 45.88.010, the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.88.020 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 25. AS 45.88 is amended by adding a new section to read:

Sec. 45.88.050. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortiza-

tion of payments over a period of years.

* Sec. 26. AS 45.89 is amended by adding a new section to read:

Sec. 45.89.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the residential energy conservation fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.89.030 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 27. AS 45.89 is amended by adding new sections to read:

Sec. 45.89.050. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

Sec. 45.89.070. REGULATIONS. The department shall adopt regulations to implement this chapter.

* Sec. 28. AS 45.90 is amended by adding a new section to read:

Sec. 45.90.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the tourism revolving fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.90.020 or to defray expenses incurred during fore-

closure proceedings after a default by an obligor.

* Sec. 29. AS 45.90 is amended by adding a new section to read:

Sec. 45.90.050. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 30. AS 45.94.020 is amended to read:

Sec. 45.94.020. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM. The department may use money in the fund to guarantee a loan <u>to a forest products business</u> for the purpose of financing the purchase of <u>equipment and facilities that will increase employment in a forest products business</u> [35 PERCENT OR MORE OF THE STOCK OR ASSETS OF A FOREST PRODUCTS BUSINESS BY, ON BEHALF OF, OR FOR THE BENEFIT OF THE EMPLOYEES OF THAT BUSINESS], as provided in AS 45.94.050.

* Sec. 31. AS 45.94.050(a) is amended to read:

(a) The dep. rtment may guarantee a loan under this chapter if

(1) the term of the loan does not exceed 10 years;

(2) the loan is <u>commercially reasonable and</u> secured by the real or personal property, inventory or accounts receivable of the forest products business, or by other collateral acceptable to the department;

(3) the loan is originated with and serviced by a state or federally chartered financial institution; [AND]

(4) the loan is made to <u>a</u> [THE EMPLOYEES OF THE] forest products business <u>and</u>

<u>(A) a majority interest of the business is held by Alaska residents;</u>

(B) the business maintains offices and operating facilities exclusively in the state unless the business is engaged in the export of forest products;

(C) a majority of the employees of the business are residents of the state; and

(D) the business is organized for profit;

(5) the loan will increase or maintain production and employment in the forest products business; and

(6) the portion of the loan not guaranteed by the state is held by the originating financial institution or another financial institution approved by the commissioner [, TO AN EMPLOYEE STOCK OWNERSHIP TRUST, OR TO ONE OR MORE CORPORATIONS OR OTHER BUSINESS ASSOCIATIONS OR ENTITIES IN WHICH THE CONTROLLING INTEREST IS HELD BY STATE RESIDENTS WHO ARE EMPLOYEES OF THE FOREST PRODUCTS BUSINESS].

* Sec. 32. AS 45.94.050(b) is amended to read:

(b) The department may provide a guarantee from the fund for up to 80 [50] percent of a loan, but may not guarantee [LESS THAN $5,000,000 OR] more than $6,000,000 [$30,000,000] per borrower. The department may not guarantee the payment of annual interest on the guaranteed portion of a loan.

* Sec. 33. AS 45.94.050 is amended by adding a new subsection to read:

(d) The department shall charge a user fee not to exceed one percent for a loan guarantee under this chapter.

* Sec. 34. AS 45.94.060 is amended to read:

Sec. 45.94.060. DEFINITIONS. In this chapter

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

(2) "department" means the Department of Revenue;

(3) "forest products business" means a sole proprietorship, partnership, corporation or other business organization formed under

the laws of the state for the purpose of harvesting or processing timber or other forest resources;

(4) "fund" means the forest products business loan guarantee fund.

* Sec. 35. AS 45.95 is amended by adding a new section to read:

Sec. 45.95.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 36. AS 45.95 is amended by adding a new section to read:

Sec. 45.95.065. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the small business revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.95.020 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 37. AS 45.98.010 is amended to read:

Sec. 45.98.010. CREATION OF HISTORICAL PROPERTY [DISTRICT] REVOLVING LOAN FUND. There is created in the Department of Commerce and Economic Development a historical property [DISTRICT] revolving loan fund.

* Sec. 38. AS 45.98 is amended by adding a new section to read:

Sec. 45.98.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the historical property re-

volving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under this chapter, or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 39. AS 45.98.020 is amended to read:

Sec. 45.98.020. HISTORICAL PROPERTY [DISTRICT] LOANS. Upon endorsement and plan approval by a local historical landmark or district commission established under AS 29.48.108 and the recommendation of a majority of the members of the Historic Sites Advisory Committee, the Department of Commerce and Economic Development may make loans to a person, firm, business or municipality subject to applicable laws for the restoration, improvement, rehabilitation, or maintenance of an historic [A] structure, building, site, or object that [WHICH] is

(1) within the boundaries of a historical district established under AS 29.48.110;

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

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

* Sec. 40. AS 45.98.020 is amended by adding a new subsection to read:

(b) The department may make a loan under this section for a project that is not within the boundaries of a historical district with the approval of a majority of the members of the Historic Sites

Advisory Commission.

* Sec. 41. AS 45.98.040 is amended to read:

Sec. 45.98.040. LIMITATIONS ON LOANS. Loans made under this chapter are subject to the following limitations:

(1) state participation in all loans in the aggregate, for any one historical district qualifying under this chapter may not exceed $1,500,000;

(2) state participation in a loan for the restoration, improvement, rehabilitation or maintenance of any one building or structure qualifying under this chapter may not exceed $250,000;

(3) the loans shall be secured by acceptable collateral and the total of all loans may not exceed 85 percent of the appraised value of the collateral offered as security;

(4) the rate of interest may not exceed seven and one-half percent a year on the unpaid balance of the state's share of the loan;

(5) a participating financial institution shall administer and service the loan for a reasonable fee not exceeding one-quarter of one percent;

(6) the state has a lien on the property accepted as collateral to the extent of its portion of the loan [; WHEN THE LIEN OR NOTICE OF THE LIEN IS PROPERLY RECORDED IT IS SUPERIOR TO ALL OTHER LIENS EXCEPT THOSE FOR TAXES AND SPECIAL ASSESSMENTS; A LIEN OF THE PARTICIPATING FINANCIAL INSTITUTION, TO THE EXTENT OF ITS PORTION OF THE LOAN AFTER IT IS PROPERLY RECORDED, IS SUPERIOR TO ALL OTHER LIENS EXCEPT LIENS FOR TAXES, SPECIAL ASSESSMENTS, AND THE LIEN OF THE STATE].

* Sec. 42. AS 45.98 is amended by adding a new section to read:

Sec. 45.98.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development

shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 43. AS 45.98.070 is amended to read:

Sec. 45.98.070. SHORT TITLE. This chapter may be cited as the Historical Property [DISTRICT] Loan Act.

* Sec. 44. AS 16.10.310(b), 16.10.320(f), and 16.10.333(f) are repealed.

* Sec. 45. This Act takes effect July 1, 1985.

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: CSSB 78(Fin)

Title: Miscellaneous amendments to state loan programs

Sponsor: Rules/Governor

Requestor:

Date of Request:

FISCAL DETAIL

Agency Affected: Commerce & Economic Dev

Program Category Affected: Development

BRU, Program or Subprogram(s) Affected: Investments

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES		156.7	156.7	156.7	156.7	156.7
200 TRAVEL		7.9	7.9	7.9	7.9	7.9
300 CONTRACTUAL		14.0	12.0	12.0	12.0	12.0
400 SUPPLIES		1.2	1.2	1.2	1.2	1.2
500 EQUIPMENT		18.0	-	-	-	-
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		197.8	177.8	177.8	177.8	177.8
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		197.8	177.8	177.8	177.8	177.8
TOTAL						

POSITIONS:

FULL-TIME		4.0	4.0	4.0	4.0	4.0
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: Jan Faiks, Co-chairman Phone: 465-4523

Division: Senate Finance Committee Date: 4/26/85

Approved by Commissioner: Date:

Agency:

Distribution (by Agency preparing fiscal note):

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

only change from SSH6 is Funding under "OTHER"

7/1/84

SSH33

INVESTMENTS

FISCAL NOTE ANALYSIS

Personal Services:

Processing of an additional 600 applications for assumptions and approval of 400 of those applications per year will create a marked increase in the workload of the division's Anchorage and Juneau regional offices. Two additional loan examiners and two loan closers would be required to handle the increased load and would be spread between the two regional offices. One time expenses would be incurred for equipment.

Consideration of these applications would also require significantly more meetings of the department's loan committees. This fiscal note assumes that this additional burden would be absorbed.

PERSONNEL COSTS

Two Loan Examiners II, Range 17A; one each in Anchorage and Juneau:

Salary	$34,740		
Benefits	$10,486		
TOTAL Personal Services		$45,226	
Travel		$ 3,950	
Contractual		$ 3,000	
Commodities		$ 300	
Equipment		$ 4,750	
Total per employee		$57,226	
Subtotal for two Loan Examiners II			$114,452

Two Loan Closers II, Range 12A; one each in Anchorage and Juneau:

Salary	$24,864		
Benefits	$ 8,281		
TOTAL Personal Services		$33,145	
Travel		$ -0-	
Contractual		$ 3,000	
Commodities		$ 300	
Equipment		$ 4,250	
Total per employee		$40,695	
Subtotal for two Loan Closers II			$ 81,390

Estimates for other line items assume that the new employees required for this new loan program will require support at levels similar to that actually being incurred by the division on other loan programs.

sn 5576

Travel: (for Loan Examiners)	To inspect collateral, interview applicants, and inform public on program.	
Contractual:	Space Rental: $3,000 $2.50 sq./ft. x 100 sq./ft. x 12 months RSA to Department of Administration One time $2,000 modification and reprinting of the existing loan application packets.	
Commodities:	General supplies.	
Equipment: (for Loan Closers)	Calculator	$ 365
	Typewriter	$ 1,369
	Workstation	$ 2,516
		$ 4,250
Equipment: (for Loan Examiners)	Calculator	$ 365
	Microfiche Reader	$ 300
	Workstations	$ 4,085
		$ 4,750

TOTAL FY '86 PERSONNEL AND ASSOCIATED COSTS $197,842

0867Wb111984d

m · 55#6

1.	POSITION TITLE: LOAN EXAMINER II				RANGE/STEP: 17A	BARG. UNIT: GGU	PAGE/LINE	GOV.	APPROV.	DISAPP.
2.	TYPE OF POSITION: PFT	STAFF MONTHS: 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION: Juneau	ELECTION DISTRICT	LEG.		
3.	CONFIRMATION LEVEL		ADDITION							

4.	TYPE OF EXPENDITURE	2	AMOUNT 3
	PERSONAL SERVICES		
5.	Salary	34,740	
6.	Benefits	5,624	
7.	Supplemental Benefits	2,130	
8.	Fixed Benefits	2,732	
9.	TOTAL PERSONAL SERVICES	01	45,226
10.	Travel	02	3,950
11.	Contractual	03	3,000
12.	Commodities	04	300
13.	Equipment	05	4,750
14.	Other		
15.	TOTAL COST		57,226

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		C.F. Match	1003	
18.		General Funds	1004	57,226
19.		I-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR BSM USE ONLY
KEY NUMBER ___ - ___ - ___ - ___ - ___

JUSTIFICATION

Processing of an additional 600 applications for assumptions and approval of 400 of those applications per year will create a marked increase in the workload of the division's Anchorage and Juneau regional offices. Two additional loan examiners and two loan closers would be required to handle the increased load and would be spread between the two regional offices. On time expenses would be incurred for equipment.

Consideration of these applications would also require significantly more meetings of the department's loan committees. This fiscal note assumes that this additional burden would be absorbed.

Estimates for the 200-500 lines items assume that the new employee required for this new loan program will require support at levels similar to that actually being incurred by the division on other loan programs.

Travel: To inspect collateral, interview applicants, and inform public on program.

Contractual: Space Rental: $3,000
$2.50 sq./ft. x 100 sq./ft. x 12 months RSA to Department of Administration.

Commodities: General supplies.

Equipment:

Calculator	$ 365
Microfiche Reader	$ 300
Workstation	$4,085
	$4,750

REQUEST FOR NEW POSITION

AGENCY Commerce & Economic Development

PROGRAM Economic Development

BRU Investments

COMPONENT Administration

Revised Date

FY 86

01-1136(12/82)-13

1. POSITION TITLE				RANGE/STEP	BARG. UNIT	PAGE/LINE	GOV.	APPROV.	DISAPP.
LOAN EXAMINER II				17A	GGU				
2. TYPE OF POSITION	STAFF MONTHS	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION	ELECTION DISTRICT	LEG.		
PFT	12				Anchorage				
3. CONFIGURATION LEVEL		ADDITION							

4. Type of Expenditure	2	Amount 3
1		
PERSONAL SERVICES		
5. Salary	34,740	
6. Benefits	5,624	
7. Supplemental Benefits	2,130	
8. Fixed Benefits	2,732	
9. TOTAL PERSONAL SERVICES	01	45,226
10. Travel	02	3,950
11. Contractual	03	3,000
12. Commodities	04	300
13. Equipment	05	4,750
14. Other		
15. TOTAL COST		57,226

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		C.F. Match	1003	
18.		General Funds	1004	57,226
19.		I-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR BSM USE ONLY
KEY NUMBER __ __ - __ __ - __ __ - __ __ - __ __

JUSTIFICATION

Processing of an additional 600 applications for assumptions and approval of 400 of those applications per year will create a marked increase in the workload of the division's Anchorage and Juneau regional offices. Two additional loan examiners and two loan closers would be required to handle the increased load and would be spread between the two regional offices. On time expenses would be incurred for equipment.

Consideration of these applications would also require significantly more meetings of the department's loan committees. This fiscal note assumes that this additional burden would be absorbed.

Estimates for the 200-500 lines items assume that the new employee required for this new loan program will require support at levels similar to that actually being incurred by the division on other loan programs.

Travel: To inspect collateral, interview applicants, and inform public on program.

Contractual: Space Rental: $3,000
$2.50 sq./ft. x 100 sq./ft. x 12 months RSA to Department of Administration.

Commodities: General supplies.

Equipment:

Calculator	$ 365
Microfiche Reader	$ 300
Workstation	$4,085
	$4,750

REQUEST FOR NEW POSITION

AGENCY Commerce & Economic Development

PROGRAM Economic Development

BRU Investments

COMPONENT Administration

Revised Date

FY 86

01-9136(7/82)-18

1.	POSITION TITLE LOAN CLOSER II				RANGE/STEP 12A	BARG. UNIT GGU	PAGE/LINE	GOV.	APPROV.	DISAPP.
2.	TYPE OF POSITION PFT	STAFF MONTHS 12	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION Juneau	ELECTION DISTRICT	LEG.		
3.	CONTINUATION LEVEL		ADDITION							

	TYPE OF EXPENDITURE		AMOUNT
	1	2	3
	PERSONAL SERVICES		
5.	Salary	24,864	
6.	Benefits	4,025	
7.	Supplemental Benefits	1,524	
8.	Fixed Benefits	2,732	
9.	TOTAL PERSONAL SERVICES	01	33,145
10.	Travel	02	-0-
11.	Contractual	03	3,000
12.	Commodities	04	300
13.	Equipment	05	4,250
14.	Other		
15.	TOTAL COST		40,695

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		G.F. Match	1003	
18.		General Funds	1004	40,695
19.		I-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR B&M USE ONLY
KEY NUMBER __ - __ - __ - __ - __

JUSTIFICATION

Processing of an additional 600 applications for assumptions and approval of 400 of those applications per year will create a marked increase in the workload of the division's Anchorage and Juneau regional offices. Two additional loan examiners and two loan closers would be required to handle the increased load and would be spread between the two regional offices. On time expenses would be incurred for equipment.

Consideration of these applications would also require significantly more meetings of the department's loan committees. This fiscal note assumes that this additional burden would be absorbed.

Estimates for the 200-500 lines items assume that the new employee required for this new loan program will require support at levels similar to that actually being incurred by the division on other loan programs.

Contractual: Space Rental: $3,000
$2.50 sq./ft. x 100 sq./ft. x 12 months RSA to Department of Administration.

Commodities: General supplies.

Equipment:

Calculator	$ 365
Typewriter	$1,369
Workstation	$2,515
	$4,250

REQUEST FOR NEW POSITION

AGENCY Commerce & Economic Development

PROGRAM Economic Development

BRU Investments

COMPONENT Administration

Page 3 of 4

Revised Date

FY 86

01-1136 (7/82) - 15

1. POSITION TITLE				RANGE/STEP	BARG. UNIT	PAGE/LINE	COV.	APPROV.	DISAPP.
	LOAN CLOSER II			12A	GGU				
2. TYPE OF POSITION	STAFF MONTHS	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION	ELECTION DISTRICT	LEG.		
PFT	12				Juneau				

3. CONTINUATION LEVEL | | ADDITION | |

4. TYPE OF EXPENDITURE	1	2	AMOUNT 3
	PERSONAL SERVICES		
5.	Salary	24,864	
6.	Benefits	4,025	
7.	Supplemental Benefits	1,524	
8.	Fixed Benefits	2,732	
9.	TOTAL PERSONAL SERVICES	01	33,145
10.	Travel	02	-0-
11.	Contractual	03	3,000
12.	Commodities	04	300
13.	Equipment	05	4,250
14.	Other		
15.	TOTAL COST		40,695

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		G.F. Match	1003	
18.		General Funds	1004	40,695
19.		I-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR BSM USE ONLY
KEY NUMBER — — - — — - — — - — — - — —

JUSTIFICATION

Processing of an additional 600 applications for assumptions and approval of 400 of those applications per year will create a marked increase in the workload of the division's Anchorage and Juneau regional offices. Two additional loan examiners and two loan closers would be required to handle the increased load and would be spread between the two regional offices. On time expenses would be incurred for equipment.

Consideration of these applications would also require significantly more meetings of the department's loan committees. This fiscal note assumes that this additional burden would be absorbed.

Estimates for the 200-500 lines items assume that the new employee required for this new loan program will require support at levels similar to that actually being incurred by the division on other loan programs.

Contractual: Space Rental: $3,000
$2.50 sq./ft. x 100 sq./ft. x 12 months RSA to Department of Administration.

Commodities: General supplies.

Equipment:

Calculator	$ 365
Typewriter	$1,369
Workstation	$2,515
	$4,250

REQUEST FOR NEW POSITION

AGENCY Commerce & Economic Development

PROGRAM Economic Development

BRU Investments

COMPONENT Administration

Revised Date

FY 86

08-9136 (7/82) - 13

1. POSITION TITLE				RANGE/STEP	BARG. UNIT	PAGE/LINE	COV.	APPROV.	DISAPP.
LOAN CLOSER II				12A	GGU				
2. TYPE OF POSITION	STAFF MONTHS	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION	ELECTION DISTRICT	LEG.		
PFT	12				Anchorage				
3. CONFIRMATION LEVEL		ADDITION							

4. TYPE OF EXPENDITURE	1	2	AMOUNT 3
	PERSONAL SERVICES		
5.	Salary	24,864	
6.	Benefits	4,025	
7.	Supplemental Benefits	1,524	
8.	Fixed Benefits	2,732	
9.	TOTAL PERSONAL SERVICES	01	33,145
10.	Travel	02	-0-
11.	Contractual	03	3,000
12.	Commodities	04	300
13.	Equipment	05	4,250
14.	Other		
15.	TOTAL COST		40,695

	RECEIPT CODE	FUNDING SOURCE		
16.		Federal Receipts	1002	
17.		G.F. Match	1003	
18.		General Funds	1004	40,695
19.		I-A Receipts	1005	
20.		Program Receipts	1028	
21.		Other		

FOR BSM USE ONLY
KEY NUMBER — — - — — - — — - — — - — —

JUSTIFICATION

Processing of an additional 600 applications for assumptions and approval of 400 of those applications per year will create a marked increase in the workload of the division's Anchorage and Juneau regional offices. Two additional loan examiners and two loan closers would be required to handle the increased load and would be spread between the two regional offices. On time expenses would be incurred for equipment.

Consideration of these applications would also require significantly more meetings of the department's loan committees. This fiscal note assumes that this additional burden would be absorbed.

Estimates for the 200-500 lines items assume that the new employee required for this new loan program will require support at levels similar to that actually being incurred by the division on other loan programs.

Contractual: Space Rental: $3,000
$2.50 sq./ft. x 100 sq./ft. x 12 months RSA to Department of Administration.

Commodities: General supplies.

Equipment:

Calculator	$ 365
Typewriter	$1,369
Workstation	$2,515
	$4,250

REQUEST FOR NEW POSITION

AGENCY Commerce & Economic Development

PROGRAM Economic Development

BRU Investments

COMPONENT Administration

Revised Date

FY 86

01-5136(7/83)-15

Alaska State Legislature

Senate

Pouch V
State Capitol
Juneau, Alaska 99811

Official Business

SENATE
Letter of Intent

CSSB 78 (L&C)

It is the intent of the Legislature that when implementing the Commercial Fishing Loan Act, the Department of Commerce and Economic Development shall:

(1) utilize maximum flexibility in dealing with loan assumption requests with the understanding that the credit worthiness of the applicant shall be of paramount importance in the decision-making process.

(2) relinquish the original borrower's obligation under the loan agreement whenever the applicant for the assumption has demonstrated credit worthiness to the satisfaction of the Department.

(3) allow individuals to pre-qualify for a loan. This pre-qualification status would apply only to loans authorized for the purchase of limited entry permits.

Adopted by the Senate April 29, 1985.

STATE OF ALASKA 1985 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: CSSB 78(Fin)

Title: Miscellaneous amendments to state loan programs

Sponsor: Rules/Governor

Requestor:

Date of Request:

FISCAL DETAIL

Agency Affected: Commerce & Economic Dev

Program Category Affected: Development

BRU, Program or Subprogram(s) Affected: Accounting & Collections

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES		8.5	8.5	8.5	8.5	8.5
200 TRAVEL						
300 CONTRACTUAL		2.3	2.3	2.3	2.3	2.3
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		10.8	10.8	10.8	10.8	10.8
CAPITAL						
REVENUE		178.0	271.0	364.0	457.0	550.0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		10.8	10.8	10.8	10.8	10.8
TOTAL		10.8	10.8	10.8	10.8	10.8

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: Jan Faiks, Co-chairman Phone: 465-4523

Division: Senate Finance Committee Date: 4/26/85

Approved by Commissioner: Date:

Agency:

Distribution (by Agency preparing fiscal note):

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

ACCOUNTING & COLLECTIONS

7/1/84

CSSB 78 (Fin) April 26, 1985

TECHNICAL AMENDMENTS TO DCED LOAN PROGRAMS: FISCAL NOTE

In order for Division of Investments to administer this legislation as it relates to commercial fishing loan assumptions, the Division of Accounting & Collections must be staffed to provide minimally adequate service to Investments. While we originally estimated a need for two additional positions within the Division of Accounting & Collections, we have streamlined our operation within the past six months since the original fiscal note was drafted, and we believe we can service Division of Investments' requirements through overtime effort.

The overtime funding requested will provide for records management (filing) effort as well as accounting effort to process refinanced repossessions and assumptions through the loan accounting system.

	200 hours clerical support	$3522.00
	200 hours accounting support	4962.00
Line 100		$8484.00
Contractual Services		
	Long Distance/Postage	300.00
	Payment Coupon Printing	1000.00
	DP Chargeback	1000.00
Line 300		$2300.00
	TOTAL	$10,784.00

REVENUE ANALYSIS

1. Assumes an estimated 250 applicants and 200 approvals of assumptions per year, with an average assumed balance of $67,500:

   a. Nonrefundable application fee $50 x 250 = $12,500/year

   b. Assumption Fee (one-time) of ½% of the assumed balance
   $67,500 x .005 x 200 = $67,500/year

2. Assumes an estimated 25 prequalification applicants per year:

   a. Nonrefundable application fee $200 x 25 = $5000/year

3. Assumes 90% recovery of losses on commercial fishing loans due to the ability to finance and reamortize repossessed vessels and other collateral.

	FY 86	FY 87	FY 88	FY 89	FY 90
Assumptions					
Application Fees	12.5	12.5	12.5	12.5	12.5
Assumption Fees	67.5	67.5	67.5	67.5	67.5
Prequalification Fees	5.0	5.0	5.0	5.0	5.0
Additional Loss Recovery	93.0	186.0	279.0	372.0	465.0
	178.0	271.0	364.0	457.0	550.0

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

78

January 22, 1985

The Honorable Don Bennett
President of the Senate
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Senator Bennett:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that amends or supplements various state loan programs. The bill performs a number of different functions.

In sec. 1, the bill deletes AS 16.10.310(a)(1)(C), which provides that commercial fishing loans can be made to fisherman-owned corporations, partnerships, or joint ventures for vessels and gear. However, under both the current AS 16.10.320(e) and as that subsection is amended in sec. 3 of the bill, loans may be made to commercial fishermen who join together in a joint operation; these loans can be in the amount of the standard loan limits for an individual multiplied by the number of fishermen applying. Thus the individuals operating as corporations, partnerships and joint ventures will all be treated in the same manner as individual fishermen.

The bill also deletes AS 16.10.310(b) (sec. 1 of the bill) and amends AS 16.10.339 (sec. 6 of the bill), relating to the adoption of regulations for the commercial fishing loan program. Under this bill, the Department of Commerce and Economic Development will be given the authority to adopt regulations necessary to implement its own loan programs. Under existing statutes, the department is required to consult with the Department of Fish and Game for all commercial fishing loan regulations, and the Commercial Fisheries Entry Commission must adopt any regulations which affect loans secured by limited entry permits. These particular amendments recognize that these programs are loan programs, and the expertise required for implementation of the programs lies with the Department of Commerce and Economic Development, which must be given the authority to control its own functions.

In sec. 1, the bill also provides that the Department of Commerce and Economic Development may take a more flexible and creative approach to protecting the state's security interests and to financing and disposing of repossessed collateral. It will permit commercial fishing loans to be assumed if the applicant meets the two-year residency requirement and assumption of the loan is determined to be consistent with the purposes of the commercial fishing loan program. In addition, for all of the department's loan programs, the bill provides, in secs. 7 -- 16 and 19, that the department may offer alternative financing, including amortized payments, whenever it disposes of property acquired through default proceedings. Under existing law, the department is frequently required to offer repossessed collateral for sale only for cash, which results in the state taking a large loss. If alternative financing could be offered, a much higher sales price often could be obtained. The bill amends 11 state loan programs (commercial fishing, fisheries enhancement, veterans, mining, child care facilities, bulk fuel, alternative energy, residential energy conservation, tourism, small businesses, and historical districts) to permit this flexible disposal of repossessed collateral if the disposal method selected is in the best interests of the state.

The last amendment made by sec. 1 is to relocate to a new subsec. (c) in AS 16.10.310 language that is now in AS 16.10.333(f) (deleted by sec. 4 of the bill), dealing with consideration of an individual's ability to repay a loan. The current provision is applicable only to loans made for purchase of a limited entry permit. As relocated, that language will apply to all commercial fishing loans made under AS 16.10.300 -- 16.10.370.

Section 3 of this bill amends AS 16.10.320(a)(1) to clarify that the department may extend the term of a commercial fishing loan beyond 15 years if the extension is necessary due to poor fishing seasons or adverse market conditions for fishing products.

AS 16.10.320(d) is also clarified in sec. 3. Under existing language, it is unclear whether an individual borrower who has repaid a commercial fishing loan may be granted a new loan. This bill amends that subsection to clarify that new or additional loans may be made to a fisherman, as long as the total outstanding balance of all commercial fishing loans to that individual does not exceed the statutory limit.

Section 5 of the bill will permit the Department of Commerce and Economic Development to take a more flexible approach in dealing with persons who are technically in default on their commercial fishing loans in specific cases where the forfeiture of an individual's limited entry permit is neither desirable nor advantageous to the state. If a commercial fisherman is able to show that he or she never received notice of default under the loan, that person would be able to present evidence to the department that he or she failed to receive the notice and the department would then dismiss the default proceedings. Also, if an individual fisherman contacts the department to state that he or she is unable, for financial or other reasons, to make payment in accordance with the default statute, but does not wish to sacrifice his permit and truly wants to cooperate with the department, the department would be able to negotiate with the individual to attempt to work out some alternative satisfactory to both the fisherman and the state.

The amendment to AS 16.10.335(a) requires the notice of the default to be sent to the debtor by both certified and first class mail, rather than by just registered or certified mail. The new language in AS 16.10.335(b) requires each fisherman to keep a current address on file with the department.

New AS 16.10.335(c) provides that if the department follows the procedures of (a) of that section, the department and, after that, the courts will presume that the debtor received the default notice, and it will be the debtor's responsibility to prove otherwise. Absent evidence that the debtor did not receive the notice, the department would still be able to continue with its default proceedings. However, if such evidence is presented, the default proceedings could be terminated.

New AS 16.10.335(d) gives the department the right to waive the time limits provided in AS 16.10.335(a) (15 days to request a hearing, 60 days to bring the note current, and 120 days to pay the note in full), if a request for a waiver is made by the debtor to the department before the expiration of the relevant time limit. Thus, this bill will allow fishermen who have defaulted on their loans to avoid forfeiture of their permits if exceptional circumstances warrant their retention of the permit.

The bill also makes technical changes to the historical district loan program to clarify its scope. Section 18 of

the bill.

For each loan program administered by the Department of Commerce and Economic Development, the bill establishes a special account, entitled the foreclosure expense account (secs. 8 -- 17 of the bill). Money in this account may be used to pay expenses incurred in protecting the state's security interest in collateral for loans made under the particular loan program. The language for these sections is taken from AS 16.10.342, which already provides for a foreclosure expense account for the commercial fishing loan program.

In addition, the bill fills an apparent statutory omission regarding the bulk fuel revolving fund and the residential energy conservation loan fund programs, by granting statutory authority to the Department of Commerce and Economic Development to adopt regulations necessary for these programs (secs. 12 and 14 of the bill, respectively).

This bill makes a number of significant improvements to the state loan programs, particularly the state commercial fishing loan program. I urge your support of and prompt action on this measure.

Sincerely,

Bill Sheffield
Governor

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

MEMORANDUM May 1, 1985

SUBJECT: Sectional analysis of CSSB 78 (Finance)

TO: Representative John L. Sund
Chairman,
House Special Committee on State Loans

FROM: Keith B. Levy KBL
Legislative Counsel

You have requested a sectional analysis of CSSB 78 (Finance). The bill amends a number of state loan programs administered by the Department of Commerce and Economic Development and the Commercial Fishing and Agriculture Bank.

Section 1 amends the commercial fishing loan program (AS 16.10.310(a)) to allow loans for the repair and upgrading of vessels and gear and the purchase of entry permits. To qualify for a loan an individual must either not have other occupational opportunities available or must be dependent on commercial fishing for a livelihood as a traditional way of life. This section also allows assumption of a loan if the applicant has been a resident for two years and the assumption would be consistent with the purposes of the loan program. An applicant for assumption may not be disqualified solely because the applicant does not meet the existing eligibility requirements. Finally, section 1 allows DCED to prequalify loan applicants for limited entry permit loans and charge a fee not to exceed $200 for prequalification.

Section 2 requires DCED to consider a commercial fisherman's income from all sources in determining the fisherman's ability to repay a loan.

Sections 3 and 4 make technical amendments to AS 16.310.315 and AS 16.10.320(a) to conform to other amendments made in the bill.

Section 5 provides that limits on the amount of loans in existing law apply to the total outstanding balance on the loans rather than the total amount of the initial loans. This section also repeals existing provisions under which loans to an associate of the borrower count towards the borrower's loan limits.

Section 6 amends AS 16.10.320(e) to allow two or more commercial fishermen to obtain a loan jointly under the same terms as individual loans.

Sections 7 and 8 make technical amendments to AS 16.10.320(i) and AS 16.10.333(a) to conform to other amendments in the bill.

Section 9 requires a borrower who uses a limited entry permit as security for a loan to maintain an address on file with the department where notice of default may be received by the borrower. If the department mails a notice of default to the borrower, receipt of the notice is presumed, but may be rebutted by the borrower. The department may waive the statutory time limits related to default if the borrower shows good cause and notifies the commissioner before the expiration of the time limit.

Section 10 amends AS 16.10.339 to provide that the department, not the Commercial Fisheries Entry Commission, must adopt regulations to implement the statutory provisions.

Section 11 gives DCED the power to dispose of property acquired through foreclosure of a fishing loan in a manner that serves the best interests of the state. The disposal may include amortization of payments over a period of years, but may not be by lease.

Sections 12 - 19, 21 - 31, and 33 create foreclosure expense accounts within certain loan funds. The accounts are created to protect the state's security interest in collateral on the loans and to pay the expenses of foreclosure on the loans. These sections also give DCED the power to dispose of property acquired through foreclosure of loans in a manner that serves the best interests of the state. These provisions apply to the fisheries enhancement revolving loan fund (secs. 12 and 13), the Alaska World War II veterans' revolving loan fund (secs. 14 and 15), the mining loan fund (secs. 16 and 17), the child care facility

revolving loan fund (secs. 18 and 19), the bulk fuel revolving loan fund (secs. 21 and 22), the alternative energy revolving loan fund (secs. 23 and 24), the residential energy conservation fund (secs. 25 and 26), the tourism revolving loan fund (secs. 27 and 28), the small business revolving loan fund (secs. 29 and 30), and the historical district revolving loan fund (secs. 31 and 33).

Section 20 gives CFAB the power to make a loan to a person regardless of residency, if the loan is necessary to protect the value of property held by the bank as security for a loan that is in default.

Section 32 of the bill amends the historical district loan program to provide that to be eligible for a loan, a structure must be within a historical district and either identified as important in state or national history, or suitable for modification to conform to the period or motif of the surrounding buildings. Under existing law, a structure must meet all three of these requirements.

Section 34 repeals AS 16.10.310(b), 16.10.320(f) and 16.10.333(f), related to commercial fishing loans.

Section 35 provides for a July 1, 1985, effective date.

KBL:lmb
L4/083

To go on 195

May 10th

*Sec. 1.

(a) All right, title, and interest in loans of the type described in (b) of this section, and all right, title and interest in all mortgages, notes and other instruments of security made in connection with those loans, are transferred and appropriated to the fund (AS 45.93.010) of the Forest Products Business Loan Guarantee Program; provided however that payment of principal and interest from the said loans to the Forest Products Business Loan Guarantee Fund (AS 45.93.010) shall continue to be paid into the general fund until June 30, 1986, after which time payments into the Forest Products Business Loan Guarantee Fund shall commence. If the amount in unpaid principal of the loans exceeds $25,000,000 on July 1, 1986, only loans and instruments of security totaling $25,000,000 in unpaid principal are transferred and appropriated under this section.

(b) This section transfers and appropriates

(1) small business loans acquired or made under AS 45.95; and

(2) tourism loans acquired or made under AS 45.90.

*Sec. 2. The unexpended and unobligated portion of the appropriation made herein shall lapse into the general fund on June 30, 1987.

*Sec. 3. Money obligated hereunder for the purpose of guaranteeing the forest products business loan guarantee

fund shall be reappropriated to the general fund as the principal of the guaranteed loan is paid, in amounts equal to the percentage of the loan guarantee multiplied by the payments on the principal of the loan.

4. The Commissioner of Commerce and Economic Development may not ~~guarantee~~ obligate more funds than are in the forest products business loan guarantee fund.

To go on SB 78 May 10th

*Sec. _____. AS 45.94 is repealed.

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

Sec. 45.93.010. ESTABLISHMENT OF FOREST PRODUCTS BUSINESS LOAN GUARANTEE FUND. The forest products business loan guarantee fund is established in the Department of Commerce and Economic Development.

Sec. 45.93.020. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM. The department may use money in the fund to guarantee a loan to a forest products business for the purpose of financing the purchase of depreciable assets and roads that will maintain or increase employment in an existing forest products business, as provided in AS 45.93.050.

Sec. 45.93.030. POWERS AND DUTIES OF THE DEPARTMENT. (a) The commissioner may

(1) designate agents and delegate powers necessary to implement this chapter;

(2) adopt regulations to implement this chapter;

(3) make and execute contracts and other instruments to implement this chapter;

(4) acquire real or personal property by purchase, transfer, or foreclosure when the acquisition is necessary to protect an interest in the fund.

(b) The commissioner shall require that a loan guaranteed by the fund be secured by adequate collateral, and that the net cash flow from the forest products business provides

adequate coverage for the debt service on the loan. The applicant shall provide an economic and financial feasibility analysis prepared by a firm acceptable to the department.

Sec. 45.93.040. INVESTMENT OF THE FUND. Money in the fund that is not being used for loan guarantees under this chapter shall be invested as provided for the investment of state treasury surplus under AS 37.10.070. Income from investment and interest on loans in the fund shall be transferred to the general fund.

Sec. 45.93.050

(a) The department may guarantee a loan under this chapter if

(1) the term of the loan does not exceed 10 years;

(2) the loan is commercially reasonable and secured by the real or personal property, inventory or accounts receivable of the forest products business, or by other collateral acceptable to the department;

(3) the loan is orginated with and serviced by a state or federally chartered financial institution;

(4) the loan is made to a forest products business and

(A) a majority interest of the business is held by Alaska residents;

(B) the business maintains offices and operating facilities exclusively in the state unless the business is engaged in the export of forest products; and

(C) a majority of the employees of the business are residents of the state.

(5) the loan will increase or maintain production and employment in the forest products business and is for either depreciable assets which will enance the value of the product sold by the borrower or for a road or roads to be constructed by the borrower in connection with a timber sale.

(6) the portion of the loan not guaranteed by the state is held by the originating financial institution or another financial institution approved by the commissioner.

(b) The department may provide a guarantee from the fund for up to 80 percent of a loan for up to $6,000,000 per borrower for depreciable assets which will enhance the value of the prouducts sold by the borrower and for up to $2,000,000 per borrower for road construction. The department shall not guarantee loans to refinance existing debt. At no time shall the department provide guarantees for loans aggregating more than $31,250,000 of the principal amount. The department may not guarantee the payment of annual interest on the guaranteed portion of a loan.

(c) After a default by a borrower, the maximum liability of the fund for a loan guarantee under this chapter is equal to the amount then in default multiplied by a percentage equal to the guaranteed percentage of the loan. Payments received toward satisfaction of a default shall be allocated between the lender and the fund according to the guaranteed

percentage of the loan until the principal balance has been repaid.

(d) The department shall charge a user fee not to exceed one percent of the principal balance of the loan guarantee at the inception of the loan which is guaranteed under this chapter, which shall be paid into the general Fund.

Sec. 45.93.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

Sec. 45.93.060. SPECIAL ACCOUNT ESTABLISHED.

(a) There is established as a special account within the forest products business guarantee loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.93.020 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

Sec. 45.93.070. DEFINITIONS. In this chapter

(1) "commissioner" means the commissioner of commerce and economic development;

(2) "department" means the Department of Commerce and

Economic Development;

(3) "forest products business" means a sole proprietorship, partnership, corporation or other business organization formed under the laws of the state for the purpose of harvesting or processing timber or other forest resources;

(4) "fund" means the forest products business loan guarantee fund;

(5) "depreciable asset" means a kiln, chipping facility, creosote or pressure plant, planer, equipment for precision sawyering, similiar equipment approved by the commissioner designed to enhance the value of timber prouducts for the Alaska, domestic and export markets, and related facilities.

Rep. Pourchot

HCS CSSB 78 (Finance)

FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM

The proposal amends the existing Forest Products Business Loan Gurantee Program which was enacted to allow the employees of the Ketchikan Pulp Corporation to purchase an interest in the pulp mill owned by Louisiana Pacific Corporation. The employees have now decided not to purchase the mill; thus the program is of no further use.

In the meantime, the Governor's Timber Task Force was created with the mission of finding ways to improve the health of the timber industry in Southeast Alaska and to enchance the industry in the Railbelt Area. Only 5-10% of the 110 million board feet annual market for wood products in the Railbelt Area is provided by Alaska wood products. The Task Force estimates that up to 60% of that market could be captured by the Alaska industry if the quality of the products coming from Alaska's sawmills is improved. Pacific Rim purchasers have stated that they will buy more sawn products from Alaska if the quality of the products is improved. In each case the products must be: 1) precision sawn; 2) moisture stabilized; and 3) planed.

This proposal would allow the guarantee of loans made for the purchase of "depreciable assets" and roads. "Depreciable assets" are defined to limit the loans guaranteed under the program to loans for planers, kilns, chippers, precision sawing equipment, and similiar equipment to improve the quality of the sawn products. The loans cannot be made to refinance debt or to purchase assets that could otherwise be financed (such as fork lifts, trucks and other more conventional equipment). In addition, loggers are helped by allowing guarantees to build roads in connection with a timber sale. In short, the loan gurantees are designed to upgrade the products produced by Alaska's saw mills.

There has been a strong effort made to assure that the loans made are commerically reasonable and unlikely to result in default. Under the program, as amended by this bill, the Department of Commerce and Economic Development would be able to guarantee loans for up to 80%, but not more than $2 million per borrower for depreciable assets and $1 million per borrower for road construction. Thus the banks will have a stake in making certain that only good loans are made. The Commissioner gets a second review of the likelihood of repayment when he or she decides whether to provide a guarantee. A 1% fee for the loan quarantee is required.

The following is a section-by-section description of the bill:

SECTION-BY-SECTION

Section 30. This section amends AS 45.94.020 to state that the purpose of the loan guarantee program is to finance depreciable assets and roads. The amendment drops out the provisions in the existing law dealing with the purchase of stock which were specfically for the Ketchikan Pulp Company situation.

Section 31. AS 45.94.030 outlines the powers and duties of the Department of Commerce and Economic Development and the Commissioner. A new subsection (c) has been added to prohibit the Department from making loan gurantees in excess of the unobligated cash in the fund.

AS 45.94.040 is repealed because it is unnecessary in the opinion of the Department of Commerce and Economic Development.

Section 32. This section amends AS 45.94.050(a) to include the requirement in subparagraph (a)(2) that the loan be commercially reasonable. It also requires that a controlling interest in the business be held by Alaska residents. Subparagraph (a)(1) requires that the business maintain its offices and operating facilities exclusively in the State unless it engages in the export of forest products. It also requires that a majority of employees of the business be residents of the State. A new subsection (5) is added requiring that the guarantee be limited to loans for depreciable assets or roads in connection with a timber sale and that the guranteed loans maintain or increase production and employment in the forest products business in the State. A new subsection (6) requires that the portion of the loan not guaranteed by the State be held by a financial institution which meets the approval of the Commissioner.

Section 33. AS 45.94.050(b) is amended by this section to increase the guarantee from 50% to 80% but to limit that guarantee to $2 million per borrower for depreciable assets and $1 million per borrower for roads. The current law sets a $30 million limit. The Department would not be permitted to guarantee loans to refinance debt or to pay interest on the guaranteed portion of the loan. The Department would in no case be able to make loan guarantees in excess of $10,000,000. A new subsection (c) was added to state that the Department may not make loan guarantees in excess of funds available

Section 34. This section amends AS 45.94.050(c) to require that the ratio of the guarantee to the outstanding loan principal stay the same over the term of the loan. This means as the principal amount of the loan goes down so does the amount which the State has guaranteed. Any payment

received after default will be split between the State and the bank in proportion to the guaranteed portion of the loan guaranteed by each.

Section 35. This section adds a new subsection (d) to AS 45.94.050 which charges the borrower a fee not to exceed 1% of the principal balance of the loan guarantee at the inception of the loan. The purpose of subsection (d) is to provide the State a portion of the anticipated lower interest rate resulting from the guarantee.

Section 36. This section adds the standard provisions allowing the Department to dispose of property it acquires as a result of default and establishes a special account to protect the State's security in collateral on guaranteed loans.

In additon, "depreciable asset" is defined in the definition section of AS 45.94.060 to include a kiln, chipping facility, creosote or pressure plant, planer, or precision sawing equipment. This is to make certain the loans are used to further the purpose of the program which is to upgrade the quality of sawn products.

Finally, the program is transferred from the Department of Revenue to the Department of Commerce and Economic Development by changing the definitions in subsections (1) and (2) of AS 45.94.060(1) and (2).

Alaska State Legislature

Senate

Committee on Labor & Commerce

Pouch V
State Capitol
Juneau, Alaska 99811

Official Business

SB 78: Sectional Analysis

Section 1) Makes both technical and policy changes to the present Commercial Fisheries Loan Program. The first substantive change occurs on line 11 of page 2 which repeals subsection pertaining to loans made to "corporations, partnerships, and joint venturers". Section 3 would allow individual fisherman who qualify for loans under 16.10.310 (a) (1) (B) to obtain loans jointly "whether operating as a corporation, partnership, joint venture, or otherwise"

Section also provides statutory authority to permit assumption of loans and repeals language which required consultation between the Dept of F&G and the DCED for all commercial fishing loan regulations.

Also adds language which grants the commissioner authority to consider all sources of a fishermans income when determining a fishermans ability to repay a loan. Currently the commissioner has that authority only with respect to loans for entry permits.

Section 2) Deletes references to "corporations, partnerships, or joint ventures (16.10.310 (a) (1) (C)" consistent with that deletion in section 1).

Section 3) Changes the "Limitations on Loans" section and provides for extensions on the term of loans because of a poor fishing season or adverse market conditions.

Language is also added which changes the loan limits from a "total dollar amount" to a borrower to the total "balances outstanding" to a borrower.

Further, deletes language regarding loans to "associates of the borrower" as all loans will be made to individuals.

Section 4) Currently, the department is able to consider fishing and all other sources of income of an applicant who applies for an entry permit loan under 16.10.310 (a) (1) (A). This bill would extend that authority to "consider all sources of income" for Commercial Fishing Loans

Section 5) Changes the requirements of notification when a debtor defaults on a note which has a permit pledged as security for the note. The mailing notice of default is changed from registered and certified mail to certified and first class mail. Changes the "countdown" provisions for notice of default and adds an additional day for each notice.

Requires that when a permit is pledged to secure a loan the borrower must maintain a current mailing address on file with the Department. Further states that upon evidence of mailing, the receipt of the notice of default by the debtor will be "presumed". This presumption is rebuttable by presentation of evidence by the debtor that the notice was not received and proof of lack of receipt nullifies the notice.

Section also grants the commissioner authority to waive any of the time limits if the department receives a request from the borrower or his representative before the expiration of the time limit for which the waiver is sought.

Section 6) Deletes the provision that the Commercial Fisheries Entry Commission, with the approval of the Department, adopt regulations for the limited entry permit sections of this bill.

Section 7) Provides statutory authority for the department to dispose of property acquired after default or foreclosure of a Comm Fish Loan.

Section 8) Establishes a special "foreclosure" expense account within the fisheries enhancement revolving loan fund. The account is established as a reserve from fund equity and this section also allows the department to dispose of property acquired thru default.

Section 9) Establishes a special foreclosure account for the Alaska WW II veterans revolving loan fund, and allows the department to dispose of property acquired thru default.

Section 10) Establishes a special foreclosure account for the mining loan fund, and allows the department to dispose of property acquired thru default.

Section 11) Establishes a special foreclosure account for the childcare facility revolving loan fund, and allows the department to dispose of property acquired thru default.

Section 12) Establishes a special foreclosure account for the bulk fuel revolving loan fund, and allows the department to dispose of property acquired thru default. Also permits the department to adopt regs to implement this chapter.

Section 13) Establishes the special foreclosure account for the Alternative Energy Revolving Loan Fund, and allows the department to dispose of property acquired thru default.

Section 14) Establishes the special foreclosure account for the Residential Energy Conservation Fund, and allows the department to dispose of property acquired thru default. Also allows the department to adopt regs to implement this program.

Section 15) Establishes a special foreclosure account for the tourism revolving fund, and allows the department to dispose of property acquired thru default.

Section 16) Establishes a special foreclosure account for the small business revolving loan fund, and allows the department to dispose of property acquired thru default.

Section 17) Establishes a special foreclosure account for the historical district revolving loan fund.

Section 18) Makes grammatical changes and defines the scope of the historical district loan program.

Section 19) Provides the state with authority to dispose of property acquired thru default or foreclosure from the historical district loan program.

Section 20) July 1, 1985 effective date.

14-0690
Levy
2/18/85✓

IN THE HOUSE

BY THE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the use of student loans to pay child care expenses."

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

* Section 1. AS 14.43.120(a) is amended to read:

(a) Proceeds from scholarship loans may only be used for books, tuition and required fees, child care expenses, and for room and board, however the maximum loan award may not exceed the cost of books, tuition and required fees, and room and board.

* Sec. 2. AS 14.43.640(d) is amended to read:

(d) Proceeds from a teacher scholarship loan may be used only for undergraduate expenses of books, tuition, required fees, room and board, child care expenses, and the transportation expense for two round trips between the loan recipient's home and school, however the maximum loan award may not exceed the cost of books, tuition and required fees, and room and board.

Levy
5/1/85 ✓

Original sponsor: Rules/Governor

IN THE SENATE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

HOUSE CS FOR CS FOR SENATE BILL NO. 78 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making miscellaneous amendments to state loan programs; and providing for an effective date."

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

* Section 1. AS 16.10.310(a) is amended to read:

(a) The department may

(1) make loans to

(A) individual commercial fishermen who have been state residents for a continuous period of two years immediately preceding the date of application for a loan under AS 16.10.300 - 16.10.370 and have had a crewmember or commercial fishing license under AS 16.05.480 or a permit under AS 16.43 for the year immediately preceding the date of application and any other two of the past five years, and who actively participated in the fishery during those periods, for the purchase of entry permits;

(B) <u>an individual for the repair, restoration, or upgrading of existing vessels and gear, for the purchase of entry permits and gear, and for the construction and purchase of vessels, if the individual</u> [AN INDIVIDUAL WHO] has been a state resident for a continuous period of two years immediately preceding the date of application for a loan under AS 16.1 16.10.370, <u>and either</u> [WHO]

(i) because of lack of transportation or lack of employment opportunities in the area of residence does not have occupational opportunities available other than

commercial fishing; or

(ii) is economically dependent on commercial fishing for a livelihood and for whom commercial fishing has been a traditional way of life [FOR THE INDIVIDUAL] in Alaska [, FOR THE REPAIR, RESTORATION OR UPGRADING OF EXISTING VESSELS AND GEAR, FOR THE PURCHASE OF ENTRY PERMITS AND GEAR, AND FOR THE CONSTRUCTION AND PURCHASE OF VESSELS;

(C) CORPORATIONS, PARTNERSHIPS, OR JOINT VENTURES, 100 PERCENT OF WHICH ARE OWNED BY INDIVIDUAL COMMERCIAL FISHERMEN WHO HAVE BEEN STATE RESIDENTS FOR A CONTINUOUS PERIOD OF TWO YEARS IMMEDIATELY PRECEDING THE DATE OF APPLICATION FOR A LOAN UNDER AS 16.10.310(a)(1)(B) AND HAVE HAD A CREWMEMBER OR COMMERCIAL FISHING LICENSE UNDER AS 16.05.480 OR A PERMIT UNDER AS 16.43 FOR THE YEAR IMMEDIATELY PRECEDING THE DATE OF APPLICATION AND ANY OTHER TWO OF THE PAST FIVE YEARS, AND WHO ACTIVELY PARTICIPATED IN THE FISHERY DURING THAT PERIOD, FOR THE REPAIR, RESTORATION OR UPGRADING OF EXISTING VESSELS AND GEAR, FOR THE PURCHASE OF GEAR, AND FOR THE CONSTRUCTION AND PURCHASE OF VESSELS];

(2) designate agents and delegate its powers to them as necessary;

(3) adopt regulations necessary to carry out its functions;

(4) establish amortization plans for repayment of loans, which may include extensions for poor fishing seasons or for adverse market conditions for Alaskan products;

(5) enter into agreements with private lending institutions, other state agencies, or agencies of the federal government, to carry out the purposes of AS 16.10.300 - 16.10.370;

(6) enter into agreements with other agencies or organizations to create an outreach program to make loans under AS 16.10.300 -

16.10.370 in rural areas of the state;

(7) allow an assumption of a loan if

(A) the applicant has been a state resident for a continuous period of two years immediately preceding the date of the request for an assumption; and

(B) approval of the assumption would be consistent with the purposes of AS 16.10.300; an applicant for a loan assumption may not be disqualified because the applicant does not meet the loan eligibility requirements of (1) of this subsection;

(8) prequalify loan applicants for a limited entry permit loan and charge a fee not to exceed $200 for prequalification.

* Sec. 2. AS 16.10.310 is amended by adding a new subsection to read:

(c) In determining whether an individual commercial fisherman is reasonably likely to be able to repay a loan made under AS 16.10.300 - 16.10.370, the commissioner shall consider the individual commercial fisherman's income from commercial fishing and from all other sources.

* Sec. 3. AS 16.10.315 is amended to read:

Sec. 16.10.315. ALLOCATION OF LOANS. The department shall allocate at least 10 percent of the money that is appropriated for a state fiscal year to make loans under AS 16.10.310 for loans of $35,000 or less made under AS 16.10.310(a)(1)(B) [AND (C)]. An allocation made under this section terminates on April 15 of the state fiscal year for which the allocation is made.

* Sec. 4. AS 16.10.320(a) is amended to read:

(a) Except as permitted in (h) of this section, a (A) loan under AS 16.10.300 - 16.10.370 [16.10.310 - 16.10.370]

(1) may not exceed a term of 15 years, except for extensions under AS 16.10.310(a)(4);

(2) may not bear interest exceeding 10-1/2 percent;

(3) must [SHALL] be secured by a first priority lien and appropriate security agreement; and

(4) may not exceed 90 percent of the appraised value of the collateral used to secure the loan[, EXCEPT THAT A LOAN GRANTED UNDER AS 16.10.333 FOR THE PURCHASE OF AN ALASKA LIMITED ENTRY PERMIT MAY NOT EXCEED AN AMOUNT DETERMINED IN ACCORDANCE WITH (f) OR (h) OF THIS SECTION].

* Sec. 5. AS 16.10.320(d) is amended to read:

(d) The total of balances outstanding on loans [LOANS] made to a borrower under AS 16.10.310(a)(1)(A) may not exceed [A TOTAL OF] $300,000. The total of balances outstanding on loans [LOANS] made to a borrower under AS 16.10.310(a)(1)(B) [OR (C)] may not exceed [A TOTAL OF] $100,000. [A LOAN TO AN ASSOCIATE OF THE BORROWER IS CONSIDERED TO BE A LOAN TO THE BORROWER. FOR THE PURPOSES OF THIS SECTION, "ASSOCIATE OF THE BORROWER" MEANS

(1) A CORPORATION OR OTHER ORGANIZATION OF WHICH THE BORROWER IS AN OFFICER, DIRECTOR OR PARTNER, OR IS, DIRECTLY OR INDIRECTLY, THE BENEFICIAL OWNER OF 10 PERCENT OR MORE ON ANY CLASS OF EQUITY SECURITIES;

(2) A PERSON WHO IS, DIRECTLY OR INDIRECTLY, THE BENEFICIAL OWNER OF 10 PERCENT OR MORE OF ANY CLASS OF EQUITY SECURITIES OF THE BORROWER;

(3) A TRUST OR OTHER ESTATE IN WHICH THE BORROWER HAS A SUBSTANTIAL BENEFICIAL INTEREST OR AS TO WHICH THE BORROWER SERVES AS TRUSTEE OR IN A SIMILAR FIDUCIARY CAPACITY.]

* Sec. 6. AS 16.10.320(e) is amended to read:

(e) Two or more individual commercial fishermen who each satisfy the requirements specified in AS 16.10.310(a)(1)(B) may join, whether operating as a corporation, partnership, joint venture, or

otherwise, obtain a commercial fishing loan for the repair, restoration, or upgrading of an existing vessel and gear, for the purchase of gear, and for the construction [OF A FISHING VESSEL] or the purchase of a [AN EXISTING] fishing vessel. Loans granted under this subsection

[(1)] may not exceed the amount specified in (d) of this section multiplied by the number of qualified commercial fishermen applying for the loan [;

(2) MAY NOT EXCEED A TERM OF 15 YEARS;

(3) SHALL BE SECURED BY A FIRST PRIORITY LIEN AND APPROPRIATE SECURITY AGREEMENT;

(4) MAY NOT BEAR INTEREST EXCEEDING 10-1/2 PERCENT; AND

(5) MAY NOT EXCEED 90 PERCENT OF THE APPRAISED VALUE OF THE COLLATERAL USED TO SECURE THE LOAN].

* Sec. 7. AS 16.10.320(i) is amended to read:

(i) If a loan is made to a borrower under AS 16.10.310(a)(1)(A), a subsequent loan may not be made to the borrower [OR AN ASSOCIATE OF THE BORROWER] under AS 16.10.310(a)(1)(B) [OR (C)]. If a loan is made to a borrower under AS 16.10.310(a)(1)(B) [OR (C)], a subsequent loan may be made to the borrower [OR AN ASSOCIATE OF THE BORROWER] under AS 16.10.310(a)(1)(A) if the total of the balances outstanding on loans received by the borrower [OR THE ASSOCIATE] under AS 16.10.310 does not exceed $300,000.

* Sec. 8. AS 16.10.333(a) is amended to read:

(a) Loans under AS 16.10.310(a) [AS 16.10.320(a)] may be made to an individual commercial fisherman for the purchase of a limited entry permit upon certification by the commission that the fisherman is a person who qualifies as a transferee for the permit under AS 16.43 and

the regulations adopted by the commission.

* Sec. 9. AS 16.10.335 is amended to read:

Sec. 16.10.335. DEFAULT AND FORECLOSURE. (a) If the debtor defaults upon a note for which a limited entry permit has been pledged as security under AS 16.10.333 or [UNDER AS] 16.10.338, the commissioner shall provide the debtor, by both [REGISTERED OR] certified and first class mail sent to the debtor's last known address on file with the commissioner, with a notice of default that [WHICH] includes

(1) a description of the security given for the note including the number assigned to the pledged permit by the commission;

(2) the date upon which the default occurred;

(3) the amount of arrearages as of the date of the notice, the total amount remaining on the note less unearned interest, and the amount of daily interest;

(4) a statement that the debtor may, within 15 days after [OF] the postmark date of the notice, request a hearing to submit evidence showing the debtor has not defaulted;

(5) a statement that the note may be reinstated if brought current within 60 days after [FROM] the postmark date of the notice;

(6) a statement that the note may be paid in full less unearned interest within 120 days after [FROM] the postmark date of the notice;

(7) the place where reinstatement or payment in full may be made; and

(8) a notice in at least 10-point bold type stating: "IMPORTANT: YOUR FAILURE TO REINSTATE OR PAY THIS NOTE IN FULL BY THE DATE SPECIFIED WILL RESULT IN A FORFEITURE OF ALL RIGHTS TO THE PERMIT AND THE POSSIBILITY OF LEGAL ACTION BEING INSTITUTED AGAINST YOU."

(b) In each case of a limited entry permit being pledged as

security under AS 16.10.333 or 16.10.338, the debtor shall maintain on file with the department an address where notice of default is to be sent, if necessary, and where that notice will be timely received by the debtor.

(c) Upon presentation of evidence of mailing in accordance with (a) of this section, the receipt of the notice of default by the debtor will be presumed for all purposes. This presumption is rebuttable by presentation of evidence sufficient to demonstrate lack of receipt of notice through no fault of the debtor. Upon presentation of evidence sufficient to prove lack of receipt of notice through no fault of the debtor, the notice is a nullity.

(d) Upon good cause shown, the commissioner may waive any of the time limits in (a) of this section, if the department receives from the debtor or the debtor's representative a request for the waiver before the expiration of the time limit for which the waiver is sought.

(e) Except as otherwise provided in (c) and (d) of this section, upon [UPON] the debtor's failure to satisfy the note within the time specified in (a)(6) of this section, the debtor's interest in the permit is terminated by operation of law without further notice. Any entry permit cards issued to the debtor under the permit must [SHALL] be cancelled immediately upon receipt by the commission of a certificate of termination containing a copy of the notice required by (a) of this section issued by the commissioner.

* Sec. 10. AS 16.10.339 is amended to read:

Sec. 16.10.339. REGULATIONS. The [COMMISSION WITH THE APPROVAL OF THE] department [,] shall adopt regulations to implement AS 16.10.-333 - 16.10.337.

* Sec. 11. AS 16.10 is amended by adding a new section to read:

Sec. 16.10.355. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under AS 16.10.300 - 16.10.370 or former AS 16.10.650 - 16.10.720. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years, but may not be by lease.

* Sec. 12. AS 16.10 is amended by adding a new section to read:

Sec. 16.10.507. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the fisheries enhancement revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 16.10.520 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 13. AS 16.10 is amended by adding a new section to read:

Sec. 16.10.555. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under AS 16.10.500 - 16.10.620. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 14. AS 26.15 is amended by adding a new section to read:

Sec. 26.15.085. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that

serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 15. AS 26.15 is amended by adding a new section to read:

Sec. 26.15.095. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the Alaska World War II veterans' revolving fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 26.15.040 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 16. AS 27.09 is amended by adding a new section to read:

Sec. 27.09.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the mining loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 27.09.010 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 17. AS 27.09 is amended by adding a new section to read:

Sec. 27.09.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 18. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.242. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the child care facility revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 44.33.245 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 19. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.272. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under AS 44.33.240 - 44.33.275. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 20. AS 44.81.210(a) is amended by adding a new paragraph to read:

(23) make a loan to a person, regardless of residency, if the board of directors of the bank determines that the loan is necessary to preserve the value of property held by the bank as security for a loan that was made under (a)(1) of this section and that is in default.

* Sec. 21. AS 45.87 is amended by adding a new section to read:

Sec. 45.87.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the bulk fuel revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under this chapter or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 22. AS 45.87 is amended by adding new sections to read:

Sec. 45.87.040. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

Sec. 45.87.060. REGULATIONS. The department shall adopt regulations to implement this chapter.

* Sec. 23. AS 45.88 is amended by adding a new section to read:

Sec. 45.88.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established, as a special account within the revolving loan fund established under AS 45.88.010, the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.88.020 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 24. AS 45.88 is amended by adding a new section to read:

Sec. 45.88.050. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that

serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 25. AS 45.89 is amended by adding a new section to read:

Sec. 45.89.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the residential energy conservation fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.89.030 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 26. AS 45.89 is amended by adding new sections to read:

Sec. 45.89.050. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

Sec. 45.89.070. REGULATIONS. The department shall adopt regulations to implement this chapter.

* Sec. 27. AS 45.90 is amended by adding a new section to read:

Sec. 45.90.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the tourism revolving fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans

partnership, corporation or other business organization formed under the laws of the state for the purpose of harvesting or processing timber or other forest resources;

(4) "fund" means the forest products business loan guarantee fund.

* Sec. 34. AS 45.95 is amended by adding a new section to read:

Sec. 45.95.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 35. AS 45.95 is amended by adding a new section to read:

Sec. 45.95.065. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the small business revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.95.020 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 36. AS 45.98 is amended by adding a new section to read:

Sec. 45.98.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the historical district revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when

necessary to protect the state's security interest in collateral on loans made under this chapter, or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 37. AS 45.98.020 is amended to read:

Sec. 45.98.020. HISTORICAL DISTRICT LOANS. Upon endorsement and plan approval by a local historical district commission established under AS 29.48.108 and the recommendation of a majority of the members of the Historic Sites Advisory Committee, the Department of Commerce and Economic Development may make loans to a person, firm, business or municipality subject to applicable laws for the restoration, improvement, rehabilitation, or maintenance of

(1) a structure which is [(1)] within the boundaries of a historical district established under AS 29.48.110 and [;]

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

(2) a [(3) ANOTHER] building or structure within a historical district, that is [AND] suitable for superficial modification so that it can conform to the period or motif of the surrounding buildings or structures that are the reason for the area's designation as a historical district.

* Sec. 38. AS 45.98 is amended by adding a new section to read:

Sec. 45.98.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 39. AS 16.10.310(b), 16.10.320(f), and 16.10.335(f) are repealed.

* Sec. 40. This Act takes effect July 1, 1985.

DRAFT

MEMORANDUM

TO: John Hartle

FROM: Joe Darnell

RE: Forest Products Business Loan Guarantee Program Amendments Bill

DATE: April 265, 1985

Pursuant to your request, the following is a description of the amendments we have proposed to the Forest Products Business Loan Guarantee Program.

The amendments being proposed essentially take the existing Forest Products Business Loan Guarantee Program which was enacted to provide employees of the Ketchikan Pulp Corporation with a loan guarantee fund to back up part of a loan to purchase an interest in the pulp mill owned by Louisiana Pacific Corporation in Ketchikan. Since passage of that act in 1984, Louisiana Pacific Corporation has decided to not sell the mill to its employees; thus the purpose of the program as enacted by the Legislature is outdated.

The changes made in the existing Forest Products Business Loan Guarantee Program are designed to convert that program from a one-purpose program to a general business loan guarantee program available to all Alaskan forest products businesses. The loans under this program are to be used for financing the purchase of equipment and facilities that will increase or maintain employment in a forest products business. The intent of the program as drafted is to make it available only to Alaska forest products businesses which are businesses organized for profit and which a majority of the employees of the business are residents of Alaska.

The program would be based on the existing $25 million appropriation made last year from the rainy day account in the general fund to the Forest Products Business Loan Guarantee Fund. Under the program, as amended by this bill, the Department of Revenue may provide a guarantee from the fund for up to 80% of the loan, but it may not guarantee more than $6 million per borrower. A ~~1/4 of~~ 1% user fee for the loan guarantee is provided for in the bill. We recommend that the fee be increased to 1%.

The following is a section-by-section description of the bill as drafted for introduction by Representative Sund:

Section 1. It amends AS 45.94.020 to restate the purpose of the loan guarantee program as described above. The amendment drops out the provisions in the existing law dealing with the purchase of stock ~~and so forth~~ which were designed to deal specifically with the KPC situation.

AS 45.94.030 and .040 are left unchanged by the bill. Section .030 outlines the powers and duties of the department and the commissioner. Section .040 states income from investment of the fund is to go to the general fund.

Section 2. This section amends AS 45.94.050(a) to include the requirement in paragraph (2) of subsection (a) that the loan be commercially reasonable. It also requires that a controlling interest be held by Alaska residents. The Commissioner of Revenue is given discretion to waive this requirement. Section 2 also requires that the business maintain its offices and operating facilities exclusively in the state unless the business engages in export of forest products in which case offices and facilities overseas would be permitted. It also requires that a majority of employees of the business be residents of the state. This adopts one of the major objectives of the bill which is to develop employment in the forest timber industries in Alaska. The section further requires that the business be organized for profit. This points to the other major goal of the bill which is to provide a means for commercially viable timber operations to expand and flourish in the state. A subsection (5) is added which follows up on a purpose behind the legislation that the loan further the maintaining or increasing of production and employment in forest products businesses in the state. A new subsection (6) requires that the portion of the loan not guaranteed by the state be held by a financial institution which meets the approval of the Commissioner.

Section 3. AS 45.94.050(b) is amended by this section to increase the guarantee from 50% to 80% but to limit that guarantee to $6 million per borrower from the $30 million currently provided in the law. As with the existing statute, the Department of Revenue would not be permitted to guarantee the payment of annual interest on the guaranteed portion of the loan. This conforms with other loan programs in the state.

Section 4. This section amends AS 45.94.050 by adding a new subsection (a) to require the charging of a user fee by the Department of Revenue not to exceed 1/4 of 1% for loans guaranteed under this chapter. Section 4 makes a small change in AS 45.94.060 which is the definitions section. The change is to add

to the definition of forest products business that it be organized under the laws of the state. Again, this is to ensure that the business be an Alaska business.

Section 6. This section provides for an effective date immediately in accordance with AS 01.10.070(c). This is the standard effective date provision which provides that the actual effective time for enactment is the day after it is signed by the Governor or the day after the Governor's veto is overridden or on the day after expiration of the period allowed for gubernatorial action by Art. II, §17 of the Alaska Constitution.

jdd:1.5

BRISTOL BAY NATIVE ASSOCIATION
P.O. BOX 189
DILLINGHAM, ALASKA 99576
PHONE (907) 842-5257

May 1, 1985

Representative Adelheid Herrmann
District 26
Alaska State Legislature
Pouch V (M.S. 3100)
Juneau, Alaska 99811

Dear Representative Herrmann:

We understand you are going to introduce legislation to limit the amount of collateral required by the Department of Commerce and Economic Development for a commercial fishing loan.

This has been a concern of ours for some time also, that some individuals have been required to pledge their limited entry permits as additional collateral for a vessel loan. We understand that the state investment must be protected in the event of a default, but requiring collateral worth $218,000.00 (assuming a vessel valued at $100,000.00 and the latest State Bristol Bay Salmon Drift gillnet evaluation of $118,000.00) for a $90,000 vessel loan seems excessive. In many areas of rural Alaska a permit is the only negotiable collateral people own, but it is also the only means by which these people can support their families.

Therefore we support your efforts to set maximums on the amount of collateral the State requires for boat loans.

Sincerely,

BRISTOL BAY NATIVE ASSOCIATION

(Mrs.) May E. Larson
Executive Director

JT/KEL/db

MEMORANDUM

TO: John Hartle

FROM: Joe Darnell

RE: Forest Products Business Loan Guarantee Program Bill Hearing

DATE: April 26, 1985

The following is a list of possible witnesses for the Thursday afternoon hearing. Please let me know who you would like to see attend (or not attend) and we will contact them for you.

Frank Roppel
Steve Seley
George Woodbury
Ed Head
Bob Loescher
Jerry Larabee
Mike Valentine
Bud Stewart
Joe Henri (Anchorage)
George Krusz (ASCC)
Someone from Kodiak
Someone from Kusko wim area
Greg Bell (from the Interior)
Jim Bos (from the Interior)
Steve Laroe (from the Interior)

jdd:1.7

Chapter 130

AN ACT

Making a special appropriation to the forest products business loan guarantee fund; reappropriating money from the forest products business loan guarantee fund; and providing for an effective date.

Section 1. The sum of $25,000,000 is appropriated from the reserve for emergency operating expenses account in the general fund (AS 37.05.159) to the forest products business loan guarantee fund (AS 45.94).

Sec. 2. Money from the appropriation made by sec. 1 of this Act that is allocated for the purpose of guaranteeing a forest products business loan is reappropriated to the emergency operating expenses account in the general fund (AS 37.05.159) as the principal of the guaranteed loan is paid, in amounts equal to the percentage of the loan guarantee multiplied by the payments on the principal of the loan.

Sec. 3. The unexpended and unobligated portion of the appropriation made by sec. 1 of this Act lapses into the emergency operating expenses account in the general fund (AS 37.05.159) on the earlier of the following dates:

(1) one year from the effective date of this Act;

(2) the date of a proclamation issued by the governor under AS 37.05.159(b)(1) requiring that money in excess of the balance in the emergency operating expenses account be used for operating expenses of state government; the lapse provisions of this paragraph apply only to the amount of the difference between the amount required by the governor's

proclamation and the balance of the emergency operating expense

* Sec. 4. This Act takes effect on the effective date of

establishes a forest products business loan guarantee program.

DRAFT

IN THE HOUSE BY _____

HOUSE BILL NO. ___

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act amending a special appropriation to the forest products business loan guarantee fund; and providing for an effective date."

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

*Section 1. Sections 2 and 3, Ch. 130, SLA 1984, are repealed.

*Section 2. This Act takes effect on the effective date of an Act that amends the forest products business loan guarantee program.

IN THE HOUSE BY _____

HOUSE BILL NO. ___

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act amending the forest products business loan guarantee program; and providing for an effective date."

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

Section 1. AS 45.94 is amended to read:

Sec. 45.94.010. ESTABLISHMENT OF LOAN GUARANTEE PROGRAM. The forest products loan guarantee fund is established in the Department of Revenue.

Sec. 45.94.020. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM. The department may use money in the fund to guarantee a loan <u>to a forest products business</u> for the purpose of financing [THE PURCHASE OF 35 PERCENT OR MORE OF THE STOCK OR ASSETS OF A FOREST PRODUCTS BUSINESS BY, ON BEHALF OF OR FOR THE BENEFIT OF THE EMPLOYEES OF THAT BUSINESS,] <u>the purchase of equipment and facilities which will increase employment in the production of a forest products business,</u> as provided in AS 45.94.050.

Sec. 45.94.030. POWERS AND DUTIES OF THE DEPARTMENT.

(a) The commissioner may

(1) designate agents and delegate powers necessary to implement this chapter;

(2) adopt regulations to implement this chapter;

(3) make and execute contracts and other instruments to implement this chapter;

(4) acquire real or personal property by purchase, transfer, or foreclosure when the acquisition is necessary to protect an interest in the fund.

(d) The commissioner shall require that a loan guaranteed by the fund be made by a financial institution authorized to make such loans, that the loan be secured by adequate collateral, and that [THE] net cash flow from the forest products business provides adequate coverage for the debt service on the loan. The applicant shall provide an economic and financial feasibility analysis prepared by a firm acceptable to the department.

Sec. 45.94.040. INVESTMENT OF THE FUND. Money in the fund that is not being used for loan guarantees under this chapter shall be invested as provided for the investment of state treasury surplus under AS 37.10.070. [INCOME FROM INVESTMENT] Fees earned under AS 37.10.050(d) shall be transferred to the emergency operating expenses account of the general fund (AS 37.05.159).

Sec. 45.94.050. CONDITIONS OF LOAN GUARANTEES. (a) The department may guarantee a loan under this chapter if

(1) the term of the loan does not exceed 10 years;

(2) the loan is a commercially reasonable loan, secured by the real or personal property, inventory or accounts receivable of the forest products business, or by other collateral acceptable to the department;

(3) the loan is originated with and serviced by a state or federally chartered financial institution; [AND]

(4) the loan is made to [THE EMPLOYEES OF THE] a forest products business[, TO AN EMPLOYEE STOCK OWNERSHIP TRUST, OR TO ONE OR MORE CORPORATIONS OR OTHER BUSINESS ASSOCIATIONS OR ENTITIES IN WHICH THE CONTROLLING INTEREST IS HELD BY STATE RESIDENTS WHO ARE EMPLOYEES OF THE FOREST PRODUCTS BUSINESS.]; and which meets the following standards:

(A) a controlling interest is held by Alaska residents throughout the term of the loan, unless such requirement shall be waived by the Commissioner;

(B) maintain offices and operating facilities exclusively in this State and transacts business in this State, unless the business is engaged in the export of forest products;

(C) a majority of its employees are residents of Alaska; and

(D) the business is organized for profit.

(5) the loan will increase or maintain the production and employment of the forest products business; and

(6) The portion of the loan not guaranteed by the State shall be held by the originating financial institution throughout

the term of the loan or held by another financial institution approved by the Commissioner.

(b) The department may provide a guarantee from the fund of not more than 80 [FOR UP TO 50] percent of a loan, but may not guarantee [LESS THAN $5,000,000 OR] more than $6,000,000 [$30,000,000] per borrower. The department [MAY] shall not guarantee the payment of annual interest on the guaranteed portion of a loan.

(c) [AFTER A] Upon default by a borrower, the maximum liability of the fund for a loan guarantee under this chapter is equal to the amount then in default multiplied by a percentage equal to the guaranteed percentage of the loan. Payments received toward satisfaction of a default shall be allocated between the lender and the fund according to the guaranteed percentage of the loan until the principal balance has been repaid.

(d) The department shall charge a commercially reasonable user fee for the loan which shall not exceed one-quarter of one percent and the proceeds from which shall be transferred to the emergency operating expenses account of the general fund (AS 37.05.159).

Sec. 45.94.060. DEFINITIONS. In this chapter

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

(2) "department" means the Department of Revenue;

(3) "forest products business" means a sole proprietorship, partnership, corporation or other business organization [FORMED] <u>incorporated under Alaska law</u> for the purpose of harvesting or processing timber or other forest resources;

(4) "fund" means the forest products business loan guarantee fund.

Sec. 2. This Act takes effect immediately in accordance with AS 01.10.070(c).

WORK ORDER REQUEST FORM

N14 - 0965

KEYWORDS: loan funds/loans . ASSIGNED TO Levy

forestry/forests

funds

REQUEST FOR: BILL [X] RESOLUTION [ ] RESEARCH [ ] OTHER [ ]

SUBJECT Forest products business loan guarantees

REQUESTED FOR Rep. Sund BY John Hartle EXT. 4919

* DELIVER TO Rep. Sund TAKEN BY Barnes

INSTRUCTIONS, EXPLANATIONS Draft bill amending the forest products business loan guarantee program.

OBTAIN

SPECIAL DRAFTING INSTRUCTIONS ATTACHED [ ]

AUTHORIZED TO CONFER WITH

RETURN

TO REQUESTER

APPROVED: BGD Director, Legal Services

REVIEWED

IN 03/25/85 DUE

TYPED - Draft DATE

Final DATE

PROOFED DELIVERED

SPECIAL INSTRUCTIONS TO TYPIST/PROOFREADER

DRAFT [X] FINAL [ ]

LA-L 10

MINER PUBLISHING CO

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

April 25, 1983

MEMORANDUM

TO: Representative Rick Uehling

FROM: Jack Kreinheder JK
Research Staff

RE: Set Net Fisheries and Shore Fisheries Leases
Research Request 83-113

Bill Lovell of your staff asked us to provide information on set net fisheries and the shore fisheries leasing program administered by the Department of Natural Resources. This information was to include:

- the number of permit holders in each set net fishery;
- an explanation of the shore fish leasing program, including problems which have occurred with shore fish leases, and proposed changes to the regulations governing the program; and
- average sale prices for set net sites and leases.

Number of Permits

In 1982, there were a total of 4,178 limited entry permits issued for all set net fisheries in Alaska. This figure amounts to about 40 percent of the permits issued for all limited fisheries, including salmon and herring. Table 1 on the following page shows the distribution of set net permits throughout the state and the number and percentage of permits held by residents of Alaska.

The largest set net fisheries in terms of commercial landings are the Bristol Bay and Cook Inlet fisheries. These areas also have the largest number of shore fisheries leases. The only areas which have been opened by the Department of Natural Resources for shore fisheries leases are Bristol Bay, Cook Inlet and Kodiak. The last five fisheries in Table 1 are collectively known as the Arctic-Yukon-Kuskokwim fisheries. These fisheries generally combine commercial and subsistence harvests, and no shore fisheries leases have been issued there.

TABLE 1

SALMON SET GILLNET PERMITS ISSUED IN 1982

Fishery	Total Number of Permits	Number of Permits Held by Alaska Residents	Percentage of Permits Held by Alaska Residents
Yakutat	164	145	88%
Prince William Sound	30	27	90%
Cook Inlet	744	693	93%
Kodiak	186	139	75%
Alaska Peninsula	109	97	89%
Bristol Bay	916	708	77%
Subtotal	2,149	1,809	84%
Upper Yukon	72	71	99%
Kuskokwim	831	829	99%
Kotzebue	219	216	99%
Lower Yukon	707	704	99%
Norton Sound	200	199	99%
Subtotal	2,029	2,019	99%
TOTAL	4,178	3,828	92%

House Research Agency 4/22/83
Source: Commercial Fisheries Entry Commission

The Shore Fisheries Leasing Program

Shore fish leasing was established by regulation in 1964 (a copy of the regulations is attached). Minor revisions to the regulations were made in 1978. The program is administered by the Division of Land and Water Management in the Department of Natural Resources. In August 1982, the issuance of new leases was suspended pending revision of the program regulations.

Summary of Program[1]

A shore fisheries lease is a lease of tidelands or submerged lands from the State for commercial fishing purposes, including clam digging and set netting for salmon and herring. The lease conveys only a "limited possessory right" in the site being leased. This means that the lease holder can only prevent other people from entering the lease site when he or she is fishing and when other people would interfere with the fishing operation. The main purpose of the lease is to establish the right to fish a particular site.

Shore fisheries leases are not required in order to engage in set net fishing, and most set net fishermen do not have these leases. About 600 leases have been issued, with another 300 applications on file. This compares to the 2,149 permits which have been issued for the main commercial set net fisheries.

When a fisherman applies for a lease, the division staff check land status, determines the tract boundaries, and issues instructions for a survey. Neighboring fishermen and the public are notified of the lease application. If no objections are received, the division issues the lease. If objections or competing claims to the same site occur, the director of the division bases his decision to award the lease on several factors, including:

- the length of time the applicant has been engaged in set netting;
- the proximity of past fishing sites to the land to be leased; and
- the fisherman's present ability to make effective use of the location (must be physically able to fish);

---

[1] Most of the information in this section was obtained from Tom Hawkins, Director of the Division of Land and Water Management. (Telephone 276-2653)

Under the present program, leases have a term of 10 years. In order to retain the lease, the lessee must pay an annual fee of $60, install and maintain a site marker, fish the site at least every other year, and comply with the terms of the lease and Fish and Game regulations.

Problems Associated with Shore Fisheries Leasing

One of the biggest problems with the current shore fisheries leasing program is the backlog of lease applications. At the time applications were suspended in August 1982, there was a backlog of 353 lease applications. Because leases are not required, most lease applications are made because a site conflict has arisen. Therefore, most applications are protested and require extensive research to resolve. The division's budget included only one staff member to process these applications, and this staffer was able to complete only 50-60 leases per year. Thus, the 300 pending applications represent a six year wait for a shore fisheries lease, under the current budget level.

The shorelines on some beaches erode very quickly during storms and change from year to year. As a result, the area that is described in the lease may be submerged and unfishable because it is too far from the current beach. Also, it is very difficult to locate a lease site and resolve boundary disputes, because so little of the coast has been comprehensively surveyed. Although surveys are required for the leases, there are few reference points for surveyors to tie into.

There is much confusion among fishermen and others about the rights of a lease and the enforcement of its provisions. Some people are under the mistaken impression that the shore fishery lease gives them full possession of their site and that they can restrict access to or across the site. Some lessees also assume that they can legally set their nets anywhere on their site, as the lease provisions do not indicate otherwise. However, under ADF&G regulations, a lessee is fishing illegally if his or her nets are set closer than the minimum distance (600 feet in Cook Inlet) to a fishermen already fishing on adjacent unleased land.

Resolution of boundary disputes and "site jumping" is difficult. Officially, the State Troopers and Fish and Wildlife Protection Officers will not interfere in a dispute except with a court order. In practice, their responses vary from a "hands off" policy to direct mediation.

The problems cited above have been most severe for Bristol Bay, because shore fisheries leases have only recently become common there. In Cook Inlet, most of the current leases were approved by the late 1970s.

Proposed Changes to the Leasing Program

In response to the increasing backlog of lease applications and the other leasing problems cited above, the division decided to revise and streamline the shore fisheries leasing program. Applications and the issuance of new leases were suspended as of August 1982, while new regulations for the program were developed. Because of controversy over the new regulations and the change in administrations, the regulations are still in the draft stage and have not been officially proposed or adopted.

The most important changes which would be made by the draft regulations, if adopted, are the following:

- The term of the leases would be reduced from ten years to one year;
- The lessee would be required to personally fish the site for a certain number of fishing periods each year, rather than every other year as under the current program;
- The application and approval process would be simplified. Site surveys would no longer be required, and the applicant would be responsible for providing notice of his application to others. Leases would be issued if no objection is received within 120 days after the site is staked. The process for resolving competing site claims would remain the same as under the current regulations.
- An additional provision would be added specifying that no commercial fisheries activities on unleased lands may interfere with commercial fishing on a shore fishery lease site.

The division has circulated about 2,500 copies of the draft regulations to fishermen, managers and others for comment. There have been a number of comments, but in general, most fishermen who already have leases favor the existing leasing program, while those who would like to obtain a lease tend to prefer the new approach in the draft regulations. Some lease applicants who have already paid for a survey of their fishing sites are displeased that the survey requirement would be dropped under the new regulations.

Value of Set Net Sites

The value of set net sites ranges from nearly zero for the most marginal fishing sites to over $115,000 for the best fishing areas. It was not

possible to determine any fishery-wide average within the time available for this request. Also, the value of sites can fluctuate considerably depending on the strength of the fishery from year to year, just as permit values do. I spoke with two Cook Inlet set netters and an ADF&G biologist for the area to get a general idea of the range of site values in the Inlet.

As you are probably aware, the east shore of Cook Inlet is the most lucrative fishing location, particularly in the Kenai-Clam Gulch area. One fisherman I spoke with has been offered $440,000 for three set net sites near Kenai, not including gear. Three entry permits were included in this price; the permits are currently valued at about $15,000 each. Three sites near Clam Gulch were recently sold as a package for nearly $400,000, again including permits, but no gear.

On the other end of the scale, another fishermen who was contacted paid about $7,500 each for three sites on the west side of Cook Inlet. The valuation method used by fishermen in selling or buying sites differs, but often the average gross earnings over the last five years are used as the major factor.

I hope this information is useful. If you have any questions or would like additional research, please let us know.

JK

Attachments

CHAPTER 64.
SHORE FISHERIES LEASING

Section

10. Short title
20. Participation in shore fishery
30. (Repealed)
40. Advisory committees
50. Tide and submerged land available for leasing
60. Permanent improvements disallowed
61. Staking and filing period
70. Size of lease tracts
80. Maximum number of net sites and lease tracts
90. Marking of sites and tracts
100. (Repealed)
110. (Repealed)
120. (Repealed)
130. (Repealed)
140. (Repealed)
150. (Repealed)
160. (Repealed)
170. (Repealed)
180. Reasonable utilization
190. (Repealed)
200. Closed area
210. (Repealed)
220. Hardship clause; waiver of rental
230. Qualifications of applicant
240. Trusteeship for minors
250. Appointment of trustee
260. Application
270. (Repealed)
280. Proof of application
290. (Repealed)
300. (Repealed)
301. Term of lease
310. (Repealed)
320. (Repealed)
330. Rights prior to leasing
340. (Repealed)
350. (Repealed)
360. (Repealed)
370. Annual rental
380. Receipt of annual rental
390. (Repealed)
391. Extension of lease
400. (Repealed)
410. Lease termination
420. (Repealed)
430. Assignment
440. Succession to applicant's interest
450. Protest
460. Appeal
470. Finality of decision
480. (Repealed)
490. Disputes of boundary line location
500. (Repealed)
510. (Repealed)
520. (Repealed)
530. (Repealed)
540. (Repealed)
550. (Repealed)
560. (Repealed)
565. Transition
570. Definitions

11 AAC 64.010. SHORT TITLE. This chapter applies to leasing tide and submerged lands of the state for the purpose of shore fisheries development. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.020. PARTICIPATION IN SHORE FISHERY. No person is required to lease tide and submerged lands to participate in a shore fishery. However,

(1) upon written or verbal notification by a lessee holding a valid shore fishery lease issued under this chapter, a set gill netter shall remove any net or nets from the site or tract of the lessee if the lessee personally begins to commercially fish the lease site; and

(2) no set gill net may be set at less than the minimum distance established by Department of Fish and Game commercial finfish regulations set out in 5 AAC 03 – 5 AAC 39, from a net currently in use by a lessee holding a valid shore fishery lease issued under this chapter. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

11 AAC 64.030. OWNERSHIP. Repealed 3/30/85.

11 AAC 64.040. ADVISORY COMMITTEES. The director will, in his or her discretion, accept recommendations from recognized associations or groups whose members are engaged in the practice of set gill net fishing, or establish an advisory group to recommend resolutions involving application conflicts or protests. (Eff.

4/18/64, Reg. 16; am 3/30/85, Reg. 93)
Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.050. TIDE AND SUBMERGED LAND AVAILABLE FOR LEASING. The director will, in his or her discretion, classify for leasing, under 11 AAC 55, all unappropriated tide and submerged land where set gill net fishing is allowed by the Alaska Department of Fish and Game. After the director designates an area as open to leasing, the director will publicly invite lease applications for all or specific portions of the open areas. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)
Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.060. PERMANENT IMPROVEMENTS DISALLOWED. No lessee may erect a permanent installation, building, structure, fixture, or facility upon a lease tract or site. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)
Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.061. STAKING AND FILING PERIOD. An applicant may stake a set gill net site or tract, and may file an application for a shore fishery lease, annually from May 1 to September 1. The director will extend, close, suspend, or otherwise modify the period for staking and filing an application if the director determines in writing that it is in the best interests of the state to do so. (Eff. 3/30/85, Reg. 93)
Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.070. SIZE OF LEASE TRACTS. (a) If an applicant has more than one set gill net site, and the area between individual sites is not claimed by another person for set gill net purposes, the applicant may include all such set gill net sites in one lease tract if

(1) the maximum number of set gill net sites included in one tract does not exceed that number allowed by 11 AAC 64.080;

(2) the maximum distance between set gill net sites does not exceed twice the minimum distance, minus one foot, allowed between nets by Department of Fish and Game commercial finfish regulations, set out in 5 AAC 03 – 5 AAC 39, for the local area, unless otherwise determined by the director;

(3) the maximum distance of the tract side line from the nearest set gill net site within the tract does not exceed one-half the distance allowed between set gill net sites by Department of Fish and Game Commercial Finfish regulations set out in 5 AAC 03 – 5 AAC 39; and

(4) the maximum distance between the seaward end line of a tract and the landward end line of an offshore tract is not greater than one-half the distance from the seaward end of the nearest set gill net as determined by Department of Fish and Game Commercial Finfish regulations set out in 5 AAC 03 – 5 AAC 39.

(b) In establishing the size and proper location of a tract, the director will, in his or her discretion, require the applicant to survey the tract. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)
Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.080. MAXIMUM NUMBER OF NET SITES AND LEASE TRACTS. Except as provided otherwise in this section, the maximum number of sites allowed one applicant is that number established under Department of Fish and Game commercial finfish regulations set out in 5 AAC 03 – 5 AAC 39, except for Cook Inlet, where the maximum is three sites. The sites may be contained in one, two, or three tracts. In an area where, under established custom, the applicant has or currently uses the same set gill net and other gear for high and low water sites, the director will, in his or her discretion, lease additional set gill net sites, if the applicant submits proper justification. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)
Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.090. STAKING OF SITES AND TRACTS. Before submitting an application under 11 AAC 64.260, an applicant must stake each tract by placing the stake at the net anchor point. The location stake must be at least three feet above ground level and must support a sign showing the applicant's name, mailing address, limited entry permit number, and date of staking. For a low water tract, the location stake

may be co-located with the high water stake. The sign on the low water stake must contain the information contained on the high water sign and must be labeled across the top as a low water site with the distance and bearing to the shoreward end of the net or net anchor point noted on the sign. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.100. DISTANCE BETWEEN NET SITES. Repealed 3/30/85.

11 AAC 64.110. PUBLIC RIGHT-OF-WAY. Repealed 8/19/77.

11 AAC 64.120. MULTIPLE LAND USE. Repealed 8/19/77.

11 AAC 64.130. RESTRICTIONS AND RESERVATIONS. Repealed 8/19/77.

11 AAC 64.140. DAMAGES. Repealed 8/19/77.

11 AAC 64.150. MATERIALS. Repealed 8/19/77.

11 AAC 64.160. HERRING SPAWN COVENANT. Repealed 8/19/77.

11 AAC 64.170. WASTE AND INJURY TO LAND. Repealed 8/19/77.

11 AAC 64.180. REASONABLE UTILIZATION. (a) Except as otherwise provided by (b) of this section, reasonable utilization of a site or tract means personally fishing each site or each leased tract for at least four legal fishing periods during the commercial fishing season.

(b) The lessee may refrain from fishing upon any one or all leased tracts for one year, but not for two consecutive years. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.190. FORFEITURE OF PART OR ALL OF LEASE TRACT. Repealed 3/30/85.

11 AAC 64.200. CLOSED AREA. The director will not issue a lease in an area closed to commercial fishing by the Department of Fish and Game. The closure of an area by the Department of Fish and Game will not result in the termination of a lease for failure of reasonable utilization. The closure of an area will not extend the term of an issued lease. The lessee may, however, request an extension of a current valid lease as provided for under 11 AAC 64.391, if the area is reopened to commercial fishing. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.210. CLOSURE OF AREA AFTER LEASE IS ISSUED. Repealed 3/30/85.

11 AAC 64.220. HARDSHIP CLAUSE; WAIVER OF RENTAL. The director will, in his or her discretion, waive the annual rental in the case of substantial injury, illness, call to military service, or legal closure of the fishery. An application for a waiver must be postmarked at least 30 days before the date the annual rental is due. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.230. QUALIFICATIONS OF APPLICANT. An applicant for a lease is qualified if the applicant

(1) is a citizen of the United States and is at least 18 years of age; and

(2) holds a valid limited entry permit or interim-use salmon set net permit for the area within which a lease is requested. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.240. TRUSTEESHIP FOR MINORS. The director will, in his or her discretion, issue a lease in trust for the benefit of a minor who is 10 years of age or older if the minor is otherwise qualified to lease under 11 AAC 64.230. The trust automatically terminates upon the date of the minor's 18th birthday. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.250. APPOINTMENT OF TRUSTEE. A person who is qualified under the laws of Alaska to act as a trustee may apply for approval to act as a trustee for a shore fishery lease on behalf of a minor. The director will issue the lease in the name of an approved trustee, subject to other provisions of this chapter. The trustee does not acquire any rights in the leased area by virtue of this trusteeship. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.260. APPLICATION. (a) An applicant shall file a shore fishery lease application with the department within 30 days after staking a shore fishery lease site. The filing date is determined by the postmark date of the application.

(b) A nonrefundable filing fee, as established by the department's approved fee schedule, must accompany each application.

(c) A shore fishery lease application must contain the following information:

(1) the applicant's name, mailing address, and birthdate;

(2) if the applicant is a minor, the name and mailing address of the trustee;

(3) the applicant's limited entry permit or interim-use salmon set net permit number;

(4) the date the site was staked;

(5) the number of seasons the applicant has commercially fished the site;

(6) the number of years the applicant has participated in a shore fishery;

(7) a description of the lease tract sufficient to locate the tract and sites on the ground and including the township, range, and protracted section in which the site is located, as well as the site's distance and bearing from the shoreward end of the net or net anchor point to a known fixed point, such as a permanent building, monument, or fixed natural feature;

(8) a U.S.G.S. map of not more than 1:63,360 scale showing the location of the site;

(9) a statement that the applicant intends to personally fish the site;

(10) a statement that the applicant has complied with the staking requirements of 11 AAC 64.090 and that the applicant is within legal net distances as established by Department of Fish and Game Commercial Finfish regulations set out in 5 AAC 04 – 5 AAC 39; and

(11) the names and addresses of adjacent right, left, shoreward and seaward set net neighbors; if any.

(d) Upon acceptance of a shore fishery lease application, the division will send the applicant further instructions for completing a shore fishery diagram.

(e) Within 90 days after receipt of the instructions, the applicant shall provide the division with a completed and signed shore fishery diagram.

(f) If an applicant is unable to comply with any of the instructions for completing the shore fishery diagram, the applicant shall submit a notarized affidavit attesting to the reason or the cause for failing to comply. The affidavit will be made part of the lease document.

(g) Failure to provide the information required by this section constitutes grounds for denying the shore fishery lease application. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.270. MOST QUALIFIED APPLICANT. Repealed 8/19/77.

11 AAC 64.280. PROOF OF QUALIFICATION. In addition to the information submitted with the application, the director may request such additional proof of qualification as is deemed necessary to help effect an equitable assignment of the disputed area. Failure to comply with any request for proof of qualification or additional information shall be

reason for the disqualification of an applicant. (Eff. 4/18/64, Reg. 16)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.290. DETERMINATION BY LOT. Repealed 8/19/77.

11 AAC 64.300. TERM OF LEASE. Repealed 8/19/77.

11 AAC 64.301. TERM OF LEASE. Upon the successful completion of all requirements of this chapter, and the resolution of any protest filed, the director will issue a lease for a period not to exceed 10 years. In determining the term of a lease, the director will consider the stability of the beach within the area, as well as any other applicable considerations or factors. (Eff. 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.310. NOTICE AND POSTING. Repealed 8/19/77.

11 AAC 64.320. DEPOSITS. Repealed 8/19/77.

11 AAC 64.330. RIGHTS PRIOR TO LEASING. The filing of an application for a lease shall not in any way vest any right in the applicant to a lease. (Eff. 4/18/64, Reg. 16)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.340. CONDITIONAL USE. Repealed 3/30/85.

11 AAC 64.350. ISSUANCE OF LEASE. Repealed 3/30/85.

11 AAC 64.360. PROPER LOCATION BY THE LESSEE. Repealed 3/30/85.

11 AAC 64.370. ANNUAL RENTAL. Annual rental shall be an approved proprotionate share of the cost of administration of the total of the shore fishery development leasing costs, as determined by the director and concurred in by the commissioner. Annual rental shall be paid in advance of April 15, unless otherwise approved by the director, and shall be prorated from the 15th day of the month in which issued to the 15th day of April of the following year. All leases shall stipulate that the annual rental shall be subject to adjustment by the director at five year intervals and such adjustment is to be based on the administration costs involved, and shall in no way reflect the value of the leasehold. (Eff. 4/18/64, Reg. 16)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.380. RECEIPT OF ANNUAL RENTAL. The first year's rental shall be receipted on the lease; thereafter the director shall immediately issue receipts for all rents paid. (Eff. 4/18/64, Reg. 16)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.390. RENEWAL OF LEASE. Repealed 8/19/77.

11 AAC 64.391. EXTENSION OF LEASE. 90 days before the expiration of a valid lease, the lessee may request an extension of the lease. The director will, in his or her discretion, extend the lease for a period of up to 10 years if no changes in site or tract location have occurred, the beach has remained stable, the lease is in good standing with the department, the lessee remains qualified under 11 AAC 64.230, and no protest of the extension is received. A nonrefundable filing fee, as established by the department's approved fee schedule, must accompany a request for an extension. (Eff. 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.400. REFERENCE TO LEASE. Repealed 8/19/77.

11 AAC 64.410. LEASE TERMINATION. (a) The department will, in its discretion, terminate a lease if

(1) the lessee fails to pay the annual rental;

(2) the director determines that the site is not being used for the purpose for which the lease was issued;

(3) the lessee misrepresented facts or made an error with respect to a material fact in the shore fishery lease application;

(4) the lessee fails to properly locate his tract and sites or fails to properly situate in the tract when commercially fishing;

(5) the lessee fails to maintain a valid limited entry permit or interim-use salmon set net permit; or

(6) utilization of the tract or sites is not in accordance with 11 AAC 64.180;

(b) The director will notify a lessee in writing of the department's intention to terminate a lease under this section. The director will send the notice of termination to the last address provided to the department by the lessee. The notice is considered delivered when deposited in the mail.

(c) A lease termination is effective 30 days after the date of the notice, unless stayed by the commissioner in conjunction with an appeal filed by the lessee under 11 AAC 64.460. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.420. NOTICE OF DEFAULT. Repealed 3/30/85.

11 AAC 64.430. ASSIGNMENT. A lessee may assign a lease to another if

(1) the lease rental payments are current;

(2) the assignee is qualified under 11 AAC 64.230 or 11 AAC 64.240 and holds a valid limited entry permit or interim-use salmon set net permit for the fishery;

(3) the assignee does not currently lease the maximum allowed sites for the fishery;

(4) approval of an assignment will not result in the assignee holding leases for more than the maximum allowable number of sites;

(5) the lessee and assignee complete the required assignment of lease form; and

(6) the director approves the assignment. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.440. SUCCESSION TO APPLICANT'S INTEREST. A person who is legally assigned all rights to another person's lease application succeeds to all rights and privileges of the original lease applicant under this chapter if the assignee submits

(1) a notarized statement setting out the name of the lease applicant, the lease applicant's address of record, the location of the site or sites, the date of lease application acquisition, and the name and address of each of the adjacent site holders, if any; and

(2) a notarized statement by the lease applicant stating the length of time the lease applicant has personally operated the site or sites, and stating that the lease applicant has relinquished to the assignee all rights to and interest in the site or sites. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.450. PROTEST. (a) A person may protest an application for or the location of a shore fishery lease site by mailing a statement of protest to the applicant and to the director. The protest may be filed from the time a site has been staked until the last date for filing a protest, as determined and published in writing by the department. The postmark date of the statement of protest constitutes the date of protest. If a protest is filed, the director will not issue a lease until resolution of the protest.

(b) A statement of protest must be in writing, must be signed by the protester, and must contain

(1) the protester's name and mailing address;

(2) the protester's limited entry permit number or interim-use salmon set net permit, if any;

(3) the applicant's name and address as shown on the staking sign;

(4) a brief statement of reasons why the protester believes that the lease site location is invalid or that the protester is more qualified to fish at the lease site; affidavits may be included to support the reasons set out in the statement; and

(5) a brief statement of the relief requested, which may be either denial of the lease site location, or a determination that the protester is more qualified to fish from the lease site and more entitled to lease the site than is the applicant.

(c) The applicant shall prepare a brief written response rebutting the protester's statement. The applicant shall mail the response to the protester and to the director within 30 days after receiving the statement of protest. Affidavits may be included to support the facts set out in the response.

(d) The director will base a decision resolving a protest on the criteria contained in AS 38.05.082 and on the protest, response, supporting affidavits, and hearing, if one is conducted. The decision constitutes the final departmental action unless it is appealed. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.460. APPEAL. An action, order, or decision made by the director may be appealed to the commissioner. The appeal must

(1) be made in writing;

(2) be filed within 30 calendar days after notice of the director's action;

(3) specify the action or actions to be reviewed by the commissioner; and

(4) specify the grounds urged for the reversal or modification of the decision. (Eff. 4/18/84, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.470. FINALITY OF DECISION. The commissioner will, within 45 calendar days after receipt of the appeal, render a final decision. This final decision is not a bar to any other remedy available to the appellant. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.480. COMMISSIONER'S REJECTION. Repealed 3/30/85.

11 AAC 64.490. DISPUTES OF BOUNDARY LINE LOCATION. In a dispute concerning one or more leased tract locations, the protesting party may request that the director establish or reestablish, by survey, the boundary lines of the tract or tracts in question. The director will, in his or her discretion, require that a survey be performed to determine the location of the boundary lines in dispute. The party or parties at fault shall pay the cost of the entire survey. The department will, in its discretion, terminate the lease of the party or parties at fault if they do not pay the survey costs. (Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.500. GENERAL PLAT REQUIREMENTS. Repealed 3/27/80.

11 AAC 64.510. PAPER PLAT PROCEDURE AND REQUIREMENTS. Repealed 3/27/80.

11 AAC 64.520. SURVEY REQUIREMENTS. Repealed 3/27/80.

11 AAC 64.530. PRELIMINARY PLAT REQUIREMENTS. Repealed 3/27/80.

11 AAC 64.540. SURVEY PROCEDURE. Repealed 3/27/80.

11 AAC 64.550. PROCEDURE ON FINAL PLAT. Repealed 3/27/80.

11 AAC 64.560. FINAL PLAT REQUIREMENTS. Repealed 3/27/80.

11 AAC 64.565. TRANSITION. Pending applications submitted under this chapter before March 30, 1985 will be adjudicated under the provisions of this chapter which are in effect after that date. The applicant will be notified of any additional requirements. (Eff. 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

11 AAC 64.570. DEFINITIONS. In these regulations, the following terms shall have the meaning indicated unless the context clearly requires a different meaning:

(1) repealed 3/30/85;

(2) "adjacent" means touching or lying in close proximity, as opposed to "contiguous" which requires a common boundary;

(3) "boundary lines" means lines having a course and distance that enclose one tract;

(4) repealed 3/30/85;

(5) repealed 3/30/85;

(6) "commercial fishing" means the taking, fishing for, or possession of fish, with the intent of disposing of them for profit, or by sale, barter, or in commercial channels;

(7) "commercial fishing season" means the locally recognized commercial fishing season opened by field announcement by the Alaska Board of Fish and Game;

(8) "commissioner" means the Commissioner of the Department of Natural Resources, State of Alaska;

(9) "department" means the Department of Natural Resources, State of Alaska;

(10) "director" means the Director of the Division of Lands;

(11) "division" means the Division of Lands within the Department of Natural Resources;

(12) "endline" means that boundary line of any lease tract that is parallel or nearly so with the shoreline;

(13) repealed 3/30/85;

(14) repealed 3/30/85;

(15) "lease" means a surface lease for shore fisheries development issued or held pursuant to these regulations;

(16) repealed 3/30/85;

(17) repealed 3/30/85;

(18) repealed 3/30/85;

(19) "monument" means a natural, physical, artificial, or record monument, as customarily used to appropriately define or mark an area;

(20) "neighbor" means an adjacent commercial fisherman who is to be designated as right or left side, or seaward or shoreward neighbor;

(21) "offshore" means those submerged lands lying seaward from the line of mean low tide;

(22) repealed 3/30/85;

(23) repealed 3/30/85;

(24) repealed 3/30/85;

(25) repealed 3/30/85;

(26) repealed 3/30/85;

(27) repealed 3/30/85;

(28) "site" means set net site, individual set net location, set net fishing site, and set gill net site;

(29) repealed 3/30/85;

(30) "tidelands" are those lands that are periodically covered by tidal waters between the elevation of mean high and mean low tides;

(31) "tract" means a parcel of tidelands leased under this chapter and may include one, two, or three set gill net sites;

(32) repealed 3/30/85;

(33) repealed 3/30/85;

(34) repealed 3/30/85;

(35) "party at fault" means the lessee or lessees who, following a dispute over tract or site boundaries or locations, is determined by the director to be in error;

(36) "permanent" means not capable of being readily dismantled or removed from a site or tract within the 24 hours after notification, without destroying the object dismantled or removed or damaging the site or tract, and does not include set net anchors;

(37) "shore fishery diagram" means a graphic depiction of an applicant's or lessee's site which indicates the relationship of the site to local landmarks and adjacent or neighboring sites.

(Eff. 4/18/64, Reg. 16; am 3/30/85, Reg. 93)

Authority: AS 38.05.020
AS 38.05.082

CHAPTER 65.
PERSONAL USE CABIN PERMITS

Section
10. Applicability
20. Applications
30. Application fee
40. Renewals
50. Permit decision
60. Density within state game refuges and critical habitat areas
70. Conflicting applications
80. Ownership and removal
90. Conditions of permit
100. Appeals
110. Public use cabins
900. Definitions

11 AAC 65.010. APPLICABILITY. This chapter applies to the issuance of personal use cabin permits for unauthorized cabins placed on state land before August 1, 1984. Cabins built on state land after August 1, 1984 will not be authorized. A permit under this chapter does not convey an interest in state land or establish a preference right for the lease or purchase of state land. It is the express intent of this chapter to phase out the use of unauthorized cabins on state land, and where appropriate, convert them to public use. (Eff. 12/16/84, Reg. 92)

Authority: AS 38.04.035 AS 38.05.020
AS 38.04.900 AS 41.21.020

11 AAC 65.020. APPLICATIONS. (a) An application for a permit to use an existing cabin on state land must

(1) be received by the department during a 60-day application period established by the department and announced by public notice; the application period will be open for one time only by geographic location;

(2) be made on a form provided by the department;

(3) be complete and correct to the best of the applicant's knowledge;

(4) contain a description of the cabin and site;

(5) contain a description of the proposed use of the cabin and site;

(6) be signed and dated by the applicant or, in the case of a group of applicants, by the applicant's authorized agent.

(b) An application made under this section must include the following:

(1) a $25 application fee;

(2) identification of the cabin site on a United States Geological Survey map at 1:63,360 scale (1" to 1 mile) or its equivalent;

(3) a photograph (print) of the cabin taken within the past year;

(4) documentation demonstrating historic use and occupancy;

(5) documentation of any prior investments in the cabin; and

(6) any other information required by the director. (Eff. 12/16/84, Reg. 92)

Authority: AS 38.04.035 AS 38.05.020
AS 38.04.900 AS 41.21.020

11 AAC 65.030. APPLICATION FEE. The application fee required by 11 AAC 65.020 is not refundable. However, if the department determines that an application made under this chapter should have been made under a different chapter, the application fee may be applied to an application made under another chapter. (Eff. 12/16/84, Reg. 62)

Authority: AS 38.04.035 AS 38.05.020
AS 38.04.900 AS 41.21.020

11 AAC 65.040. RENEWALS. (a) Application for renewal of a permit must be made in writing at least 90 days, but not more than 180 days, before the expiration of the permit.

(b) A permit will be renewed if the continued use complies with 11 AAC 65.050 – 11 AAC 65.900.

(c) A permit issued and renewed under this chapter is valid only during the lifetime of the original holder of that permit. (Eff. 12/16/84, Reg. 92)

Authority: AS 38.04.035 AS 38.05.020
AS 38.04.900 AS 41.21.020

Section
85. Term of lease
87. Forest Service permittees' leasing preference
90. Removal or reversion of improvements upon termination of leases
95. Subleases
97. Exemption from rental payments on land leased by nonprofit organizations
98. Senior citizens exemption
102. Lessee preference
103. Rights of holder of security interest
105. Periodic rent adjustments

Cross references. — For reservation to which contracts for sale, lease or grant of state land and deeds to state land, properties or interest to state land are subject, see AS 38.05.125.

Sec. 38.05.070. Generally. (a) Land, including tide, submerged or shoreland, to which the state holds title or to which it may become entitled, may be leased, except for the extraction of natural resources, in the manner provided in AS 38.05.070 — 38.05.105.

(b) The director, with the approval of the commissioner, shall determine the land to be leased and the limitations, conditions and terms of the lease. The director shall preserve reasonable and traditional access to state land and water. If the appraised value of the transaction is $5,000 a year or less the director may negotiate a lease for a period not to exceed 10 years, and on the limitations, conditions and terms that the director considers are in the best interests of the state. A lease negotiated under this subsection is not eligible for a preference under AS 38.05.102.

(c) A lease may be issued for a period up to 55 years, if the commissioner determines it to be in the best interests of the state. The commissioner shall consider the useful life of any improvements proposed and approved under AS 38.05.075 in determining the term of the lease. If the commissioner determines that the land or a part of it which is the subject of a grazing lease is not being used for the purpose issued the lease may be declared void. (§ 1 art V ch 169 SLA 1959; am § 21 ch 113 SLA 1981; am §§ 27, 28 ch 152 SLA 1984)

Effect of amendments. — The 1981 amendment added the third sentence of subsection (b).

The 1984 amendment, in subsection (b), inserted the second sentence and, in the third sentence, substituted "$5,000" for "$250," "10" for "5," and "that the director" for "which he" and deleted "without advertisement" following "lease"; and, in subsection (c), substituted "the commissioner determines it to be in the best interests of the state" for "it appears to be in the best interests of the state and if the commissioner approves" in the first sentence, inserted the second sentence, and deleted the former last sentence, which read "However, a nonrenewable lease for school lands may be issued for a period not to exceed 99 years."

NOTES TO DECISIONS

Adjudicatory provisions of the Alaska Administrative Procedure Act (AS 44.62) do not apply to the termination of grazing leases by the state division of lands. McCarrey v. Commissioner of Natural Resources, Sup. Ct. Op. No. 1088 (File No. 2075), 526 P.2d 1353 (1974).

There is no indication in subsection (c), or other provisions which apply to state grazing leases, that requires application of the procedures of the Administrative Procedure Act (AS 44.62). McCarrey v. Commissioner of Natural Resources, Sup. Ct. Op. No. 1088 (File No. 2075), 526 P.2d 1353 (1974).

But state must afford notice and hearing before termination. — While the adjudicatory provisions of the Administrative Procedure Act (AS 44.62) are not applicable, due process considerations lead to the conclusion that it is incumbent upon the state to afford notice and a hearing to ensure due process before a state grazing lease may be terminated for noncompliance. McCarrey v. Commissioner of Natural Resources, Sup. Ct. Op. No. 1088 (File No. 2075), 526 P. 2d 1353 (1974).

Terminating state grazing leases without affording the lessee notice and hearing would undermine both the policy evinced by Alaska Const., art. VIII, and the explicit due process guarantee provided by Alaska Const., art. I, § 7. McCarrey v. Commissioner of Natural Resources, Sup. Ct. Op. No. 1088 (File No. 2075), 526 P.2d 1353 (1974).

Procedure required by due process prior to termination of grazing lease. — See McCarrey v. Commissioner of Natural Resources, Sup. Ct. Op. No. 1088 (File No. 2075), 526 P.2d 1353 (1974).

Quoted in Alyeska Ski Corp. v. Holdsworth, Sup. Ct. Op. No. 406 (File No. 620), 426 P.2d 1006 (1967).

Collateral references. — 63 Am. Jur. 2d, Public Lands, §§ 108 to 116; 72 Am. Jur. 2d, States, Territories and Dependencies, §§ 66-70.

73A C.J.S., Public Lands, § 197; 81A C.J.S., States, § 150.

Sec. 38.05.075. Leasing procedures. (a) Except as provided in AS 38.05.087 and this section, leasing shall be made at public auction to the highest qualified bidder as determined by the commissioner. An aggrieved bidder may appeal to the commissioner within five days for a review of the determination. The leasing shall be conducted by the commissioner and the successful bidder shall deposit at the auction the first year's rental or that portion of it that the commissioner requires in accordance with the bid. The commissioner shall require qualified bidders to deposit a sum equal to any survey or appraisal costs reasonably incurred by another qualified bidder acting in accordance with the regulations of the commissioner. If a bidder making a deposit of survey or appraisal costs is determined by the commissioner to be the highest qualified bidder under this subsection, the deposit shall be paid to the unsuccessful bidder who incurred those costs. Any survey or appraisal costs reasonably incurred by a qualified bidder under the regulations of the commissioner or deposited under this subsection must be credited under the first and then subsequent years' rentals. All costs for survey and appraisal shall be approved in advance in writing by the commissioner. The commissioner shall immediately issue a receipt containing a description of the land or interest leased, the price bid, terms

of the lease, and the amount of any credit for survey and appraisal costs to the successful qualified bidder. If the receipt is not accepted in writing by the bidder under this subsection, the commissioner may offer the land for lease again under this subsection. A lease, on a form approved by the attorney general, shall be signed by the successful bidder and by the commissioner within 30 days after the auction.

(b) When a valid existing federal grazing lease is cancelled to allow state selection of the area under lease, the lessee of the land has the preference right to lease the land without competitive bidding for a term equal to that originally granted in the cancelled federal lease and upon terms as favorable to the lessee as those contained in the cancelled federal lease.

(c) The owner or lessee of land that fronts on tide or submerged land of the state is entitled to acquire a lease for the tide and submerged land without competitive bidding if the director determines that

(1) the lease of the tide or submerged land is necessary to facilitate water transportation of goods, services, or resources to or from the owned or leased upland or for another water-dependent purpose;

(2) the proposed use of the tide or submerged land is compatible with the classification of the land and with any applicable land use plan adopted under AS 38.04.065; and

(3) issuance of the lease to the tide or submerged land will not interfere with prior existing rights to the leased land.

(d) If the commissioner issues a lease under (c) of this section, the right of access to the tide and submerged land shall be nonexclusive in the lessee unless the commissioner grants the lessee the exclusive right to use the tide and submerged land.

(e) The commissioner may require prequalification of bidders for a lease to be issued under AS 38.05.070. If the commissioner determines to require prequalification, the procedures established by this section and the notice including pre-qualification requirements required to be given under AS 38.05.945 shall be completed within 75 days of the receipt of the first lease application unless the commissioner grants additional time for the completion of the procedures. Within the 75-day period or the additional time granted by the commissioner, the commissioner shall complete

(1) classification under AS 38.05.300;

(2) the procedures required by AS 38.05.035(e);

(3) any other action required by law for the disposal of the lease to a bidder except survey, appraisal, and the auction.

(f) The commissioner may issue a lease without competitive bidding at the approved, appraised market value of the land determined under AS 38.05.840 if, after completion of the procedures required by (e) of this section, the commissioner determines that there is only one qualified bidder. The commissioner may establish terms and conditions for entry to the land pending survey and appraisal of the land. The

commissioner shall issue the lease as soon as is practicable following the survey and appraisal of the land subject to the provisions of AS 38.05.035(e).

(g) Notice of an auction required under this section shall be made by certified mail to all prequalified bidders.

(h) A person aggrieved by a decision of the commissioner under this section may appeal to the commissioner within five days of the prequalification decision. The decision of the commissioner under this subsection or under AS 38.05.035(e) may be appealed to the superior court. (§ 2 art V ch 169 SLA 1959; am § 10 ch 61 SLA 1960; am § 3 ch 74 SLA 1961; am § 2 ch 26 SLA 1963; am § 1 ch 84 SLA 1965; am § 1 ch 106 SLA 1966; am §§ 29, 30 ch 152 SLA 1984)

Effect of amendments. — The 1984 amendment added subsections (b)-(h) and, in subsection (a), deleted the former third sentence, relating to when a valid existing federal grazing lease was cancelled, inserted the fourth through seventh sentences, and rewrote the remaining language.

NOTES TO DECISIONS

Importance of land resources recognized by constitution. — Alaska Const., art. VIII, reflects the framers' recognition of the importance of Alaska's land resources and of the concomitant necessity for observance of legal safeguards in the disposal or leasing of state lands. Alyeska Ski Corp. v. Holdsworth, Sup. Ct. Op. No. 406 (File No. 620), 426 P.2d 1006 (1967).

Adherence to legal procedures concerning leasing of state lands. — This section, which accords an aggrieved bidder the right of an administrative appeal, is evidence of the legislature's awareness of the necessity that adherence to legal procedures concerning the leasing of state lands must be insured. Alyeska Ski Corp. v. Holdsworth, Sup. Ct. Op. No. 406 (File No. 620), 426 P.2d 1006 (1967).

Determinations subject to judicial review. — Determinations of the director of the division of lands and the commissioner of natural resources made under this section of the Alaska Land Act, and regulations promulgated thereunder, are subject to judicial review. This conclusion is reached in light of the text of Alaska Const., art. VIII, § 10, which prohibits leasing of state owned lands unless made pursuant to public notice and other limitations imposed by law. Alyeska Ski Corp. v. Holdsworth, Sup. Ct. Op. No. 406 (File No. 620), 426 P.2d 1006 (1967).

The judicial review portions of the Administrative Procedure Act govern leasing procedures conducted by the division of lands under the Alaska Land Act. Alyeska Ski Corp. v. Holdsworth, Sup. Ct. Op. No. 406 (File No. 620), 426 P.2d 1006 (1967).

Aggrieved bidder has standing to obtain judicial review. — It is consonant with the intent of constitution and with legislative intent that an aggrieved bidder, under this section, have standing to obtain judicial review of alleged violations of his protected interest, as well as to vindicate the public interest in the lawful leasing of Alaska's lands. Alyeska Ski Corp. v. Holdsworth, Sup. Ct. Op. No. 406 (File No. 620), 426 P.2d 1006 (1967).

Extent of review available. — The provisions of this section pertaining to an aggrieved bidder's right of appeal do not manifest a clear intent that an administrative appeal was intended to be the full extent of review available to an aggrieved bidder. Alyeska Ski Corp. v. Holdsworth, Sup. Ct. Op. No. 406 (File No. 620), 426 P.2d 1006 (1967).

Sec. 38.05.076. Leases for pipeline purposes. [Repealed, § 31 ch 3 FSSLA 1973.]

Sec. 38.05.077. Classification and disposal of remote parcels. [Repealed, § 7 ch 103 SLA 1983. For current law see AS 38.09.]

Sec. 38.05.078. Purchase of land in a remote parcel. [Repealed, § 7 ch 103 SLA 1983. For current law see AS 38.09.]

Sec. 38.05.079. Remote cabin permit. (a) After September 1, 1980, the commissioner may issue a permit for the use of remote state land in a municipality for a cabin site if the land was classified for that purpose under former AS 38.05.047(a)(5)(B). After September 1, 1981, the commissioner may issue a permit for the use of remote state land outside a municipality for a cabin site if the land is classified for that purpose under the procedures required by AS 38.05.300 and 38.05.945.

(b) The fee for a remote cabin permit is $100 a year. The commissioner shall establish regulations which specify the application procedures for and the terms and conditions of a remote cabin permit. A permit must be for a term of not less than 25 years, and may be assigned by the original permittee during the term of the permit.

(c) A remote cabin permit may be terminated by the commissioner before the expiration of the term of the permit if a permittee fails to use the land under permit in the manner required by the terms of the permit. After termination of a remote cabin permit, improvements or personal property on the land subject to the permit shall be managed in the same manner as required by AS 38.05.090.

(d) If land subject to a remote cabin permit is offered for sale or long-term lease, the commissioner shall first offer to sell or lease the land to the permittee or the assigns of the permittee. The land shall be sold for its fair market value. (§ 32 ch 85 SLA 1979; am § 98 ch 6 SLA 1984)

Effect of amendments. — The 1984 amendment made a series of technical and internal reference changes throughout subsection (a).

Sec. 38.05.080. Rejection of bids. Before the director signs the lease, the commissioner may reject all bids for leases when the best interest of the state justifies this action. (§ 2 art V ch 169 SLA 1959; am § 10 ch 61 SLA 1960; am § 3 ch 74 SLA 1961)

NOTES TO DECISIONS

Quoted in Alyeska Ski Corp. v. Holdsworth, Sup. Ct. Op. No. 406 (File No. 620), 426 P.2d 1006 (1967).

Sec. 38.05.082. Leases for shore fisheries development. (a) The director, with the approval of the commissioner, may lease tide and submerged land for fisheries development. Fisheries development

includes the utilization of shore gill nets or set nets for the taking of fish. Every lease issued under this section shall reserve to the public a right-of-way for access to navigable waters and other tide and submerged land.

(b) The director may classify land as subject to leases for fisheries development, and publicly invite applications for lease of the selected areas. Each application shall be accompanied by an affidavit to the effect that the applicant presently intends to personally utilize the leased area for fishing purposes the following season. If two or more applications are received for the same shore area, the director shall award the lease to the most qualified applicant. In determining the qualifications of applicants, the director shall consider the length of time during which the applicant has been engaged in set netting, the proximity of the past fishing sites of the applicant to the land to be leased, the present ability of the applicant to utilize the location to its maximum potential, and other factors relevant to the equitable assignment of the disputed area. If the director cannot determine a preference between conflicting applicants for the same lease site on the basis of qualifications, the director shall select between the applicants by lot. An aggrieved applicant may appeal to the commissioner within five days for a review of the director's determination.

(c) A lease for set net fishing may be issued for any period not exceeding 10 years. If the commissioner determines that the land is not being utilized for the purpose for which the lease is issued, the lease may be declared void. The director shall establish a reasonable rental for the lease, equal to the administrative costs involved in processing the leasehold applications.

(d) Subleasing and renewals of leases are governed by AS 38.05.095 and 38.05.102.

(e) The lease of submerged land conveys no interest in the water above the land or in the fish in the water. (§ 2 ch 93 SLA 1963; am § 99 ch 6 SLA 1984)

Effect of amendments. — The 1984 amendment changed the internal reference in subsection (d).

Opinions of attorney general. — This section, which authorizes shore fishery leases, does not create an exclusive right of fishery and therefore is not unconstitutional under § 15, art. VIII, of the state constitution. 1983 Op. Att'y Gen. No. 03.

This section can be amended to limit the issuance of state tidelands leases for fisheries development to residents of Alaska. 1983 Op. Att'y Gen. No. 03.

Sec. 38.05.085. Term of lease. (a) The lease shall provide that

(1) for the initial 25-year period of the lease, the lessee shall pay the state a fixed base annual rent to be agreed upon by the parties in compliance with the provisions of this chapter;

(2) the fixed base annual rent to be paid by the lessee shall be readjusted when the initial 25-year period of the lease has expired and, thereafter, every 10 years; and

(3) the readjusted annual rent may not exceed 10 per cent of the value of the property as determined in (b) of this section or 50 per cent more than the amount paid each year during the initial period or the preceding 10-year period, whichever is lower.

(b) When it becomes necessary to determine the fair market value of property as required by (a) of this section, the director shall have the property appraised by a qualified appraiser. If the lessee disagrees with the appraisal obtained by the director, the lessee may appoint a qualified appraiser to make an appraisal of the property in question. If the two appraisers agree upon the fair market value, the determination is binding on the parties. In the event the two appraisers are unable to agree, they shall appoint a third qualified appraiser who shall then make an appraisal of the property in question. When the third appraisal is completed, the two of the three appraisals which are nearest each other in their determination of the fair market value shall be averaged and the resultant sum shall be the fair market value of the property in question and absolutely binding on the parties. All costs incurred in making the appraisals provided for in this subsection shall be borne by the state and the lessee equally.

(c) The lessee shall make advance payments of the annual rent or portion of it as the director, with the approval of the commissioner, may require.

(d) A preference right lessee of grazing or forest land may follow the payment schedule established in the cancelled federal lease or grazing permit if the lessee so desires.

(e) Notice of all actions by the department affecting the rights of a lease or lessee shall be given to the lessee.

(f) A violation of a provision of this chapter or of a term or provision of a lease subjects the lessee to appropriate legal action, including, but not limited to, a forfeiture of the lease.

(g) In this section,

(1) "annual rent" means the amount of rent paid annually determined by multiplying the fair market value by the rental rate computed at the time of the initial 25-year period of the lease or of each subsequent 10-year period of the lease;

(2) "qualified appraiser" means a senior member of the American Institute of Real Estate Appraisers, the Society of Real Estate Appraisers, a person meeting the requirements for certification as an appraiser II by the division of personnel, Department of Administration, or a person qualified according to regulations adopted by the commissioner under the Administrative Procedure Act (AS 44.62);

(3) "rental rate" means the rate, expressed as a percentage of fair market value, which a comparable class of privately owned property would bring in the open market with the same conditions of lease as offered by the state. (§ 3 art V ch 169 SLA 1959; § 11 ch 61 SLA 1960; § 4 ch 74 SLA 1961; am § 9 ch 138 SLA 1977; am §§ 8, 9 ch 182 SLA 1978)

Revisor's notes. — This section was reorganized in 1984 to place the defined terms in alphabetical order.

NOTES TO DECISIONS

Quoted in Alyeska Ski Corp. v. Holdsworth, Sup. Ct. Op. No. 406 (File No. 620), 426 P.2d 1006 (1967).

Sec. 38.05.087. Forest Service permittees' leasing preference. (a) Before offering to the public any land for lease which is subject to a valid existing United States Forest Service permit in effect in a state-selected area on the day before the area was tentatively approved for patent to the state, the director shall offer the land for leasing to the permittee at not less than its fair appraised market value before offering it to the general public.

(b) When not in conflict with this section, the provisions of AS 38.05.070 — 38.05.105 apply to leases under this section. (§ 1 ch 26 SLA 1963; am § 3 ch 26 SLA 1979)

Sec. 38.05.090. Removal or reversion of improvements upon termination of leases. (a) Improvements owned by a lessee on state land shall, within 60 days after the termination of the lease, be removed by the lessee if removal will not cause injury or damage to the land. The director may extend the time for removing improvements in cases where hardship is proven. The retiring lessee or permittee may, with the consent of the director, sell improvements to the succeeding lessee or permittee.

(b) If improvements or chattels, or both, having an appraised value exceeding $10,000 as determined by the director are not removed within the time allowed, the improvements or chattels or both shall, upon notice to the lessee, be sold at public sale under the direction of the director. The proceeds of sale inure to the lessee who placed the improvements or chattels on the land after paying to the state all rents due and expenses incurred in making the sale. If there are no other bidders at the sale, the director may bid in the name of the state. The bid money shall be taken from the fund to which the land belongs and the fund shall receive all money or other value subsequently derived from the sale or leasing of the improvements or chattels. The state acquires all the rights that any other purchaser could acquire by reason of the purchase.

(c) If improvements or chattels, or both, having an appraised value of $10,000 or less, as determined by the director, are not removed within the time allowed, they revert to the state and absolute title vests in the state. The preference right lessees of grazing or forest land may follow the provisions for removal of improvements upon termination of the lease as authorized in the cancelled federal lease or permit.

(d) Improvements of the lessee which have become fixtures of the land shall be purchased by the subsequent purchaser or lessee of the land if the improvements were authorized in the former lease or by permit from the director. Upon the termination of a lease, and at additional times which may be necessary, the value of the authorized fixtures remaining on the land shall be set by agreement between the former lessee and the director or, if agreement cannot be reached, by an independent appraisal made at cost to the former lessee.

(e) A notice or offer by the state to sell or lease formerly leased land shall state

(1) the value of the authorized fixtures remaining on the land;

(2) that the purchaser or lessee will be required, as a condition of the sale or lease, to purchase the fixtures from the former lessee for an amount equal to the value specified. (§ 4 art V ch 169 SLA 1959; § 12 ch 61 SLA 1960; § 5 ch 74 SLA 1961; am § 1 ch 140 SLA 1966)

NOTES TO DECISIONS

Cited in Swindel v. Kelly, Sup. Ct. Op. No. 812 (File Nos. 1416, 1418), 499 P.2d 291 (1972).

Collateral references. — 63 Am. Jur. 2d, Public Lands, § 28.
73A C.J.S., Public Lands, § 25.

Sec. 38.05.095. Subleases. (a) Except as provided in (b) of this section, a lessee may sublease or assign the leased land or a portion of it if, after application to the director, the director issues a permit. The director may issue a permit upon a finding that it is in the best interests of the state to do so.

(b) A nonprofit organization that is exempted from paying rent on state land under AS 38.05.810 may not sublease or assign the land or a portion of it on which it has a lease. (§ 5 art V ch 169 SLA 1959; am § 10 ch 182 SLA 1978; am § 29 ch 113 SLA 1981)

Effect of amendments. — The 1981 amendment changed the statutory reference in subsection (b)."

Sec. 38.05.097. Exemption from rental payments on land leased by nonprofit organizations. (a) A nonprofit organization using state land leased by it under AS 38.05.070 — 38.05.105 and 38.05.810 for a youth encampment or similar recreational purpose is exempt from lease rental payments on that land. The nonprofit organization shall meet all other terms and conditions of the lease specified under AS 38.05.070 — 38.05.105 and 38.05.810.

(b) In this section, "nonprofit organization" means nonprofit corporations, associations, clubs, or societies organized and operated exclusively for charitable, religious, scientific, or educational purposes or for the promotion of social welfare and which have received an exemption from the payment of federal income tax.

(c) A nonprofit organization which satisfies the requirements of this section that is using land under a lease in effect before July 1, 1978 may convert its lease to a new lease with terms exempting it from the payment of rent by submitting a written request to the director. (§ 11 ch 182 SLA 1978; am § 30 ch 113 SLA 1981)

Effect of amendments. — The 1981 amendment added "and 38.05.315" (now 38.05.810) preceding "for a youth encampment" in the first sentence of subsection (a).

Sec. 38.05.098. Senior citizens exemption. (a) The real property occupied as a permanent place of abode by a resident 65 years of age or over and leased by that resident from the state in accordance with AS 38.05.070 — 38.05.105 is exempt from the payment of annual lease rent. Only one exemption may be granted for the same property, and, if two or more persons are eligible for an exemption for the same property the parties shall decide between or among themselves which shall receive the benefit of the exemption. An exemption may not be granted for a portion of the leased real property which is used for a purpose other than as the permanent place of abode of the leaseholder.

(b) An exemption may not be granted under this section unless a written application for the exemption on a form provided for by the commissioner is submitted. The leaseholder must submit the application not later than 60 days before the anniversary date of the lease, and shall file a separate application for each lease year for which the exemption is sought. If an application is submitted within the required time and is approved by the commissioner, the commissioner shall allow a rental exemption for the lease year commencing on the anniversary date. The commissioner may at any time require proof of the right to an exemption claimed under this section. (§ 32 ch 85 SLA 1979)

Revisor's notes. — In rewriting subsection (b) to remove personal pronouns, the phrase "in the form he considers necessary" was deleted from the last sentence. AS 38.05.020 gives the commissioner authority to prescribe the form and extent of proof required under this section.

Sec. 38.05.100. Renewal of lease. [Repealed, § 15 ch 257 SLA 1976.]

Sec. 38.05.102. Lessee preference. If land within a leasehold created under AS 38.05.070 — 38.05.105 is offered for sale or long-term lease at the termination of the existing leasehold, the director may, upon a finding that it is in the best interest of the state, allow the

holder in good standing of that leasehold to purchase or lease the land for its appraised fair market value at the time of the sale or long-term lease. (§ 2 ch 36 SLA 1976; am § 7 ch 257 SLA 1976; am § 31 ch 113 SLA 1981; am § 100 ch 6 SLA 1984)

Revisor's notes. — AS 38.05.102 was added by both sec. 2, ch. 36, SLA 1976, and sec. 7, ch. 257, SLA 1976. Since ch. 257 had a later effective date, and contained inconsistent provisions, it was treated as an amendment to the section enacted by ch. 36.

Effect of amendments. — The 1981 amendment substituted "its appraised fair market value at the time of the sale or long-term lease" for "the amount of the high bid received at public auction" near the end of the section.

The 1984 amendment made technical and internal reference changes in the section.

Editor's notes. — AS 38.05.100, referred to at the beginning of the section, was repealed by § 15, ch. 257, SLA 1976.

Sec. 38.05.103. Rights of holder of security interest. (a) If there is a breach or default of a term of a lease or of the provisions of this chapter relating to a lease, the division shall provide written notice of the breach or default by personal service or by registered or certified mail to the lessee and to any holder of record having a security interest in the leased property. The notice shall also make demand upon the lessee to cure or remedy the breach or default within 60 days from the date of receipt of the notice and demand. If a lessee fails to cure or remedy the breach or default within 60 days, or within the additional time which the division may allow for good cause, the state may, subject to (b) of this section, exercise any right which it may have at law or as set out in the lease.

(b) If a lessee fails to cure or remedy a breach or default within the time allowed in (a) of this section, a holder of a security interest who has received notice under (a) of this section may cure or remedy the breach or default if the breach or default can be cured by the payment of money or, if this cannot be done, by performing or undertaking in writing to perform the terms, covenants, restrictions and conditions of the lease capable of performance by the holder. The holder shall act within 60 days from the date of receipt of notice under (a) of this section, or within an additional period as the director may allow for good cause. (§ 10 ch 138 SLA 1977)

Sec. 38.05.105. Periodic rent adjustments. (a) Each lease shall stipulate that at the conclusion of the initial 25-year period of the lease and at intervals of 10 years thereafter the annual rent payment is subject to adjustment. Charges or adjustments shall be based primarily on an adjusted fair market value. However, if the director determines that single-family residential development is the best use of the land, the reappraisal period may be lengthened or the readjustment waived in accordance with regulations adopted by the department. Before a waiver of rent adjustment is issued, the land shall have a current reappraisal. A waiver is valid only if single-family residential

development actually occurs. The regulations adopted under this section shall ensure that the state receives a fair return from the land.

(b) The provisions of AS 38.05.085(b) are applicable to reappraisals of leases required by this section, except that, in determining an adjusted market value,

(1) subject to the provisions of (c) of this section, changes in property value due to governmental actions, including zoning reclassifications, shall be included; and

(2) changes in property value due to private improvements made to the property or other privately owned or leased property since originally entering into the lease shall be excluded.

(c) Changes or adjustments of annual rent on land under lease and used for single-family residential purposes in an area zoned for commercial or other nonresidential uses shall be based on an adjusted fair market value determined by reference to the actual use of the property and not by reference to the other uses permissible under the zoning ordinance. (§ 7 art V ch 169 SLA 1959; am § 1 ch 44 SLA 1964; am § 8 ch 257 SLA 1976; am § 1 ch 267 SLA 1976; am § 11 ch 138 SLA 1977; am §§ 12, 13 ch 182 SLA 1978)

Revisor's notes. — AS 38.05.105(a) was amended by both § 8, ch. 257, SLA 1976, and § 1, ch. 267, SLA 1976. Since the two amendments appear to be inconsistent, and ch. 257 is superseded by ch. 267, only the later enactment has been given effect here.

NOTES TO DECISIONS

Applied in Wessells v. State, Dep't of Hwys., Sup. Ct. Op. No. 1402 (File No. 2834), 562 P.2d 1042 (1977).

Quoted in Alyeska Ski Corp. v. Holdsworth, Sup. Ct. Op. No. 406 (File No. 620), 426 P.2d 1006 (1967).

Sec. 38.05.107. Compensation relating to easements or rights-of-way across state leases. [Repealed, § 1 ch 203 SLA 1975.]

Article 4. Disposal of Timber and Materials.

Section

110. Sale of timber and materials
115. Limitations and conditions of sale
118. Negotiated timber sales in areas of high unemployment
120. Disposal procedure

Sec. 38.05.110. Sale of timber and materials. The commissioner shall provide for cruises of timber and appraisals of other materials in or upon state land and shall assess the supply of and current markets for timber on and other materials in privately owned land in close proximity to state land to determine

(1) the timber and other materials that should be offered for sale, and

(2) the terms of sale of the timber or other materials. (§ 1 art VI ch 169 SLA 1959; am § 31 ch 152 SLA 1984)

Effect of amendments. — The 1984 amendment in the introductory language, substituted "commissioner" for "director" and "state land and shall assess the supply of and current markets for timber on and other materials in privately owned land in close proximity to state land to determine" for "lands and transmit this data to the commissioner, together with his recommendations with respect to" and substituted "that" for "which" in paragraph (1).

NOTES TO DECISIONS

Cited in Southeast Alaska Conservation Council, Inc. v. State, Sup. Ct. Op. No. 2662 (File No. 5855), 665 P.2d 544 (1983).

Collateral references. — 63 Am. Jur. 2d, Public Lands, §§ 18, 19.
73A C.J.S., Public Lands, §§ 13 to 16.

Sec. 38.05.115. Limitations and conditions of sale. (a) The commissioner shall determine the timber and other materials to be sold, and the limitations, conditions and terms of sale. The limitations, conditions and terms shall include the utilization, development and maintenance of the sustained yield principle, subject to preference among other beneficial uses. The commissioner may negotiate sales of timber or materials without advertisement and on the limitations, conditions, and terms that are considered to be in the best interests of the state. However, not more than 500 M.B.M. or equivalent other measure of timber or more than 25,000 cubic yards of materials may be sold by nonadvertised, negotiated sale to the same purchaser within a one-year period.

(b) Negotiated sales not exceeding 50 M.B.M. or the equivalent other measure of timber or 2,500 cubic yards of materials are exempt from the provisions of AS 34.15.150.

(c) The limitations of this section are not applicable to timber which becomes state property under the provisions of AS 45.50.210 — 45.50.235. (§ 2 art VI ch 169 SLA 1959; am § 1 ch 66 SLA 1969; am § 9 ch 257 SLA 1976; am §§ 2, 3 ch 73 SLA 1978; am § 32 ch 152 SLA 1984)

Effect of amendments. — The 1984 amendment, in subsection (a), deleted "upon recommendation of the director" following "commissioner" in the first sentence and "subject to the approval of the commissioner" at the end of the third sentence and substituted "commissioner" for "director" and "that are considered to be" for "which he considers are," also in the third sentence.

14-0965
Levy
3/29/85

IN THE HOUSE BY SUND

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the forest products business loan guarantee program; and providing for an effective date."

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

* Section 1. AS 45.94.020 is amended to read:

Sec. 45.94.020. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM. The department may use money in the fund to guarantee a loan to a forest products business for the purpose of financing the purchase of equipment and facilities that will increase employment in a forest products business [35 PERCENT OR MORE OF THE STOCK OR ASSETS OF A FOREST PRODUCTS BUSINESS BY, ON BEHALF OF, OR FOR THE BENEFIT OF THE EMPLOYEES OF THAT BUSINESS], as provided in AS 45.94.050.

* Sec. 2. AS 45.94.050(a) is amended to read:

(a) The department may guarantee a loan under this chapter if

(1) the term of the loan does not exceed 10 years;

(2) the loan is commercially reasonable and secured by the real or personal property, inventory or accounts receivable of the forest products business, or by other collateral acceptable to the department;

(3) the loan is originated with and serviced by a state or federally chartered financial institution; [AND]

(4) the loan is made to a [THE EMPLOYEES OF THE] forest products business and

(A) a ~~controlling~~ interest of the business is held by

Alaska [~~residents unless the commissioner waives this requirement;~~]

(B) the business maintains offices and operating facilities exclusively in the state unless the business is engaged in the export of forest products;

(C) a majority of the employees of the business are residents of the state; and

(D) the business is organized for profit;

(5) the loan will increase or maintain production and employment in the forest products business; and

(6) the portion of the loan not guaranteed by the state is held by the originating financial institution or another financial institution approved by the commissioner [, TO AN EMPLOYEE STOCK OWNERSHIP TRUST, OR TO ONE OR MORE CORPORATIONS OR OTHER BUSINESS ASSOCIATIONS OR ENTITIES IN WHICH THE CONTROLLING INTEREST IS HELD BY STATE RESIDENTS WHO ARE EMPLOYEES OF THE FOREST PRODUCTS BUSINESS].

* Sec. 3. AS 45.94.050(b) is amended to read:

(b) The department may provide a guarantee from the fund for up to 80 [50] percent of a loan, but may not guarantee [LESS THAN $5,000,000 OR] more than $6,000,000 [$30,000,000] per borrower. The department may not guarantee the payment of annual interest on the guaranteed portion of a loan.

* Sec. 4. AS 45.94.050 is amended by adding a new subsection to read:

(d) The department shall charge a user fee not to exceed [~~one-quarter of~~] one percent for a loan guarantee under this chapter.

* Sec. 5. AS 45.94.060 is amended to read:

Sec. 45.94.060. DEFINITIONS. In this chapter

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

(2) "department" means the Department of Revenue;

(3) "forest products business" means a sole proprietorship,

partnership, corporation or other business organization formed under the laws of the state for the purpose of harvesting or processing timber or other forest resources;

(4) "fund" means the forest products business loan guarantee fund.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Offered: 4/26/85
Referred: Rules

Original sponsor: Rules/Governor

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 78 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making miscellaneous amendments to state loan programs; and providing for an effective date."

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

* Section 1. AS 16.10.310(a) is amended to read:

(a) The department may

(1) make loans to

(A) individual commercial fishermen who have been state residents for a continuous period of two years immediately preceding the date of application for a loan under AS 16.10.300 - 16.10.370 and have had a crewmember or commercial fishing license under AS 16.05.480 or a permit under AS 16.43 for the year immediately preceding the date of application and any other two of the past five years, and who actively participated in the fishery during those periods, for the purchase of entry permits;

(B) an individual for the repair, restoration, or upgrading of existing vessels and gear, for the purchase of entry permits and gear, and for the construction and purchase of vessels, if the individual [AN INDIVIDUAL WHO] has been a state resident for a continuous period of two years immediately preceding the date of application for a loan under AS 16.10.300 - 16.10.370, and either [WHO]

(i) because of lack of training or lack of employment opportunities in the area of residence does not have occupational opportunities available other than

COMMITTEE COPY

commercial fishing; or

(ii) is economically dependent on commercial fishing for a livelihood and for whom commercial fishing has been a traditional way of life [FOR THE INDIVIDUAL] in Alaska [, FOR THE REPAIR, RESTORATION OR UPGRADING OF EXISTING VESSELS AND GEAR, FOR THE PURCHASE OF ENTRY PERMITS AND GEAR, AND FOR THE CONSTRUCTION AND PURCHASE OF VESSELS;

(C) CORPORATIONS, PARTNERSHIPS, OR JOINT VENTURES, 100 PERCENT OF WHICH ARE OWNED BY INDIVIDUAL COMMERCIAL FISHERMEN WHO HAVE BEEN STATE RESIDENTS FOR A CONTINUOUS PERIOD OF TWO YEARS IMMEDIATELY PRECEDING THE DATE OF APPLICATION FOR A LOAN UNDER AS 16.10.310(a)(1)(B) AND HAVE HAD A CREWMEMBER OR COMMERCIAL FISHING LICENSE UNDER AS 16.05.480 OR A PERMIT UNDER AS 16.43 FOR THE YEAR IMMEDIATELY PRECEDING THE DATE OF APPLICATION AND ANY OTHER TWO OF THE PAST FIVE YEARS, AND WHO ACTIVELY PARTICIPATED IN THE FISHERY DURING THAT PERIOD, FOR THE REPAIR, RESTORATION OR UPGRADING OF EXISTING VESSELS AND GEAR, FOR THE PURCHASE OF GEAR, AND FOR THE CONSTRUCTION AND PURCHASE OF VESSELS];

(2) designate agents and delegate its powers to them as necessary;

(3) adopt regulations necessary to carry out its functions;

(4) establish amortization plans for repayment of loans, which may include extensions for poor fishing seasons or for adverse market conditions for Alaskan products;

(5) enter into agreements with private lending intuitions, other state agencies, or agencies of the federal government, to carry out the purposes of AS 16.10.300 - 16.10.370;

(6) enter into agreements with other agencies or organizations to create an outreach program to make loans under AS 16.10.300 -

COMMITTEE COPY

16.10.370 in rural areas of the state;

(7) allow an assumption of a loan if

(A) the applicant has been a state resident for a continuous period of two years immediately preceding the date of the request for an assumption; and

(B) approval of the assumption would be consistent with the purposes of AS 16.10.300; an applicant for a loan assumption may not be disqualified because the applicant does not meet the loan eligibility requirements of (1) of this subsection;

(8) prequalify loan applicants for a limited entry permit loan and charge a fee not to exceed $200 for prequalification.

* Sec. 2. AS 16.10.310 is amended by adding a new subsection to read:

(c) In determining whether an individual commercial fisherman is reasonably likely to be able to repay a loan made under AS 16.10.300 - 16.10.370, the commissioner shall consider the individual commercial fisherman's income from commercial fishing and from all other sources.

* Sec. 3. AS 16.10.315 is amended to read:

Sec. 16.10.315. ALLOCATION OF LOANS. The department shall allocate at least 10 percent of the money that is appropriated for a state fiscal year to make loans under AS 16.10.310 for loans of $35,000 or less made under AS 16.10.310(a)(1)(B) [AND (C)]. An allocation made under this section terminates on April 15 of the state fiscal year for which the allocation is made.

* Sec. 4. AS 16.10.320(a) is amended to read:

(a) Except as permitted in (h) of this section, a [A] loan under AS 16.10.300 - 16.10.370 [16.10.310 - 16.10.370]

(1) may not exceed a term of 15 years, except for extensions under AS 16.10.310(a)(4);

(2) may not bear interest exceeding 10-1/2 percent;

COMMITTEE COPY

(3) must [SHALL] be secured by a first priority lien and appropriate security agreement; and

(4) may not exceed 90 percent of the appraised value of the collateral used to secure the loan[, EXCEPT THAT A LOAN GRANTED UNDER AS 16.10.333 FOR THE PURCHASE OF AN ALASKA LIMITED ENTRY PERMIT MAY NOT EXCEED AN AMOUNT DETERMINED IN ACCORDANCE WITH (f) OR (h) OF THIS SECTION].

* Sec. 5. AS 16.10.320(d) is amended to read:

(d) The total of balances outstanding on loans [LOANS] made to a borrower under AS 16.10.310(a)(1)(A) may not exceed [A TOTAL OF] $300,000. The total of balances outstanding on loans [LOANS] made to a borrower under AS 16.10.310(a)(1)(B) [OR (C)] may not exceed [A TOTAL OF] $100,000. [A LOAN TO AN ASSOCIATE OF THE BORROWER IS CONSIDERED TO BE A LOAN TO THE BORROWER. FOR THE PURPOSES OF THIS SECTION, "ASSOCIATE OF THE BORROWER" MEANS

(1) A CORPORATION OR OTHER ORGANIZATION OF WHICH THE BORROWER IS AN OFFICER, DIRECTOR OR PARTNER, OR IS, DIRECTLY OR INDIRECTLY, THE BENEFICIAL OWNER OF 10 PERCENT OR MORE ON ANY CLASS OF EQUITY SECURITIES;

(2) A PERSON WHO IS, DIRECTLY OR INDIRECTLY, THE BENEFICIAL OWNER OF 10 PERCENT OR MORE OF ANY CLASS OF EQUITY SECURITIES OF THE BORROWER;

(3) A TRUST OR OTHER ESTATE IN WHICH THE BORROWER HAS A SUBSTANTIAL BENEFICIAL INTEREST OR AS TO WHICH THE BORROWER SERVES AS TRUSTEE OR IN A SIMILAR FIDUCIARY CAPACITY.]

* Sec. 6. AS 16.10.320(e) is amended to read:

(e) Two or more individual commercial fishermen who each satisfy the requirements specified in AS 16.10.310(a)(1)(B) may jointly, whether operating as a corporation, partnership, joint venture, or

COMMITTEE COPY

otherwise, obtain a commercial fishing loan for the repair, restoration, or upgrading of an existing vessel and gear, for the purchase of gear, and for the construction [OF A FISHING VESSEL] or the purchase of a [AN EXISTING] fishing vessel. Loans granted under this subsection

[(1)] may not exceed the amount specified in (d) of this section multiplied by the number of qualified commercial fishermen applying for the loan [;

(2) MAY NOT EXCEED A TERM OF 15 YEARS;

(3) SHALL BE SECURED BY A FIRST PRIORITY LIEN AND APPROPRIATE SECURITY AGREEMENT;

(4) MAY NOT BEAR INTEREST EXCEEDING 10-1/2 PERCENT; AND

(5) MAY NOT EXCEED 90 PERCENT OF THE APPRAISED VALUE OF THE COLLATERAL USED TO SECURE THE LOAN].

* Sec. 7. AS 16.10.320(i) is amended to read:

(i) If a loan is made to a borrower under AS 16.10.310(a)(1)(A), a subsequent loan may not be made to the borrower [OR AN ASSOCIATE OF THE BORROWER] under AS 16.10.310(a)(1)(B) [OR (C)]. If a loan is made to a borrower under AS 16.10.310(a)(1)(B) [OR (C)], a subsequent loan may be made to the borrower [OR AN ASSOCIATE OF THE BORROWER] under AS 16.10.310(a)(1)(A) if the total of the balances outstanding on loans received by the borrower [OR THE ASSOCIATE] under AS 16.10.310 does not exceed $300,000.

* Sec. 8. AS 16.10.333(a) is amended to read:

(a) Loans under AS 16.10.310(a) [AS 16.10.320(a)] may be made to an individual commercial fisherman for the purchase of a limited entry permit upon certification by the commission that the fisherman is a person who qualifies as a transferee for the permit under AS 16.43 and

the regulations adopted by the commission.

* Sec. 9. AS 16.10.335 is amended to read:

Sec. 16.10.335. DEFAULT AND FORECLOSURE. (a) If the debtor defaults upon a note for which a limited entry permit has been pledged as security under AS 16.10.333 or [UNDER AS] 16.10.338, the commissioner shall provide the debtor, by both [REGISTERED OR] certified and first class mail sent to the debtor's last known address on file with the commissioner, with a notice of default that [WHICH] includes

(1) a description of the security given for the note including the number assigned to the pledged permit by the commission;

(2) the date upon which the default occurred;

(3) the amount of arrearages as of the date of the notice, the total amount remaining on the note less unearned interest, and the amount of daily interest;

(4) a statement that the debtor may, within 15 days after [OF] the postmark date of the notice, request a hearing to submit evidence showing the debtor has not defaulted;

(5) a statement that the note may be reinstated if brought current within 60 days after [FROM] the postmark date of the notice;

(6) a statement that the note may be paid in full less unearned interest within 120 days after [FROM] the postmark date of the notice;

(7) the place where reinstatement or payment in full may be made; and

(8) a notice in at least 10-point bold type stating: "IMPORTANT: YOUR FAILURE TO REINSTATE OR PAY THIS NOTE IN FULL BY THE DATE SPECIFIED WILL RESULT IN A FORFEITURE OF ALL RIGHTS TO THE PERMIT AND THE POSSIBILITY OF LEGAL ACTION BEING INSTITUTED AGAINST YOU."

(b) In each case of a limited entry permit being pledged as

COMMITTEE COPY

security under AS 16.10.333 or 16.10.338, the debtor shall maintain on file with the department an address where notice of default is to be sent, if necessary, and where that notice will be timely received by the debtor.

(c) Upon presentation of evidence of mailing in accordance with (a) of this section, the receipt of the notice of default by the debtor will be presumed for all purposes. This presumption is rebuttable by presentation of evidence sufficient to demonstrate lack of receipt of notice through no fault of the debtor. Upon presentation of evidence sufficient to prove lack of receipt of notice through no fault of the debtor, the notice is a nullity.

(d) Upon good cause shown, the commissioner may waive any of the time limits in (a) of this section, if the department receives from the debtor or the debtor's representative a request for the waiver before the expiration of the time limit for which the waiver is sought.

(e) Except as otherwise provided in (c) and (d) of this section, upon [UPON] the debtor's failure to satisfy the note within the time specified in (a)(6) of this section, the debtor's interest in the permit is terminated by operation of law without further notice. Any entry permit cards issued to the debtor under the permit must [SHALL] be cancelled immediately upon receipt by the commission of a certificate of termination containing a copy of the notice required by (a) of this section issued by the commissioner.

* Sec. 10. AS 16.10.339 is amended to read:

Sec. 16.10.339. REGULATIONS. The [COMMISSION, WITH THE APPROVAL OF THE] department[,] shall adopt regulations to implement AS 16.10.-333 - 16.10.337.

* Sec. 11. AS 16.10 is amended by adding a new section to read:

COMMITTEE COPY

Sec. 16.10.355. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under AS 16.10.300 - 16.10.370 or former AS 16.10.650 - 16.10.720. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years, but may not be by lease.

* Sec. 12. AS 16.10 is amended by adding a new section to read:

Sec. 16.10.507. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the fisheries enhancement revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 16.10.520 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 13. AS 16.10 is amended by adding a new section to read:

Sec. 16.10.555. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under AS 16.10.500 - 16.10.620. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 14. AS 26.15 is amended by adding a new section to read:

Sec. 26.15.085. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that

COMMITTEE COPY

serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 15. AS 26.15 is amended by adding a new section to read:

Sec. 26.15.095. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the Alaska World War II veterans' revolving fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 26.15.040 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 16. AS 27.09 is amended by adding a new section to read:

Sec. 27.09.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the mining loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 27.09.010 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 17. AS 27.09 is amended by adding a new section to read:

Sec. 27.09.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

COMMITTEE COPY

* Sec. 18. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.242. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the child care facility revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 44.33.245 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 19. AS 44.33 is amended by adding a new section to read:

Sec. 44.33.272. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under AS 44.33.240 - 44.33.275. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 20. AS 44.81.210(a) is amended by adding a new paragraph to read:

(23) make a loan to a person, regardless of residency, if the board of directors of the bank determines that the loan is necessary to preserve the value of property held by the bank as security for a loan that was made under (a)(1) of this section and that is in default.

* Sec. 21. AS 45.87 is amended by adding a new section to read:

Sec. 45.87.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the bulk fuel revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under this chapter or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 22. AS 45.87 is amended by adding new sections to read:

Sec. 45.87.040. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

Sec. 45.87.060. REGULATIONS. The department shall adopt regulations to implement this chapter.

* Sec. 23. AS 45.88 is amended by adding a new section to read:

Sec. 45.88.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established, as a special account within the revolving loan fund established under AS 45.88.010, the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.88.020 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 24. AS 45.88 is amended by adding a new section to read:

Sec. 45.88.050. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that

COMMITTEE COPY COMMITTEE COPY engrossed

serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 25. AS 45.89 is amended by adding a new section to read:

Sec. 45.89.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the residential energy conservation fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.89.030 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 26. AS 45.89 is amended by adding new sections to read:

Sec. 45.89.050. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The department shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

Sec. 45.89.070. REGULATIONS. The department shall adopt regulations to implement this chapter.

* Sec. 27. AS 45.90 is amended by adding a new section to read:

Sec. 45.90.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the tourism revolving fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans

COMMITTEE COPY

made under AS 45.90.020 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 28. AS 45.90 is amended by adding a new section to read:

Sec. 45.90.050. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 29. AS 45.95 is amended by adding a new section to read:

Sec. 45.95.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 30. AS 45.95 is amended by adding a new section to read:

Sec. 45.95.065. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the small business revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under AS 45.95.020 or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 31. AS 45.98 is amended by adding a new section to read:

Sec. 45.98.015. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the historical district

revolving loan fund the foreclosure expense account. This account is established as a reserve from fund equity.

(b) The commissioner of commerce and economic development may expend money credited to the foreclosure expense account when necessary to protect the state's security interest in collateral on loans made under this chapter, or to defray expenses incurred during foreclosure proceedings after a default by an obligor.

* Sec. 32. AS 45.98.020 is amended to read:

Sec. 45.98.020. HISTORICAL DISTRICT LOANS. Upon endorsement and plan approval by a local historical district commission established under AS 29.48.103 and the recommendation of a majority of the members of the Historic Sites Advisory Committee, the Department of Commerce and Economic Development may make loans to a person, firm, business or municipality subject to applicable laws for the restoration, improvement, rehabilitation, or maintenance of

(1) a structure which is [(1)] within the boundaries of a historical district established under AS 29.48.110 and [;]

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

(2) a [(3) ANOTHER] building or structure within a historical district, that is [AND] suitable for superficial modification so that it can conform to the period or motif of the surrounding buildings or structures that are the reason for the area's designation as a historical district.

* Sec. 33. AS 45.98 is amended by adding a new section to read:

Sec. 45.98.055. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR FORECLOSURE. The Department of Commerce and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under this chapter. Disposal shall be made in a manner that

COMMITTEE COPY

serves the best interests of the state, and may include the amortization of payments over a period of years.

* Sec. 34. AS 16.10.310(b), 16.10.320(f), and 16.10.333(f) are repealed.

* Sec. 35. This Act takes effect July 1, 1985.

COMMITTEE COPY

Alaska State Legislature

Senate

Committee on Labor & Commerce

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

SB 78: Sectional Analysis

Section 1) Makes both technical and policy changes to the present Commercial Fisheries Loan Program. The first substantive change occurs on line 11 of page 2 which repeals subsection pertaining to loans made to "corporations, partnerships, and joint venturers". Section 3 would allow individual fisherman who qualify for loans under 16.10.310 (a) (1) (B) to obtain loans jointly "whether operating as a corporation, partnership, joint venture, or otherwise"

Section also provides statutory authority to permit assumption of loans and repeals language which required consultation between the Dept of F&G and the DCED for all commercial fishing loan regulations.

Also adds language which grants the commissioner authority to consider all sources of a fishermans income when determining a fishermans ability to repay a loan. Currently the commissioner has that authority only with respect to loans for entry permits.

Section 2) Deletes references to "corporations, partnerships, or joint ventures (16.10.310 (a) (1) (C)" consistent with that deletion in section 1).

Section 3) Changes the "Limitations on Loans" section and provides for extensions on the term of loans because of a poor fishing season or adverse market conditions.

Language is also added which changes the loan limits from a "total dollar amount" to a borrower to the total "balances outstanding" to a borrower.

Further, deletes language regarding loans to "associates of the borrower" as all loans will be made to individuals.

Section 4) Currently, the department is able to consider fishing and all other sources of income of an applicant who applies for an entry permit loan under 16.10.310 (a) (1) (A). This bill would extend that authority to "consider all sources of income" for Commercial Fishing Loans

Section 5) Changes the requirements of notification when a debtor defaults on a note which has a permit pledged as security for the note. The mailing notice of default is changed from registered and certified mail to certified and first class mail. Changes the "countdown" provisions for notice of default and adds an additional day for each notice.

Requires that when a permit is pledged to secure a loan the borrower must maintain a current mailing address on file with the Department. Further states that upon evidence of mailing, the receipt of the notice of default by the debtor will be "presumed". This presumption is rebuttable by presentation of evidence by the debtor that the notice was not received and proof of lack of receipt nullifies the notice.

Section also grants the commissioner authority to waive any of the time limits if the department receives a request from the borrower or his representative before the expiration of the time limit for which the waiver is sought.

Section 6) Deletes the provision that the Commercial Fisheries Entry Commission, with the approval of the Department, adopt regulations for the limited entry permit sections of this bill.

Section 7) Provides statutory authority for the department to dispose of property acquired after default or foreclosure of a Comm Fish Loan.

Section 8) Establishes a special "foreclosure" expense account within the fisheries enhancement revolving loan fund. The account is established as a reserve from fund equity and this section also allows the department to dispose of property acquired thru default.

Section 9) Establishes a special foreclosure account for the Alaska WW II veterans revolving loan fund, and allows the department to dispose of property acquired thru default.

Section 10) Establishes a special foreclosure account for the mining loan fund, and allows the department to dispose of property acquired thru default.

Section 11) Establishes a special foreclosure account for the childcare facility revolving loan fund, and allows the department to dispose of property acquired thru default.

Section 12) Establishes a special foreclosure account for the bulk fuel revolving loan fund, and allows the department to dispose of property acquired thru default. Also permits the department to adopt regs to implement this chapter.

Section 13) Establishes the special foreclosure account for the Alternative Energy Revolving Loan Fund, and allows the department to dispose of property acquired thru default.

Section 14) Establishes the special foreclosure account for the Residential Energy Conservation Fund, and allows the department to dispose of property acquired thru default. Also allows the department to adopt regs to implement this program.

Section 15) Establishes a special foreclosure account for the tourism revolving fund, and allows the department to dispose of property acquired thru default.

Section 16) Establishes a special foreclosure account for the small business revolving loan fund, and allows the department to dispose of property acquired thru default.

Section 17) Establishes a special foreclosure account for the historical district revolving loan fund.

Section 18) Makes grammatical changes and defines the scope of the historical district loan program.

Section 19) Provides the state with authority to dispose of property acquired thru default or foreclosure from the historical district loan program.

Section 20) July 1, 1985 effective date.

agreed upon by L.P. Corp. + Sealaska

Offered:
Referred: Finance

Original Sponsors: Kerttula and Ziegler

IN THE SENATE BY THE RESOURCES COMMITTEE

CS FOR SENATE BILL NO. 479 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to a forest products business loan guarantee program; and providing for an effective date."

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

* Section 1. AS 45 is amended by adding a new chapter to read:

CHAPTER 94. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM.

Sec. 45.94.010. ESTABLISHMENT OF LOAN GUARANTEE FUND. The forest products business loan guarantee fund is established in the Department of Revenue.

Sec. 45.94.020. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM. The department may, in conformity with AS. 45.94.050., use money in the fund to guarantee a loan for the purpose of [financing the purchase of 35 percent or more of the stock or assets of a forest products business by, on behalf of, or for the benefit of the employees of that business, as provided in AS. 45.94.050.] acquiring an interest in a forest products business in the state.

Sec. 45.94.030. POWERS AND DUTIES OF THE DEPARTMENT.

(a) The commissioner may

(1) designate agents and delegate powers necessary to implement this chapter;

(2) adopt regulations to implement this chapter;

(3) make and execute contracts and other instruments to implement this chapter;

(4) acquire real or personal property by purchase, transfer, or foreclosure when the acquisition is necessary to protect an interest in the fund;

(5) receive, and protect against disclosure of, trade secrets or other confidential information reasonably necessary to conduct the review necessary under AS 45.94.050.

(b) The commissioner shall require that a loan guaranteed by the fund be secured by adequate collateral, and that the net cash flow from the forest products business provides adequate coverage for the debt service on the loan. The applicant shall provide a proposed operating plan and an economic and financial feasibility analysis prepared by a firm acceptable to the department.

Sec. 45.94.040. INVESTMENT OF THE FUND. Money in the fund that is not being used for loan guarantees under this chapter shall be invested as provided for the investment of state treasury surplus under AS 37.10.070. Income from investment shall be transferred to the general fund.

Sec. 45.94.050. CONDITIONS OF MAKING A LOAN GUARANTEE.

(a) The department may guarantee a loan under this

chapter [if] under the following conditions:

(1) the term of the loan [does] may not exceed 10 years;

(2) the loan [is] must be secured by the real or personal property, inventory or accounts receivable of the forest products business, or by other collateral acceptable to the department;

(3) the loan [is orginated] must originate with and be serviced by a state or federally chartered financial institution; and

(4) [the loan is made to the employees of the forest products business, to an employee stock ownership trust, or to one or more corporations or other business associations or entities in which the controlling interest is held by state residents who are employees of the forest products business.] The commissioner finds that:

(A) the persons acquiring a legal or beneficial [the] interest are residents of the state and qualified to operate and manage the business;

(B) the interest acquired is not less than 35 percent of the stock or assets of the business; and

(C) the acquisition is necessary for the continued operations of the business; and

(D) on the basis of the financial and feasibility analysis and proposed operating plan submitted under AS 45.94.030(b), the acquisition will materially increase the likelihood of success of the business, and that

the additional debt service will be offset by beneficial operation, cost or management changes;

(b) The department may provide a guarantee from the fund for up to 50 percent of a loan, but may not guarantee less than $5,000,000 or more than $30,000,000 per borrower. The department may not guarantee the payment of annual interest on the guaranteed portion of a loan.

(c) After a default by a borrower, the amount of the maximum liability of the fund for a loan guarantee under this chapter is the percentage of the amount in default specified by the department in the guarantee agreement, multiplied by the amount then in default. Payments received toward satisfaction of a default shall be allocated between the lender and the fund according to the percentage specified by the department in the guarantee agreement until the principal balance has been repaid.

Sec. 45.95.060. DEFINITIONS. In this chapter

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

(2) "department" means the Department of Revenue;

(3) "forest products business" means a sole proprietorship, partnership, corporation or other business organization formed for the purpose of harvesting or processing timber or other forest resources;

(4) "fund" means the forest products business loan guarantee fund.

Sec. 2. This Act takes effect immediately in accordance with AS. 01.10.070(c).

* Sec. A. Section 1, ch. 171, SLA 1980 is amended to read:

Section 1. The sum of $\underline{\$325,000,000}$ [$350,000,000] is appropriated from the general fund to the Department of Revenue for the reserve for emergency operating expenses account (AS 37.05.159(a)).

* Sec. B. The sum of $25,000,000 is appropriated from the general fund to the Depatment of Revenue for the forest products business loan guarantee fund (AS 45.94).

* Sec. C. The unexpended and unobligated portion of the appropriation made to the forest products business loan guarantee fund (AS 45.94) by sec. B of this Act is transferred to the reserve for emergency operating expenses account (AS 37.05.159) on the date of a proclamation issued by the governor under AS 37.05.159(b)(1) to the extent that the amount set out in the governor's proclamation exceeds the amount of money in the reserve for emergency operating expenses account.

* Sec. D. The unexpended and unobligated portion of the appropriation made to the forest products business loan guarantee fund (AS 45.94) by sec. B of this Act is transferred to the reserve for emergency operating expenses account (AS 37.05.159).

* Sec. E. Money appropriated to the forest products business loan guarantee fund (AS 45.94) by sec. B of this Act that is obligated for the purpose of guaranteeing a loan is transferred to the reserve for emergency operating expenses account when principal payments on the loan are paid. The amount of the transfers shall be the percentage guaranteed as specified by the Department of Revenue in the loan guarantee agreement multiplied by the amount of principal paid.

* Sec. F. Sections A, B, C, and E of this Act take effect on the effective date of an Act entitled "An Act relating to a forest products business loan guarantee program; and providing for an effective date."

* Sec. G. Section D of this Act takes effect one year after the effective date of an Act entitled "An Act relating to a forest products business loan guarantee program, and providing for an effective date."

* Sec. A. Section 1, ch. 171, SLA 1980 as amended by section 4, ch. 34, SLA 1982 is amended to read:

Section 1. The sum of $225,000,000 [$250,000,000] is appropriated from the general fund to the Department of Revenue for the reserve for emergency operating expenses account (AS 37.05.159(a)).

* Sec. B. The sum of $25,000,000 is appropriated from the general fund to the Depatment of Revenue for the forest products business loan guarantee fund (AS 45.94).

* Sec. C. The unexpended and unobligated portion of the appropriation made to the forest products business loan guarantee fund (AS 45.94) by sec. B of this Act is transferred to the reserve for emergency operating expenses account (AS 37.05.159) on the date of a proclamation issued by the governor under AS 37.05.159(b)(1) to the extent that the amount set out in the governor's proclamation exceeds the amount of money in the reserve for emergency operating expenses account.

* Sec. D. The unexpended and unobligated portion of the appropriation made to the forest products business loan guarantee fund (AS 45.94) by sec. B of this Act is transferred to the reserve for emergency operating expenses account (AS 37.05.159).

* Sec. E. Money appropriated to the forest products business loan guarantee fund (AS 45.94) by sec. B of this Act that is obligated for the purpose of guaranteeing a loan is transferred to the reserve for emergency operating expenses account when principal payments on the loan are paid. The amount of the transfers shall be the percentage guaranteed as specified by the Department of Revenue in the loan guarantee agreement multiplied by the amount of principal paid.

* Sec. F. Sections A, B, C, and E of this Act take effect on the effective date of an Act entitled "An Act relating to a forest products business loan guarantee program; and providing for an effective date."

* Sec. G. Section D of this Act takes effect one year after the effective date of an Act entitled "An Act relating to a forest products business loan guarantee program, and providing for an effective date."

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

MEMORANDUM February 27, 1984

SUBJECT: Sectional analysis of HB 627

TO: Representative Ron Wendte

FROM: Linn H. Asper
Legislative Council

You have asked for a sectional analysis of HB 627, relating to a forest products business loan guarantee program.

*Section 1 establishes the forest products business loan guarantee program and sets conditions for the loan guarantees.

Sec. 45.94.010 establishes the forest products business loan guarantee fund in the Department of Revenue

Sec. 45.94.020 allows the Department of Revenue to use fund money to guarantee a loan for the purchase of 35 percent or more of the stock or assets of a forest products business by the employees of that business.

Sec. 45.94.030 grants the department the powers necessary to administer loan guarantees under the forest products business loan guarantee program, and requires that a loan guaranteed must be secured by adequate collateral.

Sec. 45.94.040 directs the department to invest money from the loan guarantee fund that is not being used to guarantee loans in investments allowed under AS 37.10.070.

Sec. 45.94.050 establishes conditions on a loan guarantee, including maximum and minimum amounts that may be guaranteed, terms of loans guaranteed, security for guaranteed loans, state financial institution participation in the guaranteed loan, and other terms applicable to guaranteed loans.

Offered: 3/9/84
Referred: Resources and Finance

Original sponsors: Wendte and McBride

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 627 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to a forest products business loan guarantee program; and providing for an effective date."

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

* Section 1. AS 45 is amended by adding a new chapter to read:

CHAPTER 94. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM.

Sec. 45.94.010. ESTABLISHMENT OF LOAN GUARANTEE FUND. The forest products business loan guarantee fund is established in the Department of Revenue.

Sec. 45.94.020. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM. The department may use money in the fund to guarantee a loan for the purpose of financing the purchase of 35 percent or more of the stock or assets of a forest products business by, on behalf of, or for the benefit of the employees of that business, as provided in AS 45.94.-050.

Sec. 45.94.030. POWERS AND DUTIES OF THE DEPARTMENT. (a) The commissioner may

(1) designate agents and delegate powers necessary to implement this chapter;

(2) adopt regulations to implement this chapter;

(3) make and execute contracts and other instruments to implement this chapter;

(4) acquire real or personal property by purchase, transfer, or foreclosure when the acquisition is necessary to protect an

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

MEMORANDUM February 27, 1984

SUBJECT: Sectional analysis of HB 627

TO: Representative Ron Wendte

FROM: Linn H. Asper
Legislative Council

You have asked for a sectional analysis of HB 627, relating to a forest products business loan guarantee program.

*Section 1 establishes the forest products business loan guarantee program and sets conditions for the loan guarantees.

Sec. 45.94.010 establishes the forest products business loan guarantee fund in the Department of Revenue

Sec. 45.94.020 allows the Department of Revenue to use fund money to guarantee a loan for the purchase of 35 percent or more of the stock or assets of a forest products business by the employees of that business.

Sec. 45.94.030 grants the department the powers necessary to administer loan guarantees under the forest products business loan guarantee program, and requires that a loan guaranteed must be secured by adequate collateral.

Sec. 45.94.040 directs the department to invest money from the loan guarantee fund that is not being used to guarantee loans in investments allowed under AS 37.10.070.

Sec. 45.94.050 establishes conditions on a loan guarantee, including maximum and minimum amounts that may be guaranteed, terms of loans guaranteed, security for guaranteed loans, state financial institution participation in the guaranteed loan, and other terms applicable to guaranteed loans.

Sec. 45.94.055 allows the department to guarantee additional loans for a borrower under the terms of the chapter.

Sec. 45.94.060 provides definitions of terms used in the chapter.

Section 2 of the Act provides an immediate effective date.

LHA:csh
C2/138

Offered: 3/9/84
Referred: Resources and Finance

Original sponsors: Wendte and McBride

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

CS FOR HOUSE BILL NO. 627 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to a forest products business loan guarantee program; and providing for an effective date."

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

* Section 1. AS 45 is amended by adding a new chapter to read:

CHAPTER 94. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM.

Sec. 45.94.010. ESTABLISHMENT OF LOAN GUARANTEE FUND. The forest products business loan guarantee fund is established in the Department of Revenue.

Sec. 45.94.020. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM. The department may use money in the fund to guarantee a loan for the purpose of financing the purchase of 35 percent or more of the stock or assets of a forest products business by, on behalf of, or for the benefit of the employees of that business, as provided in AS 45.94.-050.

Sec. 45.94.030. POWERS AND DUTIES OF THE DEPARTMENT. (a) The commi sioner may

(1) designate agents and delegate powers necessary to implement this chapter;

(2) adopt regulations to implement this chapter;

(3) make and execute contracts and other instruments to implement this chapter;

(4) acquire real or personal property by purchase, transfer, or foreclosure when the acquisition is necessary to protect an

interest in the fund.

(b) The commissioner shall require that a loan guaranteed by the fund be secured by adequate collateral.

Sec. 45.94.040. INVESTMENT OF THE FUND. Money in the fund that is not being used for loan guarantees under this chapter shall be invested as provided for the investment of state treasury surplus under AS 37.10.070. Income from investment shall be transferred to the general fund.

Sec. 45.94.050. CONDITIONS OF LOAN GUARANTEES. (a) The department may guarantee a loan under this chapter if

(1) the term of the loan does not exceed 10 years;

(2) the loan is secured by the real or personal property, inventory or accounts receivable of the forest products business, or by other collateral acceptable to the department;

(3) the loan is originated with and serviced by a state or federally chartered financial institution; and

(4) the loan is made to the employees of the forest products business, to an employee stock ownership trust, or to one or more corporations or other business associations or entities in which the controlling interest is held by state residents who are employees of the forest products business.

(b) The department may provide a guarantee from the fund for up to 50 percent of a loan, but may not guarantee less than $5,000,000 or more than $30,000,000 per borrower. The department may not guarantee the payment of annual interest on the guaranteed portion of a loan.

(c) Upon default by a borrower, the amount of the maximum liability of the fund for a loan guarantee under this chapter is the percentage of the amount in default specified by the department in the guarantee agreement.

Sec. 45.94.060. DEFINITIONS. In this chapter

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

(2) "department" means the Department of Revenue;

(3) "forest products business" means a sole proprietorship, partnership, corporation or other business organization formed for the purpose of harvesting or processing timber or other forest resources;

(4) "fund" means the forest products business loan guarantee fund.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-0.070(c).

COMMITTEE SUBSTITUTE
FOR HB 627

Sec 45.94.050. CONDITIONS OF LOAN GUARANTEES. (a)

(3) the loan is originated with and serviced by [the Alaska Commercial Fishing and Agriculture Bank, or by] a state or federally chartered financial institution [located in the state]; and

(4) the loan is made to the employees of the forest products business, to an employee stock ownership trust, or to one or more corporations or other business associations or entities in which the controlling interest is held by state residents who are employees of the forest products business. [hold an interest that is equal to or greater than the interest held by the seller of the forest products business.]

Amended version reads:

(4) the loan is made to the employees of the forest products business, to an employee stock ownership trust, or to one or more corporations or other business associations or entities in which the controlling interest is held by state residents who are employees of the forest products business.

[Sec. 45.94.055. ADDITIONAL GUARANTEES. Not less than 30 days after the department enters into a contract to guarantee a loan to a borrower under this chapter, the department may enter into a contract to quarantee another loan to that borrower under this chapter.]

Introduced: 2/13/84
Referred: House Special Committee
on State Loans, Resources and
Finance

IN THE HOUSE BY WENDTE AND MCBRIDE

HOUSE BILL NO. 627

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to a forest products business loan guarantee program; and providing for an effective date."

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

* Section 1. AS 45 is amended by adding a new chapter to read:

CHAPTER 94. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM.

Sec. 45.94.010. ESTABLISHMENT OF LOAN GUARANTEE FUND. The forest product business loan guarantee fund is established in the Department of Revenue.

Sec. 45.94.020. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM. The department may use money in the fund to guarantee a loan for the purpose of financing the purchase of 35 percent or more of the stock or assets of a forest products business by, on behalf of, or for the benefit of the employees of that business, as provided in AS 45.94.-050.

Sec. 45.94.030. POWERS AND DUTIES OF THE DEPARTMENT. (a) The commissioner may

(1) designate agents and delegate powers necessary to implement this chapter;

(2) adopt regulations to implement this chapter;

(3) make and execute contracts and other instruments to implement this chapter;

(4) acquire real or personal property by purchase, transfer, or foreclosure when the acquisition is necessary to protect an

interest in the fund.

(b) The commissioner shall require that a loan guaranteed by the fund be secured by adequate collateral.

Sec. 45.94.040. INVESTMENT OF THE FUND. Money in the fund that is not being used for loan guarantees under this chapter shall be invested as provided for the investment of state treasury surplus under AS 37.10.070. Income from investment shall be transferred to the general fund.

Sec. 45.94.050. CONDITIONS OF LOAN GUARANTEES. (a) The department may guarantee a loan under this chapter if

(1) the term of the loan does not exceed 10 years;

(2) the loan is secured by the real or personal property, inventory or accounts receivable of the forest products business, or by other collateral acceptable to the department;

(3) the loan is originated with and serviced by the Alaska Commercial Fishing and Agriculture Bank, or by a state or federally chartered financial institution located in the state; and

(4) the loan is made to the employees of the forest products business, to an employee stock ownership trust, or to one or more corporations or other business associations or entities in which the employees of the forest products business hold an interest that is equal to or greater than the interest held by the seller of the forest products business.

(b) The department may provide a guarantee from the fund for up to 50 percent of a loan, but may not guarantee less than $5,000,000 or more than $30,000,000 per borrower. The department may not guarantee the payment of annual interest on the guaranteed portion of a loan.

(c) Upon default by a borrower, the amount of the maximum liability of the fund for a loan guarantee under this chapter is the

percentage of the amount in default specified by the department in the guarantee agreement.

Sec. 45.94.055. ADDITIONAL GUARANTEES. Not less than 30 days after the department enters into a contract to guarantee a loan to a borrower under this chapter, the department may enter into a contract to guarantee another loan to that borrower under this chapter.

Sec. 45.94.060. DEFINITIONS. In this chapter

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

(2) "department" means the Department of Revenue;

(3) "forest products business" means a sole proprietorship, partnership, corporation or other business organization formed for the purpose of harvesting or processing timber or other forest resources;

(4) "fund" means the forest products business loan guarantee fund.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

MEMORANDUM February 27, 1984

SUBJECT: Sectional analysis of SB 479

TO: Senator Jalmar Kerttula

FROM: Linn H. Asper
Legislative Council

You have asked for a sectional analysis of SB 479, relating to a forest products business loan guarantee program.

*Section 1 establishes the forest products business loan guarantee program and sets conditions for the loan guarantees.

Sec. 45.94.010 establishes the forest products business loan guarantee fund in the Department of Revenue

Sec. 45.94.020 allows the Department of Revenue to use fund money to guarantee a loan for the purchase of 35 percent or more of the stock or assets of a forest products business by the employees of that business.

Sec. 45.94.030 grants the department the powers necessary to administer loan guarantees under the forest products business loan guarantee program, and requires that a loan guaranteed must be secured by adequate collateral.

Sec. 45.94.040 directs the department to invest money from the loan guarantee fund that is not being used to guarantee loans in investments allowed under AS 37.10.070.

Sec. 45.94.050 establishes conditions on a loan guarantee, including maximum and minimum amounts that may be guaranteed, terms of loans guaranteed, security for guaranteed loans, state financial institution participation in the guaranteed loan, and other terms applicable to guaranteed loans.

Sec. 45.94.055 allows the department to guarantee additional loans for a borrower under the terms of the chapter.

Sec. 45.94.060 provides definitions of terms used in the chapter.

Section 2 of the Act provides an immediate effective date.

LHA:csh
C2/137

Alaska State Legislature

SENATOR
ROBERT H. ZIEGLER, SR.
307 BAWDEN STREET
KETCHIKAN, ALASKA 99901

While in Juneau
POUCH V
JUNEAU, ALASKA 99811

Senate

VICE CHAIRMAN
SENATE RESOURCES COMMITTEE

MEMBER
SENATE JUDICIARY COMMITTEE

WESTERN STATES LEGISLATIVE
FORESTRY TASK FORCE

WESTERN CONFERENCE COUNCIL
OF STATE GOVERNMENTS

March 29, 1984

Senator John C. Sackett,
Co-Chairman - Senate Finance Committee
Alaska State Legislature
Juneau, Alaska

Re: SB 479

Dear John:

Although I recognize the captioned bill is somewhat controversial, and although I further recognize that Sealaska, for reasons not known or made clear to me, has expressed moderate disapproval of the legislation, I would still appreciate it very much if you could give my boys a day in court, so to speak, by scheduling the bill for a hearing on the merits.

I am told they can hold their running time to no more than 20 minutes.

Obviously, since the livelihoods of some 3,000 to 3,500 people are affected, the legislation does carry a considerable potential impact.

Regards,

Robert H. Ziegler, Sr.

RHZ:lk

Attachment

Amendments
to
CS SB 479 (Resources)

1. Add a new section amending AS 45.92.010 to read:

"Sec. 45.92.010. Establishment of Fund. The fishery and forest product revolving loan guarantee fund is established in the Department of Revenue."

2. Add a new section amending AS.45.92.040 to read:

"Sec. 45.92.040. Investment of the Fund. Money in the fund that is not being used for loan guarantees [UNDER THIS CHAPTER] shall be invested as provided for the investment of state treasury surplus under AS 37.10.070. Income from investment shall be transferred to the general fund."

3. Add a new section amending AS 45.92.050(b) to read:

"(b) The department may provide a guarantee from the fund for up to 50 percent of a loan, but may not guarantee more than $15,000,000 per loan or $30,000,000 per borrower under this chapter. The department may not guarantee the payment of annual interest on the guaranteed portion of a loan."

4. Add a new section amending AS 45.92.060(6) to read:

"(6) "fund" means the fishery and forest product revolving loan guarantee fund."

5. Delete sections 45.94.010 and 45.94.040.

6. Amend Sec. 45.94.030(b) to read:

"(b) The commissioner shall require that a loan guaranteed by the fund under this chapter be secured by adequate collateral and that the net cash flow from the forest products business provide adequate coverage for the debt service on the loan. The applicant shall provide an economic and financial feasibility analysis prepared by a firm acceptable to the department."

7. Amend Sec. 45.94.050(b) to read:

"(b) The department may provide a guarantee from a fund for up to 50 percent of a loan, but may not guarantee less than $5,000,000 or more than $30,000,000 per borrower under this chapter. The department may not guarantee the payment of annual interest on the guaranteed portion of a loan."

8. Amend Sec. 45.94.060(4) to read:

"(4) "fund" means the fishery and forest product [S BUSINESS] revolving loan guarantee fund."

Amendments
to
CS SB 479 (Resources)

9. Renumber section 2 as section 3 and add a new section 2 to read:

"Sec. 2. Section 1 of this Act takes effect on the effective date of amendments to sections 2 and 3, ch. 34, SLA 1982."

Introduced: 2/13/84
Referred: Labor and Commerce
Resources and
Finance

IN THE SENATE BY KERTTULA AND ZIEGLER

C.S. SENATE BILL NO. 479

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to a forest products business loan guarantee program; and providing for an effective date."

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

* Section 1. AS 45 is amended by adding a new chapter to read:

CHAPTER 94. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM.

Sec. 45.94.010. ESTABLISHMENT OF LOAN GUARANTEE FUND. The forest product business loan guarantee fund is established in the Department of Revenue.

Sec. 45.94.020. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM. The department may use money in the fund to guarantee a loan for the purpose of financing the purchase of 35 percent or more of the stock or assets of a forest products business by, on behalf of, or for the benefit of the employees of that business, as provided in AS 45.94.-050.

Sec. 45.94.030. POWERS AND DUTIES OF THE DEPARTMENT. (a) The commissioner may

(1) designate agents and delegate powers necessary to implement this chapter;

(2) adopt regulations to implement this chapter;

(3) make and execute contracts and other instruments to implement this chapter;

(4) acquire real or personal property by purchase, transfer, or foreclosure when the acquisition is necessary to protect an

interest in the fund.

(b) The commissioner shall require that a loan guaranteed by the fund be secured by adequate collateral, AND THAT THE NET CASH FLOW FROM THE FOREST PRODUCTS BUSINESS PROVIDE ADEQUATE COVERAGE FOR THE DEBT SERVICE ON THE LOAN. THE APPLICANT SHALL PROVIDE AN ECONOMIC AND FINANCIAL FEASIBILITY ANALYSIS PREPARED BY A FIRM ACCEPTABLE TO THE DEPARTMENT.

1.

Sec. 45.94.040. INVESTMENT OF THE FUND. Money in the fund that is not being used for loan guarantees under this chapter shall be invested as provided for the investment of state treasury surplus under AS 37.10.070. Income from investment shall be transferred to the general fund.

Sec. 45.94.050. CONDITIONS OF LOAN GUARANTEES. (a) The department may guarantee a loan under this chapter if

(1) the term of the loan does not exceed 10 years;

(2) the loan is secured by the real or personal property, inventory or accounts receivable of the forest products business, or by other collateral acceptable to the department;

2.

(3) the loan is originated with and serviced by [the Alaska Commercial Fishing and Agriculture Bank, or by a state or federally chartered financial institution located in the state]; and

(4) the loan is made to the employees of the forest products business, to an employee stock ownership trust, or to one or more corporations or other business associations or entities in which

3. CONTROLLING INTEREST IS HELD BY STATE RESIDENTS WHO ARE

the employees of the forest products business [hold an interest that is equal to or greater than the interest held by the seller of the forest products business].

(b) The department may provide a guarantee from the fund for up to 50 percent of a loan, but may not guarantee less than $5,000,000 or more than $30,000,000 per borrower. The department may not guarantee the payment of annual interest on the guaranteed portion of a loan.

4. AT ANY TIME FOLLOWING

(c) ~~Upon~~ default by a borrower, the amount of the maximum liability of the fund for a loan guarantee under this chapter is the

percentage of the amount in default specified by the department in the guarantee agreement., multiplied by the amount then in default. Any amounts received in satisfaction of a default shall be share between the lender and the fund according to the percentage specified by the Department in the guarantee agreement until all principal has been repaid.

5. [Sec. 45.94.055. ADDITIONAL GUARANTEES. Not less than 30 days after the department enters into a contract to guarantee a loan to a borrower under this chapter, the department may enter into a contract to guarantee another loan to that borrower under this chapter.]

Sec. 45.94.060. DEFINITIONS. In this chapter

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

(2) "department" means the Department of Revenue;

(3) "forest products business" means a sole proprietorship, partnership, corporation or other business organization formed for the purpose of harvesting or processing timber or other forest resources;

(4) "fund" means the forest products business loan guarantee fund.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Introduced: 2/13/84
Referred: Labor and Commerce
Resources and
Finance

IN THE SENATE BY KERTTULA AND ZIEGLER

SENATE BILL NO. 479

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to a forest products business loan guarantee program; and providing for an effective date."

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

* Section 1. AS 45 is amended by adding a new chapter to read:

CHAPTER 94. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM.

Sec. 45.94.010. ESTABLISHMENT OF LOAN GUARANTEE FUND. The forest product business loan guarantee fund is established in the Department of Revenue.

Sec. 45.94.020. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM. The department may use money in the fund to guarantee a loan for the purpose of financing the purchase of 35 percent or more of the stock or assets of a forest products business by, on behalf of, or for the benefit of the employees of that business, as provided in AS 45.94.-050.

Sec. 45.94.030. POWERS AND DUTIES OF THE DEPARTMENT. (a) The commissioner may

(1) designate agents and delegate powers necessary to implement this chapter;

(2) adopt regulations to implement this chapter;

(3) make and execute contracts and other instruments to implement this chapter;

(4) acquire real or personal property by purchase, transfer, or foreclosure when the acquisition is necessary to protect an

interest in the fund.

(b) The commissioner shall require that a loan guaranteed by the fund be secured by adequate collateral.

Sec. 45.94.040. INVESTMENT OF THE FUND. Money in the fund that is not being used for loan guarantees under this chapter shall be invested as provided for the investment of state treasury surplus under AS 37.10.070. Income from investment shall be transferred to the general fund.

Sec. 45.94.050. CONDITIONS OF LOAN GUARANTEES. (a) The department may guarantee a loan under this chapter if

(1) the term of the loan does not exceed 10 years;

(2) the loan is secured by the real or personal property, inventory or accounts receivable of the forest products business, or by other collateral acceptable to the department;

(3) the loan is originated with and serviced by the Alaska Commercial Fishing and Agriculture Bank, or by a state or federally chartered financial institution located in the state; and

(4) the loan is made to the employees of the forest products business, to an employee stock ownership trust, or to one or more corporations or other business associations or entities in which the employees of the forest products business hold an interest that is equal to or greater than the interest held by the seller of the forest products business.

(b) The department may provide a guarantee from the fund for up to 50 percent of a loan, but may not guarantee less than $5,000,000 or more than $30,000,000 per borrower. The department may not guarantee the payment of annual interest on the guaranteed portion of a loan.

(c) Upon default by a borrower, the amount of the maximum liability of the fund for a loan guarantee under this chapter is the

percentage of the amount in default specified by the department in the guarantee agreement.

Sec. 45.94.055. ADDITIONAL GUARANTEES. Not less than 30 days after the department enters into a contract to guarantee a loan to a borrower under this chapter, the department may enter into a contract to guarantee another loan to that borrower und r this chapter.

Sec. 45.94.060. DEFINITIONS. In this chapter

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

(2) "department" means the Department of Revenue;

(3) "forest products business" means a sole proprietorship, partnership, corporation or other business organization formed for the purpose of harvesting or processing timber or other forest resources;

(4) "fund" means the forest products business loan guarantee fund.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Original sponsors: Kerttula and Ziegler

3-20-84

IN THE SENATE BY THE RESOURCES COMMITTEE

CS FOR SENATE BILL NO. 479 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to a forest products business loan guarantee program; and providing for an effective date."

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

* Section 1. AS 45 is amended by adding a new chapter to read:

CHAPTER 94. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM.

Sec. 45.94.010. ESTABLISHMENT OF LOAN GUARANTEE FUND. The forest products business loan guarantee fund is established in the Department of Revenue.

Sec. 45.94.020. FOREST PRODUCTS BUSINESS LOAN GUARANTEE PROGRAM. The department may use money in the fund to guarantee a loan for the purpose of financing the purchase of 35 percent or more of the stock or assets of a forest products business by, on behalf of, or for the benefit of the employees of that business, as provided in AS 45.94.-050.

Sec. 45.94.030. POWERS AND DUTIES OF THE DEPARTMENT. (a) The commissioner may

(1) designate agents and delegate powers necessary to implement this chapter;

(2) adopt regulations to implement this chapter;

(3) make and execute contracts and other instruments to implement this chapter;

(4) acquire real or personal property by purchase, transfer, or foreclosure when the acquisition is necessary to protect an

interest in the fund.

(b) The commissioner shall require that a loan guaranteed by the fund be secured by adequate collateral, and that the net cash flow from the forest products business provides adequate coverage for the debt service on the loan. The applicant shall provide an economic and financial feasibility analysis prepared by a firm acceptable to the department.

Sec. 45.94.040. INVESTMENT OF THE FUND. Money in the fund that is not being used for loan guarantees under this chapter shall be invested as provided for the investment of state treasury surplus under AS 37.10.070. Income from investment shall be transferred to the general fund.

Sec. 45.94.050. CONDITIONS OF LOAN GUARANTEES. (a) The department may guarantee a loan under this chapter if

(1) the term of the loan does not exceed 10 years;

(2) the loan is secured by the real or personal property, inventory or accounts receivable of the forest products business, or by other collateral acceptable to the department;

(3) the loan is originated with and serviced by a state or federally chartered financial institution; and

(4) the loan is made to the employees of the forest products business, to an employee stock ownership trust, or to one or more corporations or other business associations or entities in which the controlling interest is held by state residents who are employees of the forest products business.

(b) The department may provide a guarantee from the fund for up to 50 percent of a loan, but may not guarantee less than $5,000,000 or more than $30,000,000 per borrower. The department may not guarantee the payment of annual interest on the guaranteed portion of a loan.

(c) After a default by a borrower, the amount of the maximum liability of the fund for a loan guarantee under this chapter is the percentage of the amount in default specified by the department in the guarantee agreement, multiplied by the amount then in default. Payments received toward satisfaction of a default shall be allocated between the lender and the fund according to the percentage specified by the department in the guarantee agreement until the principal balance has been repaid.

Sec. 45.94.060. DEFINITIONS. In this chapter

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

(2) "department" means the Department of Revenue;

(3) "forest products business" means a sole proprietorship, partnership, corporation or other business organization formed for the purpose of harvesting or processing timber or other forest resources;

(4) "fund" means the forest products business loan guarantee fund.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

Department of Commerce & Economic Development / POSITION PAPER

Revised in latter part

TESTIMONY CONCERNING SB 479
SENATE LABOR AND COMMERCE COMMITTEE
MARCH 1, 1984

SB 479: "An Act relating to a forest products business loan guarantee program; and providing for an effective date."

I. We share with you the deep concern over the grave situation facing all aspects of the Southeast timber industry. We are aware the larger mills must operate in order for the economics of the small operators to function. We have evidenced our concern by:

   A. Meeting with involved parties and participating in their presentations.

   B. Meeting with other departments and agencies of the State attempting to arrive at mutually agreeable and reasonable environmental controls.

   C. Causing to be performed overview studies focused on the Southeast timber situation. More studies and solution alternatives will be offered.

II. Our view on this bill is that it offers a solution, but it may not be aimed at the right problems.

   A. The problems of the larger mills' operation appear to be:

      1. Markets for their product both as to volume price and stability.

      2. Raw material supply.

      3. Environmental and operating regulations.

      4. Labor costs and efficiency.

III. This bill offers a means of transfer of ownership, but that may be only a transfer of the problems from one group to another.

Our view is that the State's assets should be used to solve economic problems to the benefit of our citizens. But before we put our citizens and the State more at risk by freezing staff assets in a guarantee, we should perhaps assist in applying the State's assets in solving the major problems.

J. Vincent O'Reilly, Deputy Commissioner

VO/wf:3184h

RECEIVED LPK

MAR 12 1984

CO

LAW OFFICES

LANE POWELL MOSS & MILLER

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

GORDON W. MOSS, P.S.
RAYMOND W. HAMAN, P.S.
WILLIAM J. WALSH, JR.
G. KEITH GRIM, P.S.
WILBUR J. LAWRENCE
D. WAYNE GITTINGER
BARRY H. BIGGS
RICHARD F. ALLEN, P.S.
THOMAS S. ZILLY
ROBERT W. THOMAS
HARTLEY PAUL
JOHN F. SHERWOOD
DAVID C. LYCETTE
ROBERT J. FREDERICK, P.S.
MATTHEW R. KENNEY, P.S.
JOHN R. TOMLINSON, P.S.
ROBERT L. ISRAEL, P.S.
ARTHUR W. HARRIGAN, JR., P.S.
DAVID DANIELSON, P.S.
ROBERT R. DAVIS, JR.
EUGENE R. NIELSON
CHARLES R. ERBERG, P.S.
KENYON P. KELLOGG, P.S.
RALPH H. PALUMBO
MICHAEL D. DWYER
MARK EDWIN JOHNSON
G. VAL TOLLEFSON
JAMES L. ROBART, P.S.
C. WILLIAM BAILEY, P.S.
EVAN O. THOMAS III
MICHAEL E. MORGAN
*HERMIT E. BARKER, JR.
*R. ELDRIDGE HICKS
WAYNE W. HANSEN

**JAMES B. STOETZER
RICHARD C. SIEFERT
LARRY S. GANGNES, P.S.
DAVID O. JOHANSEN
MICHAEL H. RUNYAN
DEBORAH D. WRIGHT
**DALE W. HOUSE
ANNE McDONALD
H. PETER SORG, JR.
RUDY A. ENGLUND
DANIEL GANDARA
LEE A. THORSON

WARREN E. BABB, JR.
SUZANNE M. BARNETT
ANDREW B. BASSETTI
MARK R. BEATTY
RANDALL P. BEIGHLE
CRAIG T. BELING
*BRIAN C. BOYD
TIMOTHY F. BROWN
SCOTT F. CAMPBELL
*BROOKS W. CHANDLER
ELIZABETH FITZHUGH
THOMAS C. GALLIGAN, JR.
*ROBERT R. GILLANDERS
THOMAS F. GROHMAN
DANIEL M. HENDRICKSON
NANCY McCREADY HIGGINS
**DAVID T. HUNTER
D. JOSEPH HURSON
**MONICA JENICEK

*MARILYN J. KAMM
JULIA A. LANGLEY
IDA LEGGETT
JOSEPH E. LYNAM
ANDREW C. MANN
STEVEN T. McFARLAND
JOHN McRAY
RICHARD A. NIELSEN, JR.
ALTHEA L. PAULSON
WILLIAM A. PELANDINI
ELLEN O. PFAFF
RALPH C. POND
JANET D. REIS
RONALD D. SALSBURY
SUSAN A. SCHMID
DAVID M. SCHOEGGL
ANDREW L. SEIPLE
DOUGLAS J. SHAEFFER
W. CRAIG SMITH
THOMAS C. SORENSON
Wm. BRADFORD WELLER
CHRISTOPHER B. WELLS
DENISE D. WIEST

OF COUNSEL

W. BYRON LANE
GEORGE V. POWELL
PENDLETON MILLER
WILLIAM T. JACOBSON
BRUCE SHORTS

*ADMITTED IN ALASKA
**ADMITTED IN ALASKA AND WASHINGTON
ALL OTHERS ADMITTED IN WASHINGTON

3800 RAINIER BANK TOWER
SEATTLE, WASHINGTON 98101
(206) 223-7000
CABLE: EMBE
TELEX: 32-8808
TELECOPIER: 223-7107

BELLEVUE OFFICE
12507 BELLEVUE-REDMOND ROAD
BELLEVUE, WASHINGTON 98005
(206) 223-7000

ANCHORAGE OFFICE
LANE POWELL BARKER & HICKS
900 WEST FIFTH AVENUE
ANCHORAGE, ALASKA 99501
(907) 272-8401
TELECOPIER: 277-9515

March 9, 1984

ESOT Study Committee
Ketchikan Pulp Company
P.O. Box 6600
Ketchikan, AK 99901

ATTN: Clyde Johnson

Gentlemen:

We enclose herewith the Study Group's executed original of the agreement in principle dated March 6, 1984; it should be retained by the custodian of the Study Group's records.

Very truly yours,

LANE POWELL MOSS & MILLER

D. Wayne Gittinger

DWG:ssh
Enclosure

cc: Mr. Kit Keyes (w/encl.)
Mr. Martin Pihl (w/encl.)

March 6, 1984

Louisiana-Pacific Corporation
111 Southwest Fifth Avenue
Portland, Oregon 97204

Attention: Mr. Harry A. Merlo, President

Re: Ketchikan Pulp Company
Kenai Lumber Company

Gentlemen:

This letter of intent is to confirm the basic terms and conditions of an agreement in principle between the KPC-Employees ESOT Study Committee, Inc., on behalf of an Employee Stock Ownership Trust (the "ESOT") to be established by Ketchikan Pulp Company ("KPC") and Louisiana-Pacific Corporation ("LP").

The agreement in principle is that LP will sell and the ESOT will purchase five-ninths (5/9) of the outstanding capital stock of KPC (the "ESOT-KPC Stock") on the following terms and conditions:

1. Price. The price for the ESOT-KPC Stock shall be $50-million.

2. Payment. The ESOT will pay for the ESOT-KPC Stock as follows:

a.	Cash at closing	$40,000,000
b.	Public Offering Note	5,000,000
c.	Subordinated Note	5,000,000

3. Financing.

a. It is anticipated that the $40-million payable at closing will be financed by the ESOT from the

proceeds of the senior debt (the "Senior Debt") consisting of loans to the ESOT from commercial banks or other financial institutions. On or before May 1, 1984, the ESOT shall have obtained from a commercial bank or banks or other financial institutions, binding commitments to provide (i) the Senior Debt; (ii) a working capital line of credit for KPC in the amount of $20-million, with amortization, interest rates and other terms acceptable to the ESOT; and (iii) a standby credit in the amount of $5-million to assure timely payment of the Public Offering Note.

b. The Senior Debt shall be secured by security interests granted by the ESOT and KPC with respect to all assets of KPC except its inventories and accounts receivable. KPC's working capital line of credit in effect from time to time shall be secured solely by security interests granted by KPC in its inventories and accounts receivable.

c. Subject to whatever restrictions exist in connection with the Senior Debt, KPC shall have the right from time to time to increase its working capital line of credit.

4. The Public Offering Note. The Public Offering Note shall not bear interest and shall be payable in full on December 31, 1984. The Public Offering Note may be prepaid without penalty at any time in whole or in part and will be secured by security interests granted by the ESOT and KPC to LP with respect to all assets of KPC, which security interests shall be subordinate to (a) the security interests to be granted to holders of the Senior Debt; (b) the security interests to be granted by KPC to lenders under its working capital line of credit in inventories and accounts receivable; (c) the security interests to be granted to LP to secure the unpaid balance of the Subordinated Note (the "LP Note"); and (d) the security interest heretofore granted by KPC in connection with Alaska Industrial Development Authority ("AIDA") Pollution Control Project as defined in a financing agreement dated October 1, 1983 between AIDA and KPC.

5. The LP Note.

a. For a period of 10 years the LP Note will bear interest at a rate per annum equal to the lesser of the average prime rate of Bank of America National Trust and Savings Association ("B of A") during the 90-day period ending on the closing date plus 3 percent, or 15 percent. Except as provided in subparagraph c herein, no principal or interest will be payable on the LP Note during the first 10 years of its term. On the tenth anniversary date of the LP Note, the principal amount of the LP Note shall become an amount equal to $5 million plus the amount of deferred interest (not compounded) theretofore accrued on the LP Note less the amount of any prepayments thereon pursuant to subparagraph c herein. The recomputed principal amount of the LP Note will bear interest at a rate per annum equal to the lesser of (i) the average prime rate of B of A during the 90-day period ending on such anniversary date plus 1 1/2 percent; or (ii) 14 percent, and shall be payable in 20 equal semi-annual payments including interest. Such payments shall be due and payable on the 31st day of December and the 30th day of April in each year, commencing December 31, 1994.

b. The prime rate of B of A shall be defined to mean the rate of interest publicly announced from time to time by B of A in San Francisco, California, as its prime rate, with any change in such prime rate to take effect on the day specified in the public announcement of such change.

c. The LP Note may be prepaid without penalty in whole or in part at any time. In addition, the ESOT shall be obligated to prepay on the LP Note the amount, if any, by which the proceeds from the public offering described in paragraph 6 hereof exceed $5 million. Any prepayment upon the LP Note shall be applied first to accrued interest and then to principal and shall reduce proportionately each of the semi-annual payments of principal and interest payable on the LP Note subsequent to the date of prepayment.

d. The LP Note will be secured by security interests granted by the ESOT and KPC to LP with respect to all assets of KPC, which security interests shall be subordinate to (i) the security interests to be granted to holders of the Senior Debt; (ii) the security interests to be granted by KPC to lenders under its working capital line of credit in its inventories and accounts receivable; and (iii) the security interest heretofore granted by KPC in connection with Alaska Industrial Development Authority ("AIDA") Pollution Control Project as defined in a financing agreement dated October 1, 1983 between AIDA and KPC.

6. Public Offering. As soon as practicable but conditioned upon the consummation of the ESOT's purchase of the ESOT-KPC Stock, one-ninth (1/9) of the KPC Stock will be made the subject of a registration statement with the Securities and Exchange Commission or, at KPC's option, its intrastate Alaska counterpart, pursuant to which the KPC Stock so registered ("Public KPC Stock") will be offered for sale by the ESOT at a price at least equal to the price per share paid by the ESOT for the KPC Stock purchased from LP. All expenses of the offering, including underwriting expenses, will be paid by KPC. On or before the 15th day of each month during the public offering period, the proceeds from the sale of Public KPC Stock during the preceding calendar month will be remitted to LP and applied first to the payment of the Public Offering Note and the proceeds remaining, if any, shall be applied as a prepayment against the LP Note.

7. Disposition of KPC Stock by LP.

a. LP may at any time or from time to time sell all or any portion of the KPC Stock retained by it (the "LP-KPC Stock") in accordance with any applicable securities or other regulations; provided however, (i) that any single purchaser (including affiliates) of one-third (1/3) or more of the LP-KPC Stock agrees to be bound by the undertakings herein contemplated, and (ii) the ESOT or its nominee or other purchaser designated by it shall have a right of first refusal to purchase KPC Stock so offered by LP except in the case of a public offering of such stock by LP.

b. The ESOT and LP agree that on two occasions (the first of which shall in no event occur earlier than 18 months following the closing date), LP may require KPC to register all or a portion of the LP-KPC Stock at LP's sole cost and expense, to qualify LP's KPC Stock for sale in those jurisdictions requested by LP at a time determined by LP. In addition, at LP's sole cost and expense, KPC will undertake to file one additional registration statement for the balance of LP's shares of KPC Stock as shall not theretofore have been registered. The foregoing notwithstanding, LP may not make such a request pursuant to the foregoing for any number of shares which represents less than 25 percent of the KPC shares then held by it.

8. Voting Agreement. The ESOT and LP will at closing enter into a Voting Agreement, each commiting the other, with respect to all shares of KPC Stock held by each (unless either party's holdings directly or indirectly represent less than 20 percent of the total outstanding KPC Stock) to vote their shares to elect nine directors, three of which will be nominated by LP and six of which will be nominated by the ESOT which will include the Chief Executive Officer of KPC, two salaried and three hourly employees of KPC.

9. Standstill Agreement. The ESOT and LP will at closing enter into an agreement to the effect that for a period of 20 years, LP will not directly or indirectly acquire or reacquire from any source additional shares of KPC Stock nor will it seek, accept or exercise any voting or proxy rights with respect to additional KPC Stock. The foregoing notwithstanding, if (a) the ESOT defaults upon the Senior Debt and if (b) holders of the Senior Debt declare the Senior Debt due and payable or initiate foreclosure pursuant to the terms of the Senior Debt undertakings, and if (c) such default is not cured or waived on terms acceptable to KPC's board of directors, then LP shall have the right, but not the obligation, to assume the Senior Debt (i) by surrender to the ESOT and cancellation of the LP Note; and (ii) by payment to the ESOT of a sum equal to the amount of Senior Debt principal payments theretofore made by the ESOT, less an amount (Reduction Amount) calculated by multiplying such Senior Debt principal payments by the ratio obtained by dividing the number

of ESOT-KPC shares theretofore distributed to ESOT participants by the original number of ESOT-KPC shares less the number of such shares theretofore sold to the public, and (iii) by offering to purchase from ESOT participants ESOT-KPC shares theretofore distributed to and held by them at a price per share calculated by dividing the Reduction Amount by the number of ESOT-KPC shares theretofore distributed to ESOT participants. In consideration of such Senior Debt assumption the ESOT will assign to LP all of the undistributed ESOT-KPC shares. If such Senior Debt assumption shall occur as herein provided, then upon its occurrence, the Standstill Agreement shall terminate.

10. Marketing. Between the date hereof and closing, KPC and LP will discuss and negotiate in good faith to determine the role (if any) and terms upon which LP should or could play in the post-closing marketing of products produced by KPC.

11. Preclosing Operating Plan. On or before March 15, 1984, LP and KPC shall agree to a preclosing operating plan. The operating plan will specify the levels of receivables; log, chip, pulp and other inventories; accounts payable; intercompany accounts and other current assets and liabilities.

12. Establishment of the ESOT. The Committee will cause the ESOT to be formed on or before May 1, 1984. The ESOT shall meet the requirements of the Internal Revenue Code and the Employee Retirement Income Security Act.

13. Definitive Agreement.

a. On or before May 1, 1984, LP and the ESOT will enter into a definitive agreement containing the terms and conditions included in this letter of intent and other covenants, warranties, representations, terms and conditions to which the parties shall agree. Counsel for LP shall prepare the initial draft of the definitive agreement.

b. The definitive agreement shall provide for the assignment by LP to KPC, all of the outstanding stock of Kenai Lumber Company.

14. Opinion. On or before the closing date, the ESOT shall have received an opinion from Salomon Brothers Inc satisfactory to the ESOT regarding (a) fairness to the ESOT, from a financial point of view, of the consideration to be paid by the ESOT; and (b) the financial viability of KPC as an independent company following consummation of the transaction.

15. Disclosure Statement. On or before June 1, 1984, (a) the Committee shall prepare a disclosure statement describing the transaction and related matters; and (b) the disclosure statement shall be distributed to the KPC employees and any required vote by KPC employees with respect to any part of the transaction or any related matter shall be completed. The disclosure statement shall be subject to approval by LP, which approval shall not be unreasonably withheld.

16. Other Conditions.

a. Regulatory Approvals. Prior to closing, all required governmental, regulatory and lender approvals shall have been obtained.

b. Compensation Expenses. Effective not later than the closing date, there shall have been implemented reductions in annual wage and compensation expenses as may be necessary in order to obtain a firm Senior Debt commitment (which reduction is currently anticipated to be not less than $6,700,000). Such reduction shall have been accomplished and approved in compliance with applicable collective bargaining laws and agreements.

17. Closing. The closing of the transaction contemplated by this letter of intent shall take place in Seattle, Washington on June 30, 1984, or on such other date as shall be agreed upon by the parties (the "closing date").

It is understood that this letter reflects an agreement in principle only and, unless and until the transaction contemplated hereby is evidenced by a definitive agreement between LP and the ESOT which has been duly authorized by the Committee, the trustees of the ESOT and the board of the directors of LP, neither the Committee, the ESOT nor LP shall have any legal obligations hereunder. The date by which any action is to be accomplished pursuant to this letter may be changed by agreement between the parties.

If the foregoing accurately expresses the basic terms and conditions of our agreement in principle, please so indicate by signing and returning the enclosed copy of this letter.

Very truly yours,

KPC - EMPLOYEES ESOT STUDY COMMITTEE, INC.

By _____

_____

_____

The foregoing accurately reflects our agreement in principle.

LOUISIANA-PACIFIC CORPORATION

By _____
Harry A. Merlo
Chairman and President

By _____
John C. Hart
Vice President

DWG:ddr
7475A

Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
PAUL FISCHER
VIC FISCHER
BOB MULCAHY
ARLISS STURGULEWSKI

POUCH V
STATE CAPITAL
JUNEAU, ALASKA 99811
(907) 465-3834
(907) 465-3835

Senate

Committee on Resources

March 19, 1984

CS SB 479 (Res)

1. Department of Revenue amendment to require that an applicant show it can service a loan.

2. The original language referencing the Commercial Fishing and Agriculture Bank was pulled from current statute on Fish-Pac financing. It is not appropriate in this bill.

3. Clarifies that the controlling interest in corporations that apply for a loan guarantee must be held by state residents.

4. Department of Revenue amendment clarifying how the State's investment is protected in case of default by the borrower.

5. Deletes the provision regarding subsequent guarantees.

March 21, 1984

The Honorable Bill Sheffield
Governor of the State of Alaska
Pouch A
Juneau, Alaska 99811

Dear Governor Sheffield:

Sealaska Corporation has been following with keen interest the progress of HB 627 and SB 479, which establish a "forest products business loan guarantee program" in the Department of Revenue. As you know, this legislation is in specific response to the decision of Louisiana Pacific Corporation to close its operations in Alaska, and its attempt to sell a controlling interest in its Alaska subsidiary (LPK) to an Employee Stock Ownership Trust (ESOT). If this stock sale does not occur, Louisiana Pacific would close its facilities, which would cause severe hardship to Ketchikan.

Presently, the entire forest products industry in Alaska is suffering. World markets are soft, the strong dollar and high interest rates doubly hurt exporters of Alaska forest products, and we find it increasingly difficult to operate profitably in a world commodity market against foreign and domestic competition. The Alaska dissolving pulp industry is hurt not only by these factors, but also by the fact that the market for that product is a mature (some say declining) market, and that recent entry by large subsidized foreign competition has fundamentally changed the economic viability of facilities like Alaska's. Louisiana Pacific has realized this to the extent that they have made the decision to close their Alaska facilities. Alaska Lumber & Pulp Company, and with them the cities of Sitka and Wrangell, are also laboring under very tenuous circumstances. Certainly they require the State's financial assistance as desperately as does Louisiana Pacific.

We empathize strongly with LPK employees and with the people of Ketchikan, and applaud their courageous actions and hard work in attempting to fashion a transaction to keep LPK's facilities operating, paying local taxes, and employing one-third of Ketchikan's workforce. We sincerely hope that they can successfully purchase the mills and run them at a profit where Louisiana Pacific has failed.

Nevertheless, the proposed involvement of the State as an equity loan guarantor does raise some fundamental philosophical public policy questions, many of which have concerned Sealaska Corporation in the past when we questioned State involvement in private industry through the Alaska Resources Corporation and other programs.

Whenever government becomes involved in specifically underwriting a single or limited portion of an industry, it can unknowingly affect the competitive balance in that industry in some largely unforeseen ways. The State's negotiated timber sale to Schnabel Lumber Company in 1979 had significant and unexpected effects on subsequent U.S. Forest Service timber sales in the year following, for example. Is it possible, we wonder, for the State to apply its financial power for the benefit of one participant in an industry and still maintain a balanced industry over the long term?

Secondly, whenever the government applies its financial strength to aid one segment of an ailing industry, it often discovers that it has only scratched the surface. Fairness and the proper maintenance of competitive balance invariably demand further and greatly expanded intervention to assist other businesses involved. Has the State consciously and carefully investigated and determined the possible impacts to other existing businesses and the long-term restructuring of the timber industry?

Third, legislation such as has been proposed often constitutes merely a "quick fix" -- the treatment of a symptom with inadequate consideration of the generic and underlying problems. Will a simple transfer of controlling ownership strengthen a company in trouble, or merely weaken its financial condition by adding debt service burdens that were not present before? We would hope that the State would delve deeper into the source of Louisiana Pacific's business problems, and of the problems facing all major participants in Alaska forest industries.

Most analyses of Alaska's forest products industry suggest a number of weaknesses, some of which may be solvable by the industry with the State's help, and others of which can only be endured. Markets, raw material supply questions, costs related to harvest practices, environmental and other resource management requirements, exchange and interest rates and subsidized foreign competition are such problems. Injections of public capital can sometimes alleviate these for a time, but how fundamental or lasting is the "cure"?

Other problems are more amenable to policy-level solutions. The State has labored mightily to achieve EPA variances for Alaska's two pulp mills. Without such variances, few believe the mills can long survive. Antitrust problems, essentially brought upon themselves by elements of the industry, can be solved by federal natural resource policy changes and with the help of recent federal legislation. But should the State assist a company whose

recent past performance under antitrust laws is still questionable? Weaknesses in marketing due to currency exchange and interest rates, and the high cost of the large working capital and infrastructure requirements inherent in Alaska operations could be aided by a State Export-Import Bank, which we have suggested in the past, and by more State construction and ownership of public roads and docks available for industry use. Restricted timber supply and overly costly production methods dictated by the U.S. Forest Service could be improved upon by simple policy changes in that agency.

We hope that the State is considering the whole potential range of fundamental public policy initiatives to assist the forest products industry in addition to the proposed non-traditional involvement in a loan guarantee for a single company.

Sealaska Corporation has several questions more specifically applicable to the individual transaction the legislation is designed to subsidize. The loan guarantee may or may not make sense if the State does decide to thus underwrite a specific commercial transaction. However, we feel that the public record to date is not adequate to make that decision.

For example, does the administration have a thorough analysis of the risk of the intended loan? Is the request for a loan guarantee a "need" integral to effecting financing of the LPK/ESOT transaction or is it a "want"? What is the most likely ability of the company to service its proposed new debt? What measure or analysis has been made with respect to the chance of success for this transaction in the face of the yet undetermined Environmental Protection Agency ruling and the Weaver Committee questions regarding the U.S. Forest Service long-term contracts and the 450 mmbf per year commitment? Is the Forest Service going to approve necessary cost savings measures recently advanced by the industry? What is the U.S. Forest Service position on this transaction? Is it good public policy to risk such a large sum of money based upon the analysis of an investment banker paid by the seller, retained by the buyer and with a vested interest in closing the transaction; especially when this analysis is yet to become part of the public record? There have been no representations that the loan is unattainable without a guarantee. If there were such representations, what would they imply regarding the strength of the proposed credit? If the unthinkable were to happen and the ESOT were to default, who would be the real beneficiary of the State's loss, given that the guaranteed loan proceeds would be used to "take out" an equity investment already made by Louisiana Pacific? Should the State consider guaranteeing loans to other parties wishing to purchase the 11% of shares to be offered to the general public? Is the State going to change its post-ARC policy, and once again underwrite loans of capital that will not be reinvested in the State? What collateral, specifically, will be available to secure a loan taken for the purchase of equity? If the project does default, is it possible that the State then is in a position

of having to throw good money after bad?

Satisfactory answers to these and other important questions may be available now but we must in good conscience question whether a public commitment of such magnitude should be considered before such facts are spread on the record.

Sealaska Corporation's interest in these major policy questions is sincere and important. Native ownership and operations involve more than one-third of Alaska's entire forest products industry, and employs more than 1,200 Alaskans. We have never been subsidized in our business activities, and are critically concerned over the future of our industry. As is the case with the non-Alaskan participants in our industry, we have also been squeezed hard over the past three years. We have operated when our return-to-stump has been marginal at best, and have been forced to curtail our production and marketing this year despite our large capital investment.

Native timber owners operate capital facilities (eg: Klawock Island Dock Company) similar to those the State has traditionally publicly financed. Several of our smaller corporations have had perennial difficulties securing credit facilities, despite their large and continuing equity investments.

Our future is inextricably tied to the future of Alaska's forest products industry, so we are understandably concerned lest the State, in honestly attempting to treat a single segment of the timber industry symptom, cause a ripple of unforeseen effects that may actually compound the underlying problems we all face.

If the State is intent on setting aside normal public policy constraints to attempt to revitalize a portion of the timber industry, we strongly urge you to consider the rest of the industry -- and the industry as a whole -- as well. If State underwriting of a transfer of existing equity of LPK is only an initial step in a broad, major State program to support the entire forest products industry, we can accept it. But as part of that acceptance we want assurance and support as well, this session, for other segments of the industry in similar, and just as serious, circumstances.

Finally, let me reiterate that it is not Sealaska Corporation's intent or desire to bring further economic hardship to the residents of Ketchikan. Louisiana Pacific Corporation made the decision to close its Alaskan operations permanently and it is ultimately Louisiana Pacific Corporation and its shareholders who will most directly benefit from the proposed State action. It is in Sealaska's business interest that the Ketchikan pulp mill remain in operation and we will support any responsible effort to see that it does. However, the proposed loan guarantee raises

such fundamental questions of public policy that we are compelled to present this letter.

Sincerely,

SEALASKA CORPORATION

Byron I. Mallott
President and Chief Executive Officer

BIM/RL:mt

cc: The Honorable Albert P. Adams
The Honorable Dick Eliason
The Honorable Bettye M. Fahrenkamp
The Honorable Peter Goll
The Honorable Ben Grussendorf
The Honorable Jalmar Kerttula
The Honorable Jack McBride
The Honorable John Ringstad
The Honorable John Sackett
The Honorable Ron Wendte
The Honorable Robert Ziegler
Martin Pihl, Chairman ESOT Group
Frank Roppel, Executive Vice President, ALP
John Sandor, Regional Forester, USFS

KETCHIKAN DAILY NEWS March 27, 1984

Local Natives surprised by Sealaska stand

By DAVID S. KIFFER
Daily News Staff Writer

Sealaska's decision to oppose a state loan guarantee for the Louisiana Pacific-Ketchikan Division employee buy out took local Sealaska shareholders by surprise, according to a local Native leader.

Georgia Skannes, a Sealaska shareholder and a member of the Ketchikan City Council, said she was disappointed in Sealaska's position.

"As a shareholder, I feel we should have been consulted," she said. "There is a local Sealaska advisory board here and, to my knowledge, it was not consulted before Byron (Mallot) released his position statement."

Mallot, the chief executive officer of Sealaska — the southeast regional Native corporation — recently sent a lengthy letter to Gov. Bill Sheffield opposing a proposal to have the state guarantee half of a loan the L-P employees hope to receive to purchase the division.

"The percentage of Sealaska shareholders that work at L-P is so high, it upsets me that Sealaska would take this position," Ms. Skannes said this morning. L-P comptroller Martin Pihl said 30 percent of the division workforce are Sealaska shareholders.

"This isn't showing any unity among the Native people," she said. "LPK has tried several times to open communication with Sealaska, but Sealaska has not responded."

She said she and former Sealaska board member Ray Demmert of Ketchikan will meet Wednesday to discuss the situation and work out a plan to "get the L-P side of the issue out to the Native people."

This morning, Pihl released a lengthy LPK response to Sealaska's letter to the governor. The response pointed out economic differences between LPK's export of cants and Sealaska's export of round logs.

"We recognize there is a good deal of factual information in Sealaska's letter about conditions and the status of the Alaska Forest Products industry," Pihl said. "Particularly in the segments which are required to domestically process the logs before export. Unfortunately, Sealaska fails to acknowlege the market and competitive advantages which it has in the export of round logs and the impact those round log imports have had on the market for domestically processed cants."

Pihl said L-P has sought to work together with Sealaska and other parts of the forest products industry, but that Sealaska does not "have receptive ears." He said L-P will continue to press for cooperation because it will "result in an improved market for pulp logs, most of which Sealaska has left in the woods."

"Sealaska's comments that the loan guarantee bill is special interest for a single limited portion of the industry is not correct in our view," Pihl said. "The guarantee bill would be available for any employees purchase of any company in the forest products industry."

He said two things are needed for the loan guarantee — legislative action and the setting aside of $20 million "in the unlikely event of a call on the guarantee."

Pihl said the chief benefit from the guarantee is low interest rates for the purchase and a thoroughly studied proposal.

"The employees are not looking for a quick fix (as Mallot had asserted in his letter)." He added that the lending institutions are also keeping a close watch on the proposal.

"The alternatives (to the employee buy out) are very grim," Pihl said. "A projection by the state Department of Labor indicated that, should a Ketchikan closure occur, the draw on unemployment benefits in the first year alone would be $20 million. That is just about the amount of the requested loan guarantee and one half of the employee purchase price."

Alaska State Legislature

SENATOR
ROBERT H. ZIEGLER, SR.
307 BAWDEN STREET
KETCHIKAN, ALASKA 99901

While in Juneau
POUCH V
JUNEAU, ALASKA 99811

Senate

VICE CHAIRMAN
SENATE RESOURCES COMMITTEE

MEMBER
SENATE JUDICIARY COMMITTEE

WESTERN STATES LEGISLATIVE
FORESTRY TASK FORCE

WESTERN CONFERENCE COUNCIL
OF STATE GOVERNMENTS

March 29, 1984

Mr. Byron I. Mallott,
President and Chief Executive
Officer
Sealaska Corporation
One Sealaska Plaza
Juneau, Alaska 99801

Re: SB 479.

Dear Mr. Mallott:

I find it hard to believe you personally wrote the letter concerning the captioned bill to the Governor dated March 21st.

It's also difficult for me to believe that it wasn't written by your Mr. Loescher who has been a pretty faithful attendant at the various meetings which have been held on SB 479.

In my opinion, you have made some unwarranted assumptions concerning the employee stock ownership trust, and in the process of so doing have perhaps potentially and severely impacted the economic livelihoods of several hundred of your shareholders.

Sealaska and Louisiana Pulp are not truly competitive and your actions have distressed me personally.

Very truly yours,

Robert H. Ziegler, Sr.

RHZ:lk

cc: The Honorable Albert P. Adams
The Honorable Richard I. Eliason
The Honorable Bettye M. Fahrenkamp
The Honorable Peter Goll
The Honorable Ben Grussendorf
The Honorable Jalmar Kerttula
The Honorable Jack McBride
The Honorable John Ringstad

The Honorable John Sackett
The Honorable Ron Wendte
Mr. Martin Pihl, Chairman ESOT Group
Mr. Frank Roppel, Executive Vice President, ALP
Mr. John Sandor, Regional Forester, U.S.F.S.

Louisiana-Pacific Corporation

Ketchikan Division

Post Office Box 6600
Ketchikan, Alaska 99901, U.S.A.
Telephone: 907-225-2151
Telex: 099-55-251
Answer back: KAYPULCO KET

April 3, 1984

Mr. Byron I. Mallott
President and Chief Executive Officer
Sealaska Corporation
One Sealaska Plaza
Juneua, Alaska 99801

Dear Mr. Mallott:

This letter is intended to formalize a response which becomes incumbent on us to the Sealaska Letter to Governor Sheffield dated March 21, 1984, regarding the "Forest Products Business Loan Guarantee Bill HB627 and SB479 and broader issues facing the forest products industry. This will supplement the responsive statements we have given to requests from the news media.

We were of the belief that most of the questions and concerns of Sealaska had been addressed in discussions with Sealaska representatives on February 29, and by the testimony of the three-man KPC ESOT representation before Senate and House Committee hearings on SB479 and HB627 which were attended by Sealaska representatives, and other meetings with State Administration officials.

As you know, the Sealaska letter was met by substantial shock reaction in the Ketchikan-Prince of Whales area and including many of Sealaska's own members. We recognize that you have issued follow-up clarifying and somewhat modifying statements such as reported by the Ketchikan Daily News on Wednesday March 28. The damage was, however, already done. Our response follows.

We would first emphasize our disappointment in finding objection to the Ketchikan Pulp employees as people trying to help themselves. We are talking about 800 direct employees, many of which have invested 20 to 30 years in pioneering the timber industry in Southeast Alaska. We as employees, have committed to take a substantial reduction in

pay and benefits as a primary step in restoring economic viability. The ESOT purchase study by employees has covered all aspects of operations, economics and viability including markets, resource base, raw material costs, environmental and regulatory matters, and plants and asset base as well as wage and benefit levels. The Ketchikan employee purchase is not a "quick fix". The employees are not interested in merely buying their jobs for a few years. This purchase is designed to be a viable, bankable transaction subject to regular bank standards of credit review and showing of purchase debt capacity.

We do recognize that there is a good deal of factual comment in the Sealaska letter about the condition and status of the forest products industry. These factors are particularly true and more accutely affect the segments of the forest products industry which are required to domestically process logs before export. Unfortunately, Sealaska fails to acknowledge the market and competitive advantage which it has in export of round logs and the impact round log exports has had on the market for domestically processed cants. Ketchikan Pulp (LPK) has long seen the need for Alaska's Forest Products Industry to work together and not oppose each other in the market place. We initiated a number of discussions two to three years ago with Sealaska Timber and more recently Sealaska in Juneau. We maintain a willingness and commitment to work together. Logs and cants can be marketed together, and our working together will result in improved overall economics and price available for pulp logs which export-logging operations leave a high percentage in the woods. Prices we have offered for pulp logs have consistently exceeded the economic return to the log from pulp sales and operations. The combined log and cant exports from Alaska to Japan and other Pacific Rim Countries represents only about ten percent of a total of more than three billion board feet annually off the West Coast including Washington and Oregon. Hence, neither Sealaska, KPC nor ALP (nor combined) set, or in any way control, the market for logs and cants.

The Loan Guarantee Bill does not "specifically underwrite a single or limited portion of an industry". The guarantee would be available for any qualifying employee purchase of any company in forest products. We may be first, but others may follow. We have often found this to be true. Two things are necessary to effectuate the loan guarantee; first, enabling legislation and secondly, a transfer or set aside of regularly invested state funds in the highly unlikely event of a call on the guarantee. There is no grant or direct loan of funds.

The forest products industry has not, to date, called on the State of Alaska for assistance such as we have seen in many instances for fisheries and tourism. The one exception

involves the Haines sawmill which we understand Sealaska supported in the final stages. The State can assist and make more assured the financing of the Ketchikan employee purchase at a lower interest rate benefiting all concerned.

The alternative to the Ketchikan employee effort is grim indeed. Projections by the Alaska Department of Labor indicate that, in the event of closure or shutdown, the draw on unemployment benefits in the first year alone would approximate $20 million. This amount alone approximates the amount of the requested loan guarantee and about one-half of the employee purchase price. We believe about 30 percent of the jobs we are seeking to maintain are Alaska Natives and Sealaska members.

We would very much appreciate your support and joining efforts to maintain and improve Alaska's Forest Products Industry. Our employee purchase will Alaskanize the ownership of Ketchikan Pulp Company. We invite you to join us as a shareholder. On request, we ask that this letter be shared with the Sealaska Board of Directors.

Sincerely,

M. R. Pihl

M. R. Pihl
Controller and Chairman
ESOT Finance Committee

cg

cc: Governor Bill Sheffield
Senator Dick Eliason
Senator Bettye Fahrenkamp
Senator Jay Kerttula
Senator John Sackett
Senator Bob Ziegler
Representative Al Adams
Representative Peter Goll
Representative Ben Grussendorf
Representative Jack McBride
Representative John Ringstad
Representative Ron Wendte
Commissioner Dick Lyon
Mr. Mel B. Mountain, President, KPC
Mr. Frank Roppel, Executive Vice-President, ALP
Mr. John Sandor, Regional Forester, USFS

April 5, 1984

Mr. Michael B. Salazar
President
Southeast Conference
P.O. Box 29
Douglas, Alaska 99824

Re: Alaska Timber Industry

Dear Mr. Salazar:

The Southeast Alaska timber industry continues to be in a severe depression. This condition has created sharp unemployment, shut down of manufacturing facilities and logging operations throughout the region. The impacts to the social, economic and political life of each of our communities has been detrimentally affected - and there is no foreseeable end in sight.

There comes a time when all elements of the community - citizens, private landowners, industry, environmentalists and government officials - must come together and face head on the calamities of the day. For the timber industry, in our opinion, this time has come if we are to see any positive change.

Many efforts by many people are being promoted on singular bases. But the problems appear to be larger then they seem and a more comprehensive approach to identifying and finding solutions to industry problems may be in order.

With this in mind, I would like to advance to the Southeast Conference a draft resolution and an outline of draft legislation calling upon Governor Sheffield and the Legislature to establish and fund an Alaska Timber Review Commission. I would urge your consideration of this proposal. I believe that with the support and recognition of the Southeast Conference that this legislation could pass this session.

Additionally, with the interest and participation of all segments of industry, government and citizens, I believe that such an effort will find lasting solutions to timber industry problems that can benefit the total community and can establish an economic foundation for the future.

Sincerely,

SEALASKA CORPORATION

Byron I. Mallott
President and Chief Executive
Officer

BIM/RWL:mt

cc: The Honorable Albert P. Adams
The Honorable Dick Eliason
The Honorable Bettye M. Fahrenkamp
The Honorable Peter Goll
The Honorable Ben Grussendorf
The Honorable Jalmar Kerttula
The Honorable Jack McBride
The Honorable John Ringstad
The Honorable John Sackett
The Honorable Bill Sheffield, Governor of Alaska
The Honorable Ron Wendte
The Honorable Robert Ziegler
James Clark, Esq.
Martin Pihl
Frank Roppel
John Sandor
Sealaska Board of Directors
Southeast Alaska ANCSA Corporations

Alaska Loggers Association, Inc.

111 STEDMAN, SUITE 200
KETCHIKAN, ALASKA 99901
Phone 907-225-6114

April 5, 1984

Mr. Michael B. Salazar
President, Southeast Conference
P. O. Box 29
Douglas, Alaska 99824

Re: Alaska Timber Industry

Dear Mr. Salazar:

The Alaska Loggers' Association (ALA) has worked closely with Sealaska Corporation in forging the Alaska Timber Review Commission proposed in Mr. Mallott's letter of this date. The proposed Commission will provide a vehicle for the timber industry to focus its efforts in an attempt to come up with a comprehensive, creative approach to the problems that beset it. We particularly welcome the opportunity to review the Forest Service policies "that materially offset the economic health of the industry" (Section .050(2)), as we believe a thorough review is needed in this area. We would appreciate the active support of this proposal by the Southeast Conference.

Yours very truly,

James F. Clark

JFC:sd

Mill buyout faces fight over loan guarantee

by Dean Fosdick
Associated Press

Juneau — Agreement was reached Wednesday on an employee buyout plan for the estimated $90 million in Alaska assets of Louisiana-Pacific Ketchikan, but legislation that would guarantee half the $45 million loan needed to float the deal is facing a "major uphill battle," a sponsor says.

Louisiana Pacific Corp., a Fortune 500-listed company based in Portland, Ore., initiated the buyout proposal in September with L-PK employees.

The division's assets include a hemlock mill in Metlakatla, a chip mill in Seward, a spruce mill in Ketchikan, the huge Ward Cove pulp mill, some logging camps and long-term timber contracts.

The division is the largest employer in the Ketchikan area with a work force of about 800 people and a $23 million annual payroll.

Wally Kubley, a Capitol lobbyist for L-PK and the 28-member panel which is handling the purchase under an Employee Stock Ownership Plan (ESOP), said agreement awaits a feasibility study from a Wall Street investment firm.

"If they say it's not a good deal, then they won't buy it," Kubley said.

Under terms of the proposal, employees will own and control 55 percent of the company and have five of seven people on the board, he said. The remaining two would be from Louisiana-Pacific.

"A $45 million loan from one state and four large outstate banks will be the up-front payment for L-P," he said. "The loan will be backed by approximately $90 million in assets.

"We're asking that the state guarantee 50 percent of the $45 million loan," Kubley said, adding that it would make it a more "viable deal."

"It would make the loan more salable and they might get it at a rate of 1 percent less with the state guarantee," he said.

ESOP leader and L-PK Controller Martin Pihl said the committee feels pretty good about the $90 million deal.

"There was not unanimous approval, but very near," he said.

Among the many concerns is a tentative denial by the federal Environmental Protection Agency on L-PK's request for a variance from new waste water treatment standards. L-PK has estimated that the cost of complying with EPA requirements will exceed $10 million.

EPA Regional Administrator Ernesta Barnes said during a visit to Ketchikan last week that a final ruling will come in late May.

A sponsor of one of two bills that would establish a "Forest Products Business Loan Guarantee Fund," Sen. Bob Ziegler, D-Ketchikan, said Wednesday he believes the odds are against passage.

"From talking to colleagues and scouting around, it looks like it's going to be a major uphill battle and I'm not optimistic," Ziegler said. "We'll keep trying.

"The whole thing is highly complex and a lot of people don't seem to grasp it," he said. "We're not looking for a raid on the treasury, we're looking for a guarantee."

4/6/84 Anch. Times

April 11, 1984

Mr. Martin Pihl
Controller and Chairman
ESOT Finance Committee
Louisiana-Pacific Corporation
Ketchikan Division
P.O. Box 6600
Ketchikan, Alaska 99901

Dear Mr. Pihl:

Sealaska Corporation has not found objection as your April 3, 1984 letter erroneously asserts "to the Ketchikan Pulp employees as people trying to help themselves." Quite the contrary is true. Sealaska Corporation in its March 21, 1984 letter raised issues which in our judgment merit attention if HB627 or SB479 is to stand any meaningful chance of enactment. Neither does Sealaska need to be reminded by anyone of its obligation to its shareholders and I personally resent that inference in your letter.

Now, my friend; you, me, Senator Ziegler and others can continue this sort of negative dialogue or we can sit down together as your letter and mine suggest and try to work for the good of industry. Sealaska is prepared to do that and I look forward to the meeting which we will have April 16, 1984.

Sincerely,

SEALASKA CORPORATION

Byron I. Mallott
President and Chief
Executive Officer

cc: The Honorable William Sheffield, Governor
The Honorable Richard Eliason, Alaska State Senator
The Honorable Bettye Fahrenkamp, Alaska State Senator
The Honorable Jay Kerttula, Alaska State Senator
The Honorable John Sackett, Alaska State Senator
The Honorable Robert Ziegler, Alaska State Senator

The Honorable Al Adams, Alaska State Representative
The Honorable Peter Goll, Alaska State Representative
The Honorable Ben Grussendorf, Alaska State Representative
The Honorable Jack McBride, Alaska State Representative
The Honorable John Ringstad, Alaska State Representative
The Honorable Ron Wendte, Alaska State Representative
The Honorable Dick Lyon, Commissioner
Mr. Mel B. Mountain, President, KPC
Mr. Frank Roppel, Executive Vice President, ALP
Mr. John Sandor, Regional Forester, USFS

DRAFT RESOLUTION FOR SOUTHEAST CONFERENCE

WHEREAS, Southeast Alaska's timber industry is in a severe and lasting financial depression; and

WHEREAS, The industry is being restructured internally as a result of pressures wrought by this depression; and such restructuring is or has the potential to significantly disrupt the financial and social fabrics of Southeast Alaska communities; and

WHEREAS, The causes of the industry's present problems are many and complex, and arise both from State and Federal government policies and from national and international financial and competitive factors; and

WHEREAS, The financial health and well-being of the citizens of Southeast Alaska is and historically have been greatly dependent upon the well-being of the region's timber industry; and

WHEREAS, The industry can be strengthened over the long-term only through actions based on a detailed analysis of all aspects of the industry as they are affected by government policies and the interaction of world economics; and

WHEREAS, Such an analysis, and any recommendations for public policy or statutory initiatives that might result from it, can be accomplished only with the full involvement, cooperation and expertise of all participants in the industry acting together for the good of the industry as a whole;

NOW, THEREFORE, BE IT RESOLVED THAT

(1) The Southeast Conference urges the Governor and the Alaska State Legislature to establish and fund immediately an Alaska

Timber Review Commission.

(2) The Alaska Timber Review Commission should be composed of representatives of companies engaged in producing forest products from Southeast Alaska lands and relevant State and Federal government officials.

(3) The Alaska Timber Review Commission should be charged with completing a thorough analysis of the present situation in the Southeast Alaska timber industry, and with recommending policy and statutory changes that would strengthen the industry as a whole over the long-term.

(4) The Alaska Timber Review Commission should be funded by a combination of private and public funds, and should be administered as a private commission and chaired by a member from the private sector.

DRAFT LEGISLATION (OUTLINE)

An Act entitled: An act creating the Alaska Timber Review Commission and appropriating funds for its operations.

Sec. 1: Findings: The legislature finds that

1. A combination of public policies and world financial and market factors has weakened Alaska's forest products industry in recent years.

2. The industry is critically important to the economy of Alaska.

3. Improvement can be accomplished only with a better understanding of the industry as a whole and of world financial and competitive factors.

4. Such an analysis and recommendations will be of value only if they are accomplished by the industry itself with the assistance of the State of Alaska.

Sec. 2. Purpose: The purpose of the act is to:

Establish the ALASKA TIMBER REVIEW COMMISSION for a period of 10 months to analyze the Alaska timber industry as it is presently structured and as it relates to existing statutes and governmental policies and to world financial and competitive factors, and to recommend to the Governor and the Legislature any changes in policies or statutes and regulations it deems appropriate.

Sec. 3. A.S. _____ is amended by adding a new chapter to read:

Chapter ____: ALASKA TIMBER REVIEW COMMISSION. Sec.

Ø1Ø. There is established in the Office of the Governor the Alaska Timber Review Commission. The commission is a study and review commission with a limited existence to accomplish the purposes set out in this chapter.

Sec. Ø2Ø: Membership: (a) The commission shall be composed of 13 Commissioners, appointed by the Governor. The Commissioner of Natural Resources, Commerce, and Revenue or their designees, shall sit as ex officio members on the commission. The commission shall be comprised of: one member of the Alaska State Senate, one member of the Alaska House of Representatives, the U.S. Department of Agriculture Regional Forester for Alaska, the Director of the Office of Management and Budget, one member representing environmental interests, and nine members representing the Alaska forest products industry.

(b) The Governor shall appoint one commissioner as chairman of the commission.

Sec. Ø3Ø. Compensation of Commissioners: The members of the commission shall serve without compensation.

Sec. Ø4Ø. Employment of Personnel: The commission may retain through contract an Executive Director. The Executive Director may, with the approval of the Commission, retain through contracts individuals or firms to accomplish work under this chapter.

Sec. Ø5Ø. Responsibilities: The commission shall

(1) Analyze the Alaska forest products industry as it is presently structured;

(2) Analyze State and Federal policies that materially affect the economic health of the industry;

(3) Analyze world market and financial factors that materially affect the economic health of the industry;

(4) Make recommendations to the Governor and the Alaska Legislature no later than January 15, 1985 for: 1) changes in State policies, statutes and regulations that would benefit the industry and the public interest, 2) changes in Federal policies, statutes and regulations that would benefit the industry; and 3) new public institutions, appropriations or policies that would stabilize and enhance the industry as a whole and serve the public interest.

Sec. 060. POWERS. The commission may

(1) Conduct or contract for research to accomplish its responsibilities under this chapter.

(2) receive contributions of money from the State or from persons.

(3) establish an office in the State and otherwise incur expenses incidential to the performance of its duties;

(4) establish bank accounts for the transaction of its business.

Sec. 070. APPROPRIATION. There is appropriated to the Office of the Governor $500,000 for the purpose of funding the Alaska Timber Review Commission.

Sec. 080. Termination of the Alaska Timber Review Commission. This chapter shall terminate upon the submission of the report by the commission to the Governor and the Legislature.

SCOMM
#50:39

Alaska State Legislature

House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
(907) 465-4919
(907) 465-4920

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

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

Hearing: RED DOG MINE

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

Hearing: RED DOG MINE

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

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

IN THE SENATE BY ZHAROFF AND COGHILL

SENATE BILL NO. 186

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

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

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

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

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

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

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

RAINY DAY DIV

COVERAGE RISKS 90 DAYS

3.4 MILLION DOLLARS

MEMORANDUM:

TO: John Hartle

FROM: Michael Thill

RE: SB 186

Contact persons for explanation and information pertaining to the bill:

1) Clark Gruening 586-8110
(representing City of St Paul)

2) Anselm Staack: 2200
(Dept of Admin)

3) Brad Thompson: 2180
(Div of Risk Management)

4) Vern McCorkle, (907) 546-2331
City Manager, St Paul, Alaska

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

$4,000,000
- 600,000 ($300,000 deductible per occurrence x 2 occurrences)
$3,400,000

SB 186: St Paul Breakwater

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

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

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

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

SB 184

MEMORANDUM

State of Alaska

TO: Anselm Staack
Deputy Commissioner
Administrative Management
Department of Administration

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

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

DATE: February 6, 1985

FILE NO: 220C

TELEPHONE NO: 266-1500

SUBJECT: Involvement of Risk Management with St. Paul Breakwater

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

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

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

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

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

MEH/bgc

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

APPENDIX A

ST. PAUL HISTORY

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

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

01/21/85	Final Tetra Tech Inc. report was delivered to DOT&PF.
	City of St. Paul contracted with DePue & Associates to develop alternative dock designs.
	City of St. Paul contracted with Tetra Tech Inc. to develop alternative designs and estimates for reconstructing the breakwater and continuation of phase 2 construction.
01/29/85	DOT&PF, City of St. Paul, and Risk Management met to discuss the current status of the breakwater and determine what involvements between the agencies is necessary to meet the critical time frame for construction and preservation of the EDA grant.

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

02/15/85	Select from alternative designs of breakwaters and docks.
02/28/85	Contract for A/E services to develop final design, drawings, and specifications for breakwater and dock.
03/01/85-03/15/85	Field investigations (detailed bathymetry, geotech, etc.)
03/15/85-04/30/85	Hydraulic Model Studies
03/01/85-04/15/85	Develop final design, construction, and bid documents
04/16/85-06/01/85	Advertise and award
06/15/85	Begin construction
11/15/85	Complete construction

SB

FEB 4 1985 / 80

TETRA TECH, INC.

4 February 1985

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

Dear Mr. McCorkle:

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

1. Estimated Costs to Re-build Phase I

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

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

2. Extent of $9.0 Million Breakwater Project

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

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

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

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

4. Alternative X-Section Designs

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

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

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

Sincerely,

TETRA TECH, INC.

Robert H. Taylor
Manager, Alaska Operations

RHT:rd

Enclosures

cc: Tony Smith, Attorney

CONSTRUCTION COST ESTIMATE

(AS-BUILT)

REFERENCE: PLAN NO. RESTORE 'PHASE I" A-B DESIGN .08 NAME ST. PAUL

LOCATION VILLAGE COVE BREAKWATER .08 NUMBER TC-3023
ST. PAUL, ALASKA

PRELIMINARY ☐ FINAL ☑

BY J.W. DATE 11/20/25

CHECK ATS DATE 11/21/25

LINE	DESCRIPTION	QUANTITY	UNIT	UNIT PRICE	AMOUNT
01	MOB/DEMOB		LS		$1,000,000
02	CAMPS		LS		500,000
03	MAINTAIN HAUL ROAD		LS		250,000
04	A CLASS STONE	66100	CY	17.50	1,156,750
05	B CLASS STONE	32900	CY	15.00	493,500
	Subtotal				3,400,250
	contingencies 5%				170,000
	engineering and design 6%				214,000
	Supervision and Administration 6%				227,000
	TOTAL COST			$	4,011,250

CONSTRUCTION COST ESTIMATE - SHEET NO. ___ OF ___

CONSTRUCTION COST ESTIMATE

REFERENCE/PLAN NO. RESTORE "PHASE I" ORIG. DESIGN
LOCATION VILLAGE COVE BREAKWATER
ST. PAUL, ALASKA

JOB NAME ST. PAUL
JOB NUMBER TC-3023
PRELIMINARY ☐ FINAL ☒
BY JW DATE 1/30/85
CHECK AT DATE 1/31/85

LINE	DESCRIPTION	QUANTITY	UNIT	UNIT PRICE	AMOUNT
01	MOB/DEMOB		LS		$1,500,000
02	CAMPS		LS		500,000
03	MAINTAIN HAUL ROAD		LS		250,000
04	CLASS I STONE (18-ton)	21850	CY	33.00	721,050
05	CLASS II STONE (12-ton)	39600	CY	20.00	792,000
06	CLASS III STONE (2-ton)	2000	CY	20.00	40,000
07	CLASS IV STONE (underlayer)	24,380	CY	20.00	487,600
08	CLASS V STONE (core)	15,090	CY	15.00	226,000
	Subtotal				4,017,650
	Contingencies 5%				201,000
	Engineering & design	6%			253,000
	Supervision & administration	6%			269,000
	TOTAL COST				$ 4,739,050

INC. PASADENA, CALIF.

SUMMARY

FILE NO TC 3023

COMPUTED _____ CHECKED _____ DATE _____ PAGE ____ OF ____ PAGES

ALTERNATIVE	COSTS/FT	CREST EL.	USEABLE ROADWAY	REMARKS
a. NORGAARD SECTION ⓒ 12-ton ARMOR	$5090	+30	30'	DAMAGE = 15-20% UNDER 25' DESIGN WAVE
b. NORGAARD HEAD 18-ton ARMOR	7800	+30	30'	DAMAGE > 50% UNDER 25' DESIGN WAVE
1. ALT. 1 14-ton stone 1:4 slope	8 000	+37	40'	VERY WIDE STRUCTURE MAY ENCROACH ON HARBOR. CREST EL. REQUIRES MODEL TEST
2. ALT 2 18-ton stone 1:3 slope	7 100	+30	none	18-TON RUBBLE NOT AVAILABLE IN REQ'D QUAN.
3. ALT 3 30-ton dolos 1:2 slope	11 600	+30	none	USE FOR HEAD SECTION. OVERTOPPED
4. ALT 4 20-ton dolos 1:2 slope	11 000	+30	none	USE FOR TRUNK OVERTOPPED
5. ALT 5 46-ton tetrapod 1:1.5 slope	10 300	+38	8'	CREST REQUIRES MODEL TEST
6. ALT 6 14 ton stone composite	6 400	+40	30'	MODEL TEST NEED TO EVALUATE STABILITY
7. CAISSON	UNDER EVALUATION			

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

Revisor's notes. — Formerly AS 44.19.150. Renumbered in 1980.

Cross references. — As to condition and time of calling special election, see AS 15.40.230.

Article 3. Disaster and Emergency Relief Funds.

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

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

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

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

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

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

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

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

Statutes

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

Revisor's notes. — Formerly AS 44.19.171. Renumbered in 1980.

Cross references. — As to the Alaska Disaster Act, see AS 26.23.010 et seq.

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

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

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

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

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

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

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

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

(5) the cost of the urban renewal project;

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

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

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

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

ıual account-
:h 25 FSSLA
. 1980)

s to the Alaska
).010 et seq.

lamaged by
wal shall be
urring in the
ınder federal
to a munic-
on may not
of the urban
nicipality to
made neces-

ı shall come
– 44.19.050.
ı eligible for

icipality for
renewal. In
ıe following

the United

·ces to meet
:s;
ecessary by

disaster for
:s, and the
th the com-

to the leg-

ıs of a loan

ıed by the
§ 1 ch 171

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

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

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

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

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

Article 4. State Geographic Board.

Section
54. State Geographic Board
56. Composition
58. Duties of board
59. Alaska Native place names
60. Use of names chosen
62. Advertising or publishing a name without approval

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

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

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

cc
3/29

3/27/85

LETTER OF INTENT

HOUSE SPECIAL COMMITTEE ON STATE LOANS

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

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

Rep. Sam Cotten

Rep. Jim Duncan

Rep. Jack Fuller

Rep. Rick Uehling

Rep. John Sund, Chairman

COMMITTEE REPORT

HOUSE

3/29

(5)

FURTHER: FINANCE

3/18/85

Date: 3/26/85

The Committee on HOUSE SPECIAL COMMITTEE ON STATE LOANS has had SB 186

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

under consideration and recommends:

[X] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

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

and recommends _____

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

[ ] reports it back without recommendation

[ ] referred to the _____ Committee

MEMBERS SIGNING DO PASS	MEMBERS HAVING OTHER RECOMMENDATIONS:
FUND [signature]	LEHLING [signature] (No Rec)
COTTEN [signature]	FULLER [signature] (No)
DUNCAN [signature]	

[signature]

CHAIRMAN

SCOMM
#50:40

Alaska HOUSING FINANCE CORPORATION

April 24, 1986

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

Dear Representative Sund:

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

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

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

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

Telephone (907) 276-5599
235 East 8th Avenue
Third Floor
P.O. Box 101020
Anchorage, Alaska 99510

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

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

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

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

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

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

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

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

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

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

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

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

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

Sincerely,

Ron Lehr

Dr. Ronald D. Lehr
Executive Director

RDL:sb

Enclosures

ATTACHMENT I

The Wall Street Journal
Tuesday, April 22, 1986

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

By JOANN S. LUBLIN
Staff Reporter of THE WALL STREET JOURNAL

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

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

Growing numbers of home purchases and mortgage refinancings, spurred by falling interest rates, have overwhelmed the two Housing and Urban Development Department agencies with business. Two weeks ago, Ginnie Mae had to stop making new guarantees of securities backed by mortgages insured by the FHA and the Veterans Administration because it reached its $65.3 billion statutory ceiling for guarantees in fiscal 1986, which ends Sept. 30.

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

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

Veto Is Possible

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

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

ATTACHMENT II

Implementation of SB 281 at AHFC

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

1. Assume the bill has been in effect for two years, hence the decrease in subsidy is 1%; and

2. Market rates/cost of funds for AHFC is 11 1/2%, 1 1/2% above AHFC's "base level" of 10%.

A. "Top Down" Approach

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

B. "Bottom Up" Approach

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

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

Anchorage Daily News
April 24, 1986

Alaska bankers go south to keep capital coming north

By JIM ERICKSON
Daily News business reporter

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

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

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

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

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

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

"There's been a kind of a knee-jerk reaction by a lot of the major lenders in the secondary markets," said Scott Hawkins, economist for Alaska Pacific Bank.

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

See Back Page, OUTSIDE

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

Continued from Page A-1

the oil price crash.

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

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

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

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

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

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

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

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

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

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

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

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

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

"Were not as active in Alaska as we were four years ago, but it's not because we're doing less marketing there," said David McCormick, vice president for Seattle-based PeoplesBank.

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

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

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

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

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

"I don't really believe in my gut that 'depression' is an accurate analysis of what will happen in Alaska," Hawkins said.

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

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

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

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

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

SB 281 - Interest Rate on State Loans

SECTIONAL ANALYSIS

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

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

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

Effective date is October 1, 1986.

SB 281

News
4-10-86

Tightening the belt

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

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

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



Federation's Role in our Enterprise Economy

April 13, 1985

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

Dear Senator Halford,

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

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

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

Passage of SB 281 would achieve three of our recommendations:

- Strive for reduction and eventual elimination of State dollar contributions to loan programs,

- Refine present programs to make them self supporting and revolving,

- Eliminate interest subsidies.

Indirectly, the bill would affect our other recommendations.

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

P.O. Box 4-2955 • Anchorage, Alaska 99509
A committee of the GFWC Anchorage Woman's Club

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

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

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

Sincerely,

Pauline Martens

Pauline Martens, Chairman
AWC FREE Committee

STATE SUBSIDIES

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

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

(See Attachment 1. Source: OMB)

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

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

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

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

> "It was also felt that subsidies should be used rarely and mostly for social purposes rather than for economic development.
>
> "This is because subsidies may have unintended effects, may promote an economy dependent on unrealistically cheap money, and may encourage a high debt structure which would make the economy more vulnerable if the programs were cut." (emphasis added)

Other Task Force recommendations regarding subsidies:

Recommendation # 14:

> "The Task Force recommends...that it is the policy of the State not to subsidize the interest rates on loans to borrowers...unless the decision to do so is stated explicitly and is based on social and/or economic development objectives."
>
> "The Task Force felt that there was no explicit policy concerning subsidized interest rates...Subsidies developed in recent years as market rates rose above statutorily fixed loan rates...No general policy of the state is apparent."

Recommendation # 15:

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

Recommendation # 16:

> "The Task Force recommends that programs which include a State subsidy, either through lower loan rates or deferred paymens, should continue to report annually an estimate of the cost of the subsidy."
>
> "The Task Force felt that it is wise to state explicitly reasons for a subsidy and estimated costs of the subsidy in order to monitor the continued appropriateness of the subsidy. Requiring that subsidies be reconsidered every two years would avoid the possibility of unintended program effects resulting from a lack of review."

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

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

A LOOK AT LOAN PROGRAMS TODAY:

1. There are 33 state loan programs. (See Attachment 3).

   21 are active (presently making or servicing loans)
   12 are inactive (no money appropriated this quarter).

2. Delinquency and Default rates. (Delinquency: loans that are more than one day past due. Default: turned over to counsel.) 1st Quarter, FY86. (See Attachment 4).

Mining Loan Fund:	57.6%	($11,303.0)
Agriculture RLF:	34.6%	(18,505.8)
Small Business RLF:	34.4%	(12,190.0) Inactive
Bulk Fuel RLF:	31.8%	(320.0)
Scholarship RLF:	16.1%	(38,217.4)
Commercial Fishing RLF:	14.7%	(11,358.0)
Veterans RLF:	10%	(8,381.0) Inactive

3. Money outstanding: $6,686,786,814 (See Attachment 5)

Housing:	5,502,516.9
Economic Development:	$710,378.2
Education:	$236,718.9
Muni assist/misc:	186,586.2
Energy:	50,585.5

4. Seventeen of the 21 active programs are financed by state appropriation. AHFC, AIDA, Medical Facility Authority, Municipal Bond Bank Authority are financed by bonds.

5. The largest number of all loans outstanding is for Education. The greatest dollar amount of all loans outstanding is for Housing.

   Breakdown by NUMBER:

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

   Breakdown by DOLLAR AMOUNT:

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

(See Attachment 6)

AHFC

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

Loans owned 1/86:

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

Outstanding loan commitments 1/86:

Number: 750
Amount: $75,457,410

Loans delinquent and in foreclosure:

Mobile Homes: 11.35%
Conventional: 6.72%

Real Estate owned:

Mobile Homes: 4.50%
Conventional: .76%

(See Attachment 8)

Minimum Income Requirement for $90,000 Conventional Loan:

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

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

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

Requirements for a HOF (low income) buyer:

Maximum allowed value of house:

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

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

UNDERWRITERS' FEES

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

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

MANAGING UNDERWRITERS:

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

UNDERWRITER COUNSEL:

Cravath, Swaine & Moore

BOND COUNSEL:

Wohlforth & Flint

FINANCIAL ADVISOR:

Paine, Webber, Inc.

subsidycalc

AGENCY/LOAN PROGRAM	FY87 LOAN VOLUME	STATUTORY INT RATE	TERM (YEARS)	FY87 SUBSIDY OMB ESTIMATE: YEARS OF DEFERMENT	FY87 SUBSIDY OMB ESTIMATE: LOAN LOSS/ FORGIVENESS	FY87 SUBSIDY OMB ESTIMATE: MARKET INT RATE	PRESENT VALUE	SUBSIDY	RATE OF SUBSIDY
Department of Education									
Alaska Student Loan Program	$80,550.0	5.00%	10	2.5	11.0%	10.0%	$44,857.6	$35,692.4	44.3%
Teacher Scholarship Loan Program	477.0	5.00%	10	2.5	20.0%	10.0%	238.8	238.2	49.9%
Department of Commerce & Econ Dev									
Commercial Fishing Loan Fund	17,400.0	10.50%	15	0	0.3%	10.0%	16,422.8	977.2	5.6%
Child Care Facility Loan Fund	520.0	7.00%	20	0	.0%	10.0%	417.8	102.2	19.7%
Bulk Fuel Loan Program	1,900.0	8.00%	1	0	5.0%	10.0%	1,786.0	114.0	6.0%
Power Project Loan Fund	6,000.0	8.50%	50	0	.0%	10.0%	5,141.3	858.7	14.3%
Rural Electrification Loan Fund	2,215.5	2.00%	20	4*	.0%	10.0%	1,024.1	1,191.4	53.8%
Alternative Energy Loan Fund	2,200.0	5.25%	20	0	3.0%	10.0%	1,490.1	709.9	32.3%
Fisheries Enhancement Loan Fund	4,010.2	9.50%	30	6	.0%	10.0%	2,169.8	1,840.4	45.9%
Historical District Loan Fund	150.0	7.50%	30	0	.0%	10.0%	119.5	30.5	20.3%
Mining Loan Fund	4,000.0	10.00%	15	0	35.0%	10.0%	2,600.0	1,400.0	35.0%
Residential Energy Cons Loan Fund	577.5	10.00%	10	0	6.0%	10.0%	542.9	34.7	6.0%
Power Development Loan Fund	7,000.0	8.00%	50	0	.0%	10.0%	5,666.7	1,333.3	19.0%
Department of Natural Resources									
Agriculture Loan Fund	9,000.0	8.00%	5.8	.16*	10.0%	10.0%	7,511.4	1,488.6	16.5%
Grain Reserve Loan Fund	1,056.0	8.00%	3	0	.0%	10.0%	1,023.7	32.3	3.1%
Department of Community & Reg Affairs									
Housing Assistance Loan Fund	38,000.0	9.00%	30	0	.7%	10.0%	34,597.3	3,402.7	9.0%
TOTAL	$175,056.2						$125,609.7	$49,446.5	28.2%

*Interest deferments only

FOOTNOTES:

(1) The Office of Management & Budget has developed this chart to identify the estimated subsidy entailed by the Governor's FY87 Loans Budget as required by the legislative intent in SLA 1985, Ch.90, Page 11, Lines 5-7, which reads as follows: "4. Determine the degree of subsidy in each loan program and include this as part of the FY87 loan budget."

(2) See the FY87 Budget Instructions for detailed instructions regarding the calculation of present value and subsidy.

(3) For the AHFC subsidy estimate, see the loan forms submitted by the Corporation.

000002

ATTACHMENT 1

APRIL 85

ATTACHMENT 1

ALASKA HOUSING FINANCE CORPORATION

Summary of Exhibit A

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

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

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

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

ATTACHMENT 2

STATE OF ALASKA

Loans Task Force

A Report on Organizational and Policy Issues

for

Governor William J. Sheffield

January, 1983

LOANS TASK FORCE

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

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

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

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

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

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

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

January 28, 1983

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

Dear Governor Sheffield:

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

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

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

Sincerely,

Dave Chatfield, Chair
Loans Task Force

Loans Task Force Membership

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

Mr. Mike Barry
National Bank of Alaska

Ms. Sally Smith
Ketchikan Chamber of Commerce

Mr. Bill Hickman
Enstar

Mr. Bill Sykes
WILSYK Alaska, Inc.

Mr. Forest Paulson
Commercial Fishing and Agriculture Bank

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

Resource Persons

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

Mr. Allen Blume
Office of the Governor

Ms. Esther Wunnicke, Commissioner
Department of Natural Resources

Ms. Lennie Boston
Office of the Governor

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

TABLE OF CONTENTS

Task Force Membership	i
Introduction, Governor's Charge	1
Summary of Recommendations	2
Recommendations and Narrative Statements	
Tab. I, Consolidation	4
Tab. II, DCtD Organization	21
Tab. III, Agency Reporting Relationship	24
Tab. IV, Privatization	27
Tab. V, Subsidization	33
Tab. VI, Program-Specific Recommendations	37
Tab. VII, General Recommendations	42

INTRODUCTION

GOVERNOR'S CHARGE

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

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

I. Which loan programs should be consolidated into the Department of Commerce and Economic Development (DCED), and which programs should not?

II. What should be the organization structure dealing with loans within the DCED?

III. What should be the relationship of lending agencies to the DCED?

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

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

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

Summary of Recommendations

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

1. The administration of almost all loan progams should be placed within the Department of Commerce and Economic Development. The two major exceptions are the Scholarship Revolving Loan Fund and the Housing Assistance Loan Fund (#1, 2).

2. Accounting and collection functions of all noncorporate direct loan programs should be consolidated (#3).

3. Loan programs with the Department of Commerce and Economic Development should be placed within a Division of Investment for administrative control and coordination, and a Division of Finance and Economics should be created to be a central resource unit for planning, research, program evaluation, and bonding (#4, 5).

4. The executive directors of public corporations should report to the commissioner of the appropriate department and serve at the pleasure of the Governor. Boards of directors should be replaced by one Loans Advisory Board of Directors (#6, 7, 8).

5. The State should avoid direct lending programs and competition with private financial institutions whenever possible (#9, 10).

6. The State should sell loans in its portfolio to private institutions and should discourage a public corporation from taking an ownership position in a private enterprise (#11, 12).

7. Alternatives to current program financing should be considered which may shift some default risk to the private sector. Alternatives include guarantee funds and privately placed CD's (#13).

8. The policy of the State should be not to subsidize loan rates in loan programs except for explicit social and/or economic development objectives. Subsidies should be reconsidered every two years and their estimated cost reported annually (#14, 15, 16).

9. Statutorily fixed loan rates in direct loan programs should be abolished. Loan rates should be tied to the U. S. Treasury yield curve plus an adjustment for risk and administrative costs (#17).

10. HAD/CRA should develop a Home Ownership Assistance Program, eliminate distinctions between urban and rural areas and develop an outreach program to serve all State loan programs (#18, 19, 25).

11. All agricultural lending should be done through one program in the Department of Commerce and Economic Development. Only qualified persons should be awarded agricultural land by the Department of Natural Resources, and the agricultural loan program should be for development only (#20, 21).

12. Changes in the Scholarship Revolving Loan Fund should include an increase in the loan rate and adaption of financial need criteria (#22).

13. Procedural and operational audits on programs not regularly audited should be conducted immediately and annually hereafter (#23, 24).

14. Any public officials' code of ethics regarding loan programs should prohibit any attempt to influence a program administrator's decision on loan applications and/or collections (#26).

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

(Recommendation #1-#3)

Recommendation #1

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

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

Recommendation #2

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

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

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

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

Recommendation #3

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

Narrative for Recommendations #1 - #3

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

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

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

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

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

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

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

Table I

Current Organization Summary

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

Table II

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT (18)

Division of Loans and Veterans' Affairs (12)

Economic Development

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

Social

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

Inactive

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

Division of Insurance (1)

Social

D Medical Malpractice Liability RLF

Instrumentalities (5)

Economic Development

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

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

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

Table III

MISCELLANEOUS SOCIAL PROGRAMS (2)

Office of the Governor (1)

D Disaster Relief Fund

All Agencies (1)

Relocation Planning Loans
(not counted in summary)

Table IV

DEPARTMENT OF REVENUE (5)

Division of Treasury (1)

Economic Development

I Fishery Product RL Guar. Fd.

Instrumentalities (4)

Housing

I Ak. Housing Finance Authority

Economic Development

D Ak. Municipal Bond Bank Auth.

Social

Int. Ak. Med. Facility Auth.

Inactive

Ak. Gas Pipeline Financing Auth.

Table V

DEPARTMENT OF NATURAL RESOURCES (3)

Division of Agriculture (1)

Economic Development

D Agricultural KLF

Division of Parks (1)

Social

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

Division of Land & Water Management (1)

Economic Development

D Land Sales for Agriculture

Table VI

DEPARTMENT OF EDUCATION (2)

Instrumentality (2)

Social

Ak. Commission on Postsec. Ed.
- D *Memorial Scholarship RLF
- D *Scholarship RLF

Table VII

Organization Summary

After Reorganization

Programs	Department	Divisions
25	1	8
2	1	1
1	1	1
1	1	1
1	1	1
30	5	12

Table [illegible]

The Department of Commerce and Economic Development

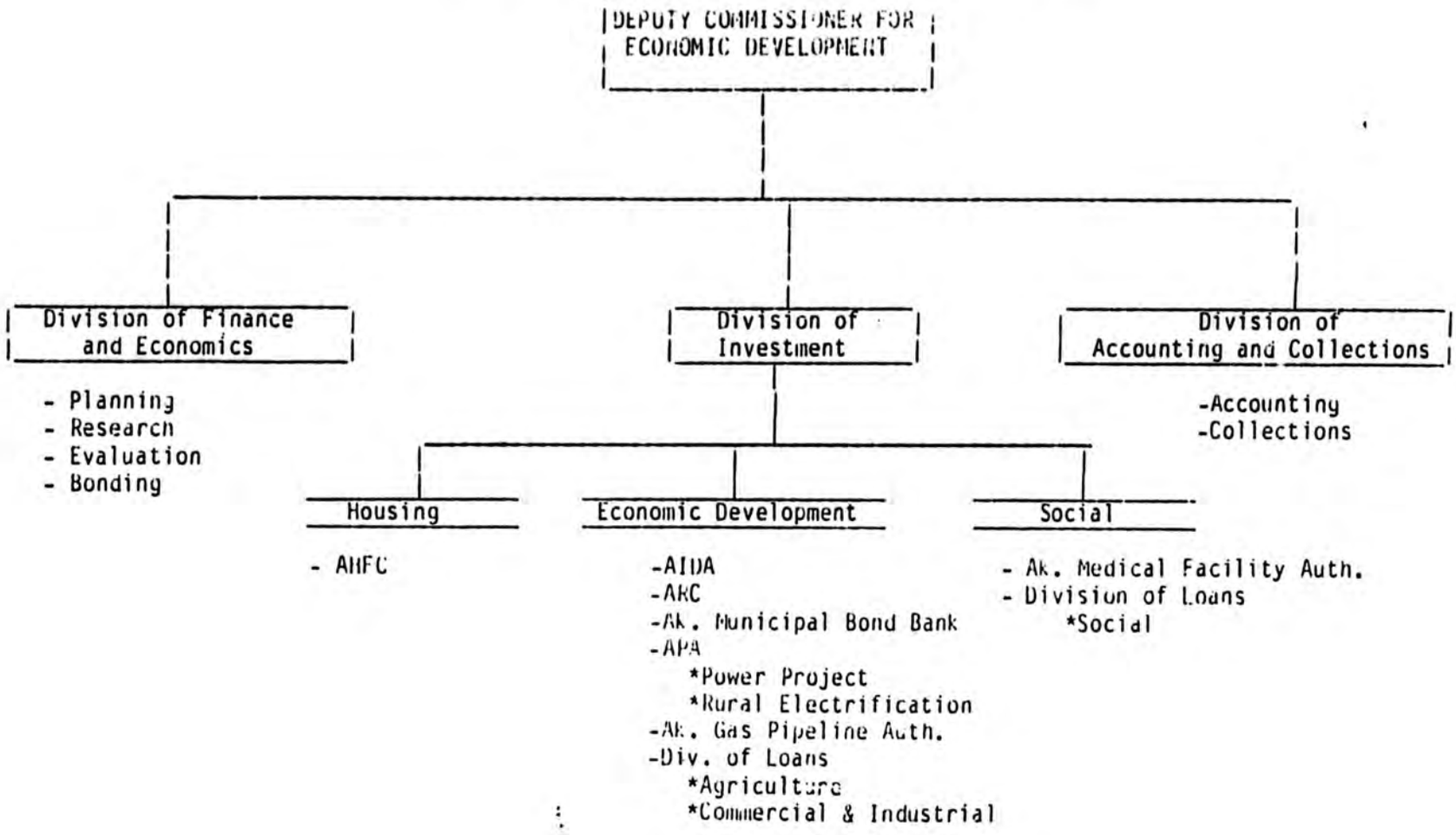


Table IX

DEPARTMENT OF COMMERCE AND
ECONOMIC DEVELOPMENT (25)

Housing (1)

Ak. Housing Finance Corp.

Economic Development (17)

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

Division of Loans

  * Agriculture Loans
    - Ag. Rev. Loan Fd.
    - AAAC Land Clearing
    - DNR Ag. Land Sales

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

Social (7)

Ak. Med. Facility Authority

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

Table X

DEPARTMENT OF EDUCATION (2)

Instrumentality

Social

Ak. Commission on Postsec. Ed.
* Memorial Scholarship RLF
* Scholarship RLF

Table VI

DEPARTMENT OF NATURAL RESOURCES (1)

Division of Parks (1)

Social

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

Table XII

MISCELLANEOUS SOCIAL PROGRAMS (2)

Office of the Governor (1)

Disaster Relief Fund

All Agencies (1)

Relocation Planning Loans
(not counted in summary)

Table XIII

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS (1)

Division of Housing Assistance (1)

Housing

D Housing Assistance LF
(Nonconforming & rural)

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

(Recommendation #4 - #5)

Recommendation #4

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

a. The Division of Finance and Economics would be a central resource unit for planning, research, program evaluation, and bonding.

b. The Division of Accounting and Collections would be a central accounting and collection facility for all direct lending programs in the DCED, and for those in other departments where appropriate.

c. The Division of Investment would be an umbrella division containing all of the loan programs in the DCED.

Recommendation #5

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

a. Agricultural Loans

ARLF (from DNR)
AAAC Land Clearing
Ag. Land Sales (From DNR)

b. Commercial and Industrial Loans

Commercial Fishing RLF
Fisheries Enhancement RLF
Mining Loan Fund
Alt. Technology & Energy RLF
Fishery Product Rev. Loan Guar. Ed. (From Dept. of Rev.)
Small Business RLF (Inactive)
Tourism RLF (Inactive)
Water Resources RLF (Inactive)

c. Social Loans

Veterans' RLF (Inactive)
Residential Energy Conservation RLF
Child Care Facilities RLF
Bulk Fuel RLF
Historical District RLF
Medical Malpractice Liability (From Div. of Insurance)

Narrative for Recommendations #4 and #5

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

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

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

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

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

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

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

(Recommendation #6 - #8)

Recommendation #6

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

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

Recommendation #7

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

Recommendation #8

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

Narrative for Recommendations #6 through #8

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

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

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

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

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

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

(Recommendation #9 - #13)

Recommendation #9

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

Recommendation #10

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

Narrative for Recommendations #9 and #10

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

Recommendation #11

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

Narrative for Recommendation #11

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

Recommendation #12

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

Narrative for Recommendation #12

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

Recommendation #13

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

Narrative for Recommendation #13

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

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

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

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

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

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

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

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

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

(Recommendation #14 - #17)

Recommendation #14

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

Narrative for Recommendation #14

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

Recommendation #15

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

Recommendation #16

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

Narrative to Recommendations #15 and #16

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

Recommendation #17

With respect to the interest rates on loans in the programs funded only by appropriations the following recommendations are made:

a. Abolish statutorily fixed loan rates and replace them with rates that are tied to the U. S. Treasury yield curve.

b. The unsubsidized loan rate on a loan would be the prior month's six-month moving average of U. S. Treasury interest rates for the approximate maturity length of the loan, plus an additional 200 basis points for risk adjustment and for administrative costs.

c. When the unsubsidized loan rate equals 10% or less, the program loan rate shall be equal to it unless an exception is explicitly stated and the social purpose defined.

d. Loan programs which for economic reasons offer loans with deferred loan payments should accrue interest on those loans.

Narrative for Recommendation #17

The Task Force was in agreement that generally it is the availability of money which is more important than its cost. It was also felt that subsidies should be used rarely, and mostly for social purposes rather than for economic development. This is because subsidies may have unintended effects, may promote an economy dependent on unrealistically cheap money, and may encourage a high debt structure which would make the economy more vulnerable if the programs were cut.

Statutorily fixed loan rates are clear, but are cumbersome to change and can have unintended policy effects due to shifts in market rates. Tying loan rates to market rates would eliminate the need to statutorily adjust them to the market each year. A six-month moving average is recommended because it will smooth out fluctuations in market rates. Also, during periods of declining rates, borrowers will have an incentive to turn to the private sector, whereas when interest rates are rising, State programs will be more attractive. This would give State programs a counter cyclical effect which would be beneficial.

It is recommended that the unsubsidized loan rate equal the Treasury rate plus 200 basis points. This will partly adjust for risk, but not entirely. It was noted that the November bond issue of AHFC was priced about 150 basis points over the Treasury yield. The balance of 50 basis points is designed to cover program administrative costs. The Task Force felt that, since only borrowers directly benefit from a State-supported program, the borrowers should pay toward the administrative costs of the program.

Finally, the Task Force felt that there should be no subsidies when loan rates are at or below 10% unless they are for specific social purposes such as the proposed Home Ownership Assistance Program in the Housing Assistance Loan Fund mentioned in Recommendation #18.

VI. Some program-specific recommendations are made.

(Recommendation #18 - #22)

Recommendation #18

The Task Force recommends that the Housing Assistance Division, Department of Community and Regional Affairs, develop a Home Ownership Assistance Program adapted with appropriate modifications from a similar program offered by the Alaska Housing Finance Corporation.

Recommendation #19

The Task Force recommends that the distinction between urban and rural nonconforming housing loans be eliminated, and that the definition of a rural area be reconsidered for the rural owner-occupied and nonowner-occupied housing programs in the Housing Assistance Loan Fund.

Narrative for Recommendations #18 and #19

The Task Force felt that the benefits of home ownership were not being offered to low-income persons as effectively as they are through AHFC. It was felt that the primary justification for different loan rates between programs should be based on appropriate family income differences. The Task Force also felt that market demand should determine the urban/rural composition of nonconforming housing loans. Finally, the definition of a rural area in the second through fourth judicial districts should be reconsidered. The Task Force felt that an area can be clearly rural in nature and still have road or rail access to Anchorage or Fairbanks.



Recommendation #20

The Task Force recommends that it be made clear that agricultural lending, to be consolidated in the Division of Loans, DCED, is for the purpose of farm development and not intended to replace private and other sources of financing for agriculture. As part of the loan application package, a plan should be developed which outlines how and when the borrower shall cease using the Division of Loans as a source of financing.

Narrative for Recommendation #20

Members of the Task Force felt that is was important to recognize the State's program as a development tool, but that it should not be a source of continuing subsidized financing. Only by developing a plan which will gradually move the borrower toward other sources of financing at market rates can the State develop a healthy, properly financed agricultural sector.

Recommendation #21

The Task Force recommends that the Department of Natural Resources, Division of Land and Water Management, work with the Department of Commerce and Economic Development to develop a system which will ensure that only persons who will qualify for farm financing will be awarded agricultural land in the land disposal program.

Narrative for Recommendation #21

The Task Force felt that it made no economic sense to award persons agricultural land and give them a loan to clear it if they were not qualified to obtain a farm development loan. One solution would be to have the finalization of the land award dependent on qualifying for a farm loan, and having all clearing and development loans made through one program.

Recommendation #22

The Task Force recommends that the Alaska Postsecondary Education Commission adopt the following changes to the Scholarship Revolving Loan Fund:

a. The loan rate should be set in accordance with Recommendation #17.

b. The APEC should develop Alaska-specific financial need criteria to determine:

(1) how much the unsubsidized loan rate may be reduced; and,

(2) whether interest payments during the study term may be deferred or forgiven.

c. Any qualified borrower should be able to apply for one-half of the current loan limit ($6,000 per year for undergraduate and $7,000 per year for graduate study). The APEC should develop Alaska-specific financial need criteria for use as a guideline for applicants requesting to borrow in excess of one-half of the current loan limit.

Narrative for Recommendation #22

The Task Force felt that the primary reason for the explosive growth of the Scholarship Revolving Loan Fund is that its terms are too attractive and that there are no financial need criteria used. This situation has resulted in many students borrowing from the fund, even when they have funds of their own, in order to earn arbitrage income between the loan rate and market interest rates. By setting the loan rate for this fund the same as is recommended (#17) for other funds, and then requiring Alaska-specific need criteria to be used to lower the loan rate, the State can ensure that only students who have financial need are obtaining loans.

The Task Force felt that only after such alternatives are considered in order to reduce demand pressure on the loan fund should consideration be given to alternative mechanisms for financing the fund. Such alternative mechanisms may include those discussed in the narrative for Recommendation #13 or may include bonding. However, if bonding is considered, the Task Force recommends soliciting proposals from several sources including the Student Loan National Marketing Association.

VII. Some general recommendations are made.

(Recommendation #23 - #26)

Recommendation #23

The Task Force recommends that a certified "entry" audit of all loan programs be conducted by an independent auditing firm. This audit would exclude programs which already regularly are the subject of an audit by an independent auditing firm, and have received such a certified audit within the past 12 months.

Recommendation #24

Using the "entry" audit in #23 as a starting point, the Task Force recommends that there be annual procedural and operational audits of all loan programs not already regularly audited.

Narrative for Recommendations #23 and #24

The Task Force felt that an audit of operations and procedures of loan programs should coincide with the entry of a new administration. Further, the Task Force felt that annual audits should be conducted on loan programs not already subject to an annual audit. The Task Force sugested that the annual audits might be conducted either by the Division of Banking & Securities, DCED, or by the Division of Management, Office of Management and Budget.

Recommendation #25

The Task Force recommends that the State expand its efforts to serve all parts of the state by increasing the role of the Department of Community and Regional Affairs in an outreach program of information, explanation, and education for all State-supported loan programs.

Narrative for Recommendation #25

The Task Force noted that the primary reason for having the housing loan program within DCRA was to utilize their presence in the rural areas as a delivery system. In addition, it was noted that the DCRA does do some information work for the State's commercial fishing loan program in western Alaska. It is the opinion of the Task Force that the rural presence of the DCRA should be utilized formally as a central source of information and education in an outreach program serving all State-supported loan programs.

Recommendation #26

The Task Force recommends that any policy statement on ethics regarding public officials and loan programs should include a provision to the effect that legitimate concerns of constituents and constituent inquiries are protected, but officials making such inquiries should not attempt to influence program administrators in their decisions on loan applications and/or collections.

Narrative for Recommendation #26

Members of the Task Force considered it to be an abuse of power by a public official to attempt to influence the administrator of a loan program in decisions on applications and/or collections. Inquiry is legitimate, but coercion is not. The Task Force felt that a public official's ethics statement should cover this topic.

Active and Inactive State Loan Programs

ACTIVE

Agricultural Revolving Loan Fund[1]
Alaska Grain Reserve Loan Fund[1]
Alaska Housing Finance Corporation (AHFC)[2]
Alaska Medical Facility Authority[2]
Alaska Municipal Bond Bank Authority[2]
Alaska Resources Corporation (ARC)[1]
Alaska Industrial Development Authority (AIDA)[2]
Alaska Power Authority[1]
Alternative Technology and Energy Revolving Loan Fund[1]
Bulk Fuel Revolving Loan Fund[1]
Child Care Facility Revolving Loan Fund[1]
Commercial Fishing Revolving Loan Fund[1]
Fisheries Enhancement Revolving Loan Fund[1]
Historical District Revolving Loan Fund[1]
Housing Assistance Loan Fund[1]
Medical Malpractice Liability Revolving Loan Fund[1]
Mining Loan Fund[1]
Relocation Planning Loans[1]
Residential Energy Conservation Fund[1]
Scholarship Revolving Loan Fund[1]
Teacher Scholarship Loan Fund[1]

INACTIVE

Alaska Disaster Economic Impact Fund
Alaska Gas Pipeline Financing Authority
Alaska State Housing Authority (ASHA)
Disaster Relief Fund*
Capital City Revolving Loan Fund
Housing Development Revolving Loan Fund
Outdoor, Recreational, Open Space and Historical Properties Development Fund*
Public Law 92-203 Loan Program
Small Business Revolving Loan Fund**
Tourism Revolving Loan Fund**
Veterans' Revolving Loan Fund**
Water Resources Revolving Loan Fund**

[1]These programs are funded through State appropriations.
[2]These programs are funded, at least in part, through bond sales.

*These programs are funded to make either grants or loans, and make grants rather than loans.
**These programs are inactive but still service some loans.

Hs Rsch Ag. March 86

ATTACHMENT 3

Summary of Delinquency and Default
State Loan Programs, 1st Quarter FY 86

Loan Program		Delinquent Loans[1] $ Thousands	Delinquent Loans[1] %	Loans in Default[2] $ Thousands	Loans in Default[2] %
Indirect Lenders:	Alaska Housing Finance Corporation (all programs)	$272,805.3	5.1	$26,933.0	.5
	Alaska Industrial Development Authority:				
	AIDA-purchased	12,522.1	4.4	1,236.6	.4
	Appropriated to AIDA	8,102.4	9.3	2,015.2	2.3
	Alaska Medical Facility Authority	0.0	0.0	0.0	0.0
	Alaska Municipal Bond Bank Authority	0.0	0.0	0.0	0.0
Direct Lenders:	Agriculture Revolving Loan Fund	6,788.7	12.7	11,717.1	21.9
	Alaska Power Authority:				
	Power Project Fund	0.0	0.0	0.0	0.0
	Rural Electrification Revolving Loan Fund	0.0	0.0	0.0	0.0
	Alaska Resources Corporation	279.2	1.7	15,864.3	95.9
	Alternative Technology & Energy Rev. Loan Fund	814.0	6.8	56.0	.5
	Bulk Fuel Revolving Loan Fund	329.0	31.8	0.0	0.0
	Child Care Facility Revolving Loan Fund	69.0	8.0	0.0	0.0
	Commercial Fishing Revolving Loan Fund	9,026.0	11.7	2,332.0	3.0
	Fisheries Enhancement Revolving Loan Fund	0.0	0.0	0.0	0.0
	Grain Reserve Loan Fund	2.8	0.5	0.0	0.0
	Historical District Revolving Loan Fund	0.0	0.0	0.0	0.0
	Housing Assistance Loan Fund[3]	4,814.2	2.8	395.8	0.2
	Medical Malpractice Liability Revolving Loan Fund	0.0	0.0	0.0	0.0
	Mining Loan Fund	4,183.0	21.3	7,120.0	36.3
	Residential Energy Conservation Fund	396.0	9.2	21.0	.5
	Scholarship Revolving Loan Fund	20,200.5	8.5	18,016.9	7.6
	Small Business Revolving Loan Fund	8,755.0	24.7	3,435.0	9.7
	Tourism Revolving Loan Fund	114.0	2.9	85.0	2.1
	Veterans' Revolving Loan Fund[4]	6,945.0	8.3	1,436.0	1.7
	Water Resources Revolving Loan Fund	0.0	0.0	0.0	0.0

[1]Delinquency includes all loans that are more than one day past due at the end of the quarter; the exceptions are the Agricultural Revolving Loan Fund, AIDA and the Scholarship Revolving Loan Fund.
[2]Loans in default are defined as delinquent loans that have been turned over to counsel for legal action, except loans made from the Scholarship Revolving Loan Fund which are considered to be in default if more than 120 days delinquent.
[3]Includes only the Nonconforming Housing Loan program and mortgages for the Rural Owner-Occupied and Rural Non-Owner-Occupied programs that were purchased since the start of FY 83; mortgages made by the two rural programs before July 1, 1982 are serviced by AHFC and are included in AHFC's delinquency and default figures.
[4]Reflects transfer of all AHFC-owned Veteran loans effective 11/01/83.

ATTACHMENT 4

Hs Rsch Ag March 86

FIGURE 1

TOTALS - ALL STATE LOAN PROGRAMS

1st QUARTER FY 86

To Date Loans Outstanding		During FY 86 Total Loans Approved		During the Quarter Loans Approved		During the Quarter Loans Denied	
#	$	#	$	#	$	#	$
160,655	$6,686,786,814	20,824	$606,766,438	20,824	$606,766,438	1,069	$106,652,401

Hs Rsch Ag March 86

ATTACHMENT 5

FIGURE 3
DATA BY LOAN TYPE
1st QUARTER FY 86 AND ALL LOANS OUTSTANDING

	Economic Development	Education	Energy	Housing	Medical and Child Care	Municipal Assistance	Totals
Number Approved During the Quarter	91	16,014	87	4,615	5	12	20,824
Percent of Total Number Approved During the Quarter	.43	76.9	0.42	22.2	.00	.05	100.0
Dollar Amount Approved During the Quarter	$52,752,154	$83,049,342	$2,943,485	$467,378,829	$214,870	$ 472,758	$606,766,438
Percent of Total Dollar Amount Approved During Quarter	8.7	13.7	0.48	77.9	.03	.07	100.0
Number Approved During FY 86 to Date	91	16,014	87	4,615	5	12	20,824
Dollar Amount Approved During FY 86 to Date	$ 52,752,154	$83,049,342	$ 2,943,485	$467,378,829	$214,870	472,758	606,766,438
Number of Loans Outstanding to Date	6,314	96,359	3,362	54,490	30	100	160,655
Dollar Amount of Loans Outstanding to Date*	$710,378,269	$236,718,926	$50,585,585	$5,502,516,970	$15,717,114	$170,869,150	$6,686,786,814

NOTE: For a list of the programs that are included in each category, see page 3.

*The total dollar amount of housing loans outstanding to date does not include AIDA multi-family loans.

Hs Rsch Ag March 86

ATTACHMENT 6

AHFC Whole Earth Catalog
Feb 1986

ATTACHMENT 7

INTRODUCTION

The implementation of the Special Mortgage Loan Purchase Program had a dramatic and profound effect upon the economy and housing markets of the State of Alaska. Pursuant to the 1980 Legislation, the program offers interest rates below current interest rates offered in the traditional secondary mortgage markets.

Through the varied programs offered by AHFC, a large segment of the population's housing needs are being met. Not only is AHFC providing affordable housing for the citizens of the State of Alaska, the benefits are disbursed to a much larger segment of the population. The tradesmen, suppliers, realtors, builders, appraisers, bankers and retailers benefit either directly or indirectly from AHFC's participation in the mortgage market of the State of Alaska.

Although the Corporation's activities now constitute a significant portion of the Alaskan residential mortgage market, AHFC does not lend funds directly. Rather, the Corporation is a secondary market for mortgage loans originated by private lenders. The majority of the funds used to purchase the mortgage loans are generated through the issuance of taxable and tax-exempt bonds. Additionally, the Corporation has received direct appropriation from the Legislature that has allowed AHFC to purchase mortgages that bear interest rates below the national average.

The Corporation purchased $836.2 million in loans in FY '85 and received bond authorization for up to $1.5 billion of which $605 million was utilized. The Capital Budget for FY '85 appropriated $16 million in cash to the Alaska Housing Finance Revolving Fund. This appropriation was recinded during the 1985 legislative session. The Corporation has not requested an appropriation for FY '86 but will fund the operations of its programs from amounts available in the Revolving Fund.

The Corporation enjoys substantial financial support from the State of Alaska which, to date, has appropriated $747,871,000 in cash (exclusive of $16,000,000 FY '85 appropriation subsequently recinded) and $286,000,000 in mortgage loans to the Corporation to support its various programs. AHFC has also borrowed $45,070,000 from the State for various purposes. Through December 31, 1985, the Corporation has issued $1,752,000,000 taxable bonds and notes and $3,365,505,000 tax-exempt bonds.

In 1981, legislation was enacted which significantly impacted the method of determining mortgage interest rates. The legislation eliminated the previously "fixed" interest rates of 10 percent on the first $90,000 of the mortgage loan (9 percent if the loan was made to an eligible State veteran) and replaced it with a "sliding" rate to reflect the increased cost of funds to the Corporation. The "sliding" rate is designed to keep the interest rate on the first $90,000, the amount subsidized by the State, to within 3 percent of the cost of funds to the Corporation.

Disruption and volatility in the capital markets during 1981 and 1982 caused mortgage interest rates to increase from the previously fixed rate of 10 percent to 12-3/8 percent on the first $90,000 of the loan and from 12.29 percent to 19.411 percent on the balance of the loan in excess of $90,000. In response to the increasing rates, AHFC implemented the Alaska Building Equity (ABE) Mortgages on June 1, 1982. The ABE Mortgage enhanced the Corporation's ability to access the shorter-term and less expensive capital markets.

The interest rate on an ABE mortgage remains fixed for the entire life of the mortgage, and the monthly payments are amortized on a 30-year level payment basis. However, beginning in years four through nine, the monthly payment is increased by 5 percent each year with the increased portion of the monthly payment applied directly to the outstanding principal of the mortgage loan. As a result, the loan is fully repaid within 16 to 18 years, depending on the interest rate, and the amount of total interest paid during the life of the mortgage is approximately half of that paid if the same loan was repaid over a 30-year period.

The ABE structured mortgage applies to all of the Corporation's programs, with the exception of the Mobile Home Loan Purchase Program and the Second Mortgage Loan Program.

Due to AHFC's significant role in providing affordable housing to the citizens of the State of Alaska and AHFC's commitment to keep the public and elected officials informed, we offer this guide as a reference for your use in reviewing AHFC's programs and activities.

ALASKA HOUSING FINANCE CORPORATION

SUMMARY OF STATE FINANCIAL SUPPORT

Alaska Housing Finance Revolving Fund*

		$
FY 85		**

Special Mortgage Loan Purchase Program - SAM Fund*

FY 81		
Appropriation		
Mortgage Loans		236,000,000
Cash		238,000,000
FY 82		222,000,000
FY 83		105,000,000
FY 84		6,801,000

Mobile Home Loan Purchase Program

See Notes 1 and 2 for additional funds appropriated to purchase loans under this program.

FY 80		
Loans through Department of Revenue	($10,000,000 at 9.5%)	
FY 81		
Appropriation		12,500,000*

Rural Non-Owner Occupied Mortgage Purchase Program

See Note 1 for additional funds appropriated to purchase loans under this program.

FY 79		
Loans through Department of Revenue	($2,600,000 at 8.5%)	
FY 81		
Appropriation		4,500,000*

Rural Mortgage Loan Purchase Program

See Note 1 for additional funds appropriated to purchase loans under this program.

FY 79		
Appropriation - Training Costs		100,000
Hazard Insurance Fund		250,000
Title Insurance Fund		250,000
Mortgage Insurance Account		500,000
FY 80		
Bond Sale to State of Alaska	($5,600,000 at 7-1/2%)	
FY 81		
Bond Sale to State of Alaska	($4,400,000 at 7-1/2%)	
Appropriations		
Mortgage Purchases		6,500,000*
Title Insurance Fund		130,000
Mortgage Insurance Fund		325,000

**In FY 85 the legislature appropriated $16 million to the Alaska Housing Finance Revolving Fund. This appropriation was rescinded the following year.

(continued on Page 2)

ALASKA HOUSING FINANCE CORPORATION

SUMMARY OF STATE FINANCIAL SUPPORT
(continued)

Home Ownership Assistance Program ("HOF" Fund)*

FY 81		
Appropriation		
Mortgage Loans	$ 50,000,000	
Cash	2,500,000	
FY 82	43,000,000	(1)
FY 83	45,000,000	(2)
FY 84	42,250,000	(2)

State Mortgage Insurance Fund	Total Appropriated	Appropriation Requested and Received
Prior to FY 80	7,100,000	7,125,000
FY 80	6,000,000**	3,000,000
FY 81	12,500,000	6,640,000

** Total Appropriation	$ 6,000,000
Less Amount Unavailable from Veterans Revolving Loan Fund	2,000,000
Less Amount for Mobile Home Insurance Funds Only	1,000,000
	$ 3,000,000

Other State Loans

Loan for Multi-Family Project	($4,420,000 at 3.47%)
Loan for Rural Mortgages	($5,250,000 at 6.00%)
Loans to Fund Capital Reserve Requirement for Insured Mortgage Bond Program	($12,800,000) (3)

(1) Home Ownership Assistance Program appropriation to be utilized to purchase mortgages as follows:

Mobile Home Loans	$18,000,000
Rural	20,000,000
Rural Non-Owner Occupied	5,000,000

(2) To be utilized to purchase Mobile Home loans.

(3) Interest rates on loans are equal to the earnings of the investments made with the loans.

* On June 30, 1984 the SAM Fund, HOF Fund and direct appropriated mortgage loan program amounts were consolidated into the Alaska Housing Finance Revolving Fund.

ALASKA HOUSING FINANCE CORPORATION

Summary of Program Information

State Fiscal Year	Bonds Issued	Bond Authorization	Appropriations	Mortgage Commitments (All Programs)	Operating Budget	Full-Time Staff Positions
FY 81	$614,400,000	N/A	$562,955,000	$ 755,258,150	$1,800,000(1)(3)	31
FY 82	$802,000,000	$ 802,000,000	$265,000,000	$ 765,189,300	$2,276,200(3)	43
FY 83	$760,000,000	$ 980,000,000	$150,000,000	$1,137,970,700	$3,441,000(3)	45
FY 84	$980,000,000*	$ 980,000,000	$ 49,051,000	$1,239,963,225	$2,713,000(2)(3)	45
FY 85	$604,935,000*	$1,500,000,000	0-	$ 674,750,543	$2,913,900(2)	46

(1) AHFC was not under the Executive Budget Act for the State's fiscal year. The Corporation's fiscal year did not coincide with that of the State. The $1.8 million is an estimate based upon actual expenses for the period 7-1-80 through 6-30-81.

(2) Does not include Trustee fees previously included in operating budget. Beginning in FY 84 these fees are included in the Capital Budget.

(3) Actual annual operating expense amounts.

* Does not include $175 million and $125 million collateral notes committed sold directly to FNMA during FY 87.

ALASKA HOUSING FINANCE CORPORATION

ATTACHMENT 8

Selected Information

	Number	Amount
Loans owned at 1/31/86	53,380	$ 4,488,874,381
Outstanding loan commitments at 1/31/86	750	$ 75,457,410
Bonds outstanding at 2/19/86	$4,499,145,585	

Delinquency Rates

	Mobile Homes	First Mortgage Loans	
	AHFC at 1/31/86	AHFC at 1/31/86	U.S. at 9/30/85 *
30 days	7.63%	3.75%	3.39%
60 days	1.69%	1.10%	1.00%
90 days or more and loans in foreclosure	2.03%	1.86%	1.67%
Total Delinquent and in Foreclosure	11.35%	6.72%	6.56%
Real Estate Owned	4.50%	.76%	**

Budget Information

	Operating	Capital
Actual amounts Fiscal Year 1982	$2,276,200	$265,000,000
Actual amounts Fiscal Year 1983	3,441,000	150,000,000
Actual amounts Fiscal Year 1984	2,713,000(1)	49,051,000
Actual amounts Fiscal Year 1985	2,913,900(1)	
Approved budget Fiscal Year 1986	3,311,900(1)	

(1) Excludes trustee fees which are included in the capital budget.

* Delinquency statistics from the National Delinquency Survey published by the Mortgage Bankers Association.

** Statistics on real estate owned are not provided by the Mortgage Bankers Association.

ATTACHMENT 9

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION

ALL FIRST MORTGAGES

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE		120,754		123,069		124,969	
APPRAISED VALUE		123,572		125,968		130,186	
NOTE AMOUNT		106,003		106,791		109,774	
MONTHLY INCOME		4,536		4,501		4,629	
AGE OF BORROWER		34.7		35.1		35.5	
SIZE OF HOUSEHOLD		2.7		2.7		2.9	
LOAN TO SALES PRICE RATIO		87.78%		85.30%		87.84%	
WEIGHTED AVG INT. RATE		10.09%		11.16%		10.23%	
MONTHLY P&I		943.72		1,030.44		982.44	
DWELLING TYPE..	SFR	8,821	74.13	5,899	77.10	2,507	82.85
	CONDO	2,083	17.50	1,109	15.00	253	8.36
	DUPLX	476	4.00	194	2.82	59	1.95
	PUD	361	3.03	248	3.35	167	5.52
	MOHM	5	.04	78	1.06	36	1.19
	TRI-PLEX	40	.34	25	.34	2	.07
	FOUR PLEX	114	.96	39	.53	2	.07
NEW/EXISTING....	NEW	6,814	57.28	3,931	53.18	1,397	46.17
	EXISTING	5,086	42.74	3,461	46.82	1,629	53.83
1ST TIME HOMEOWNER..	YES	5,445	45.78	3,445	46.60	1,380	45.60
	NO	6,455	54.24	3,947	53.40	1,646	54.40
INSURANCE TYPE.....	FHA					0	.00
	VA	2,073	17.42	1,470	19.89	624	20.62
	CONVA	9,827	82.58	5,922	80.11	2,402	79.38
ELIGIBILITY.....	STVA	4,915	41.30	2,956	39.99	1,215	40.15
	NON-STVA	6,985	58.70	4,436	60.01	1,811	59.85
ORIG. PRINCIPAL BALANCE		1,261,435,600.00		789,402,400.00		332,175,900.00	
ORIG. NUMBER OF LOANS		11,900		7,392		3,026	

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION

TAX EXEMPT MSBTA FIRST MORTGAGES

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE		88,458		92,156		96,835	
APPRAISED VALUE		90,846		94,517		99,540	
NOTE AMOUNT		82,777		86,190		89,200	
MONTHLY INCOME		3,055		3,270		3,527	
AGE OF BORROWER		30.4		30.6		31.0	
SIZE OF HOUSEHOLD		2.3		2.3		2.4	
LOAN TO SALES PRICE RATIO		93.58%		93.53%		92.12%	
WEIGHTED AVG INT. RATE		9.89%		10.69%		10.14%	
MONTHLY P&I		720.35		800.88		792.31	
DWELLING TYPE..	SFR	2,020	61.74	627	68.67	826	77.12
	CONDO	1,173	35.85	255	27.93	165	15.41
	DUPLX	26	.79	7	.77	15	1.40
	PUD	50	1.53	14	1.53	48	4.48
	MOHM	3	.09	10	1.10	17	1.59
	TRI-PLEX					0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	2,226	68.03	478	52.35	522	48.74
	EXISTING	1,046	31.97	435	47.65	549	51.26
1ST TIME HOMEOWNER..	YES	2,873	87.81	798	87.40	942	87.96
	NO	399	12.19	115	12.60	129	12.04
INSURANCE TYPE.....	FHA					0	.00
	VA	363	11.09	178	19.50	179	16.71
	CONVA	2,909	88.91	735	80.50	892	83.29
ELIGIBILITY.....	STVA	448	13.69	127	13.91	148	13.82
	NON-STVA	2,824	86.31	786	86.09	923	86.18
ORIG. PRINCIPAL BALANCE		270,847,450.00		78,691,800.00		95,533,500.00	
ORIG. NUMBER OF LOANS		3,272		913		1,071	

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION

TAXABLE FIRST MORTGAGES

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE		135,722		125,303		145,404	
APPRAISED VALUE		139,275		128,547		152,714	
NOTE AMOUNT		113,460		106,043		121,266	
MONTHLY INCOME		5,174		4,548		5,425	
AGE OF BORROWER		34.6		33.8		37.0	
SIZE OF HOUSEHOLD		2.7		2.6		3.0	
LOAN TO SALES PRICE RATIO		83.60%		84.63%		83.40%	
WEIGHTED AVG INT. RATE		10.72%		11.70%		10.77%	
MONTHLY P&I		1,068.95		1,067.16		1,134.70	
DWELLING TYPE..	SFR	3,368	73.03	2,893	72.83	859	84.30
	CONDO	548	11.88	661	16.64	56	5.50
	DUPLX	359	7.78	165	4.15	37	3.63
	PUD	183	3.97	142	3.58	59	5.79
	MOHM			51	1.28	4	.39
	TRI-PLEX	40	.87	21	.53	2	.20
	FOUR PLEX	114	2.47	39	.98	2	.20
NEW/EXISTING....	NEW	2,542	55.12	2,243	56.47	488	47.99
	EXISTING	2,070	44.88	1,729	43.53	531	52.11
1ST TIME HOMEOWNER..	YES	1,187	25.74	1,728	43.45	117	11.48
	NO	3,425	74.26	2,246	56.55	902	88.52
INSURANCE TYPE.....	FHA					0	.00
	VA	114	2.47	170	4.28	33	3.24
	CONVA	4,498	97.53	3,802	95.72	986	96.76
ELIGIBILITY.....	STVA	451	9.78	325	8.18	131	12.86
	NON-STVA	4,161	90.22	3,647	91.82	888	87.14
ORIG. PRINCIPAL BALANCE		523,278,050.00		421,203,000.00		123,570,150.00	
ORIG. NUMBER OF LOANS		4,612		3,972		1,019	

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION
STATE GUARANTEED BONDS - VETERANS MORT.
LOAN SUMMARY MORTGAGES PURCHASED

		FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE		129,877		130,774		134,913	
APPRAISED VALUE		132,573		133,336		140,725	
NOTE AMOUNT		116,382		115,480		120,804	
MONTHLY INCOME		5,009		4,874		5,021	
AGE OF BORROWER		38.4		38.7		39.1	
SIZE OF HOUSEHOLD		3.1		3.1		3.3	
LOAN TO SALES PRICE RATIO		89.59%		88.31%		89.54%	
WEIGHTED AVG INT. RATE		9.51%		10.48%		9.71%	
MONTHLY P&I		982.01		1,055.88		1,034.25	
DWELLING TYPE..	SFR	3,433	85.48	2,179	86.92	822	87.82
	CONDO	382	9.01	193	7.70	32	3.42
	DUPLX	91	2.27	22	.88	7	.75
	PUD	128	3.19	92	3.67	80	8.41
	MOHM	2	.05	17	.68	15	1.60
	TRI-PLEX			4	.16	0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	2,046	50.95	1,210	48.26	387	41.35
	EXISTING	1,970	49.05	1,297	51.74	549	58.65
1ST TIME HOMEOWNER..	YES	1,385	34.49	921	36.74	321	34.29
	NO	2,631	65.51	1,586	63.26	615	65.71
INSURANCE TYPE.....	FHA					0	.00
	VA	1,596	39.74	1,122	44.75	412	44.02
	CONVA	2,420	60.26	1,385	55.25	524	55.98
ELIGIBILITY.....	STVA	4,016	100.00	2,507	100.00	936	100.00
	NON-STVA					0	.00
ORIG. PRINCIPAL BALANCE		467,310,100.00		289,507,600.00		113,072,250.00	
ORIG. NUMBER OF LOANS		4,016		2,507		936	

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION

RECEIVING HOME OWNERSHIP SUBSIDY

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE		77,505		75,139		78,504	
APPRAISED VALUE		78,345		76,111		79,424	
NOTE AMOUNT		73,177		72,359		74,947	
MONTHLY INCOME		2,116		2,279		2,300	
AGE OF BORROWER		30.0		30.3		30.6	
SIZE OF HOUSEHOLD		2.2		2.2		2.5	
LOAN TO SALES PRICE RATIO		94.42%		96.30%		95.47%	
WEIGHTED AVG INT. RATE		9.93%		11.08%		10.05%	
MONTHLY P&I		639.55		701.25		664.35	
DWELLING TYPE..	SFR	580	47.62	575	43.76	184	61.13
	CONDO	586	48.11	502	38.20	78	25.91
	DUPLX					0	.00
	PUD	7	.58	17	1.29	13	4.32
	MOHM	45	3.69	220	16.74	26	8.64
	TRI-PLEX					0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	832	68.31	704	53.58	140	46.51
	EXISTING	386	31.69	610	46.42	161	53.49
1ST TIME HOMEOWNER..	YES	976	80.13	1,085	82.57	248	82.39
	NO	242	19.87	229	17.43	53	17.61
INSURANCE TYPE.....	FHA					0	.00
	VA	20	1.64	261	19.86	52	17.28
	CONVA	1,198	98.36	1,053	80.14	249	82.72
ELIGIBILITY.....	STVA	96	7.88	215	16.36	36	11.96
	NON-STVA	1,122	92.12	1,099	83.64	265	88.04
ORIG. PRINCIPAL BALANCE		89,130,193.00		95,079,887.00		22,559,136.00	
ORIG. NUMBER OF LOANS		1,218		1,314		301	

DATE */31/86

ALASKA HOUSING FINANCE CORPORATION

PLEDGED ACCOUNT MORTGAGES

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1984	%	FY 1985	%	FY 1986 THRU[1/31/86]	%
SALES PRICE		121,883		128,274		128,622	
APPRAISED VALUE		124,989		131,809		133,117	
NOTE AMOUNT		107,572		113,691		116,616	
MONTHLY INCOME		3,489		3,881		3,857	
AGE OF BORROWER		34.0		34.4		34.4	
SIZE OF HOUSEHOLD		2.5		2.6		3.0	
LOAN TO SALES PRICE RATIO		88.27%		88.63%		90.67%	
WEIGHTED AVG INT. RATE		10.41%		11.52%		10.53%	
MONTHLY P&I		983.00		1,128.25		1,070.14	
DWELLING TYPE..	SFR	181	69.88	265	78.87	61	79.22
	CONDO	52	20.08	40	11.90	11	14.29
	DUPLX	13	5.02	16	4.76	0	.00
	PUD	13	5.02	15	4.46	5	6.49
	MOHM					0	.00
	TRI-PLEX					0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	147	56.76	170	50.60	36	46.75
	EXISTING	112	43.24	166	49.40	41	53.25
1ST TIME HOMEOWNER..	YES	103	39.77	120	35.71	25	32.47
	NO	156	60.23	216	64.29	52	67.53
INSURANCE TYPE.....	FHA					0	.00
	VA			1	.30	0	.00
	CONVA	259	100.00	335	99.70	77	100.00
ELIGIBILITY.....	STVA	64	24.71	95	28.27	15	19.48
	NON-STVA	195	75.29	241	71.73	62	80.52
ORIG. PRINCIPAL BALANCE		27,861,250.00		38,200,050.00		8,979,400.00	
ORIG. NUMBER OF LOANS		259		336		77	

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION

MOBILE HOMES

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1984	%	FY 1985	%	FY 1986 THRU[1/31/86]	%
SALES PRICE		38,433		40,854		41,550	
APPRAISED VALUE		40,425		42,891		44,289	
NOTE AMOUNT		36,861		41,755		39,762	
MONTHLY INCOME		2,895		2,887		3,173	
AGE OF BORROWER		32.1		31.8		32.5	
SIZE OF HOUSEHOLD		2.5		2.4		2.4	
LOAN TO SALES PRICE RATIO		95.91%		102.21%		95.70%	
WEIGHTED AVG INT. RATE		10.22%		10.90%		9.94%	
MONTHLY P&I		372.50		444.89		398.05	
DWELLING TYPE..	SFR					0	.00
	CONDO					0	.00
	DUPLX					0	.00
	PUD					0	.00
	MOHM	1,619	100.00	696	100.00	217	100.00
	TRI-PLEX					0	.00
	FOUR PLEX					0	.00
NEW/EXISTING....	NEW	312	19.27	91	13.07	15	6.91
	EXISTING	1,307	80.73	605	86.93	202	93.09
1ST TIME HOMEOWNER..	YES	1,142	70.54	527	75.72	158	72.81
	NO	477	29.46	169	24.28	59	27.19
INSURANCE TYPE.....	FHA					0	.00
	VA	10	.62	78	11.21	19	8.76
	CONVA	1,609	99.38	618	88.79	198	91.24
ELIGIBILITY.....	STVA	333	20.57	143	20.55	41	18.89
	NON-STVA	1,286	79.43	553	79.45	176	81.11
ORIG. PRINCIPAL BALANCE		59,677,888.00		29,061,787.00		8,628,439.00	
ORIG. NUMBER OF LOANS		1,619		696		217	

DATE 1/31/86

ALASKA HOUSING FINANCE CORPORATION

NON CONFORMING LOANS

LOAN SUMMARY MORTGAGES PURCHASED

		FY 1984	%	FY 1985	%	FY 1986 THRU(1/31/86)	%
SALES PRICE						72,975	
APPRAISED VALUE						74,650	
NOTE AMOUNT						66,697	
MONTHLY INCOME						3,145	
AGE OF BORROWER						33.8	
SIZE OF HOUSEHOLD						1.8	
LOAN TO SALES PRICE RATIO						91.40%	
WEIGHT AVG INT. RATE						10.17%	
MONTHLY P&I						593.87	
DWELLING TYPE..	SFR					13	81.25
	CONDO					0	.00
	DUPLX					3	18.75
	PUD					0	.00
	MOHM					0	.00
	TRI-PLEX					0	.00
	FOUR-PLEX					0	.00
NEW/EXISTING...	NEW					1	6.25
	EXISTING					15	93.75
1ST TIME HOMEOWNER..	YES					13	81.25
	NO					3	18.75
INSURANCE TYPE.....	FHA					0	.00
	VA					0	.00
	CONVA					16	100.00
ELIGIBILITY.....	STVA					3	18.75
	NON-STVA					13	81.25
ORIG. PRINCIPAL BALANCE						1,067,150.00	
ORIG. NUMBER OF LOANS						16	

Alaska State Legislature

House of Representatives

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: REPRESENTATIVE JOHN SUND
Chairman, House Special Committee on Loans
FROM: Representative Jack Fuller
DATE: April 18, 1986
SUBJECT: CSSB 281(Fin) am

I would like to see the state's commercial fishing loans, AS 16.10.300 - 700, exempted from the provisions of CSSB 281(Fin) am. This bill would raise the interest on state loan programs by one half percent per year until they are competitive with loans available from private lending institutions.

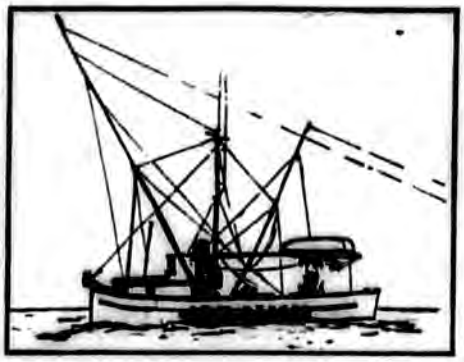
As you are aware, commercial fishing loans are a unique part of the state's loan programs. Private lending institutions are not able to make loans for the purchase of limited entry permits. Banks cannot take the permits as collateral.

I have worked for many years on the part (B) loans. First enacted as the Fishermen's Mortgages and Note Fund, this program was designed to assist primarily rural fishermen who were just getting into commercial fisheries. It has enabled many new entrants to participate in the developing herring and small boat halibut fisheries in Western Alaska. The program originally began as state loan guarantees to private banks, but that was found to be unworkable as banks simply were not interested in making relatively small loans to applicants with poor credit ratings. It has since been incorporated under the state loan program. If included in CSSB 281(Fin) am, I am fearful that these types of loans would soon disappear.

Commercial fishing loans serve a very valuable role in keeping Alaska residents in the fisheries. Indeed, the loans are one of the very few ways that Alaskans can "have a leg up" on outsiders. Continuation of the state fisheries loan programs is extremely important to Alaskans all over the state.

I support the April 14 memorandum to you from the House Special Committee on Fisheries, and hope you will carefully consider this exemption.

cc: Bush Caucus members



Alaska Trollers Association

REPRESENTING ALASKA POWER TROLLERS

130 Seward St., No. 213
Juneau, Alaska 99801
(907) 586-9400

4/21/86

Representative John Sund, Chairman
House Special Committee on Loans
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Re: Senate Bill No. 281, "An Act relating to the interest rate on State loan programs".

Dear Representative Sund:

The Alaska Trollers Association is very concerned about the potential negative consequences to the above-cited Bill should it pass as written. I have had the opportunity to see Representative Goll's memorandum to you on the subject dated April 14, 1985, and concur entirely in his analysis and recommendations.

The Alaska power troll fleet has one of the highest residency rates of any of Alaska's limited entry fisheries. Power trolling is a mainstay industry throughout rural Southeast Alaska. The existance of the State loan program has been an important factor in maintaining this high resident participation level in our fishery - a fact we are proud of. Let's face it, many rural residents simply don't have ready access to other financing sources. The "edge" that the State program gives to Alaskans helps keep jobs and earnings here. This vital program should not be curtailed! In this time of diminishing economic activity, we should do all we can to encourage Alaskan small businesses. The fishing loan programs do exactly that. If anything, these programs need improvement and expansion.

Sincerely,

for

Earl E. Krygier
Executive Director

EEK/md

BRISTOL BAY NATIVE ASSOCIATION

P.O. Box 189

Dillingham, Alaska 99576

(907) 842-5257

April 21, 1986

Representative Adelheid Herrmann
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Representative Herrmann,

The Bristol Bay Native Association is extremely concerned about the proposed Senate Bill 281. The Bill would raise interest rates on State loans by one-half percent annually, until the rates were identical to private banking rates. This policy would be detrimental to Bristol Bay fishermen and, in the long run, to the State of Alaska.

The State of Alaska loan programs have provided residents of rural Alaska, and Bristol Bay in particular, the opportunity to enter into or increase participation in the fishing industry. Commercial fishing loans made to residents by the State for boats and permits have enabled our people to stay competitive and increase production. The success of resident fishermen is important to the local economies. Increased individual earnings positively impact the villages and regional centers through increased sales and employment. There are almost 250 Bristol Bay Commercial fishing loans with the State of Alaska. Those loans represent many individuals that would not have been able to receive a loan for a boat or permit if it were not for the State program. Many village residents do not qualify for bank or CFAB loans because they do not have the proper collateral. Rural residents have only recently transitioned from a full time subsistence lifestyle to a cash economy and do not own the homes, airplanes, land, etc. that are often used as collateral by applicants from Alaskan cities or outside of the State. There are few, if any, winter jobs for these residents and many have had only their permits to use as collateral. The use of a low interest loan is imperative to rural residents as a mechanism to build their income and earning power to a point where their earnings and credit history would enable them to apply for private banking loans if they were needed.

The increase in interest rates and the possibility of the loan programs being eliminated altogether would be disastrous to the Bay area. Instead of increasing employment, economic self sufficiency and local business development, this change in the loan programs would lead to an increase in the number of permits leaving the Bay and the State. A local person's inability to obtain a loan and pay relatively low interest on that loan would endanger their success in the industry. The fact that fish will not be canned in Bristol Bay in 1986 indicates the

changing trends in the fisheries. The fresh frozen market makes different demands on its fishermen and their equipment needs have, and will continue, to change in order to deliver better quality fish. This is evidenced by the fact that the increase in the fresh frozen market meant that fishermen had to replace wood boats with fiberglass vessels in the early 80's when buyers determined that paint chips from wood boats were detrimental to fish destined to be sold whole. If local fishermen are going to remain current in this industry, and the profits from this great renewable resource are to stay in Alaska, rather then be spent in Washington or Oregon, then we need to continue this program and maintain it in such a way that Alaskans are encouraged to develop their business. The Commercial Fishing Loan Program keeps people working in Bristol Bay. Certainly a loan which is paid back is more beneficial to the State than the subsidies which are paid out (and never re-couped) to individuals who are unemployed and in poverty.

The Bristol Bay Native Association urges you and your colleagues to carefully consider Senate Bill 281 and the long term negative affect it may have on the Bristol Bay economy. If nothing else, perhaps the Fishing Loan programs could be exempted until further research is done. The Association understands the importance of cutting State expenditures. We are concerned, however, that the decisions made this year (especially those that deal with private sector economic development) do not end up making us more, not less, dependent on our State resources.

Thank you for your consideration.

Sincerely,

BRISTOL BAY NATIVE ASSOCIATION

Deborah Tennyson,
Executive Director

cc: Senator Fred Zharoff
House Special Committee on Loans

Official Business

Alaska State Legislature

House of Representatives

Pouch V
Juneau, Alaska 99811

Phone:
(907) 465-4924

Special Committee on Fisheries

M E M O R A N D U M

April 14, 1986

TO: Representative John Sund
Chairman
House Special Committee on Loans

FROM: Representative Peter Goll
Chairman
House Special Committee on Fisheries

SUBJECT: CSSB 281(Fin) am

As I understand the intent behind SB 281, it is intended to get the state out of the loan business by gradually raising the interest on the loan programs until they are competitive with loans available from private lending institutions. The theory is that Alaskans will turn to the private sector once the rates are identical.

While this goal is laudable in today's changing revenue picture, I believe that there are over-riding public policy reasons for exempting the state's commercial fishing loans from this legislation.

The goal of the Commercial Fishing Loan Act [AS 16.10.300-370] is to help foster the development of resident-dominated commercial fisheries.

The Commercial Fisheries Entry Commission (CFEC) reports that non-residents gained 105 permits by the 1985 from the number of permits originally issued. Non-residents were initially issued 2,431 permits or 19.2 percent of the total; by the end of last year the number had climbed to 2,536 or 20.3 percent of the total.

Testimony by state experts before the House Special Committee on Fisheries indicates the state loan program played a major factor in helping hold the line on resident participation in Alaska's salmon fisheries. The loan program provides the only legal method for the state to discriminate between Alaskans and non-residents in the commercial fisheries.

With the exception of the financially troubled Commercial Fishing and Agriculture Bank (CFAB), no private lending institutions are allowed to make loans for the purchase of limited entry permits. Alaskans have gained a significant advantage over non-resident fishermen through their ability to secure lower interest loans, using the permit itself as collateral.

Since the fishing industry provides the largest source of non-government related employment in Alaska, I believe continuation of the loan program is vital to the state's economic base. This is particularly the case since CFAB's loan terms are significantly stricter than those available from the state or private lending institutions.

A "typical" permit loan by CFAB carries a 14.75 percent interest rate on a five-seven year note covering 70 percent of the permit value. A "typical" state permit loan has a 10.5 percent interest rate on a 10-year note covering 90 percent of the permit value.

Of the 3,877 limited entry permits sold through the end of 1985, transfer surveys by CFEC show 895 of these or 23 percent of total sales were financed under the state loan program, while only 37 or 1 percent were financed by CFAB. The transfer surveys also indicate that rural residents have an even heavier dependence upon the state loan program, since 32.9 percent of permit sales by rural residents (nearly all of which went to other Alaskans) were financed under the state loan program, while 1.4 percent were financed by CFAB.

Studies have revealed some very troubling trends in the transfer of limited entry permits from rural areas which are heavily dependent upon fishing. CFEC figures show that rural Alaskans hold 644 fewer permits than originally issued by the end of 1985, for an "outmigration" rate of 11.5 percent. A 1984 CFEC study revealed that permit ownership by Alaska Natives had declined by 13.8 percent since limited entry was first imposed.

These figures raise concerns about the ability of future generations of rural Alaskans to participate in the only significant source of cash income in their areas of residence.

Under AS 16.10.310 (a) (1) (B), Alaskans who live in areas dependent upon commercial fishing and who do not qualify for loans under other public or private programs are eligible to receive a state loan for purchases of vessels, gear and limited entry permits. This program is designed to ensure that Alaskans who live in fishing-dependent areas and lack adequate financial resources have the ability to enter the commercial fisheries. Loss of the "section B" loans could greatly exacerbate the permit outmigration trends in rural Alaska.

Experience with the "section B" loans show very little interest from private banks. The program was first established as loan guarantees by the state to private banks, but it was incorporated under the state loan program after it was determined that private banks simply were not interested in loaning to applicants who lack strong credit ratings.

After extensive hearings on the issue of permit outmigration from rural Alaska, the House Special Committee of Fisheries concluded in 1985 that the "section B" loans probably provided the best method of addressing the situation.

In summary, the Commercial Fishing Loan Act provides the only realistic source of financing available to Alaskans to purchase limited entry permits, and the state loan program is critical to the economic future of rural Alaska communities. On behalf of Alaska's commercial fishing community, I urge you to exclude the AS 16.10.300-370 from CSSB 281(fin) am.

Department of Commerce & Economic Development / POSITION PAPER

CSSB 281 (FIN): "An Act relating to the interest rate on state loan programs."

Department position: support with amendments.

This bill would amend AS 37.05.035 to increase the interest rate for state loan programs (with the exception of student loans) by one-half percent each year until the interest rate is equal to the prevailing market rate or the cost of funds for each type of loan.

The department would like to offer an alternative approach to this bill. These comments are directed solely to the loan programs which this department administers and are funded by General Fund appropriations rather than bond sales. It is suggested that the market-tied formula approach to interest rates proposed in House Bill 109 be utilized for this bill. With this approach, the statutorily fixed interest rate could be eliminated and replaced with a formula that would move with the market over time. The formula is as follows:

1. a base rate (the U.S. Treasury rate for the comparable maturity of the loan);

2. plus a risk adjustment (of 125 basis points);

3. plus an administrative fee (of 75 basis points); and

4. minus a subsidy (of 300 basis points).

The net effect of this would be a loan rate of 1.0%, or 100 basis points below the Treasury rate. Then, the subsidy may be reduced by 50 basis points per year for six years until it is reduced to zero as suggested in Senate Bill 281.

The department believes that this suggestion would reduce the potential criticisms of Senate Bill 281. First, the administrative cost of Senate Bill 281 would be substantial since every loan program would have several different interest rates for each type of loan (for example: boat, gear and permit loans could all be different). Second, there is no "prevailing market rate" for some loans (such as Section B commercial fishing loans and loans with permits as collateral). Third, it would be difficult to determine prevailing market rates since a financial institution's rate depends on borrower's specific criteria, and they would be reluctant to share this with us due to the question of competitive confidentiality. Finally, Senate Bill 281 only provides for the loan rate to rise and does not address the situation which could arise when the market rate falls below the loan rate.

The suggested approach would solve all of these criticisms for the following reasons:

1. The base (or Treasury) rate is easily obtainable at little cost.

2. The rate moves up and down with the market (base) and the formula maintains the relationship between the loan rate and the market. Note that the rate is fixed for the term of the loan, but the program's rate changes over time with the market.

3. Gradually, the identified subsidy would be eliminated and the loan rate would move with the market at 200 basis points above the Treasury rate.

4. For some programs, interest rates would rise slightly over current loan rates and be a net revenue raiser.

5. Over a period of a few years, the borrowers would begin to pay for all of the administrative costs of our lending and accounting divisions which is appropriate since they benefit from the loans.

6. The suggested formula would set a loan rate in each program approximately the same in its relation to the market as when the program was created. The one exception, the Child Care loans, could be adjusted by setting its initial subsidy at 400 basis points rather than 300.

7. Because the loan rate would be maintained at a constant relationship to the market, unintended subsidies and penalties could not occur due to market fluctuations. This would make loan demand more steady and predictable.

Loren H. Lounsbury

Loren H. Lounsbury, Commissioner
Department of Commerce & Economic Development

Date: 4/15/86

GFWC
ALASKA FEDERATION OF WOMEN'S CLUBS

Box 90763
Anchorage, Alaska 99509

MEMORANDUM

April 17, 1986

TO: The members of the House Special Committee on Loans and House Finance Committee

FROM: GFWC Alaska Federation of Women's Clubs

RE: SB 281, an act relating to the interest rates on state loan programs; and providing for an effective date

The Alaska Federation of Women s Clubs, at their State Convention, passed a special resolution supporting SB 281 which will raise interest rates on State loan programs to market rates or the cost of funds.

The AFWC is a federation of Women's Clubs throughout Alaska, representing several hundred members. The Free Committee, which is a subcommittee of the Anchorage Woman's Club and a national GFWC program, recently completed a study on Alaska State Loan Programs. The Alaska Federation of Women's Clubs endorses their recommendations:

1. Strive for a reduction and eventual elimination of State dollar contributions to loan programs.

   a. reword the State spending limit.
   b. refine present programs to make them self-supporting and revolving.
   c. eliminate interest subsidies.
   d. institute strict collection procedures.

2. Implement adequate statutory review of programs.

   a. use review to evaluate programs.
   b. base continued support of programs on evaluation.

3. Recognize that the market will limit bonded indebtedness of debt issuing entities of the State.

Passage of SB 281 would achieve these recommendations. One of the positive aspects of SB 281 is the bill's equitable treatment of all State loan programs. This feature recognizes the decline in State revenues and the effect of less available funding for all loan programs.

We urge you to pass this bill.

Respectfully,

Michelle Cassano

Michelle Cassano, President
Alaska Federation of Women's Clubs

ALASKA MORTGAGE BANKERS ASSOCIATION
P.O. BOX 4-2691 / ANCHORAGE, ALASKA 99503

April 16, 1986

Honorable John Sund, Chairman
Committee on State Loans
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Sund:

The Alaska Mortgage Bankers Association has reviewed SB 281. We are concerned specifically about the effect passage of the bill would have on the Alaska Housing Finance Corporation.

AHFC has fulfilled several purposes, including stabilization of the housing market during times of rapid interest rate changes.

The Corporation is in a position to continue operating indefinitely without additional appropriation of state funds. Although interest rates are lower now than they have been since 1979, we should not assume the rates will remain low. AHFC's programs and procedures are in place and working; retaining the Corporation's ability to step in when needed is extremely important.

We urge exemption of AHFC from this Act.

Sincerely,

Lucille Stietz
Vice President

ry



Bering Sea
Fishermen's Association

632 Christensen Drive
Anchorage, Alaska 99501
(907) 279-6519

Representative John Sund, Chairman
House Committee on Loans
Alaska State Legislature
Pouch V.
Juneau, Alaska 99811

April 18,1986

Dear Representative Sund:

A memorandum from Representative Goll to you was recently brought to my attention. The memorandum concerned CSSB 281 (Fin) am. I would like to comment on Representative Goll's remarks and to add some information on the importance of the fishing loan program.

Bering Sea Fisherman's Association offers the fishermen of western Alaska assistance and advocacy in the development and perpetuation of their fisheries. Our concern is with the small, primarily Alaska-Native operated fisheries.

For the past year, I have been researching the various programs - public and private - that are available for financing vessel, gear and permit purchases for these small fisheries. I have found that the State Fisherman's Loan Program is the only assistance that is practically available to most of these fishermen. As Representative Goll points out, section (B) of the loan program is available to fishermen who would not otherwise qualify for loans. Virtually all the fishermen of rural western Alaska fall within this category.

From recent conversations with personnel at the Division of Investments and from looking at loan statistics and legislative intent for the program it has become apparent that section (B) of this program is an extremely valuable - but under utilized - opportunity. Apparently various other organizations have drawn the same conclusions. As a result there has been a tremendous outreach effort to publicize the program and offer assistance to applicants. Bering Sea Fisherman's Association, Nunam Kitlutsisti in Bethel, the Governor's office in Kotzebue and the Division of Investments itself have all taken part in this effort. The response is indicative of the crucial need for the program. During the past month I alone have received no fewer than twenty requests for loan applications from the AYK area.

I can not emphasize enough the importance of the fisheries in the AYK area, and the potential value of the loan program. As you probably know, areas of coastal western Alaska have no local economy other than their fisheries, so the economic survival of much of the area depends on these fisheries. Although residents of the area have been subsistance fishing for years, the conversion from subsistance to commercial use requires investments that are beyond the resources of the individual fishermen. Also, as Representative Goll pointed out, there is a trend of limited entry permits moving from resident and local ownership to non-local and non resident. Young people who would like to stay in the region and fish salmon cannot hope to buy a permit without financial assistance.

Section (B) of the State Fisherman's Loan Program, more than any other State program, has the potential of contributing to the self-reliant economic stability of rural western Alaska. Through recent outreach efforts the program shows promise of realizing this potential. By reducing the need for various social programs, the dollar invested in the fisherman's loan is more than returned to the State in savings.

In conclusion, while there is a need for cutbacks in State programs, the fisherman's loan exemplifies the foresighted employment-producing sort of program on which the State should concentrate. For the fishermen of western Alaska, it is the only alternative to watching the fisheries that could bring them some degree of economic independance be developed and exploited by outside fishermen. Eliminating the program would result in a lost opportunity to provide a solid economic foundation in rural western Alaska.

Respectfully,

Lee Goodman
Extension Specialist

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

October 14, 1985

MEMORANDUM

TO: Representative Adelheid Herrmann

ATTN: Eric Myers

FROM: Jay Livey
Legislative Analyst

RE: Impact of Higher Interest Rates on State Loan Programs
Research Request 86-021

Your office asked that we answer the following questions concerning HB 378, a bill that would gradually increase interest rates on State loan programs until they matched the market rate. Specifically, we were asked:

- What is the current difference between interest rates for State-sponsored loans and comparable loans obtained through alternative financing?
- Are there any State-sponsored loan programs that would be unattractive investments for alternate lenders assuming reasonable loan terms and conditions?
- What would be the impact on borrowers of higher interest rates and changes in loan conditions and terms, assuming that State-sponsored programs were either replaced by alternative lenders or the State programs assumed market lending practices?

Summary

Because interest rates for almost all State-sponsored loan programs are subsidized to some degree, HB 378 would affect virtually all of the State loan programs. Increasing the interest rate on State-sponsored loan programs to the prevailing market rate could eventually lead to a phaseout of most State loan programs. Economic theory suggests that the prevailing interest rate would be reached when a borrower was indifferent as to borrowing from the State program or an alternative lender.

Alternatives to the State-sponsored programs exist for urban housing loans, fishing loans, agriculture loans and student loans. However, alternative programs generally feature loan terms and conditions that are less favorable than those offered by current State programs. In the private sector, borrowers would generally face higher debt service payments, stricter collateral requirements, and, for programs which base loan amounts on the ratio of payments to income, less capital availability. Clearly, these differences would eliminate some borrowers that could have obtained a loan from a comparable State program.

Two State loan funds, the Mining Loan Fund and the Housing Assistance Loan Fund, do not have readily identifiable substitutes. Generally, commercial banks consider mining too risky for conventional loans. Rural housing loans are difficult to secure because many houses do not conform to traditional structural requirements and banks do not have the facilities in rural areas to service loans.

Most State loan programs are designed to accomplish specific social or economic policy objectives. The forgiveness feature of State student loans provides an incentive for graduates to return to the State while fishing and agricultural loans are structured to encourage individuals to enter those industries. Alternative lenders do not necessarily share these policy goals. Commercial lenders make loans to established farmers and fishermen primarily to make a profit; they do not generally make loans to beginning farmers and fishermen or to implement policy. Consequently, if State loan programs are phased out, State policy makers must recognize that the public policy objectives related to those loan programs will also be affected.

Introduction

House Bill 378 proposes to increase interest rates on loan programs sponsored by the State (or instrumentalities of the State) by one-half percent annually until they reach either the prevailing market rate for each type of loan or the true cost of funds if the loans are financed through bond sales. However, the bill does not define the term "prevailing market rate."

Economic theory suggests that the prevailing interest rate would be reached when a borrower was indifferent as to borrowing from the State program or an alternative lender. Because the market interest rate is determined by the combination of all the terms and conditions that affect a loan--down payment, collateral, payment schedule, loan term, etc.--it is very difficult to determine at what point interest rates for Alaska-sponsored loan programs would cause borrowers to be indifferent as to the source of loan.

For example, the State student loan programs offers loan forgiveness based on the number of years the borrower works in Alaska after graduation. Nationally offered student loan programs do not have this feature. The market rate for each individual would depend on the likelihood of returning to Alaska after graduation. As the interest rate on State loans reaches rates available under other programs, students that are uncertain about returning to Alaska will shift to alternative sources of funds. Students who plan to return to the State would be willing to pay higher interest rates for a State loan because the forgiveness provision offsets the higher stated interest rate. The only way to determine at what point the Alaska student loan program reached the market rate would be to raise the interest rate to the point that borrowers would be indifferent as to whether they borrowed from the State or from alternate lending sources. At this point of indifference, the State student loan program--or any State-sponsored loan program--would have no policy impact.

It is possible, however, for the State to continue to offer loans at a market rate that is below the commercial rate for a comparable loan. For example, the Alaska Housing Finance Corporation can sell tax-exempt bonds and establish interest rates below the rates established by lending agencies whose cost of funds is greater. However, because tax-exempt bond sales are limited in both quantity and purpose by the federal government, this method of raising loan capital would not provide an alternative to establishing the prevailing market rate at the corresponding commercial rate.

In the rest of this memorandum, we will examine the impact of HB 378 on specific State lending programs, concentrating on the differences between existing State loan programs and alternatives that may exist. The impact of higher interest rates as well as eventual phaseout of the State-sponsored programs will be examined.

Student Loans

Currently, Alaska residents can borrow up to $6,000 for undergraduate and $7,000 for graduate education at 5 percent interest. In addition, the State will forgive 10 percent of this loan (up to 50 percent of the principal amount) for every year that the borrower works in Alaska after graduation. Because of this forgiveness feature, the effective interest rate for Alaska student loans can be significantly lower than the nominal rate of 5 percent.

The most prominant alternative to the State student loan program is the federally sponsored Guaranteed Student Loan Program (GSL). These loans are made through private lending institutions but are sponsored by the U.S. Department of Education. This program allows an individual to

borrow up to $2,500 for undergraduate and $5,000 for graduate expenses in any one academic year. The current interest rate is 8 percent and there are no forgiveness provisions. In addition, the GSL program is needs based. The borrower's income is factored into a formula that is used to calculate the amount of loan for which the student is eligible.

The GSL program is not nearly as attractive as the State student loan program. Interest rates are higher, the student can borrow less and there is no forgiveness. For example, a student borrowing $5,000 for 10 years would have a GSL monthly payment of about $60 while the State program payment would be approximately $53, assuming that no forgiveness credit is awarded. Over the life of the loan, this difference totals $840. Forgiveness credits can reduce the average monthly payment on the Alaska loan to $26.50.

Generally, in Alaska, the GSL loan program is used by students who cannot meet the residency requirements for State loans or else by students who borrow from both the federal and State programs. If the State program were phased out, the combination of higher rates, reduced loan amounts and no forgiveness would certainly discourage some Alaska students from applying for loans and attending school.

The income restrictions of the GSL would also eliminate some potential borrowers, although the degree of this problem was disputed. Representatives of the Alaska Commission on Postsecondary Education (ACPSE) suggested that as many as 65 percent of those applicants currently receiving State loans would be ineligible to receive Guaranteed Student Loans. However, loan officers that work with the GSL program did not see income ineligibility as such a serious problem. They note that the income guidelines could eliminate some borrowers the first year because their previous year's income would be factored in to the expected contribution from the student and ultimately subtracted from the loan award. Because of variations in school costs, it is difficult to specify an income level beyond which a student would be ineligible, but financial aid representatives at the University of Alaska, Juneau, suggested that a single individual earning between $30,000 and $35,000 the previous year would not be eligible for a GSL loan.

Another potential impact resulting from radical change in or elimination of the Alaska student loan program is a reduction in enrollments at the University of Alaska. Because such a high percentage of students attending the various branches of the University receive student loans, it was suggested that enrollment of full-time students could be reduced by twenty to thirty percent. One contributing factor to this projection is the small amount that can be borrowed under the GSL program. Currently, only $2,500 per academic year can be borrowed. In some cases, it is likely that students would have to work part-time rather than going to school full-time.

Currently, only a few financial institutions in the State offer loans through the federal program. However, if the GSL program became more popular, other financial institutions would probably offer the loans. One bank representative did say, however, that his bank would not be enthusiastic about offering the loans because of the paperwork involved and the high delinquency rates of student borrowers.

Agriculture Loans

The Agriculture Revolving Loan Fund (ARLF) currently makes loans to farmers at 8 percent interest. Peter Probasco, loan officer for the ARLF, estimates that the State holds about 90 percent of all the loans outstanding to farmers in Alaska. Depending on the type of loan, ARLF can make loans of up to 30 years in duration.

One loan alternative to the ARLF is the Alaska Commercial Fishing and Agricultural Bank (CFAB). CFAB, which lends money that it borrows from the Spokane Bank for Cooperatives, has a current interest rate of 13.75 percent plus a 10 percent stock charge which increases the effective interest rate to 15.5 percent. The maximum term for CFAB loans is 15 years.

A second alternative to the ARLF is loans from private commercial banks. Interest rates on these loans will vary depending on the prime rate; rates are currently between 11 and 13 percent.

The Farmers Home Administration (FmHA) is a federal agency that finances agriculture in Alaska as well as the rest of the United States. The FmHA offers loans for land purchase and operations, but the loans offered in Alaska mirror the types of loans offered nationwide so no special programs are available (such as clearing loans) for Alaska. Interest rates are currently between 10 and 11 percent and loan terms are 40 years for land purchase loans and 7 years for operating loans. Maximum loan amounts are between $200,000 and $300,000, depending on the type of the loan.

According to Ron Abbot of the FmHA office in Palmer, the loans he has to offer are not a good substitute for the ARLF for several reasons. First of all, FmHA is limited in the amount of dairy loans that it can offer to beginning farmers. Because government programs subsidize the price of dairy products, there is no incentive for the government to encourage the entry into the industry of more producers.

Secondly, many Alaska farmers have loans from the ARLF that currently exceed the FmHA loan limits. Additional loans could not be made unless loan amounts were reduced or unless additional collateral were available to cover new loans.

A third problem arises because some farmers in Alaska retain their land through agriculture rights rather than fee simple title. Mr. Abbot notes that the FmHA does not believe that agriculture rights land offers the same security for loans as does fee simple land. Therefore, loans made on land that is not fee simple would require more collateral for the same amount of loan.

Finally, there is some doubt concerning the future availability of funds for FmHA loans. Because of the current farm credit problems in the United States, some federal policy makers are questioning the current financial aid structure for farmers. Mr. Abbot feels that the farm debt crisis coupled with budget deficits may result in a substantially less active federal role in farm financing in the future.

An additional alternative to the ARLF is the Federal Land Bank (FLB) which is a part of the Cooperative Farm Credit System. The FLB makes 30-year loans for land purchase and 3-year loans for operating expenses. Interest rates depend on the price of bonds that are sold by the system; with current rates of 12.25 percent.

According to representatives of the FLB, loans are analyzed similarly to criteria used by commercial banks. The borrower must demonstrate financial stability over time which may eliminate some farmers that are just entering the industry. In fact, representatives of the FLB stated frankly that some borrowers from the state would not meet their loan criteria. However, the FLB does not differentiate between land retained through agricultural rights and land owned through fee simple title.

In comparing the loan programs available to Alaska farmers, clearly the ARLF offers loans at more attractive terms. Interest rates are lower and the term of the loan can be longer, which helps to reduce the size of the payments. A five-year, $50,000 operating loan at the ARLF interest rate of 8 percent would have monthly payments of $1,013 assuming that the interest and principal payments were amortized over the length of the loan. A similar loan at 12.5 percent interest would result in amortized payments of $1,125 per month. Assuming a 30-year, $500,000 development loan, the amortized monthly payments total $3,668 at the current ARLF interest rate of 8 percent and $5,239 at the commercial rate of 12.25 percent. If the loan length is reduced to 15 years at 12.25 percent, the amortized monthly payments are $6,081.

Beyond the financial differences among agricultural loan programs, representatives of commercial lenders as well as the ARLF pointed out fundamental differences between the lending philosophy of the State and the other lenders. Banks are generally more conservative in making loans than is the State. In fact, the purpose of many of the State loan programs was to provide loans to borrowers that could not secure other funds. This conservatism of other lenders means that farm loans

from them will generally require more collateral and a stronger indication of an ability to repay than will State loans. In many cases, this means that borrowers of these funds will have to demonstrate a continued ability to be financially sucessful as well as having collateral that is not pledged to previous loans.

This lending policy would likely eliminate some borrowers that desire to enter the farming industry as well as others that are just developing their operations. Several representatives of commercial lenders noted that commercial banks would not replace the ARLF in financing the development of an agriculture industry in Alaska unless that objective corresponded to the banks investment guidelines. Considering the high delinquency and default rates currently present among agriculture loans, the loan representatives did not think this very likely in the near future.

According to Peter Probasco of the ARLF, the immediate effect of an increase in interest rates would be to put additional pressure on the cash flow of farm borrowers at a time when many State farm loans are already delinquent or in default. Although it difficult to predict the number of farmers that would be forced out of business by such an action, certainly debt service payments on future loans would be more burdensome. If the State continued increasing interest rates and eventually phased out the ARLF, the growth of the agriculture industry in the State would probably be slowed. Other lenders would limit the availabilty of capital for developing farms.

Fishing Loans

The State of Alaska currently sponsors two loan programs related to the fishing industry: the Commercial Fishing Loan Program and the Fisheries Enhancement Loan Program. Commercial Fishing loans are made to individuals for the purchase of limited entry permits and the purchase or repair of vessels and gear and to partnerships and corporations for the purchase of vessels and gear. The State interest rate cannot exceed 10.50 percent and the maximum loan term is 15 years.

Alternatives to the State's loan program include the Commercial Fishing and Agricultural Bank and private lenders. CFAB makes fishing loans for gear, boats and limited entry permits, but at interest rates that are 2.5 to 3 percent higher than the State rates. In addition, CFAB requires three years tax returns to be submitted with the loan application to verify that the borrower has been a successful fisherman in the past. This policy would preclude many loans to starting fisherman who are attempting to enter the industry, including borrowers that are currently targeted under AS 16.10.310(B) of the current State program. Representatives of CFAB also expressed a general unwillingness to make many

small loans to the rural areas of the state. These loans are difficult to service and are considered riskier because of the remote location of the pledged assets if the loan was to go into default.

Representatives of commercial banks expressed the same general loan policy as CFAB. These lenders are also reluctant to make loans to fishermen that have not exhibited previous financial stability, making it difficult for beginning fishermen to find capital to enter the industry. Also, commercial lenders generally require a lower loan to asset ratio than does the State. This means that less money can be borrowed on similar collateral from private lenders than from the State program.

A major difference in lending policy exists between CFAB and other commercial lenders. Like the State loan program, CFAB can accept limited entry permits as collateral on loans. Other commercial lenders are prohibited by law from doing this. This means that fishermen requesting loans from lenders other than CFAB must pledge more collateral to secure the loan. However, even if permits could be accepted as collateral, representatives of commercial banks expressed reluctance at doing this. The value of limited entry permits may fluctuate depending upon changes in the limited entry law. This makes the asset less secure than other tangible assets.

An increase in interest rates by the Commercial Fishing Loan Program from the current 10.50 percent rate to the commercial rate of 13 percent would increase monthly amortized debt service payments by about $80 on a 15-year, $50,000 loan. Over the life of the loan, the debt service increase would total about $22,000. One commercial fisherman noted that the increase in interest rates would certainly not be welcome but would not be critical as long as the required down payments, payback schedules and loan term were tailored to the needs of the fishermen.

However, the elimination of the State-sponsored loan program would have greater impact on the fishing industry. First, alternate loan programs would not replace the State's loans to beginning fishermen and fishermen in rural areas of the state. Secondly, the loans that would be made would likely require more collateral. Third, commercial lenders cannot accept limited entry permits as security for their purchase. This would reduce access to capital for those fishermen that do not nave alternative collateral to pledge on the loan. It has been suggested that this could encourage the purchase of permits by non-Alaska buyers who have access to other sources of capital.

The State also lends money through the Fisheries Enhancement Revolving Loan Fund for the development of salmon hatcheries by nonprofit regional associations. The fund lends money for periods of up to 30 years at an interest rate that is not to exceed 9.5 percent. Loans are repaid by

selling fish from the hatchery and by assessments on commercial fishermen that benefit from the enhanced resource. Interest on the loan principal does not accrue during the initial period of the loan, which is defined as a period of time betweeen 6 and 10 years from the date that the loan is made.

Based on our interviews with commercial lenders, it is not certain that any alternatives would exist if the Fisheries Enhancement program were eliminated. Several lenders mentioned that they were not prohibited from making these loans, but noted that the financial viability of hatcheries recently begun under the State loan program is still unknown. Additionally, collateral poses a problem because in some cases the hatcheries are located in remote areas of the state. Also, hatchery cash flow, upon which the ability to make debt service payments is based, is dependent on the uncertainty of the biological process of fish returning as well as the price of those fish. Finally, loans to hatcheries would have to be structured so that repayment matched the development of the resource.

Mining Loans

The State of Alaska's Mining Loan Fund (MLF) makes loans of up to $5,000,000 at 10 percent interest for mining activities in the state. The loan terms can be up to 15 years with payback on the principal deferred until one year after production begins or within five years of the date the loan is made, whichever is sooner.

One alternative to the MLF is commercial banks. However, commercial bank representatives noted several problems in loaning for mining operations. First, commodity price fluctuations make the mining industry unpredictable, increasing the riskiness of loans. To offset this risk, lenders may require loan security that is unrelated to the actual mining operation. A related problem is the remote location of some mining operations. These locations make it difficult for lenders to repossess collateral that is pledged against the loan. For this reason, banks tend to favor pledged assets such as movable equipment that can be sold if the borrower defaults.

Another alternative to the MLF is privately raised venture capital. Under this system, borrowers contact investors or syndicates of investors to secure long-term capital. However, several miners expressed doubt that this method of raising capital would increase significantly in the future. They noted that many outside investors are reluctant to lend in Alaska because of the uncertainty over mining regulations, particularly those relating to the environment.

Most individuals with whom we talked concerning the mining loan program suggested that mining loans from other sources would be difficult to secure if the State program were eliminated. This is especially true for the small to medium-sized operations that have limited collateral with which to secure the loan. Even if loans were available, some miners questioned the ability of lenders to structure loans to match mining operations. For example, the MLF defers payments on principal until production from the operation begins or for five years, whichever is less. Loans from commercial lenders that did not recognize the delayed cash flow aspect of mining would increase the financial risk associated with the mining operation.

Housing Loans

The major housing lender in Alaska is the Alaska Housing Finance Corporation (AHFC). AHFC provides a variety of housing loans including single family and duplex mortgages, subsidized loans for low-income buyers, loans for mobile homes and loans for multifamily structures. Loan funds are raised through bond sales and legislative appropriations. AHFC interest rates are tied to the cost of funds to the corporation, but rates are subsidized with the size of the subsidy dependent on the borrower's income. Interest rates are blended depending on the size of the loan. Currently, the rate on the first $90,000 is 10 percent for nonveterans and 9 percent for veterans while the cost of funds to AHFC was 11 percent of tax-exempt bonds and 12 percent for taxable bonds.

The major alternative to AHFC is the Federal National Mortgage Association (Fannie Mae) which currently offers 30-year mortgage loans at 12.25 percent. Depending on the debt to income ratio, these loans, like those of AHFC, can be made with a 5 percent down payment. One attractive feature of Fannie Mae is that the loan is assumable. This makes resale easier if interest rates rise in the future. Currently, AHFC loans are not assumable but the corporation is contemplating a change in policy to add this feature to future loans.

According to Ron Lehr, Director of the AHFC, eliminating the interest rate subsidy would have three major effects. First, low and moderate income borrowers that receive interest rate subsidies under the HOF program would probably be ineligible at the higher rates. A low-income home buyer that currently is eligible for a 30-year, 6 percent, $90,000

mortgage loan would have amortized monthly payments of $539.[1] The amortized monthly payments on this same loan at 12.25 percent interest would be $943.

Secondly, veterans rates would increase to the tax-exempt cost of funds. Based on current rates, this increase would be from 9 percent to 11 percent. The resulting increase in amortized monthly payments on a $90,000, 30-year loan would be about $130.

Third, the interest rates for all other AHFC home buyers would increase from 10 percent to 12.25 percent (based on current rates). Amortized monthly payments on a $90,000 loan would increase $150 as a result of the increased interest rate. Increased debt service payments would also reduce the amount that home buyers could borrow as loan limits are based on income to debt service ratios. AHFC officials estimate that these increased rates and the subsequent decrease in borrowing limits could reduce the price of a house in Alaska by an average of $20,000.

Mr. Lehr also noted that increasing AHFC interest rates to the market rate (the cost of funds) would ultimately cause the phaseout of the corporation. If rates are established at the cost of funds, borrowers could obtain the same interest rates from Fannie Mae loans but for terms of 30 years rather than AHFC's 15 years. There would be no incentive for individuals to borrow from AHFC. If this occurred, there would probably be no source of funds for mobile home loans as other lenders are reluctant to make these loans.

Another State-sponsored housing loan program, the Housing Assistance Loan Fund (HALF), was established to make housing loans available in rural areas of the state. Loans are made for both single-family homes and duplexes and can be either owner and nonowner occupied. The interest rate charged depends on the type of loan. Nonconforming housing loans charge an interest rate that is one-fourth of one percent higher than the latest AHFC sale of taxable bonds. The Rural-Owner Occupied program charges interest that is one percent less than the latest sale of AHFC taxable bonds. Loans made under the rural nonowner occupied

---

[1]These examples are designed to compare changes in debt service cost to similarly structured loans that result from increased interest rates. To do this, we have assumed that interest and principal payments are amortized over the length of the loan. AHFC loans calculate total debt service cost as if the loan were for thirty years, but compress the payment schedule to 16-19 years depending on the type of loan. It should also be noted that because the AHFC interest rate subsidies only apply to the first $90,000 borrowed, the monthly payment differential will not increase as loans exceed $90,000.

housing program are charged 10.5 percent interest. In addition, the HALF offers subsidized loans at 6 percent interest to low and moderate-income individuals for the purchase of single family homes.

Increasing interest rates to market levels would have the largest impact on individuals eligible to participate in the loan subsidy program and in the rural nonowner-occupied housing programs. For owner-occupied homes, the jump from the subsidized 6 percent rate to market rates of 12 percent would surely eliminate many rural resident from mortgage eligibilty. Resulting increases in debt service payments would be similar to those encountered under the AHFC subsidy program. Like the AHFC program, the increase in debt service would reduce the amount of money that could be borrowed as loan limits are determined by income to debt service payment ratios. Although exact estimates are not available, Hank Hodge, loan officer with the HALF, notes that a significant number of rural residents that would qualify for 6 percent loans would be excluded by 12 percent interest rates.

Interest rate increases under the nonowner occupied housing loan program would be in the range of 1.5 to 2 percent based on AHFC recent bond sales. Because this program is designed for investors rather than individual purchasers, interest rate increases of this size would probably not have a serious effect on lending activities, Mr. Hodge estimated that about 6 percent of HALF borrowers utilize this program. The other HALF programs currently charge interest rates that are linked closely to the AHFC market rate and would only be marginally affected by charging the market rate.

Elimination of the HALF program would have a serious impact in many rural areas of the state. In the past, private mortgage lenders have been unwilling to make loans in some rural areas of the state. This is for two reasons. First, commercial lenders maintain that these loans are difficult to service. Several lenders expressed interest in making loans in the larger rural communities in which branches of their bank are located, but not in other rural communities. Secondly, many homes in the rural areas of the state are nonconforming due to the lack of conventional sewer and water systems. Consequently, Fannie Mae loans would probably not be universally available in these areas. However, AHFC could make these loans if it chose to do so.

If the availibility of loans to rural areas were restricted, the immediate impact would be an increase in the price of rural homes financed with assumable HALF loans. Because other loans would be difficult to obtain and, if available, charge higher interest rates, the demand for homes with assumable loans would bid up their price.

Over time, this initial price effect would diminish somewhat, but the lack of subsidized interest rates would still put housing prices out of the reach of some rural residents.

In addition to mortgage loan programs, the State of Alaska also sponsors several home improvement loan programs related to energy conservation. The Alternative Technology and Energy Revolving Loan Fund makes loans of up to $30,000 for the installation of energy saving devices such as centralized multi-fuel heating systems. Interest rates are 5 percent on the first $15,000 and 15 percent on the balance of the loan. The Residential Energy Conservation fund lends up to $5,000 at 5 percent interest for energy conservation imnprovements in homes.

Commercial lenders make home improvement loans that could be used for the type of projects eligible through these two State programs but at interest rates that are currently about 12 percent. One bank representative also noted that the collateral required by private lenders would probably be stricter than currently required by the State. He also mentioned that his bank would be reluctant to make a home improvement loan that was a second loan behind a large mortgage loan held by another lender.

Higher interest rates and stricter collateral requirements would surely reduce the number of energy-related home improvement loans in Alaska. Increasing the interest rate from 5 to 12 percent would discourage some projects as the increased debt service payments would offset some of the savings from the improvement.

I hope you find this information useful. If you have any questions, or would like additional information, please contact us.

JL

SCOMM

#50:41

Senator John B. (Jack) Coghill
Alaska State Legislature

Pouch V
Juneau, Alaska 99811
(907) 465-4921

Box 55028
North Pole, Alaska 99705
(907) 488-7332

May 5, 1986

MEMORANDUM

TO: Representative John Sund
House Loans Committee

FROM: Senator Jack Coghill

RE: CSSB 405

I have introduced SB 405, a bill that will extend the Alaska Grain Reserve Program through 1987 at the request of the Department of Natural Resources. The original intent in setting up the Grain Reserve was to set up a base so that farmers would be able to participate in the Federal Grain Reserve Program. The oversight in the sunset of the original Grain Reserve made this impossible for all farmers to make the base acreage requirements and the non-standard varieties of barley grown in Alaska do not meet present Federal eligibility requirements No monies will have to be allocated for this program since there are funds available within the program to make new loans.

The Grain Reserve allows Alaskan farmers to market grain in an orderly manner by providing loans to the farmer once the crop is harvested. The farmer can pay planting and harvesting expenses without selling all of the crops at harvest, a time when prices are generally their lowest point for the year. Another reason this is advantageous to the farmer is that with the in state market often times he cannot sell all of the corp at harvest because the market is saturated. As the crop is sold the loan is paid back along with interest computed at 8%.

The program so far has been successful and it does help farmers pay back other loans on time. The grain is graded and inspected. The amount loaned for the grain is based on the grade. For example #2 or better barley could yield a $97.00 per ton loan amount. A lower quality barley would qualify for a lesser amount. Loans are made for a period of up to three years. If after the three year period the loan is not repaid the state will take ownership of any remaining grain.

Introduced: 2/13/86
Referred: Resources
and Finance

IN THE SENATE BY FINANCE

CS FOR SENATE BILL 405

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to loans under the Alaska grain reserve program and providing an effective date

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

* Section 1. AS 03.12.030(a) is amended to read:

(a) The department may make a loan to a state grain producer secured by grain grown by that producer in 1983-1987 [1983or1984]. Grain that is used as collateral for a loan made under this chapter must be graded number four or better, except the hulless barley may be accepted as collateral under conditions determined by the commissioner.

* Section 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

SCOMM
#50:42

SENATOR FRED F. ZHAROFF

ALASKA STATE LEGISLATURE

P. O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259
DURING SESSION:
P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474 • 465-3844 (Labor and Commerce Committee)

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

MEMORANDUM

TO: Representative John Sund
Chairman - House Special Committee on Loans

FROM: Senator Fred F. Zharoff

DATE: May 9, 1986

RE: SB 453, "An Act relating to memorial scholarship revolving loans, creating the A.W. (Winn) Brindle memorial scholarship loan; and providing for an effective date."

The State of Alaska currently has four memorial scholarship loan accounts inside its Memorial Scholarship Revolving Loan Fund. The purpose of the memorial scholarships is to pay tribute to the memory of distinguished Alaskans by allowing Alaskans to pursue educations in specific professions.

SB 453 would establish a new memorial scholarship account specifically for Alaskan residents who wish to participate in a certificate or degree program in fisheries, fishery science, fishery management, seafood processing, food technology, or other closely related field (Sec. 4). The bill would help encourage Alaskans to pursue careers in the management and production of our fisheries resource.

The Brindle scholarship account would be set up differently than the other memorial scholarship accounts. Repayments of loans made from the Brindle account would be deposited into the regular student loan program (Sec. 2).

SB 453 is tied closely to House Bill 58, "An Act relating to the fisheries business tax...." The main funding mechanism for the Brindle scholarship is in the Senate Finance CS for HB 58, which would allow fisheries businesses to obtain limited tax credits for donations to the Brindle scholarship account.

If HB 453 were to pass without HB 58, the Brindle account still would be established and would be open to anyone who wished to make donations to it.

Dedication



This year's Annual Report is dedicated to A. W. "Winn" Brindle, who passed away July 4, 1977, at Red Salmon Packing Company in Naknek. This dedication reflects our sincerest gratitude for the valuable contributions Winn made to Alaska's fishing industry and for his wise counsel and keen interest in the affairs of the bank.

Winn served the bank as a director for over 40 years. He first became a director of the Miners and Merchants Bank of Ketchikan in 1934. When that bank and five others consolidated as the National Bank of Alaska in 1960, he was elected to the original Board of Directors, a position held until his death.

Winn came to Alaska as a young child in the early 1900's and was educated in the Ketchikan school system, and attended the University of Washington. Although Winn was noted primarily for his contributions to and accomplishments in the fishing industry, he had a diversity of other business interests. Together with other business associates he developed the Northland Transportation Company, a marine transportation company, which served the major ports of Southeastern Alaska and which was eventually purchased by the Alaska Steamship Company. In the 1930's he was involved with a tugboat and mining venture on Prince of Wales Island. In 1934 he was named director of the Miners and Merchants Bank of Ketchikan. Shortly thereafter he became a major stockholder and became active in the operation of the Tongass Trading Company of Ketchikan.

Winn first became actively involved in the fishing industry when as a young man, with his brother Harold, he purchased a seine boat. In 1928 he and Harold bought the Wards Cove Cannery. From that beginning he expanded to cannery operations thoughout Alaska. In 1977 Winn and his associated companies had fishing operations in Ketchikan, Excursion Inlet, Port Bailey, Alitak, Naknek, Chignik, Hoonah, Kenai, Kodiak, Ekuk, Egegik, Koggiung, Libbyville, Craig, Moser Bay, Petersburg, George Inlet, Port Otto, and Ouzinkie, comprising the largest salmon processing organization in Alaska.

In 1969 the Alaska State Chamber of Commerce named him the "Outstanding Alaskan." In further recognition of his diversity of interests the Holy Catholic Church of Ketchikan named one of their school buildings Brindle Hall.

During World War II, Winn was awarded the Legion of Merit while serving in the Aleutian campaign and attained the rank of Major in the U. S. Army.

His wisdom and experience contributed much to the development of all of his associates. The success of Alaska's fishing industry to which he dedicated his career, are monuments to his strength of character, his dedication and personal integrity. The country that he served, the fishing industry that he loved, and his associated companies share a distinguished heritage. He will be sorely missed.

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : SB 453
Title : RE: A.W. "Winn" Brindle Memorial Scholarships

Sponsor : Zharoff
Requestor : Senate HESS
Date of Request : March 3, 1986

FISCAL DETAIL

Agency Affected : Education
BRU : Postsecondary Education

Components : Memorial Scholarship Loans

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	N.A.	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND	N.A.	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	N.A.	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

No fiscal impact within the time of this note, since all funds are contributions, and repayments begin after schooling.

Prepared by : Kerry D. Romesburg, Executive Director Phone : 465-2854
Division : Alaska Commission on Postsecondary Education Date : March 3, 1986

Approved by Commissioner : _____ Date : _____
Agency : _____

Distribution (by Agency preparing fiscal note) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

10/25/85

Fiscal note

SCOMM

#50:43

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

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

MEMORANDUM May 6, 1986

SUBJECT: HCS CSSB 468 (Loans)
(Creating the Railbelt Energy Council)

TO: Representative John Sund
Chairman, House Special Committee on State Loans

FROM: Teresa B. Cramer TBC
Legislative Counsel

You have asked whether the Railbelt energy council created by HCS CSSB 468 (Loans) would violate the separation of powers doctrine of the state constitution because its membership includes members of the legislative and executive branches of state government. Because the council's powers are limited to recommending and reporting, in my opinion there is no constitutional problem.

The Alaska Supreme Court has held that the state constitution recognizes the separation of powers doctrine. Bradner v. Hammond 553, P.2d 1, 5 (1976). Accordingly, the legislature is prohibited from intervening in an executive function. Conversely, the executive branch may not exercise legislative functions. The issue is whether the Railbelt energy council is empowered to exercise legislative or executive functions. Since the council is not assigned power to administer the laws or to enact laws, it is neither executing nor legislating.

The legislature has established other groups that included members of the executive and legislative branches as well as public members to consider matters and make recommendations, though typically these groups have been established by resolution rather than by a bill. The Alaska Railroad Transfer Advisory Commission, consisting of members from the executive branch, legislative branch and public members, was created by ch. 128, SLA 1982 to advise the legislature and the governor about issues concerning the transfer of the Alaska Railroad to non-federal ownership.

If I may be of further assistance, please advise.

TC:mkr
m5/075

WORK DRAFT WORK DRAFT WORK DRAFT

Cramer
5/7/86

Original sponsor: Resources Committee

IN THE SENATE

BY THE HOUSE SPECIAL COMMITTEE ON STATE LOANS

HOUSE CS FOR CS FOR SENATE BILL NO. 468 (Loans)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act creating the Railbelt energy council; and providing for an effective date."

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

* Section 1. FINDINGS. The legislature finds that

(1) state energy policy should change from a policy of the state assuming responsibility for providing electric power to a policy of the state assisting the private sector and public utilities to provide adequate electric power at reasonable cost;

(2) state funds available for energy development should be used to assist in financing projects that utilities cannot finance themselves;

(3) utilities should be encouraged to assume the responsibility of regional power generation and transmission rather than relying on the state;

(4) energy planning and financing must be efficient and cost-effective;

(5) the Railbelt energy fund should be used if necessary to develop power projects that will meet market investment criteria;

(6) the Railbelt area generally consists of the region of the state extending from Fairbanks to Homer and served by the Golden Valley Electric Association, the Fairbanks Municipal Utilities System, the Matanuska Electric Association, the Chugach Electric Association, Anchorage Municipal Light and Power, the Seward Electric System, and the Homer Electric Association utilities.

* Sec. 2. COUNCIL CREATED. (a) The Railbelt energy council is

established to

(1) recommend the best options for planning, financing, cc structing, and managing electric power facilities in the Railbelt area;

(2) examine all alternatives and recommend the best method f meeting projected Railbelt electrical energy demand;

(3) recommend alternative financing plans for assisting t private sector and public utilities to meet the future energy needs of t Railbelt area;

(4) determine whether a regional generation and transmissi utility organization can operate to the best interests of utility cc sumers;

(5) cooperate with the Alaska Power Authority to examine t feasibility and desirability of energy projects.

(b) Membership on the council consists of two members appointed the governor; two senators appointed by the president of the senate; t members of the house of representatives appointed by the speaker of t house; and one representative from each of the seven Railbelt utilities.

(c) By February 15, 1987, the council shall report its recommen tions to the legislature.

* Sec. 3. This Act is repealed June 30, 1987.

* Sec. 4. This Act takes effect immediately in accordance with AS 0 10.070(c).

give specific recommendations to the legs

SCOMM
#50:44

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 24, 1986

Mr. Lee Nunn
Chairman
Alaska Power Authority
6311 Habicht Court
Anchorage, AK 99504

Dear Lee:

It's my understanding that the Board of Directors of the Alaska Power Authority will be meeting in Juneau soon, and even though I've had meetings with you and other members of the Board on different occasions, I thought perhaps it would be appropriate at this time to reiterate my thoughts on APA and Railbelt energy.

As we have discussed previously, it is my suggestion that during the next six-to-nine months, APA:

-- undertake a complete review and examination of all potential alternative sources of electrical energy for meeting Railbelt requirements; this review shall include coal, Cook Inlet natural gas, North Slope natural gas, hydroelectric, alternative sources of renewable and non-renewable energy and energy conservation;

-- simultaneously, contract to update and bring current the feasibility and economic studies of a hydroelectric project at Devil Canyon.

When this work is completed, at the end of six-to-nine months, APA would then turn the data over to Railbelt user groups, assuming the Railbelt utilities were formed together, even loosely, in some kind of an organization that could evaluate the data and use it for its own planning purposes. It remains my hope that those utility groups will be looking into the formation of such a group during the time APA is completing and updating its studies. As I have

indicated before, I believe there needs to be a formal organization of some kind bringing the utilities together if they ever hope to finance any major project to serve the energy needs of Railbelt residents.

Once the data is turned over to the Railbelt user groups, it seems to me that APA has largely completed that portion of the task it was created to do. If you have any questions regarding my position on these matters, please don't hesitate to contact me.

Sincerely,

Bill Sheffield
Governor

cc: APA Board Members

MAY 2, 1986

SECTIONAL ANALYSIS (COMPOSITE)

CS FOR SENATE BILL NO. 476 (Finance) am, an Act relating to hydroelectric projects

Section 1. Contains findings about the cost of Susitna studies and the conclusion reached by these studies. Criticizes the performance of the APA in this project.

Section 2. States the intent of the legislature that as a component of any feasibility study for a power project, the APA provide for an independent comparative analysis of all reasonable alternatives to the project.

This section states additional intent that OMB comply with the law which requires it to review the feasibility study and plan of finance for any project, that OMB submit its recommendations to the legislature by next April 15th, and that the APA not submit a FERC license application for Devil Canyon until the legislature has approved the project as required by law.

Section 3. This section is amended to include the conditional power sale agreement as an element of the plan of finance. A conditional power sale agreement would provide hard evidence to the Legislature that the utilities understood the plan of finance and its impact on their rates and would therefore allow the Legislature to make a better informed decision as to whether to continue to appropriate funds for further project development.

Section 4. This section is amended to explicitly prohibit the APA from submitting a FERC license application until the Legislature approves the project on the basis of a feasibility study, plan of finance, conditional power sale agreements, and an independent cost estimate. APA and AG have argued in the past that the current statute is ambiguous on this point. The prohibition is logical and timely in that the FERC license application should not be submitted unless the Legislature intends to construct the project. Applying for a FERC license without that commitment is analogous to starting a 1000 mile voyage with only a 100 mile supply of fuel and could result in needless expenditure of funds for the licensing process.

Section 5. This section must be amended if AS44.83.325 is repealed as noted in Section 10 below. The revised section does that as well as clarifying that a Susitna project must follow the approval process required of all other new projects before start of construction.

Section 6. Requires the APA to prepare an annual report on the status of any Susitna River hyroelectric project which has been approved by the legislature as required by law. (The present law refers to "the" Susitna project, implying only the two-dam project.)

Section 7. Further describes the study of power alternatives that will be financed in SB 477. This section calls

for a study of alternatives that can be incorporated into the feasibility study required by law, calls for preliminary plan of finance for the best alternative, and calls for the completion of a reconnaissance study when submitting the other studies to the governor and legislature. Finally, it requires the APA to regularly report to the Budget and Audit Committee on its implementation of these requirements.

Section 11 gives this section an effective date when funds are appropriated to the APA for reviewing Railbelt power alternatives, e.g., upon the effective date of SB 477.

Section 8. Because of previous reconnaissance studies done on Susitna River hydro sites, this section exempts a future project located at any of these sites from undergoing another such study.

Section 9. Approval of the Watana phase should be repealed now in order to clear the books and in view of the withdrawal of the FERC license application. This would allow any new project to follow the approval process without potential complications due to Watana dam authorization.

Section 10. This section should be repealed as it has caused considerable confusion over the years. It is not logical to allow construction of the Susitna project within one year of the approval of a preliminary report by the Legislature and which is inferior to a feasibility study. AS44.83.320 had called for submittal of two preliminary reports to the Legislature by March 30, 1981 and again by April 30, 1982. APA submitted both of these, however, the Legislature never got around to approving the latter one as contemplated in this section. Finally, there is no reason for the Susitna project not to follow the approval process established for all other new projects.

Section 11. See Section 7 above.

Section 12. Gives all sections of the Act except Section 7 an immediate effective date.

SB 468

Alaska State Legislature

Advisory Council Members
Senator Bennett, Chairman
Senator Ahlgo
Senator Kerttula
Senator Sackett

PO Box V
State Capitol
Juneau, Alaska 99811
Phone: (907) 465-3114

Senate Advisory Council

MEMORANDUM

TO: Senator Jan Faiks
Alaska State Legislature

FROM: Kurt S. Dzinich KSD
Senior Advisor

DATE: March 31, 1986

SUBJECT: Devil Canyon Project

In response to our discussion of March 27, 1986, I have reviewed the activities related to the Susitna Hydroelectric Project to include the APA Board action of March 26, 1986, which resulted in Resolution 1986-04. I believe that the course of action adopted in Resolution 1986-04 is not prudent nor in the best long-term interest of Alaska for the reasons outlined below.

Since 1979 the State has spent $145 million on Susitna related studies and FERC licensing activities. The cost of federal studies by the Bureau of Reclamation, Alaska Power Administration and the Corps of Engineers between 1950 and 1979 are not available. Three things stand out. First of all, the studies conclude that Susitna option represented the best long-term solution to the Railbelt energy needs. Second, the written audit trail of project development and decision making by APA, such as it is, is difficult to follow or non-existent. Third, the coordination and cooperation between APA and utilities leaves much to be desired. The second deficiency is of major significance and is all the more exasperating when it is realized that the statutory requirements for project development have not been complied with. Specifically, these requirements for each proposed project are:

1. AS 44.83.177 Reconnaissance study
2. AS 44.83.179 Review of Reconnaissance study by OMB
3. AS 44.83.181 Feasibility study and Plan of Finance
4. AS 44.83.183 Review of feasibility study and finance plan by OMB with recommendation to the Governor and Legislature.
5. AS 44.83.185(a) Submission to the Legislature of the Feasibility Study and Plan of Finance.

In addition following statutory requirements apply only to the Susitna Project:

6. AS 44.82.320(a) Preliminary report by March 30, 1981

7. AS 44.83.320(b) Preliminary report by March 30, 1982

8. AS 44.83.325 Legislative approval of Preliminary report referenced in item 7 above.

As best as I have been able to ascertain, written record indicates that only items 6 and 7 have been officially accomplished. I should add that the Susitna specific requirements are confusing while the requirements of item 1 and 2 seem redundant since the Corps of Engineers had started feasibility level studies when the APA took over the project in 1979.

In view of APA Resolution 1986-04, of major significance is the requirement AS 44.83.181(b)(3) which states that a feasibility study shall include "a comparative analysis of all reasonable alternatives to construction or the proposed project; and". Item 5. on page 2 of that resolution calls for a review and examination of all potential alternative sources of electrical energy for meeting the Railbelt requirements. In other words, the APA Board decision is to ignore numerous studies covering a period of almost 7 years and costing $145 million to date. Further, after completion of the APA review, there will still exist the requirement to prepare a feasibility study and a plan of finance.

Based on the draft Plan of Finance, and second opinion by Prudential-Bache, the two-dam Susitna option does not appear to be financable i.e. the State cannot afford the commitment of funds that would be required to make the two-dam Susitna energy rates marketable in the early years. Since factors leading to that conclusion are not forecasted to change in the foreseeable future, I believe the decision to withdraw the two-dam FERC license application and conclude all work associated with that option is correct. I believe that the prudent course to follow now would be to ascertain whether a smaller Susitna option exists that is both feasible and financable (that was the course being followed by APA until around March 15 when inexplicably all discussion on Devil Canyon dam option was terminated). If no, then the Susitna option can be laid to rest properly. If yes, I would expect the 1987 Legislature to make a decision as to whether APA should submit the new FERC license application for the Devil Canyon stand-alone dam project. The scenario would be as follows:

1. APA completes a feasibility study and a plan of finance in cooperation with the utilities and in accordance with AS 44.83.181. As a major component of the feasibility study, the APA should conduct a cooperative analysis of all reasonable alternatives as required specifically by statutes. This part of the study can be accomplished by an independent expert. The feasibility study contains all information that is required for a FERC license application.

2. APA and utilities conclude conditional power sale agreements by March 15, 1987. These agreements should constitute an essential part of the plan of finance.

3 APA submits the feasibility study and plan of finance to the Legislature by March 15, 1987, and in accordance with AS 44.83.185(a).

4. OMB reviews above documents in accordance with AS 44.83.183 and submits its recommendation to the Legislature and Governor by April 15, 1987.

5. Based on above documents, the 1987 Legislature decides whether to approve the project in accordance with AS 44.83.185(c) thereby allowing APA to submit a new FERC license application. If the feasibility study and plan of finance conclude that the Devil Canyon is not the best long-term alternative, or that even the smaller project is not affordable, the 1987 Legislature will have to consider other options for meeting the Railbelt energy needs.

My rough estimate is that of the $145 million spent to date 40% was related to the Devil Canyon site and 60% to the Watana site. The reason for the difference is due to such factors as Watana dam being larger, of earthfill construction, more geotechnical work, larger area inundated by water, etc. In other words if we were starting today we could have expected to pay about $60 million for submitting a FERC license application. In view of the data we have already, I estimate that completion of a feasibility study/FERC license application, a plan of finance/conditional power sale agreements, legal, and APA costs would total about $1 million in FY 86 and about $4 million in FY 87 assuming that work is allowed to proceed within the next 30 to 60 days. In summary, a $60 million effort can be obtained for no more than $5 million. If the decision is made in 1987 to submit a new FERC license application, there would most likely be some additional costs associated with the licensing process.

Since the FERC licensing process is lengthy and costly, APA should ascertain if there is any way of obtaining an exemption. In my opinion, the only possibility would be thru Congressional legislation as I do not believe that FERC has the authority to waive the licensing requirements.

In order to implement the above scenario it will be necessary to amend existing statutes, appropriate FY 87 funds, clarify use of FY 86 remaining funds, and issue a letter of intent. Following are proposed:

1. Repeal sec 10, Chapter 169 which authorized the Watana Dam phase of the Susitna River Project.

2. AS 44.83.325 is repealed.

3. AS 44.83.330 is amended to read:

> Construction, maintenance and operation of project. [Within one year after approval of its preliminary report submitted under AS 44.83.320(b),] The authority may enter into a

contract for the construction of a [the] Susitna River Hydroelectric Project in a manner consistent with the purpose of the project as described in AS 44.83.310. and only after approval of the project by the Legislature in accordance with AS 44.83.185.

4. New Section: In view of the extensive and numerous studies of the Susitna River Hydroelectric sites the provisions of AS 44.83.177-44.83.179 do not apply to the Devil Canyon dam project.

5. AS 44.83.181(a) is amended to read:

Unless the reconnaissance study has been disapproved by the office of management and budget under AS 44.83.179, the authority shall complete a feasibility study and a plan of finance which includes conditional power sale agreements with the appropriate utilities for each proposed project.

6. AS 44.83.185 (b) is amended to read:

The authority may not proceed with work on the engineering or final design phase, or may not submit a FERC license application [of] for a proposed new project for which legislative approval is required until the legislature approves the proposed new project. However, the authority may proceed with the engineering or design work necessary to meet the requirements for submission of a license application for the proposed new project to the Federal Energy Regulatory Commission without obtaining legislative approval of the proposed new project.

7. New Section: A sum of $4,000,000 is appropriated to the Alaska Power Authority from the Railbelt Energy Fund for the purpose of preparing a feasibility study and a plan of finance for the Devil Canyon dam project in accordance with AS 44.83.181.

Appropriation bill

8. New section: Standard effective date clause.

In terms of how best to proceed for the remainder of FY 86, the Legislature had set a limit of $24,109,000 on APA for what could be used for Susitna project activities from the Power Development Fund. It appears now that there would be around $8 million left over due to the decision to stop the two-dam Susitna project. APA could use one million dollars of those funds to start work on the Devil Canyon dam documents for the remainder of FY 86 although a Budget and Audit Committee approval might be required.

Attached is a Letter of Intent and a specific sectional analysis. The purpose of the letter of intent is to clarify and amplify to the Alaska Power Authority exactly what it is that the Legislature desires to be accomplished.

Please let me know if there are any questions.

SCOMM

#50:45

April 23, 1986

PRELIMINARY BUDGET ESTIMATE

Railbelt Alternatives Study
(Thousands of Dollars)

Tasks	Personal Services and Contractor Overhead		Direct Costs*
A. Review Utility System Data Base	$ 20.0		$ 5.0
B. Load Forecast (Incl. ISER and Battelle)	60.0		10.0
C. Power Supply Alternatives			
1. Gas Price Forecasts	80.0		6.0
2. Gas Supply	10.0		5.0
3. Gas Plant Characteristics	10.0		3.0
4. North Slope Natural Gas	40.0		12.0
5. Coal Price Forecasts	50.0		6.0
6. Coal Plant Characteristics	40.0		5.0
7. Oil Price Forecasts	40.0		5.0
8. Non-Susitna Hydro	60.0		10.0
9. Other Alternatives	30.0		6.0
10. Conservation	80.0		12.0
11. Devil Canyon	10.0		5.0
D. Financial Evaluations	10.0		2.0
E. Supply Plans			
1. Inflation, Interest, Discount	20.0		5.0
2. Methodology	30.0		10.0
3. Develop plan	80.0		20.0
F. Related Issues	10.0		6.0
G. Progress Meetings	40.0		20.0
H. Final Report Production/Printing	40.0		5.0**
I. Management/Contract Admin.	60.0		5.0
SUBTOTAL	820.0	+	163.0
		= 983.0	
J. Contingency (20%)		197.0	
TOTAL		$ 1,180.0	

4013/592/1

Additional Costs:

Harza-Ebasco	
1. Replying to inquiries, document control and limited admin. support.	100.0
2. Devil Canyon: Upstream storage investigation	225.0
APA	
1. Staff and expense related to alternatives study	125.0
2. Matching funds for study of Anchorage-Kenai Intertie	150.0
Finance Team	100.0
Additional Costs Subtotal	700.0
Contingency (20%)	140.0
GRAND TOTAL	$2020.0

* Direct costs include travel, telecommunications, per diem, computer time etc.

** Cost based on Harza-Ebasco providing typing and printing services for 300 copies of a 300 page report.

Note: No costs are included for public hearings other than the monthly steering committee meetings.